Münchener Rück
Munich Re

1997/98

Munich Re Group

	1995/96 DM m	1996/97 DM m	1997/98 DM m
Gross premiums written	28,989	32,181	44,522
Reinsurers	18,507	19,329	24,944
Direct insurers	10,482	12,852	19,578
Investments	120,279	148,288	208,845
Reinsurers	52,937	61,803	71,091
Direct insurers	67,342	86,485	137,754
Net underwriting funds and provisions	107,783	135,459	189,885
Reinsurers	45,663	55,313	61,377
Direct insurers	62,120	80,146	128,508
Shareholders' funds	5,378	6,604	9,962
Profit for the year	595	699	1,149
Earnings per share in DM (according to DVFA/GDV)	14.00	15.65	19.42
Dividend of the Munich Reinsurance Company	133	141	153
Dividend per share in DM	1.60	1.70	1.80

Earnings per share according to DVFA/GDV*

Munich Re's earnings per share are chiefly dependent on two factors: the Group result and the change in the claims equalization provisions.

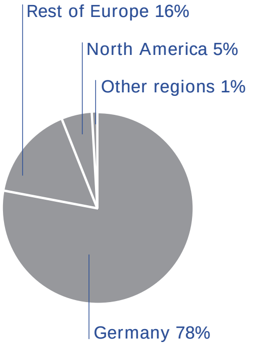
In the business year 1997/98 the Group earnings apportionable to minority interests also increased markedly owing to the formation of ERGO.

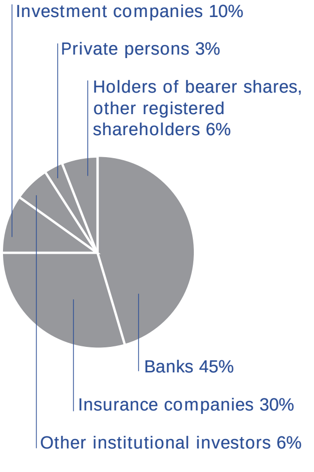
* German Association of Financial Analysts and Investment Consultants/Association of German Insurers.

		1995/96	1996/97	1997/98
Group profit for the year	DM m	**595**	**699**	**1,149**
Investment income/expenditure	DM m	2	9	62
Change in claims equalization provisions	DM m	655	696	541
Miscellaneous	DM m	–3	0	154
Minority interests (adjusted)	DM m	–89	–105	–256
Adjusted earnings	DM m	**1,160**	**1,299**	**1,650**
Number of shares	million units	83	83	85
Earnings per share	DM	**14.00**	**15.65**	**19.42**

Munich Re's shareholders

An important criterion for assessing a company's shares is its shareholder profile. In the last few years the number of Munich Re registered shareholders has nearly doubled to over 24,000. We consider this a special mark of confidence in the company. The number of private investors in fact grew by more than 120% in this period, a reflection of the easier handling of our shares since their inclusion in the German giro transfer system and the stock split in August 1997. International investors are placing funds to an increasing extent in Europe. Shares in Munich Re, as a global player, are very much sought after in this connection. Foreign investors now hold more than 20% of our share capital. Allianz, traditionally the largest shareholder, holds 25%; Bayerische Hypo- und Vereinsbank has a stake of over 10%, and Deutsche Bank and Dresdner Bank around 10% each. Commercial Union, now CGU, London, has a longstanding interest of just under 5%.





Investor and public relations

More and more investors and analysts are showing an interest in us. We welcome this and have expanded existing contacts as well as making many new ones. In 1997 our investor relations team had more than 90 individual meetings with financial analysts and institutional investors. In addition, we further intensified our public relations work and held various press conferences on such topical subjects as cities at risk, the floods in Eastern and Central Europe, the third edition of our World Map of Natural Hazards and the 1998/99 measures relating to our share capital.

On the back cover flap of this report you can find information on important dates and on persons to contact at Munich Re who will be glad to deal with any questions you may have.

Münchener Rückversicherungs-Gesellschaft
Report for the 118th year of business
1st July 1997 to 30th June 1998

Note: The abbreviation TMD used in this report stands for thousand D-marks.

The Munich Re Group

The core of our business is managing and mastering risks. We have been successful in this future-oriented service industry since our foundation in 1880, always numbering among the top players in the international insurance industry.

In reinsurance our clients are insurers: over 5,000 of them in around 160 countries. We assume a part of their risk; we advise them on the taking up of new lines; we help them in developing and expanding their insurance portfolios. Our clients benefit from the expertise and personal attention of around 4,900 staff – at our head office in Munich and at over 60 locations around the world.

Qualities our business partners value in us are

- exceptional financial strength,
- extensive reinsurance capacity,
- wide-ranging knowledge,
- proximity to clients,
- comprehensive service,
- innovative solutions.

We attach importance to continuity of business relationships. For our clients we want to remain what we have always been: a reliable and professional partner – also in a changing environment.

We write reinsurance business in all classes of insurance worldwide, thus creating a global balance of risks. Our aim is to improve our position even further in as many potentially profitable business sectors as possible.

The direct (= primary) insurers in the Munich Re Group concentrate on personal lines and insurance for small and medium-sized firms. First and foremost our direct insurance operations include ERGO, the second largest insurance group in Germany, which combines such well-known German names as VICTORIA, Hamburg-Mannheimer, DKV and D. A. S. These companies, which serve over 15 million clients, are set to profit substantially from their cooperation in the next few years.

Having a strong footing in direct insurance has been, and will continue to be, an important part of our strategy. We thus create an optimum balance between more volatile reinsurance business and more stable personal lines insurance. This traditional diversification makes the Munich Re Group particularly strong.

Supervisory Board

Chairman	Ulrich Hartmann Chairman of the Board of Management of VEBA AG
Deputy Chairman	Dr. jur. Henning Schulte-Noelle Chairman of the Board of Management of Allianz AG
Deputy Chairman	Dr. rer. pol. Wolfgang Röller Former Chairman of the Supervisory Board of Dresdner Bank AG

Herbert Bach
Employee of the Munich Reinsurance Company

Christiane Bartl
Employee of the Munich Reinsurance Company

Dr. jur. Rolf-E. Breuer (from 5th December 1997)
Spokesman of the Board of Management of Deutsche Bank AG

Peter Burgmayr
Employee of the Munich Reinsurance Company

Rudolf Ficker (from 1st January 1998)
Former Member of the Board of Management of the
Munich Reinsurance Company

Dr. jur. Edgar Jannott (until 23rd October 1997)
Chairman of the Board of Management of ERGO
Versicherungsgruppe AG

Ludwig Knabl
Employee of the Munich Reinsurance Company

Hilmar Kopper (until 5th December 1997)
Chairman of the Supervisory Board of Deutsche Bank AG

Dr.-Ing. E. h. Eberhard v. Kuenheim
Chairman of the Supervisory Board of Bayerische Motoren Werke AG

Dr. techn. h. c. Dipl.-Ing. ETH Ferdinand Piëch
Chairman of the Board of Management of Volkswagen AG

Dr. jur. Albrecht Schmidt
Spokesman of the Board of Management of Bayerische Hypo-
und Vereinsbank AG

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

Dr.-Ing. Dieter Soltmann
General Partner of Gabriel Sedlmayr Spaten-Franziskaner-Bräu KGaA

Professor Dr. jur. Dr.-Ing. E. h. Dieter Spethmann
Attorney, former Chairman of the Board of Management
of Thyssen AG

For seats held on other supervisory boards and
comparable bodies see page 123 f.

Report of the Supervisory Board

During the period under review the Supervisory Board constantly monitored the conduct of the company's business by the Board of Management and gave counsel where appropriate. For this purpose we regularly obtained detailed information on the position and development of the company and its main participations. At five meetings we received oral and written reports from the Board of Management, which we discussed extensively. Where individual management measures required the approval of the Supervisory Board, this was granted in each case. Outside the regular meetings, too, all members of the Supervisory Board were informed without delay about individual decisions and business transactions that were of particular significance for the further development of the company. Besides this, the Chairman of the Supervisory Board remained in close contact with the Chairman of the Board of Management and obtained ongoing information on all important business transactions.

The two committees of the Supervisory Board held various meetings during the business year 1997/98: the Standing Committee, which deals inter alia with business requiring authorization, met six times, and the Board of Management Committee, which is responsible for personnel matters involving members of the Board of Management, twice.

Main topics of discussion

In particular, the Supervisory Board discussed the business situation and prospects of the companies in the Munich Re Group. One of the main topics dealt with in the period under review was the merger of Munich American Reinsurance Company (MARC) and the US Branch into American Re in July 1997. The Board of Management and the Supervisory Board considered this and the further course of the integration on various occasions.

In addition, we discussed extensively the merger of VICTORIA, Hamburg-Mannheimer, DKV and D. A. S. to form the ERGO Insurance Group and the resultant prospects for the development of the Munich Re Group's premium income and earnings.

The Board of Management also reported to the Supervisory Board in detail on the purchase of the Italian reinsurer Reale Ri (now Torino Ri) and the sale of the participation in Berlinische Lebensversicherung to CGU.

The change in the company's business year, adopted by the AGM on 5th December 1997, was another subject of prior detailed discussion between the Supervisory Board and the Board of Management. The bringing forward of the balance sheet date by half a year means that as from 1999 shareholders will be informed about Munich Re's business results, and participate in the company's success, at an earlier date than hitherto.

The Supervisory Board also closely considered the extensive package of capital-related measures, aimed among other things at simplifying the company's share structure.

Audit of annual accounts

The Munich Reinsurance Company's bookkeeping, its company accounts and consolidated accounts as at 30th June 1998, as well as the Board of Management's report for the company and the Group as a whole, have been examined by the Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft and have received an unqualified auditor's opinion. The auditor's reports were promptly sent to all the members of the Supervisory Board. After detailed discussion between the Chairman of the Supervisory Board and the auditor, there was also extensive discussion of the accounts, the Board of Management's report and the auditor's reports at the meeting of the Supervisory Board on 23rd September 1998, at which the auditor was present.

The Supervisory Board has examined the company accounts, the consolidated accounts, the report of the Board of Management and the latter's proposal for appropriation of the balance sheet profit; we find them to be in order. We therefore agree with the auditor's conclusions.

At the balance sheet meeting of the Supervisory Board we approved the annual accounts drawn up by the Board of Management; they are thus adopted. We agree to the Board of Management's proposal for the appropriation of the balance sheet profit, which provides for a dividend of DM 1.80 per share.

Personalia

On 23rd October 1997, as the Chairman designate of ERGO Versicherungsgruppe AG's Board of Management, Dr. Edgar Jannott gave up his seat on the Munich Reinsurance Company's Supervisory Board, of which he had been a member since 1994. Mr. Hilmar Kopper, a member of the Supervisory Board since 1990, retired from the Board at his own request on 5th December 1997, following his move at Deutsche Bank AG from Spokesman of the Board of Management to Chairman of the Supervisory Board. We thank both gentlemen for the constructive contribution they have made to the development of our company in their years on the Supervisory Board.

At the AGM on 5th December 1997 the following gentlemen were elected to the Supervisory Board for the remainder of its term of office, i.e. until the AGM on 22nd July 1999: Dr. Rolf-E. Breuer, Spokesman of the Board of Management of Deutsche Bank AG, and – with effect from 1st January 1998 – Mr. Rudolf Ficker, until 31st December 1997 member of the Board of Management of the Munich Reinsurance Company.

Besides Mr. Rudolf Ficker, Mr. Hans-Dieter Sellschopp retired as member of the company’s Board of Management on 30th June 1998, having reached the retirement age. In their many years of service both gentlemen represented the company’s interests with skill and conviction. We thank them for their commitment and successful work on behalf of our company.

With effect from 1st January 1998 Messrs. Stefan Heyd, Christian Kluge and Karl Wittmann, who have all been with the company for many years, became members of the Board of Management. Mr. Clement Booth (44) has been appointed member of the Board of Management with effect from 1st January 1999. Mr. Booth has worked for the Munich Re organization in Africa since 1986 in senior positions, since 1995 as Managing Director of Munich Reinsurance Company of Africa.

We wish to thank the members of the Board of Management, the staff of the Munich Reinsurance Company and its subsidiaries, and the staff representatives, for their hard work and commitment.

Munich, 23rd September 1998

For the Supervisory Board

Ulrich Hartmann
Chairman

Board of Management

Controlling
Accounting
Internal Auditing
Taxes
Executive Offices

Dr. jur. Hans-Jürgen Schinzler
Chairman

Germany
Marine, Aviation
and Space

Christian Kluge
(from 1st January 1998)

Africa, Near and
Middle East
Reinsurance/Research
and Development
Strategic Planning

Dr. jur. Fedor Nierhaus

Dr. jur. Claus Helbig

Credit
Asset Management/
Loans and Securities
Information Technology

Dr. phil. Detlef Schneidawind

Life
Health
Personnel

Dr. jur. Hans-Wilmar von Stockhausen

France, Belgium,
Luxembourg
Austria
Switzerland
Central/Eastern Europe
Turkey, Turkic States
Miscellaneous Property

Rudolf Ficker (until 31st December 1997)
Hans-Dieter Sellschopp (until 30th June 1998)

UK, Ireland
Asia and
Australasia

Karl Wittmann
(from 1st January 1998)

Scandinavian Countries
Netherlands
Asset Management/
Real Estate and Equities
General Services
Company Structure
and Organization

Dr. jur. Heiner Hasford

North America
Casualty

Hans Rathnow

Dr. jur. Wolf Otto Bauer

Fire/Treaty
Fire/Facultative
Financial Reinsurance
Retrocession

Stefan Heyd
(from 1st January 1998)

Casualty

Dieter Göbel

Italy, Malta
Greece, Cyprus
Spain, Portugal
Latin America
Engineering

For seats held on supervisory boards and comparable
bodies see page 124 f.

Dr. Hans-Jürgen Schinzler, Chairman of the Board of Management, during the 1997 AGM

Dear Shareholders,

Growth of 38% in premium income and an increase of 64% in the profit for the year – these figures show the success of the Munich Re Group in the business year 1997/98. The improved operating position is reflected in the earnings per share, which have risen to DM 19.42. The pleasing development in the result will enable us to increase the dividend from DM 1.70 to DM 1.80.

The Group’s success is also reflected in the performance of Munich Re’s registered shares: the share price has risen by almost 120% since the beginning of 1997. The Munich Re warrants whose exercise period expired in March 1998 also performed outstandingly well, yielding a return of around 500% over the four years.

The business environment for reinsurance has changed markedly in recent years. We have therefore changed Munich Re as well: it has become the Munich Re Group, in which premium income derives almost equally from direct insurance and reinsurance.

Munich Re’s core business is and will remain reinsurance.

In many countries and classes of insurance we are market leaders – in some cases we have been for decades. We intend to maintain and improve on this outstanding position. In pursuing this objective, we are having to deal with increasingly large competitors. In the medium to long term only those players can be successful as reinsurers that provide services and products which clients really need, which create added value for them. We have therefore been pressing ahead with the development of new products and services that take account of clients’ changing requirements. This applies both to the growing demand for comprehensive financial concepts, e.g. financial reinsurance for insurers, and to the demand for innovative coverage concepts in the so-called alternative markets; it also applies to those business sectors such as life and health insurance where private insurance solutions can supplement or replace state social insurance.

In the emerging markets, we primarily have to make advance investments. And the investments we propose are considerable. Through early market entry, timely recognition of the clients that are important for us, and the provision of advice and service for these clients, albeit perhaps in a different form to our activities in the developed markets, we will also achieve an outstanding position in these markets in the medium term.

In direct insurance we have significantly improved the structuring of our interests through the merger of the Munich Re subsidiaries Hamburg-Mannheimer and DKV with VICTORIA and D. A. S. to create the ERGO Insurance Group.

The legal integration of the ERGO companies has meanwhile been successfully completed. The foundations have thus been laid for their future cooperation in Germany’s second biggest insurance group. The stock market has responded to our concept very positively, with the price of former VICTORIA shares – now ERGO stock – more than doubling within a few months.

We still regard as attractive our majority holdings in Karlsruher Leben, which has its traditional regional focus in the southwest of Germany, and Europäische, which is the market leader in Europe in the specialist field of travel insurance. We see good development prospects for both companies, albeit for different reasons, operating on an independent basis within the Munich Re Group.

By contrast, we have sold our majority holding in Berlinische Lebensversicherung to the British insurance group CGU. We came to the conclusion that Berlinische could develop better in the new partnership than if it remained in the Munich Re Group.

Earnings from investments are assuming increasing importance in the insurance industry.

The Munich Reinsurance Company and ERGO intend to set up a joint asset management company to further enhance the profitability of their investments. The new company is to manage investments with a market value of well over DM 200bn and thus be one of the largest asset management companies in Germany.

We continue to see good opportunities for growth and earnings in both reinsurance and direct insurance.

To enable us to take advantage of these, we carried out a capital increase in July/August 1998. This is the first in a series of shareholder-friendly capital measures geared among other things to considerably simplifying our share structure. Different share prices, questions relating to subscription rights or queries about the financial necessity of retaining partly paid-up shares will soon become a thing of the past. And the basis will be created for the introduction of no-par-value shares and conversion to the euro. In particular, trading in our shares will be made easier for foreign investors and there will be greater transparency for all shareholders. This should have a positive effect on the future performance of our share price.

Investor relations advert, published inter alia in the Börsen-Zeitung on 21st February 1998

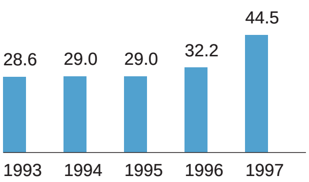
On 1st May 1998 the German law on control and transparency in the corporate sector (KonTraG) came into force. It is designed to improve supervision within companies and provide more transparency for shareholders and investors, e.g. through a cash flow statement and a report on risks involved in future development. We have already taken account of these requirements in the company and consolidated accounts for 1997/98.

Ladies and gentlemen, new developments are continually affecting the environment in which we operate and are influencing our business. We intend to utilize the opportunities that result from this process of change to further enhance the value of your company.

Yours sincerely,

Board of Management's report for the Munich Re Group and the Munich Reinsurance Company

Gross premiums in DM bn



The business year 1997/98 was again a very successful one for the Munich Re Group. We were able to achieve a marked increase in premium income and further improve the Group profit. This was especially due to the changes in the group of consolidated companies.

Pleasing business performance

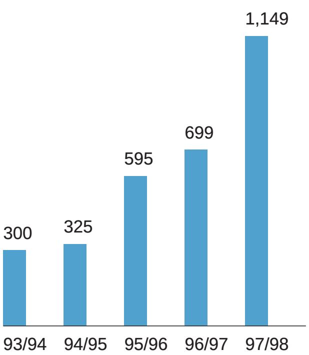
The premium income of the companies consolidated in the Group accounts rose by 38% to DM 44.5bn (32.2bn). Without the changes in the consolidated group, the increase would have been approximately 8%. Net premiums totalled DM 40.5bn (28.9bn) or 40% more than in the previous year. Around 56% (60%) of the premium income derived from the reinsurers and 44% (40%) from the direct insurers.

Gross premiums	1993		1994		1995		1996		1997	
	DM m	%	DM m	%	DM m	%	DM m	%	DM m	%
Reinsurers	19,059	66.6	18,848	65.1	18,507	63.8	19,329	60.1	24,944	56.0
Direct insurers	9,579	33.4	10,126	34.9	10,482	36.2	12,852	39.9	19,578	44.0
Total	28,638	100.0	28,974	100.0	28,989	100.0	32,181	100.0	44,522	100.0

The Group's underwriting profit fell to DM 596m (776m), as results in reinsurance deteriorated due to keener competition. By contrast, the investment result improved markedly to DM 13.3bn (9.4bn); in accordance with accounting regulations, DM 9.4bn (7.1bn) of this is incorporated in the underwriting result.

Further substantial strengthening of reserves

Group profit for the year in DM m



The claims equalization provision and similar provisions have once more been increased by a very large amount, totalling DM 1.3bn (1.2bn). In addition, we have again been able to make large special allocations, amounting to DM 270m (200m), to the provision for outstanding claims, especially in liability business.

Marked increase in overall result

The Group profit for the year is substantially higher than in the previous year. It shows an increase of 64% to DM 1,149m (699m).

The Munich Reinsurance Company's profit for the year is DM 303m. After allocation of DM 150m to the revenue reserves, the balance sheet profit remaining is DM 153m. This has been earmarked for distribution to shareholders in the form of an increased dividend of DM 1.80 per share.

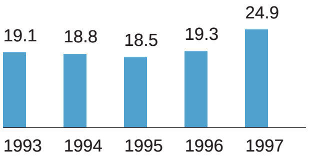
Reinsurance

As leading international reinsurers, we work together with insurance companies in around 160 different countries. We operate on the one hand directly from our head office in Munich, Germany. On the other hand we are represented at over 60 locations worldwide through reinsurance subsidiaries, branch offices, service companies and liaison offices.

Deterioration in the general business environment

Overall, we are satisfied with the reinsurance result for the year 1997, despite the deterioration in the general environment for our business. Thus competition among direct insurers has intensified and original rates have fallen further. This has had a negative impact above all on premium income in proportional reinsurance. The business volume that is ceded in reinsurance has also been reduced as a result of the concentration process in direct insurance and distinct increases in retentions on the part of cedants, who after several very good business years are carrying increasingly large shares of risks themselves.

Gross premiums in DM bn



Whereas demand for reinsurance has been decreasing, the supply of cover has grown. In nearly all sectors there is more than enough capacity available in the reinsurance markets. This has led to further – sometimes pronounced – price reductions and deteriorations in conditions.

Market shares increased in important markets

We have not been able to exclude ourselves from the above developments, but we have reacted to them flexibly. In many important markets we have been able not only to maintain but even to strengthen our market position.

On a consolidated basis the reinsurance group recorded a gross premium income of DM 24.9bn (19.3bn). This represents an increase of around 29%, which is mainly due to the changes in the group of consolidated companies. Without these changes the increase would have been about 11%. Besides this, changes in exchange rates significantly affected the development of premium income. The generally lower valuation of the D-mark produced an increase of DM 599m (542m) in our premium volume. Without these influences, premium income in the year under review would have shown an increase of 4.3%.

Gross premiums written by reinsurers	1993 DM m	%	1994 DM m	%	1995 DM m	%	1996 DM m	%	1997 DM m	%
Life	3,414	17.9	3,446	18.3	3,539	19.1	3,860	20.0	4,217	16.9
Non-life	15,645	82.1	15,402	81.7	14,968	80.9	15,469	80.0	20,727	83.1
Total	19,059	100.0	18,848	100.0	18,507	100.0	19,329	100.0	24,944	100.0

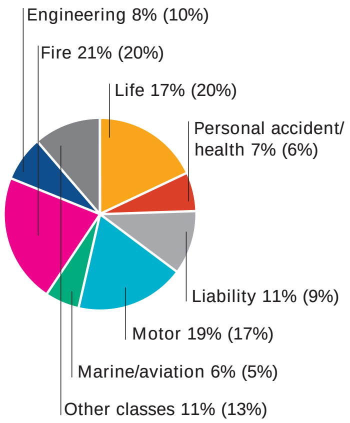
Net premium income from reinsurance business was up 29.4% to DM 21.7bn (16.8bn). The retention ratio amounts to 87.1% (86.8%).

Portfolio structure further improved

Following the acquisition of American Re, the regional spread of our reinsurance business has become considerable more balanced. The share of North American business in the reinsurance group's gross premium income has risen to 29% (17%). Conversely, the share of European business has decreased to 57% (68%), with 34% (45%) coming from Germany.

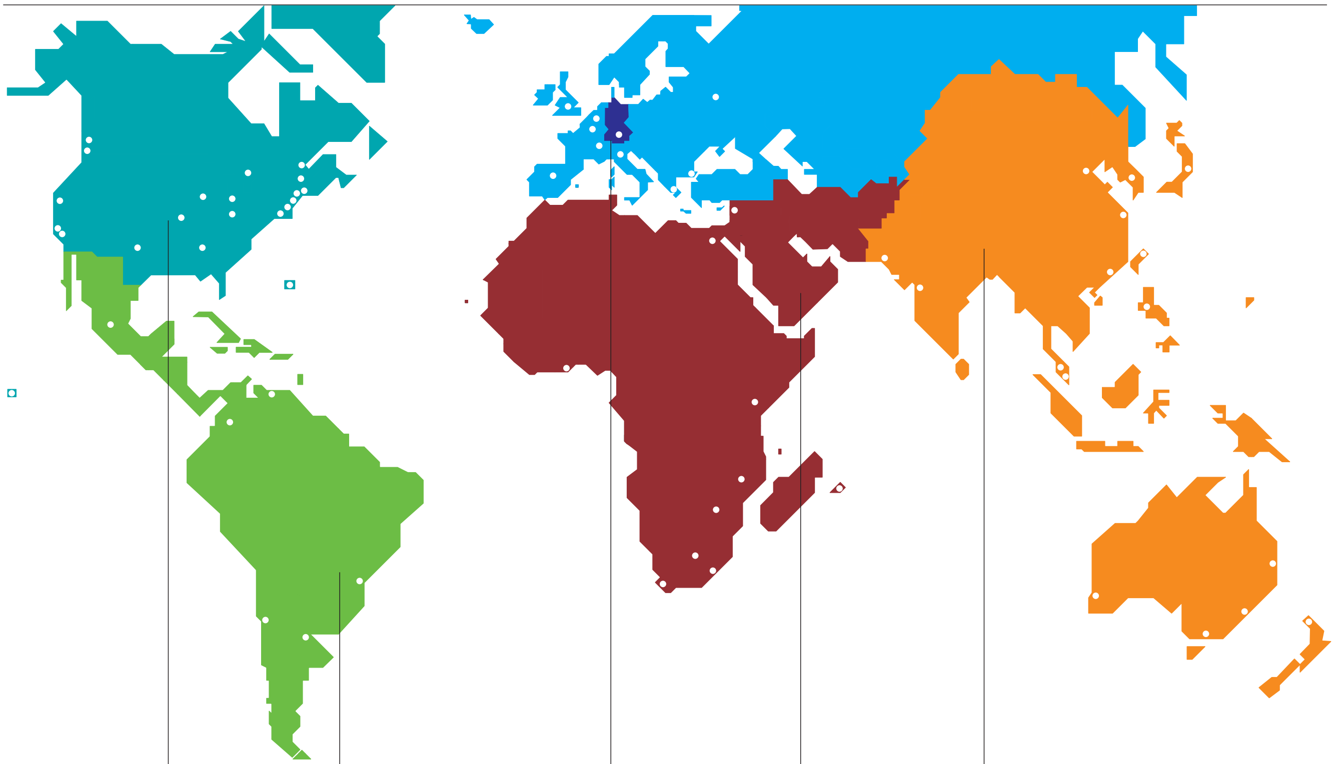
Gross premiums written by reinsurers	1997 DM m	%	Previous year DM m	%
Europe	14,111	56.6	13,234	68.4
North America	7,218	28.9	3,284	17.0
Asia and Australasia	1,872	7.5	1,625	8.4
Africa, Near and Middle East	1,044	4.2	807	4.2
Latin America	699	2.8	379	2.0
Total	24,944	100.0	19,329	100.0

Gross premiums by class of business



Premium development in the individual classes of business has also been significantly affected by the first-time consolidation of American Re. Especially in personal accident, liability, motor, marine/aviation and fire, premium income has increased markedly. Our portfolio is balanced, with the weight equally distributed between insurances of the person, where results tend to be more stable, property business, whose results are more volatile due to large losses, and motor and liability business, which is longer-term in orientation.

Premiums written by reinsurers	1997 Gross DM m	1997 Net DM m	Previous year Gross DM m	Previous year Net DM m
Life	4,217	3,529	3,860	3,200
Personal accident/health	1,746	1,520	1,229	1,108
Liability	2,798	2,418	1,751	1,425
Motor	4,612	4,049	3,341	2,917
Marine/aviation	1,544	1,268	1,056	891
Fire	5,238	4,632	3,799	3,408
Engineering	1,948	1,716	1,900	1,613
Other classes	2,841	2,583	2,393	2,213
Total	24,944	21,715	19,329	16,775



Business regions

North America

Atlanta
Boston
Burlington
Chicago
Columbus
Dallas
Hamilton
Hartford
Honolulu
Kansas City
Los Angeles
Minneapolis
Montreal
New York
Philadelphia
Princeton
San Francisco
Seattle
Toronto
Vancouver
Woodland Hills

Latin America

Bogotá
Buenos Aires
Caracas
Mexico
Santiago de Chile
São Paulo

**Germany
Rest of Europe**

Munich

Athens
Brussels
Geneva
Istanbul
London
Madrid
Milan
Moscow
Paris

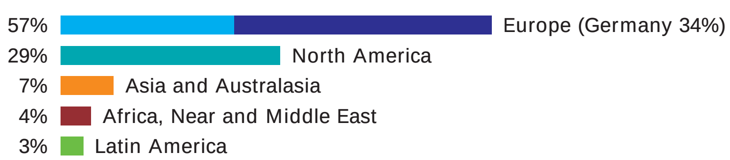
Africa, Near and Middle East

Accra
Blantyre
Cairo
Cape Town
Durban
Harare
Johannesburg
Nairobi
Port Louis
Tel Aviv

Asia and Australasia

Auckland
Beijing
Brisbane
Hong Kong
Karachi
Kuala Lumpur
Manila
Melbourne
Mumbai
Perth
Seoul
Shanghai
Singapore
Sydney
Taipei
Tokyo

Reinsurance premiums



Reinsurance underwriting result again outstanding

In the previous business years we had succeeded in continually improving our reinsurance underwriting result, to the point of recording underwriting profits again in the last two business years. Despite our continued selective acceptance policy, we were unable to prevent a deterioration in this result in the year under review. We showed a deficit of DM 44m (+ 231m). This development mainly reflects the price reductions and concessions in conditions resulting from the keener competition. In addition, we recorded somewhat higher claims costs for natural catastrophes, though compared with the long-term average they were still relatively low. On the basis of a comparison over a number of years, however, the reinsurance underwriting result in the year under review must again be classed as outstanding.

Development of the underwriting results in the different classes of reinsurance business varied. In fire we were able to further improve on the already pleasing profit of the previous year. We also achieved an increased overall profit in marine/aviation. By contrast, we recorded a considerable deterioration in the result for personal accident/health. And in liability the deficit grew again after the appreciable reduction in the previous year. Engineering showed only a break-even result after the previous year's pleasing profit.

Reinsurance underwriting result	1997 DM m	Previous year DM m
Life	–43	–3
Personal accident/health	–108	–19
Liability	–376	–177
Motor	–188	–160
Marine/aviation	103	36
Fire	473	329
Engineering	–1	87
Other classes	96	138
Total	–44	231

The result of the reinsurance companies' investments improved further, with the profit rising to DM 4.5bn (3.4bn).

The reinsurance companies' unadjusted earnings totalled DM 2.6bn (2.1bn).

At DM 1.2bn, the allocation made by the reinsurers to the claims equalization provision and similar provisions was of the same magnitude as in the previous year. There are now total provisions of more than DM 6bn available to mitigate future fluctuations in annual results – an impressive amount, but one that is necessary in view of the volatility of reinsurance business.

The reinsurance companies' pre-tax profit for the year was up 54% to DM 1,102m (716m).

The most important figures for the reinsurers in DM m:

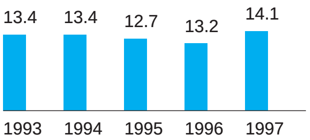
	1993/94	1994/95	1995/96	1996/97	1997/98
Gross premiums	19,059	18,848	18,507	19,329	24,944
Net premiums	16,750	16,531	16,526	16,775	21,715
Underwriting result*	–746	–562	98	231	–44
Investment result*	2,857	2,745	3,174	3,392	4,525
Unadjusted earnings	1,097	1,270	2,163	2,119	2,598
Special allocations to the provision for outstanding claims	–350	–250	–500	–200	–270
Change in the claims equalization provision and similar provisions	–523	–798	–984	–1,203	–1,226
Operating result before tax	224	222	679	716	1,102

* The figures for 1993/94 are comparable only to some extent with those as from 1994/95 owing to the change in the allocation of the expenses for employees' pensions and "other depreciation".

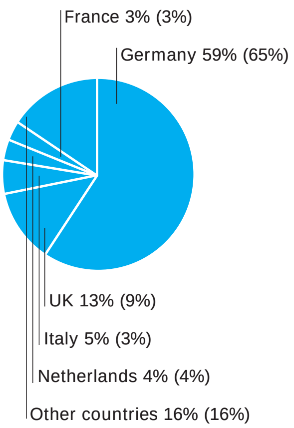
Insurance markets

Europe

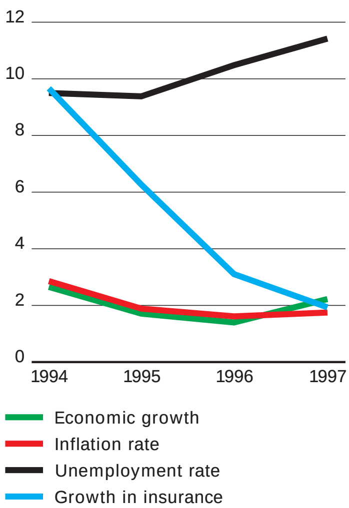
Gross premiums in DM bn



Gross premiums by country



Economic development in Germany (in %)



In our European business we were able to increase our premium income by around DM 900m to DM 14.1bn (13.2bn). We achieved a break-even underwriting result.

The development of most European economies has converged further as they prepare for the introduction of the euro. Largely parallel developments are also observable in the European reinsurance markets. In direct insurance, on the other hand, the markets are still shaped by local factors in many areas. (See page 60 for further information on the euro.)

Germany

In Germany the economic upswing, which began early in 1996, gradually gathered momentum in 1997. The increase of 2.2% in real GDP was attributable partly to the favourable general monetary conditions, such as moderate wage and price development, low interest rates and depreciation of the D-mark, and partly to high external demand. But unemployment again increased somewhat.

German direct insurers recorded an increase in premium income which, at 2.4%, slightly exceeded the rate of economic growth. Life and health insurance, with growth rates of 4.8% and 5.5% respectively, developed very pleasingly despite the weakness of the domestic economy. This reflected the fact that, as a result of the debate about the future of the state's social security systems, there is an increased readiness among the population to make private provision in these areas. By contrast, premium income in property-casualty insurance declined. In particular, insurers' premiums in motor and industrial fire insurance were hit by the effects of unrelenting competition on prices and conditions.

Falling earnings and flagging growth are forcing our clients to fight harder for market share whilst at the same time exercising cost control. This is accelerating the formation of large groups of companies, which retain bigger portions of their risks themselves and cede less business in reinsurance.

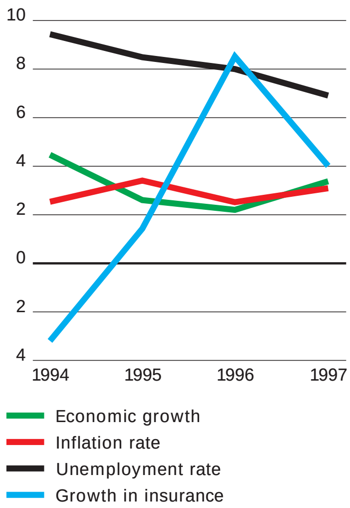
On top of this, the good results of the last few years in the German reinsurance market have led to a large amount of capacity being available at low prices and generous conditions. Competition has increased substantially.

As by far the largest reinsurer in Germany, we are naturally affected to a particularly great extent by these market developments. We have reacted to them flexibly. However, owing to the high standards we continue to apply as regards the quality of business, we were unable to prevent a decline of just under 4% in our German premium income. The underwriting result was positive and better than in the previous year.

We intend to consolidate our outstanding position in the German reinsurance market with innovative products and additional services. We nevertheless expect our premium income to decrease further in 1998 for the same reasons as last year. The result is also likely to deteriorate owing to the continuing competition with regard to prices and conditions.

The UK

Economic development in the UK (in %)



The development of the British economy was marked by sustained dynamic growth in 1997; real GDP grew by 3.3% and thus more strongly than in the previous year. There was a further fall in the unemployment rate. But the resultant impulses for growth in insurance were weakened by the pressure of competition on premium rates.

There was a continuation of the trend towards mergers among large insurance companies and Lloyd's syndicates and also among brokers. In the UK, too, insurers are raising their retentions and restructuring their reinsurance programmes. In international insurance groups, internal group reinsurance is also gaining in importance. The premium volume of the reinsurance market is therefore decreasing here as well.

Despite this, we were able to achieve a satisfying increase in premium income in the year under review. It stemmed in particular from a sizeable new business connection in motor insurance. However, as considerable investment was required for this, the overall result was distinctly less favourable than in the previous year.

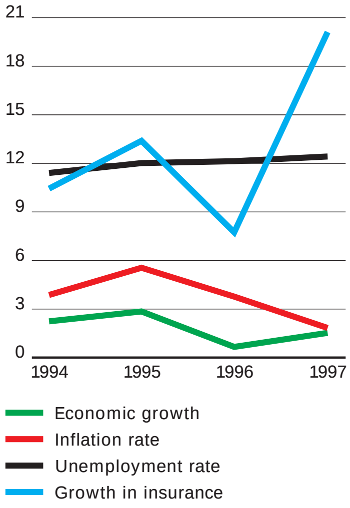
We have been represented in London for many years by our Main Representation Office and by two branch offices that chiefly handle local UK business. In contrast, our British subsidiary, Great Lakes Reinsurance Company (UK), writes international business and is also available for special business segments. In the year under review it greatly increased its gross premium income from £95m to £164m. Its profit rose from £3.2m to £5.9m. American Re's offices in the UK supplement our local organization and strengthen our market position.

In autumn 1997 we acquired the managing agency Apollo Underwriting Ltd and Artemis Capital Ltd, a Lloyd's corporate member that currently provides 70% of the underwriting capacity of Lloyd's Syndicate 457. Apart from know-how in many areas of marine insurance, the syndicate offers potential for expansion in all market segments.

For 1998 we are expecting a further marked increase in the premium income from our UK business. The result should be better than last year.

Italy

Economic development in Italy (in %)



Despite higher growth, the economic upswing in Italy was only moderate. The fight against inflation showed further signs of success, but the high unemployment rate again increased slightly. Direct insurers' premium income grew considerably.

We were able to expand the premium volume of our Italian business substantially, but the result was less favourable than in the previous year.

Our subsidiary Münchener Rück Italia (MRI), Milan, increased its premium income to Lit 527bn (381bn). Its underwriting result deteriorated, owing mainly to the large deficit recorded in hail insurance. Consequently the company was able to show only a small profit for the year.

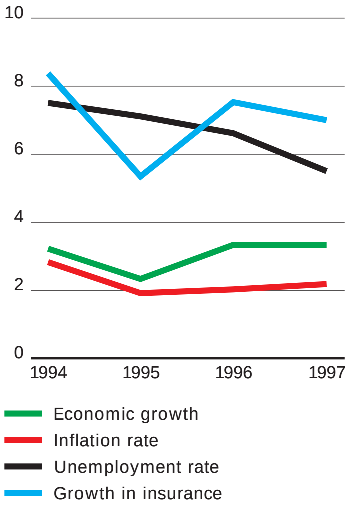
MRI significantly improved its position in the Italian market last year. In December 1997 it acquired an initial stake of 20% in the share capital of Reale Riassicurazione in Turin, the second largest reinsurer in Italy; the remaining 80% passed into MRI's ownership in July 1998. The portfolio of this company, which has meanwhile been renamed Torino Riassicurazioni, has a very strong local orientation which ideally complements MRI's business.

The Italian market was also characterized by growing competition, large international reinsurance capacities and the trend among direct insurers to increase their retentions and switch to non-proportional reinsurance programmes. Despite the difficult business environment, there is still great potential for development in the Italian market. In particular, the reduction in state social benefits means there is a pronounced demand for private provision through insurances of the person. To master the problem of coverage for natural catastrophes, a bill is currently being debated that assigns an important role to both direct insurers and international reinsurers. And the parliamentary debate on the law regulating public construction orders has been resumed: a positive outcome should provide the building industry with the long hoped-for impulses for growth and thus open up additional business opportunities for the insurance industry.

For 1998 we therefore expect a further increase in premium income in our Italian business; the result should be about the same as last year.

The Netherlands

Economic development in the Netherlands (in %)



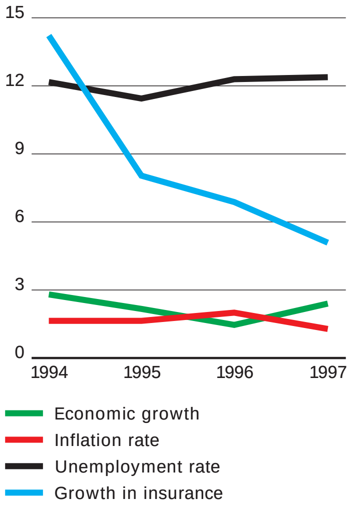
The growth in the Dutch economy continued in 1997, with only moderate upward price movement and a further fall in the unemployment rate. Direct insurers again recorded significant premium growth.

In the year under review we took advantage of the opportunities presented by the advancing privatization of social insurance in the Netherlands. Despite the intense price competition and the continuing consolidation in this market, too, we succeeded in increasing our market share. The result was again positive, albeit not as good as in the previous year.

Our clients' retentions are getting bigger and the trend towards non-proportional covers is unbroken. For 1998 we therefore expect a slight decrease in our premium income. We are supporting innovative developments, such as integrated environmental insurance and new employee benefit covers; these offer us new business opportunities. The result of our Dutch business will probably deteriorate, however, owing to the effects of competition.

France

Economic development in France (in %)



In France GDP grew somewhat more strongly than in the previous year, with prices remaining very stable. Nevertheless, the unemployment rate increased further. The premium growth achieved by direct insurers was again considerable.

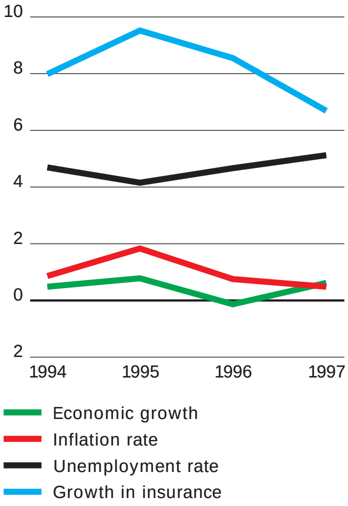
Despite this, we recorded a slight decrease in premium income from our French business, also owing to the keen competition. As our portfolio was largely spared claims costs for natural catastrophes and other very large losses, the result improved on the previous year, when it had been adversely affected by the fire in the Channel Tunnel.

In order to serve the needs of our clients even better, we upgraded our liaison office in France to a service company with effect from 1st January 1998. We are reckoning with premium growth for 1998, but the result probably will not reach last year's level owing to the effects of competition.

Switzerland

In Switzerland, the first signs of an economic recovery gradually became apparent after years of economic stagnation. The unemployment rate increased, however. Inflation remained at a very low level.

Economic development in Switzerland (in %)



The premium income of Swiss insurers grew markedly overall in 1997; this was mainly due to life insurance. In non-life insurance, premium stagnated. As competition in this market was also keen, our premium income declined slightly in the year under review. The result was again positive, though not as good as in the previous year. In the current risk period we expect premium to fall further for competitive reasons. This development will have an adverse effect on the result.

Our Swiss subsidiary, New Reinsurance Company, Geneva, succeeded in expanding its premium by nearly 50% to Sfr 790m (532m) in the business year 1997. The substantial capital increase of around Sfr 400m in November 1996 provided a solid basis for this satisfying premium development. The company's reinsurance underwriting result was better than in the previous year. For the first time a special allocation was made to provisions for outstanding claims. The profit for the year was Sfr 5.4m (4.7m).

Austria

The general economic situation in Austria is marked by a mood of cautious optimism. Economic development shows a split: on the one hand, respectable growth in exports; on the other, only a gradual strengthening of domestic demand against a background of high price stability. Unemployment remained at the previous year's level.

In 1997 the insurance industry had to record a decline in premium volume for the first time. Nevertheless, we again managed to increase our premium income and further consolidate our leading position. We recorded a break-even overall result, after a profit in the previous year.

For 1998 we are reckoning with a slight decrease in premium volume, as the increasing competition has put further pressure on prices here as well. It is likely that this will also have a negative effect on the result.

Spain/Portugal

Both in Spain, which enjoyed a further economic upswing in 1997, and in Portugal we were able to extend our leading position for the third year in succession. Despite the keener competition in these markets, too, we again achieved pleasing results. We see interesting potential for growth in both markets, particularly in insurances of the person.

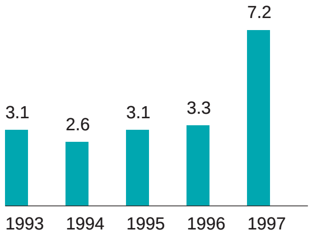
Central and Eastern Europe

Development was very varied in the economies of Central and Eastern Europe in the year under review. If one takes the region's GDP as a whole, there was an increase for the first time in seven years, with growth in the insurance markets exceeding this.

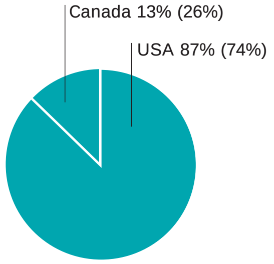
Our premium income also increased pleasingly. However, owing to the flood losses in Poland and the Czech Republic, the result was worse than in the previous year. For 1998 we are anticipating a further increase in premium; the result should improve again.

North America

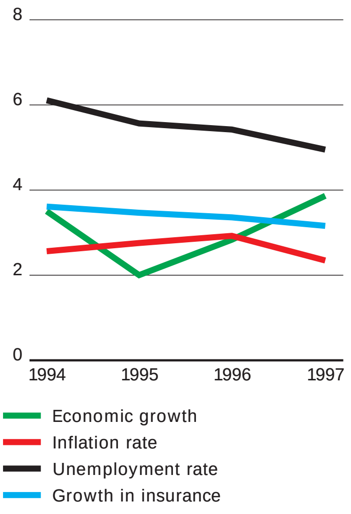
Gross premiums in DM bn



Gross premiums by country



Economic development in the USA (in %)



Our premium income from the North American market for 1997 shows a big rise to DM 7.2bn (3.3bn) owing to the first-time consolidation of American Re. The result was better than in the previous year. For 1998 we expect the premium income from our North American business to remain stable. The result should improve even further.

USA

The economy in the USA proved robust and again enjoyed a high rate of growth with low inflation and falling unemployment.

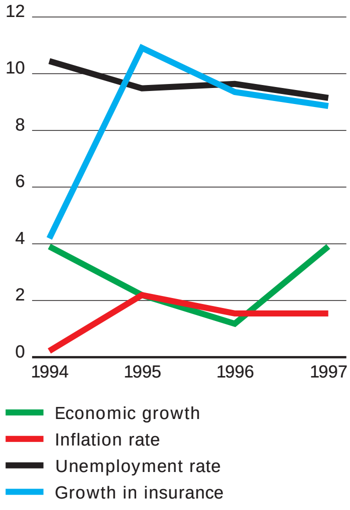
The favourable general economic environment was reflected in the development of the insurance industry. Premium income in non-life business increased markedly. Above-average investment earnings and the absence of very large losses enabled property-casualty insurers to post record results.

The inclusion of American Re has had a substantial effect on our Group premium income in the USA. Following the merger of MARC and the US Branch into the company, American Re recorded a gross premium income of US$ 3.1bn for 1997, thus consolidating its position among the leading US reinsurers. A very positive aspect was that the merger did not lead to any notable losses of business. Owing to the effects of competition, however, premium development did remain below expectations. Taking into account the business of MARC and the US Branch, the premium volume stayed more or less the same. This is a reflection of the continuing consolidation in the insurance industry and the marked increases in retentions but also of our very careful underwriting policy, occasioned by the current market situation. American Re's profit for the year amounted to US$ 221m. It was affected by non-recurring expenditure resulting from the merger. Altogether, however, the result is pleasing and in line with our planning for this first year.

The life insurance market in the USA is also marked by intense competition. The primary insurers are striving to improve their position through mergers; many mutuals are seeking access to the capital market through a change in their legal structure or through the formation of holding companies. Banks and other financial institutions are seeking to gain a footing in the life insurance market.

Our subsidiary MARC-Life, Atlanta, which specializes in life reinsurance in the USA, increased its premium income in 1997 by more than 15% to US$ 136m, thus satisfyingly extending its market position. The profit for the year rose to US$ 6.1m (4.9m). In June 1998 we significantly increased MARC-Life's shareholders' funds by US$ 60m in order to provide it with the financial base for the intended further expansion of its business.

Economic development in Canada (in %)



Canada

Canada's economy also grew at an above-average rate, with high price stability. The unemployment rate was considerably higher than in the USA, however.

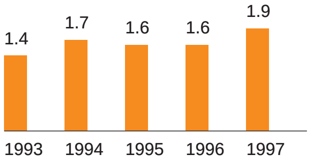
Whilst the primary insurers' premium income showed a distinct increase, the business volume of the reinsurance market decreased further. The reasons for this were mergers, increased retentions and price reductions. The premium income of our Canadian subsidiary Munich Reinsurance Company of Canada, Toronto, therefore declined by 5% to Can$ 285m. Whereas the underwriting result improved, the profit for the year fell from Can$ 16.8m to Can$ 14.6m on account of lower investment earnings. The fact that for the Group as a whole we show an increased premium volume for Canada is due mainly to the inclusion of American Re's Canadian business.

We write Canadian life business through Munich Reinsurance Company Canada Branch (Life), Toronto. Its gross premium income decreased to Can$ 376m (395m), following the previous year's large increase due to a special influence. At Can$ 21.9m (10.6m), the profit was substantially higher than in the previous year.

Asia and Australasia

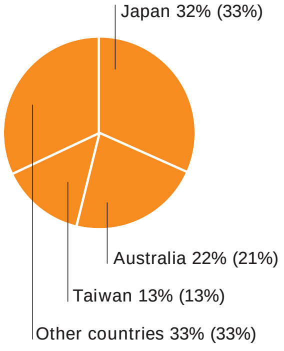
In our business region Asia and Australasia we were able to expand our premium further in 1997 to DM 1.9bn (1.6bn). We again recorded a satisfying result. For 1998 we expect a slight decline in our premium overall. The result, however, should be of the same order as last year.

Gross premiums in DM bn



The financial crisis that hit some Asian markets in the second half of 1997 also affected our premium income, especially in the ASEAN states and South Korea. On the other hand, particularly in the ASEAN markets we were able to achieve especially strong premium growth in original currencies and thus limit the consequences of the deterioration in exchange rates; our market position in this region has been further strengthened. In South Korea the currency-related decrease in our business volume was greater. The crisis should further accelerate the process of restructuring and liberalization in what is a significant market, also by international standards. We have positioned ourselves well in this changing environment, so that we hope to be able to take good advantage of the future opportunities for development as well.

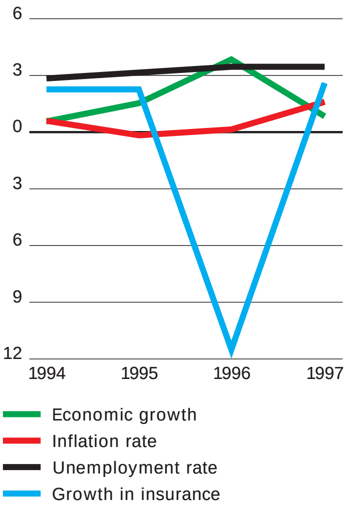
Gross premiums by country



Japan

Japan remains one of the most important Asian markets – also as far as we are concerned. Japan's economic development in 1997 was marked by subdued growth.

Economic development in Japan (in %)



In the insurance industry, the process of deregulation initiated in the previous years continued and is now almost complete. The demand for additional reinsurance was relatively low. Nevertheless, despite the general trend, we managed to increase our premium income in original currency further in 1997 and achieve another very satisfactory, positive result. So as to be able to continue providing the best possible support for our Japanese clients, with their increasing requests for service, we have reinforced the staff of our office in Tokyo with further highly qualified specialists.

China

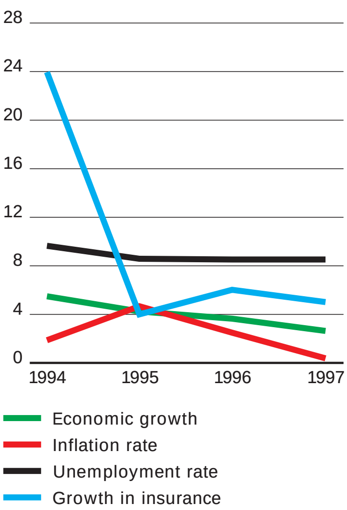
The People's Republic of China has so far been less affected by the currency and economic crises plaguing the other Asian countries. In Hong Kong the maxim "business as usual" continues to apply after the return to Chinese sovereignty on 1st July 1997. In the People's Republic we have had close relations with the state insurance company for nearly 30 years. In the meantime we have also established close contacts with a number of newly formed companies. This has led to cooperation projects in some cases. With the new representation offices opened in Beijing and Shanghai last year supplementing the branch we have had in Hong Kong since 1963, we are well equipped to meet the requirements of this "market of the future".

India

In India the opening of the market has yet to take place. In view of the strong expansion of our business in the last few years and the growing requirements of our clients, we intend to upgrade our liaison office to a representation office; this is scheduled for the end of 1998.

Australia

Economic development in Australia (in %)

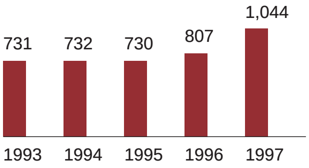


With sustained growth and high price stability, Australia's economy continued to be in good shape in 1997. The insurance industry profited from this.

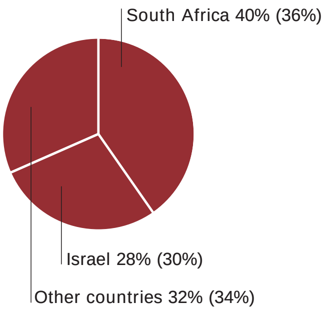
Our subsidiary Munich Reinsurance Company of Australasia, Sydney, is one of the leading reinsurers in the market. In the year under review the company recorded an increased premium income of A$ 291m (273m). Following the previous year's profit of A$ 16.1m, it this time showed a loss of A$ 20.6m. This is partly due to the fact that MRA has to post its investments at market value, which can lead to strong fluctuations in results from one year to the next. In this case the effect was a negative one, as the unrealized capital gains were considerably lower than in the previous year. In addition, claims experience in life business deteriorated significantly. With effect from 1st January 1998 MRA's geographical area of operation was extended to include New Zealand and the Pacific area. The portfolio built up by the Munich Reinsurance Company there in the last 25 years has been transferred to our Australian subsidiary accordingly.

Africa, Near and Middle East

Gross premiums in DM m



Gross premiums by country



In the business region Africa, Near and Middle East we succeeded in increasing our premium by as much as 30% to DM 1,044m (807m) in 1997. The result was considerably worse than in the previous year, however, owing to big deficits in fire and health business. For 1998 we expect a slight decline in premium income. This is mainly due to a reduction in the volume of our health business as a consequence of portfolio improvement measures. The result should improve again.

Africa

The largest and most advanced insurance market in Africa continues to be South Africa, whose economy did not develop as well in 1997 as in the previous years.

Our South African subsidiary, Munich Reinsurance Company of Africa, Johannesburg, is the largest non-life reinsurer in the region. In 1997 it recorded a significantly increased premium income of R 1.4bn (1.1bn). Owing to an unexpectedly large number of fire and hail losses, however, the profit fell to R 34.8m (58.9m).

Israel

In Israel the general economic situation was mixed in 1997. Despite increased growth, unemployment rose; inflation also accelerated.

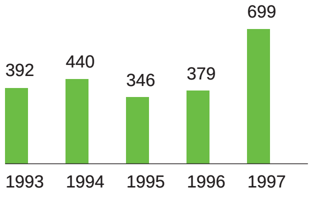
In the highly developed Israeli insurance market, competition in insurance and reinsurance also intensified; in spite of this, we managed to expand our business in some sectors. Owing to the oversupply of capacity, there is growing pressure on price levels and thus also on our reinsurance results in nearly all areas.

Arab countries

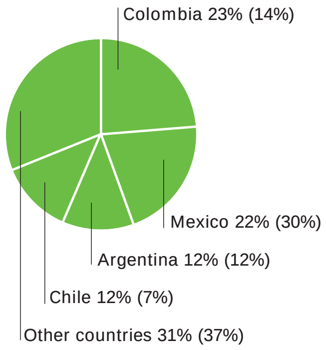
We increased our premium income in the Arab countries again in the year under review. As in the previous year, health insurance proved to be the class with the biggest growth, albeit currently with negative results. The engineering office we opened in Cairo in 1997 will successively extend the radius of its activities to other Arab markets and complement the service provided from Munich for the engineering classes of business. Here, too, we see the insurance of infrastructure projects as a door-opener for further business opportunities and the development of good contacts with clients.

Latin America

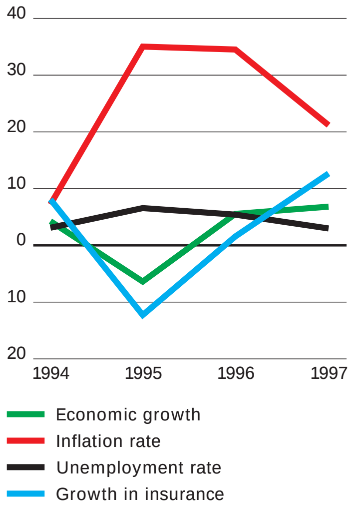
Gross premiums in DM m



Gross premiums by country



Economic development in Mexico (in %)



In the business region Latin America our premium income shows a big increase to DM 699m (379m) in 1997, owing to the inclusion of American Re's business. The results were again positive, as we were not affected by major catastrophe losses. For 1998 we expect another increase in our premium income. The result should again be satisfactory.

The economic and financial situation in Latin America improved further. This continent remained largely unaffected by the currency turbulences in the Far East; the economies of Mexico and Argentina in particular showed high rates of growth. Substantial inflows of capital from abroad and an increase in domestic investments were positive signs. The privatization of the social insurance systems and the opening of the economies progressed further.

These favourable developments make the Latin American continent one of the most attractive growth markets for insurance. Consequently insurers and reinsurers from the US and Europe in particular are increasingly establishing local presences there.

We are strongly promoting the development of our business through investments in our own organization. Of particular importance are our local offices, which have been established in Latin America for many years and which we have continually expanded.

Competition in Latin America is being further fuelled by foreign insurers and reinsurers. There has been an absence of natural catastrophes in the last few years, so that prices have fallen and conditions have deteriorated. The property classes of business are largely stagnating. By contrast, insurances of the person and special classes like agricultural insurance are showing substantial growth rates.

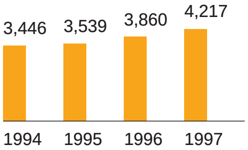
We have taken advantage of the business opportunities, especially in the main markets.

In Brazil we are preparing for the forthcoming abolition of the reinsurance monopoly by reinforcing the staff of our office in São Paulo. We have meanwhile established good contacts with nearly all the Brazilian insurance companies.

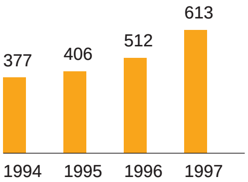
Classes of business

Life

Gross premiums in DM m



Life insurance portfolios in DM bn



In life business we were able to increase our premium income further. The result was affected by considerably higher financing costs, however, so that overall the deficit grew bigger.

Our German business developed pleasingly in the year under review; the increase in our premium income corresponded more or less to the growth in direct insurance. The debate on the future form of state pension insurance continues. This especially has made people more inclined to make personal provision for old age and other risks of life such as occupational disability and need for long-term care. The German government has decided to replace the state occupational disability and general disability pensions with a two-tier pension for reduction in earning capacity. This gives the German life insurance industry the chance to provide cover for the resultant gaps with an appropriate complementary product. We expect this market development to give rise to an increasing demand for reinsurance and specialist advice. In addition to assuming the traditional insurance risks of death, disability, accident and illness, we offer our clients solutions for the interest and investment risk. This activity will become more and more significant in future.

In the many other markets, too, demographic developments and the financial problems of state social security systems are presenting the private insurance industry with good business opportunities: insurers have much greater scope than hitherto for offering alternative and supplementary solutions, be it for making provision for old age and surviving dependants or for cover against the risks of disability and need for long-term care. These opportunities for growth on the direct insurance side are having a positive effect on life reinsurance.

In the European insurance industry, however, the continuing consolidation in the market is restricting our opportunities for growth. Large insurance groups tend to require less reinsurance. On the other hand the keener competition, also internationally, is compelling insurers to engage in a process of continual innovation. The resulting need for individual advice and special reinsurance concepts is providing new areas of activity for reinsurers. With our worldwide expertise and financial strength we are well equipped to satisfy the requirements of even large insurance groups. In the UK and France we intend to substantially strengthen our activities in the field of insurances of the person.

The Eastern European life insurance markets are making slow but steady progress. Although the economic and state parameters for making personal provision for old age through life insurance are not yet ideal, we see a very significant business potential for insurers and reinsurers in this area in the future.

Reinsurance underwriting results for 1997 by class of business

DM m	Life	Personal accident/ health	Liability	Motor	Marine/ aviation	Fire
Gross premiums written	4,217	1,746	2,798	4,612	1,544	5,238
Net premiums written	3,529	1,520	2,418	4,049	1,268	4,632
Net premiums earned	3,523	1,435	2,533	4,051	1,252	4,627
Interest on premium funds and provisions	1,029	86	3	8	8	15
Claims incurred						
– Payments	1,923	813	1,657	2,724	649	2,546
– Change in provision	19	213	513	452	203	57
	1,942	1,026	2,170	3,176	852	2,603
Operating expenses	1,114	539	823	1,077	303	1,600
Other income and expenditure	–1,539	–64	81	6	–2	34
Underwriting result	–43	–108	–376	–188	103	473
Change in claims equalization provisions	–	0	–361	–154	–35	–523
Underwriting result after change in claims equalization provisions	–43	–108	–737	–342	68	–50

Ratios in % – business year						
Loss ratio		69.9	82.3	78.0	67.6	55.2
Expense ratio		37.6	32.5	26.6	24.2	34.6
Combined ratio		107.5	114.8	104.6	91.8	89.8

Ratios in % – previous year						
Loss ratio		67.5	77.3	83.4	71.2	57.2
Expense ratio		34.2	34.9	22.2	24.7	33.0
Combined ratio		101.7	112.2	105.6	95.9	90.2

Engineering	Other classes	Non-life combined	Total	Pr. year non-life combined	Pr. year total	DM m
1,948	2,841	20,727	24,944	15,469	19,329	Gross premiums written
1,716	2,583	18,186	21,715	13,575	16,775	Net premiums written
1,748	2,570	18,216	21,739	13,435	16,549	Net premiums earned
4	4	128	1,157	135	1,031	Interest on premium funds and provisions
						Claims incurred
1,023	1,660	11,072	12,995	8,646	10,320	– Payments
83	–122	1,399	1,418	374	406	– Change in provision
1,106	1,538	12,471	14,413	9,020	10,726	
603	913	5,858	6,972	4,151	5,037	Operating expenses
–44	–27	–16	–1,555	–165	–1,586	Other income and expenditure
–1	96	–1	–44	234	231	Underwriting result
–136	–17	–1,226	–1,226	–1,203	–1,203	Change in claims equalization provisions
–137	79	–1,227	–1,270	–969	–972	Underwriting result after change in claims equalization provisions
						Ratios in % – business year
65.6	60.8	67.8				Loss ratio
34.5	35.5	32.2				Expense ratio
100.1	96.3	100.0				Combined ratio
						Ratios in % – previous year
59.7	59.3	67.4				Loss ratio
34.9	34.3	30.9				Expense ratio
94.6	93.6	98.3				Combined ratio

The North American markets continue to be characterized by vigorous activity in the area of mergers and acquisitions. In order to procure better access to the capital markets, some large mutuals are converting themselves into stock companies. The situation in the insurance and reinsurance markets will continue to be marked by hard price competition in future. Crucial factors for success remain the distribution system and achieving economies of scale.

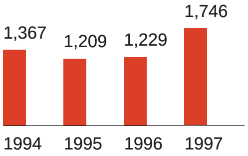
In Asia the financial crisis will probably curb growth in the relevant life insurance markets in the next few years. Nevertheless, we continue to regard the medium- to long-term growth potential as significant. In the coming year we will strengthen our local presence in Singapore in order to serve our clients in the region even better.

The further improvement in the general economic situation in the most important Latin American markets is favourable for the development of life insurance. We see good opportunities for expanding our portfolio there.

Altogether, we expect to record premium growth again in 1998 and an improved result. For the future, too, we consider life insurance a class with great potential for growth and have taken the necessary steps to realize this potential. We continue to see financing business, designed to support direct insurers' growth, as an attractive field. We offer tailor-made concepts to cover temporary financing requirements that may arise from an existing portfolio or from the development of new market segments. Our financing business will have a favourable effect on our result in the long term.

Personal accident/health

Gross premiums in DM m



	1995	1996	1997
Loss ratio	64.4	67.5	69.9
Expense ratio	30.6	34.2	37.6
Combined ratio	95.0	101.7	107.5

Our premium in personal accident business has been boosted by the first-time consolidation of American Re. The result deteriorated slightly.

Private personal accident insurance continues to produce very good results worldwide. The demand for reinsurance is therefore basically limited to cover for peak risks and accumulation situations. In addition, there is also strong price competition among reinsurers in this class of business.

We continue to see good opportunities for expansion in workers' compensation insurance, especially where state carriers are replaced by private ones.

Despite this, we are only reckoning with an unchanged premium income for 1998. The result should be similar to last year's.

In health business our premium income is down on the previous year. This is due solely to the full consolidation of DKV in the Group accounts, where the business ceded by DKV to the Munich Reinsurance Company has to be eliminated from the reinsurance figures. The result deteriorated considerably.

The deficit for 1997 is attributable to misassessments of the claims situation in some foreign markets, such as may occur in the development of new markets and innovative products. We have meanwhile taken the necessary corrective measures on the basis of the initial experience gained.

We are expecting further impulses for growth in health insurance, particularly in the threshold countries, where we see the challenges for the private insurance industry as an opportunity. In the year under review we acquired the service company MedNet. We have set ourselves the objective of expanding its business in the Mediterranean area and in the Arab world. In addition, we want to develop the promising business potential in Asia and various Latin American countries.

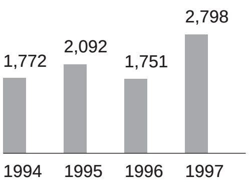
We also see attractive new business prospects in the highly sophisticated US market. We intend to realize these through our subsidiary American Re, where we have set up a special health unit. This unit will analyse business opportunities to enable us to target interesting sectors of the market for our involvement. A clear presence in the US market, which is currently regarded as the leader in the field of managed care, is also strategically important for us in our worldwide service and development activities.

For 1998 we expect premium income in our health business to be about the same as last year. The remedial measures we have taken should improve the result.

Liability

The first-time consolidation of American Re's business has had an appreciable effect on our figures in liability. Premium income rose significantly, but also the underwriting loss. In assessing this result, it must be borne in mind that claims are settled over long periods and that the interest income earned on the long-term reserves required is not included in the underwriting account.

Gross premiums in DM m



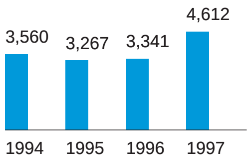
	1995	1996	1997
Loss ratio	96.3	77.3	82.3
Expense ratio	26.2	34.9	32.5
Combined ratio	122.5	112.2	114.8

We continue to regard liability insurance as a class of business with attractive growth potential. In expanding our portfolio, we are increasingly finding that clients want innovative solutions from us instead of, or as a supplement to, traditional reinsurance arrangements. We meet this need with specially tailored programmes. Munich Re's financial solidity, the large capacities we offer and our extensive range of services, such as actuarial support and assistance in claims handling, give us a competitive edge in this field. Moreover, our know-how in the areas of product and public liability and D&O insurance opens up additional business opportunities for us in the highly developed insurance markets. We also provide service to cedants in threshold and developing countries, assisting companies that wish to draw on the expertise of an international reinsurer in building up their business.

For 1998 we expect a slight decline in our premium income. Apart from the keener competition in insurance and reinsurance, we are feeling the effects of further increases in our clients' retentions. The underwriting result should improve again.

Motor

Gross premiums in DM m



	1995	1996	1997
Loss ratio	79.0	83.4	78.0
Expense ratio	20.8	22.2	26.6
Combined ratio	99.8	105.6	104.6

In motor business we recorded a big increase in our premium income. The deterioration in the result was smaller than expected.

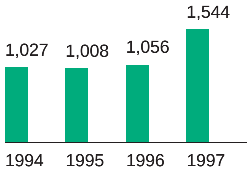
Our figures are heavily influenced by developments in the German direct insurance market, our most important source of business. The premium income of German motor insurers fell by around 4.5% compared with the previous year, owing to the intense competition. But the drastic underwriting losses that were originally feared as a consequence did not occur, because claims frequency continued to decrease; the results in motor own damage were even positive in 1997.

In our motor business from other markets, our acquisition efforts produced pleasing growth in premium. This was bolstered by the addition of American Re’s business.

For 1998 we are anticipating a decline in premium volume, as premium losses due to bigger retentions on the part of our German cedants will not be offset by the growth from new business and higher shares in other markets. The result will probably be of the same order as last year.

Marine/aviation

Gross premiums in DM m



	1995	1996	1997
Loss ratio	63.8	71.2	67.6
Expense ratio	23.9	24.7	24.2
Combined ratio	87.7	95.9	91.8

Despite continuing falls in rates and keener competition in both insurance and reinsurance, we managed to achieve appreciable premium growth in our marine business. The addition of American Re’s business enhanced this. The result was again positive, although without the inclusion of American Re’s portfolio, the profit would have decreased.

Results in the world’s most important marine insurance markets have been good in recent years. Consequently we are now witnessing a very considerable influx of risk capital, i.e. new reinsurance capacity. This has intensified the already keen competition. Prices are under pressure in both proportional and non-proportional reinsurance. We do not see any hope of a reversal of this trend in the next two years. In spite of the unfavourable market conditions, we intend to adhere to our plans for expanding our marine business in selected markets and in certain business segments. If the incidence of major losses remains normal, we expect the result for 1998 to be positive as well.

In our aviation business we recorded a satisfying increase in premium income. The result was positive again and better than in the previous year.

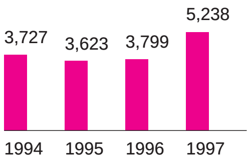
Claims experience worldwide deteriorated in comparison with the previous years: in airline business it was one of the worst years in the history of this class of insurance. Nevertheless, the supply of insurance and reinsurance capacity has continued to increase; rate levels have sunk by 25 to 30%. We therefore have little chance of achieving premium growth in 1998, and a positive result will only be possible if claims incidence is below average.

In our space business, which is conducted solely in Munich by the parent company, we again succeeded in substantially expanding our premium volume. The result was once more very positive and clearly surpassed that of the previous year.

Although the supply of capacity in space business again increased, we managed to maintain our leading position in the world market. For 1998, however, the continually growing competition and drastic fall in rates mean that we will only be able to increase our premium volume slightly. But given a normal incidence of major losses, the result looks as if it will be positive.

Fire

Gross premiums in DM m



	1995	1996	1997
Loss ratio	60.5	57.2	55.2
Expense ratio	31.8	33.0	34.6
Combined ratio	92.3	90.2	89.8

In our fire business, premium shows significant growth following the inclusion of American Re's business. The already satisfying profit again increased in absolute terms, whilst remaining almost the same in relation to the greater premium volume.

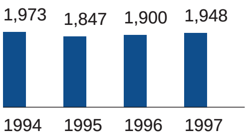
In the year under review there was further erosion of premium rates in most of the big markets for industrial fire insurance. We nevertheless achieved overall premium growth, which stemmed both from reinsurance treaties for the protection of whole groups of risks and from facultative acceptances of individual risks. The foundations for this successful expansion were our intensive consulting and acquisition activities.

We are satisfied with the performance of our business. Despite the claims burdens from the floods on the Oder in Germany, Poland and the Czech Republic, we again recorded only below-average claims costs for natural catastrophes overall. However, we have to be prepared for growing fluctuations in claims experience. Owing to the continuing consolidation in the direct insurance markets, we will less and less frequently receive shares in “bread and butter” business, which as a rule stabilizes results. The business we assume is increasingly industrial and catastrophe business, which is volatile owing to its exposure to major losses.

Following the positive results of the last five years, the supply of reinsurance capacity has continued to grow. The consequence is a progressive softening of prices and conditions. We do not intend to depart from our quality-oriented acceptance policy, however. This means that for 1998 we cannot rule out a decline in our premium income. The result will largely depend on our claims burdens from natural catastrophes and other major losses. Here claims experience in the first few months of the risk period was less favourable than in the comparable period last year. We therefore expect a reduced profit.

Engineering

Gross premiums in DM m



	1995	1996	1997
Loss ratio	68.6	59.7	65.6
Expense ratio	34.3	34.9	34.5
Combined ratio	102.9	94.6	100.1

In the engineering classes of business (machinery, EAR and CAR, electronic equipment, etc.) our premium income rose slightly in the year under review. The result deteriorated to break-even, after a satisfying profit in the previous year.

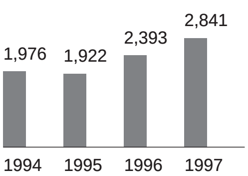
We managed to maintain our position in the individual reinsurance markets. Only in a few business sectors, where the terms and conditions obtainable did not meet our standards, did we reduce our commitments. On the other hand, our intensive acquisition efforts proved successful in expanding our business is some cases. The increase in premium income is also attributable to the inclusion of American Re's business.

The claims costs for large losses were lower than in the previous year – partly because we involve ourselves very intensively in the settlement of such losses. On the loss prevention side, our highly qualified specialists also regularly inspect especially big risks. The fact that the result deteriorated nevertheless is due to the large number of small and medium-sized losses.

Premium income for 1998 will show a reduction. The reasons for this are the higher retentions of our clients, the deterioration in prices and conditions due to competition in some of the most important markets for our business and economic problems, especially in Asia, a region of particular importance for engineering insurance. Given that in addition claims costs for major losses were higher in the first few months of the risk period than in the equivalent period last year, the result looks likely to deteriorate as well.

Other classes of business

Gross premiums in DM m



	1995	1996	1997
Loss ratio	61.6	59.3	60.8
Expense ratio	33.8	34.3	35.5
Combined ratio	95.4	93.6	96.3

All other classes of business together showed an increase in premium income. The combined result was again very positive, although the profit was slightly lower than in the previous year.

Subsumed under this heading are all the other classes of property insurance (nuclear plant, burglary, omnium, extended coverage, glass, hail, water damage, contingency, windstorm, livestock and householders' and homeowners' comprehensive insurance), as well as business interruption, credit, fidelity guarantee, legal expenses, luggage and the specie insurance of private risks.

Homeowners' comprehensive is a form of cover which is of particular importance in the German market and includes the risk elements fire, water damage, windstorm and hail. Owing to continuing price erosion in both insurance and reinsurance, as well as to increased claims costs for windstorm and frost damage, our business shows a loss after a profit in the previous year.

Business experience in householders' comprehensive was again satisfactory.

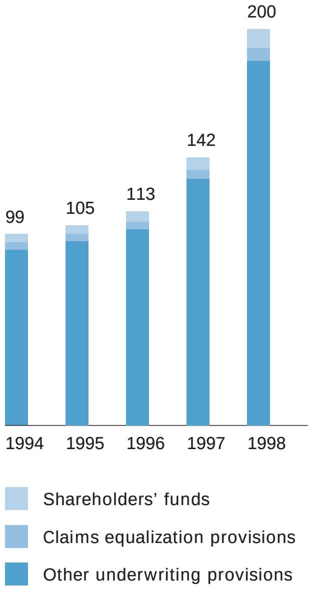
Despite the continuing high incidence of crimes against property in various markets, we were able to post a profit in burglary insurance, as in the previous year.

In credit business we succeeded in expanding our premium volume both in Germany and abroad. In Germany the rise in the number of insolvencies continued; development was critical above all in the construction industry and in certain service industries. Despite this negative environment, we managed to restore our German credit business to the profit zone: for the first time for five years the result is positive again. The experience of our foreign business was also very satisfactory. The Asian crisis only affected it to a small extent.

For 1998 we expect the premium income for “Other classes of business” to remain at around the same level. We are anticipating another satisfying result.

Our financial strength

Munich Re Group
Funds in DM bn
as at 30th June



Size and security have become decisive competitive factors in the reinsurance markets in recent years. In view of the growing risk potentials, insurers attach great importance to their reinsurers' financial strength.

Outstanding financial strength of the parent company

The financial resources of the Munich Reinsurance Company were again substantially strengthened in the year under review. The exercise of the warrants issued in 1994 added nearly DM 500m to our shareholders' funds. We have also made another scheduled improvement in our financial base by allocating DM 150m out of our profit for the business year 1997/98 to our revenue reserves. The company's total shareholders' funds now amount to DM 4.2bn.

The high degree of security Munich Re offers its clients also derives from its valuation reserves, i.e. the reserves resulting from the difference between the book values and current market values of its investments. These valuation reserves increased considerably in the year under review, owing to the favourable development of the stock markets (cf. page 52).

In the current business year, the rights issue of July/August 1998 has raised a total of around DM 2.1bn for the company. We will use this broader capital base to take advantage of opportunities to enhance growth and earnings.

The 1997/98 allocation of DM 1.2bn to our claims equalization provision and similar provisions also impressively underlines the parent company's financial strength. These provisions, which serve to mitigate future fluctuations in annual results, now total DM 5.8bn.

The underwriting provisions required for our reinsurance business were again calculated using the same prudent methods as in previous years. Our claims provisions, where no discounting is applied, were further increased by means of special allocations. In this way we have, as in previous years, made allowance for possible long-tail claims in liability insurance. Our total underwriting provisions now equal 323% (320%) of net premiums.

Further improvement in the capitalization of reinsurance subsidiaries

Not only the financial strength of the parent company is outstanding. American Re can also boast very strong capital resources of US$ 2.6bn after the merger with MARC and our US Branch.

The capitalization of our reinsurance subsidiaries is constantly re-evaluated and adjusted if necessary. Thus in the year under review we appreciably increased the shareholders' funds of Munich American Reassurance Company, Atlanta, raising them by around US$ 60m to give the company the requisite financial base for the planned expansion of its business.

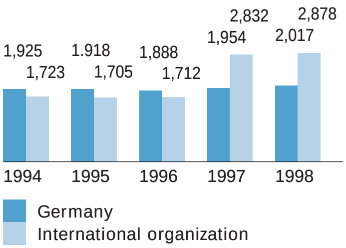
Excellent ratings from leading rating agencies

Munich Re's financial strength is also reflected in the ratings awarded by the leading rating agencies. Thus we have been given an A++ (Superior) by A.M. Best, an Aaa (Exceptional) by Moody's and an AAA (Extremely Strong) by Standard & Poor's, the top rating in each case.

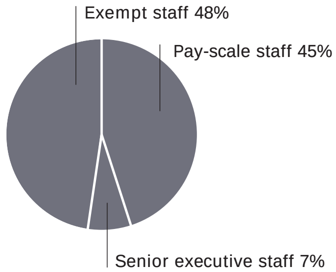
Our staff

Our staff

Personnel development as at 30th June



Staff groups



Percentage of graduates	34%
Average age of staff	40

The reinsurance requirements of our clients throughout the world are continually changing. Particularly in the last few years globalization has increased markedly in the insurance industry, and new insurance markets have emerged. We have responded to these challenges in our personnel policy.

We have increased the number of staff at our headquarters in Munich; further new recruitment is envisaged. We offer young graduates the chance of extensive job orientation and the opportunity to systematically extend their qualifications. In addition, we have introduced a new potential assessment system, thus creating the basis for developing the knowledge and skills of our staff further so that they can go on assuming more challenging and responsible tasks.

A look at our staff structure shows the emphasis we place on well-qualified staff. The large percentage of graduates and exempt staff (those with salaries exceeding the pay scale of collective bargaining agreements) points to quality, and a low turnover (4.8% in 1997/98) to continuity and loyalty.

The high-level requirements we make of staff are accompanied by effective performance incentives. We have institutionalized management by objectives and linked variable compensation for senior executive staff even more closely to performance and corporate results.

The number of staff has increased appreciably in our international organization as well. The resultant complementary aspects of proximity to clients and international experience for our staff are important factors for success.

All this is to the benefit of our clients: they will always find highly qualified and motivated people to talk to and do business with at Munich Re. It is also to the benefit of our shareholders: it means we have competent staff for the successful expansion of our business.

Direct insurance

The Munich Re Group has for many years included a number of well-known German direct insurance companies, whose operations focus on the especially promising lines of life and health business. These subsidiaries contribute significantly to the stable development of premium income and results by balancing our reinsurance business, which is susceptible to stronger fluctuations.

1997 was a successful year for our direct insurers: nearly all the companies improved their results; ERGO Versicherungsgruppe AG, in which we have merged our interests in VICTORIA, Hamburg-Mannheimer, DKV and D. A. S., made a good start.

Large increase in premium income to DM 19.6bn after changes in consolidated group

Our direct insurance companies contributed a total of DM 19.6bn (12.9bn) to the premium income of the Group in the year under review; this was 52.3% more than in the previous year. Around 93% of the premium derived from Germany and 7% from the rest of Europe.

In life insurance the growth rate was 23.4%, in health 151.2% and in property-casualty 48.1%.

Gross premiums	1997 DM m	%	Previous year DM m	%
Life	9,475	48.4	7,679	59.8
Health	5,946	30.4	2,367	18.4
Property-casualty	4,157	21.2	2,806	21.8
Total	19,578	100.0	12,852	100.0

Of the increase of DM 6.7bn in gross premiums, DM 6.5bn is due to the changes in the group of consolidated companies:

- DKV has been fully consolidated this time. It contributed DM 5.6bn (2.2bn) to the premium income.
- We have consolidated the premium of VICTORIA and D. A. S. for the first time, on a pro rata basis. This has added DM 3.6bn.
- By contrast, Hermes has ceased to be a consolidated company. In the previous year we had included only DM 0.5bn of its gross premium on a pro rata basis.

Without these changes, premium growth would have been around 2%.

The consolidated net premiums increased by 54.4% to DM 18.8bn (12.2bn).

Considerably larger underwriting profit

The first full consolidation of DKV and the pro rata consolidation of VICTORIA and D. A. S. significantly improved the underwriting result of the direct insurance group.

In life and health insurance, payments and bonuses to policyholders increased appreciably. By contrast, the claims situation in property-casualty insurance was more favourable than in the previous year. In spite of further large investments to optimize administrative processes, management expenses increased only moderately.

Owing to the more favourable underwriting result, the property-casualty insurers were able to allocate an amount of DM 56m to their claims equalization provisions.

Investments substantially increased through consolidation of VICTORIA and D. A. S.

The direct insurers' investments increased by DM 52bn to DM 138bn (86bn); DM 45bn of this was attributable to the first-time consolidation of VICTORIA and D. A. S.

Investment income totalled DM 9.4bn (6.4bn), of which DM 1.8bn derives from VICTORIA and D. A. S. on a pro rata basis. The life and health insurers especially took advantage of the good stock market situation to realize capital gains.

Important figures for the direct insurers in DM m (consolidated):

	1993	1994	1995	1996	1997
Gross premiums	9,579	10,126	10,482	12,852	19,578
Net premiums	8,740	9,406	9,706	12,159	18,762
Underwriting result*					
Life**	451	365	444	407	443
Health**	–	–	–	100	143
Property-casualty***	30	97	31	38	54
Total	481	462	475	545	640
Operating result	440	504	455	497	1,101

* The figures for 1993 are comparable only to some extent with those as from 1994 owing to the change in the allocation of the expenses for employees' pensions and "other depreciation".
** Including the investment results.
*** Before change in claims equalization provision.

Overview of the most important direct insurance companies in the Group

The following information refers to the subsidiaries' individual or consolidated accounts for 1997.

ERGO

ERGO, created by merging VICTORIA, Hamburg-Mannheimer, DKV and D. A. S., is the number 2 in the German insurance market. VICTORIA numbers among the ten largest German companies in life insurance and in property-casualty insurance; Hamburg-Mannheimer is the second biggest German life insurer; DKV and D. A. S. Rechtsschutz are the market leaders in Europe in their respective fields of business. Munich Re has held substantial participations in all the main ERGO companies for decades.

A note for better understanding and easier interpretation of the figures: even though it was not legally formed until 1st August 1997, ERGO voluntarily published consolidated accounts for the period from 1st January to 31st December 1997.

ERGO's premium income (including reinsurance) totalled DM 21.3bn, or DM 170m more than in the previous year. Just under 8% of this – DM 1.6bn – came from European countries outside Germany, the most important markets being the Netherlands, Austria and Belgium. Besides fully realizing its potential in Germany, ERGO wants to position itself more strongly as a European insurer and significantly increase the share of its business from outside Germany in the medium to long-term, with the focus remaining on insurances of the person.

Around 42% of the premiums of DM 21.3bn derived from life insurance, 30% from health insurance and 28% from property-casualty insurance and reinsurance.

Growth in life insurance was adversely affected by the stagnation of real incomes in Germany, the continuing high unemployment rate and the discussion regarding the taxation of interest income from life policies: at DM 8.9bn, premium income was only marginally higher than last year. New business in Germany sank to DM 1.5bn (1.6bn), 36% of which was apportionable to single-premium business. Total in-force sums insured increased to DM 250bn (243bn). The life insurers' unadjusted earnings rose to DM 4.1bn (3.7bn). Over 95% of this was allocated to the provision for policyholders' dividends.

Health insurance profited from the continuing cutbacks in benefits provided under German statutory health insurance. It was ERGO's biggest growth contributor in 1997, with premium up 3.2% to DM 6.3bn (6.1bn); the additional premium derived mainly from new business. Owing to rising healthcare costs and higher acquisition expenses, the health insurers' unadjusted earnings were slightly down at DM 1.3bn (1.4bn); more than 80% of this profit was allocated to the provision for policyholders' dividends and the ageing reserve, whence it will benefit policyholders in the future.

Premium income in property-casualty insurance was, at DM 5.7bn, 0.8% down on the previous year; the reason for this was the keen price competition in motor insurance and industrial fire insurance. Counter to the general trend in their business sector, the property-casualty insurers recorded lower overall claims expenditure and stable management expenses; their underwriting profit totalled DM 78m (21m). Premiums from reinsurance business decreased slightly to DM 0.4bn.

Altogether, the ERGO Insurance Group achieved an underwriting profit of DM 559m (519m).

Investments rose by 9% to DM 113.5bn (104.1bn). New investments concentrated on shares and registered instruments. The investment result totalled DM 8.4bn (7.7bn). Increased advantage was taken of the good stock market situation to realize capital gains.

The profit for the year amounted to DM 535m (339m), and shareholders' funds rose to DM 4.2bn (3.7bn).

The companies of the ERGO Insurance Group employed an average total of 23,765 (24,207) staff in 1997.

Karlsruher

Karlsruher operates throughout Germany, but its business clearly focuses on the southwest. The most important group companies are the life insurer Karlsruher Lebensversicherung and the property-casualty insurer Karlsruher Versicherung.

New business developed pleasingly at Karlsruher Leben in 1997. Premiums from new business production increased by 25.7% to DM 404m; in-force sums insured rose to DM 56.9bn (56.6bn). Gross premiums grew by 4.4% to DM 1.8bn (1.7bn). Unadjusted earnings totalled DM 773m (739m), with DM 531m (DM 513m) being allocated to the provision for policyholders' dividends. The profit for the year amounted to DM 27.7m (25.1m).

The gross premiums written by Karlsruher Versicherung fell by 3.1% to DM 356m (368m) in 1997. The crucial factor was premium development in motor business, where the growth rate of 5% in new business was unable to compensate for business lost. The underwriting account closed with a profit of DM 12m (8m). The profit for the year increased to DM 11.2m (7.9m).

Karlsruher employed an average of 2,467 (2,488) staff in its group in 1997.

Europäische Reiseversicherung

Europäische and its subsidiaries are the leading travel insurers in the European market, where they operate in direct and indirect business. In the German market, which is particularly important for Europäische, the development of travel insurance is being affected by the reduced scope of people's disposable incomes. In the business year 1997 the group wrote total gross premiums of DM 527m (532m). Its underwriting result declined to DM –3.6m (+7.3m). The consolidated profit for the year amounted to DM 10m (11m).

An average of 526 (497) staff were employed by the companies in the group.

Berlinische Lebensversicherung

The life insurer Berlinische Leben was able to increase its new business slightly in 1997 and earned gross premium income of DM 831m (834m). In-force sums insured decreased a little to DM 28.8bn (DM 28.9bn). Unadjusted earnings rose markedly to DM 374m (292m) as a result of large realized capital gains; 98% of this was allocated to policyholders. The company posted a profit for the year of DM 7.8m (8.1m).

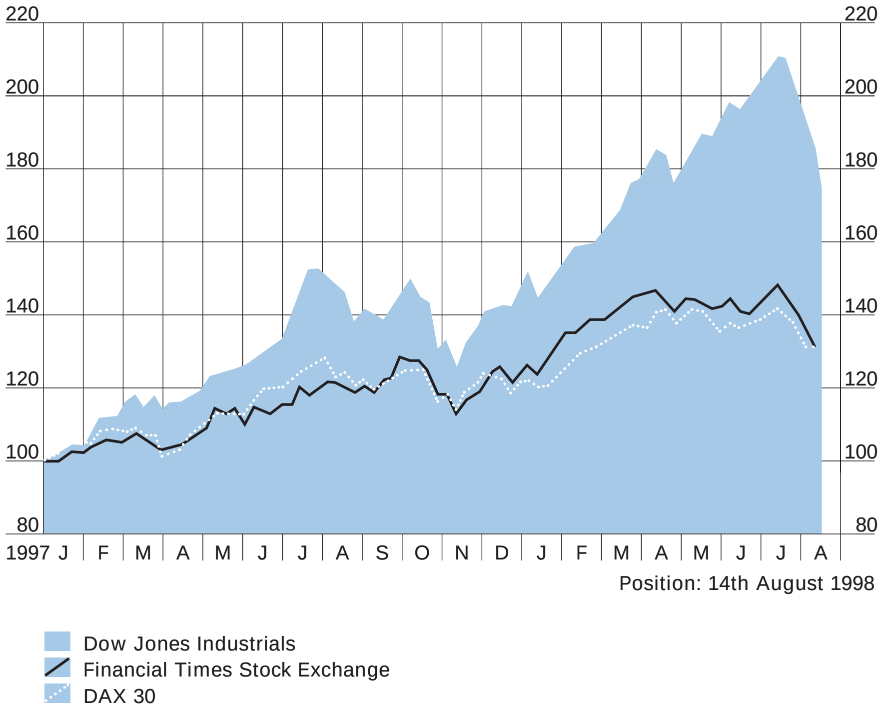
In May 1998 we sold our majority shareholding in Berlinische Leben to CGU. Becoming part of the group of one of the largest British composite insurers with global operations opens up substantial business opportunities for the company.

Investments

Corrective adjustments after all-time highs on many financial markets

Notwithstanding individual turbulences, the business year 1997/98 was another record year for the capital markets in Europe and North America. With interest rate levels falling further, the stock markets recorded all-time highs. The US Dow Jones share index reached a new record mark of 9,337. The European stock markets performed even better, with prices increasing in some cases by over 50%, although these markets were initially affected more strongly by the corrective price adjustments of recent weeks than the US stock market.

The crisis in autumn 1997, which led to marked and sustained price falls on the Asian capital markets, had only a small effect on Munich Re's investments.



Marked depreciation of Asian currencies

As expected, there was almost no change in exchange rates between the currencies of the countries due to participate in European monetary union. The US dollar and the British pound showed a very strong upward trend in relation to these currencies. Thus on 31st December 1997 the dollar was quoted at 1.79 against the D-mark, as opposed to 1.55 a year before. The turbulences on the Far Eastern financial markets led to a marked depreciation of Asian currencies against both the dollar and European currencies.

Our investment policy has paid off

In the selection of our investments we have always attached importance to quality, which we define in terms of security, profitability and liquidity. The enormous significance of these criteria for the international capital markets became evident when – triggered by the uncertainties in Asia, followed more recently by those in Russia – a massive flight to quality began. This had a positive effect on the American and European bond markets, where we had already placed a large part of our portfolio.

During the past business year the worldwide trend towards lower interest rates continued. We took advantage of structural changes in the development of interest rates to make switches in our fixed-interest securities. In the case of securities used to cover our long-term obligations from underwriting business, we refined our asset liability management further.

In the last few years we have proceeded on the assumption that the capital markets will respond positively to the introduction of the euro and have gradually modified our investment strategy accordingly. Thus for share investment in Europe we have replaced our country-based allocation with a sector and stock approach. We can now justifiably speak of a European share portfolio.

The European bond market will become the second largest in the world and, for institutional investors especially, will offer many more investment opportunities and instruments than hitherto. The convergence of yields on the European bond markets is largely concluded. As in the USA, the quality of the individual issuers, expressed in the differences in yield, will play a bigger role in future. Our international orientation, and the experience we can draw on in the USA in particular, will help us to recognize emerging trends in good time and to respond to them appropriately.

Owing to the large proportion of foreign business in our reinsurance portfolio, our investments are internationally diversified. In the business year 1997/98 their volume increased especially in the USA, Canada and the UK; these markets now account for 14% of our investments. Given the large investment requirements of our German life insurers, however, the major portion of our Group's funds continues to be placed in Germany.

In 1997/98 we continued to adhere to our principle of matching our liabilities in foreign currencies with investments in the same or related currencies in order to minimize currency risks. Our investments in the various markets reflected this. Given the fact that many Asian currencies were pegged to the US dollar in one way or another, we had long matched our liabilities in these currencies with investments on the US capital market, which also offers significantly better investment opportunities. We were therefore only affected by the crisis in Asia to a relatively small extent.

Professional asset management is unthinkable today without the use of derivative financial instruments. In the past business year we again made use of derivatives in the Group – to a very limited extent and subject to strict controls – for hedging purposes in respect of parts of the portfolio, for optimizing earnings, and for implementing planned purchases and sales. In so doing we paid close attention to the evaluation and limitation of risks and the choice of top-quality business partners. We did not engage in any speculative transactions, short selling or arbitrage business. Our transactions involving derivatives – whose overall balance was positive – had no significant effect on our investment result.

Substantial increase in portfolio and investment profit

Group investments increased by DM 61bn or more than 41% to DM 209bn in the business year 1997/98; 45bn of this, or 30 percentage points, is attributable to the first-time consolidation of the VICTORIA Group.

Owing to the continuing positive trends on the capital markets, we made careful adjustments to our investment mix: although loans, with 47%, continue to account for the largest part of our investment portfolio, the proportion invested in shares and investment fund certificates increased to 23%. Investment fund certificates provide us with greater flexibility in the active management of our investments.

Investment mix

	Reinsurers		Direct insurers		Total	
	DM m	%	DM m	%	DM m	%
Real estate	2,597	4	8,397	6	10,994	5
Loans	15,769	22	81,869	59	97,638	47
Participations	6,076	8	2,961	2	9,037	4
Fixed-interest securities, fixed deposits	10,122	14	11,767	9	21,889	11
Shares, investment fund certificates	16,075	23	32,550	24	48,625	23
Deposits retained on assumed reinsurance	20,452	29	210	0	20,662	10
Total	71,091	100	137,754	100	208,845	100

The positive development of the capital markets, the changes in the consolidated group, and the sale of GFC Gesellschaft für Chemiewerte mbH produced a marked rise in our overall investment profit. Our favourable positioning in the major capital markets enabled us to selectively realize capital gains in the portfolio and at the same time kept the need for writedowns to a minimum.

Investment result

	1997/98 DM m	Previous year DM m
Income	14,928	10,385
Expenditure	1,676	1,023
Result	13,252	9,362

In accordance with accounting regulations, DM 9.4bn (7.1bn) of the investment profit has been incorporated in the underwriting results, above all in those of the life and health insurers.

Large valuation reserves

Valuation under German accounting regulations is governed by the principle of prudence (no inclusion of unrealized profits; lower of cost or market value). As a consequence, the values shown in the balance sheet for our real estate, for our equity investments (shares, investment fund certificates and shareholdings in affiliated companies and other participations) and for our fixed-interest securities are much lower than their current market values. The difference between the current market values and the book values of these items in the consolidated balance sheet as at 30th June 1998 totalled DM 81.9bn (cf. page 85). These valuation reserves are distributed as follows:

	Reinsurers DM m	Life insurers DM m	Health insurers DM m	Property-casualty insurers DM m	Total DM m
Real estate	2,100	3,204	829	164	6,297
Equity investments	54,149	13,326	5,106	1,371	73,952
Fixed-interest securities	568	688	262	159	1,677
Total	56,817	17,218	6,197	1,694	81,926

Formation of an asset management company

The Munich Reinsurance Company and the ERGO Insurance Group intend to set up a joint asset management company to take advantage of the potential for synergies in their investment operations, to further enhance the profitability of the insurers' and reinsurers' investments, and thus to significantly improve their competitive position. The new company would manage investments with a market value of well over DM 200bn and thus be one of the biggest asset management companies in Germany.

Prospects

Measures related to our share capital

The stock market reacted very favourably to the parent company's rights issue in summer 1998, which raised a total of approximately DM 2.1bn. After our very positive experience with the innovative 1994 capital increase, we again attached a warrant to each new registered share in this rights issue. The warrants were separated from the shares at the end of the subscription period and are being traded and quoted separately. During the warrant exercise period, which runs until 3rd June 2002, four warrants entitle the holder to subscribe for one further registered share. The exercise price is DM 635 until the full paying-up of the registered shares, and DM 640 thereafter.

Full paying-up of shares followed by stock split

In a second step we want to convert our two share categories into only one: restrictedly transferable no-par-value registered shares. For this purpose, at the end of 1998 and beginning of 1999, we first intend to call in the unpaid amounts on the registered shares – currently partly paid-up to DM 5 – and then carry out a 1:2 stock split. For our registered shareholders this doubling of the number of shares they hold will mean a corresponding increase in their dividend earnings, assuming the dividend amount per share can be maintained.

Conversion into no-par-value shares

Following this, Munich Re shares will be converted into no-par-value units. In accordance with our traditional objective of endeavouring to treat the holders of our two categories of share equally, we want to offer the holders of our bearer shares the chance to double their number of shares as well. In a special capital increase for these shareholders we will given them the opportunity to acquire one new no-par-value registered share for each of their bearer shares at an issue price of DM 247 and also to convert each bearer share into a further registered share.

These capital measures are geared to creating the preconditions for the changeover to the euro whilst at the same time unifying our share structure and making Munich Re shares more transparent, liquid and thus more attractive for both German and foreign investors

Earlier reporting to shareholders

As from 1998 the Munich Reinsurance Company is changing its balance sheet date. Its next consolidated accounts will therefore be for a short business year which covers its underwriting business for the whole calendar year 1998 but the rest of its business – in particular, investment earnings – only for the period from 1st July to 31st December 1998.

The change in the balance sheet date will enable us to inform our shareholders about the past business year significantly earlier and also let them participate in the profit at an earlier date. The next annual report will be published in June 1999 (instead of November); the AGM will take place on 22nd July 1999, over four months earlier than hitherto.

Group premium income for 1998 around DM 50bn

We will consolidate the VICTORIA Group fully for the first time, in contrast to its inclusion on a pro rata basis with five twelfths in our consolidated accounts as at 30th June 1998. After its sale to CGU, Berlinische Leben will no longer be consolidated in the 1998 accounts. Torino Ri, for which the relevant acquisition was completed in July 1998, will be consolidated for the first time.

On this basis, at unchanged currency parities, we expect our premium income for 1998 to be around DM 50bn. This is an increase of about 12% on last year. The premium will derive almost equally from the direct insurers and the reinsurers.

Another satisfying Group result in prospect

As things stand at present, the result will again be very good. Owing to the full consolidation of the VICTORIA Group and the expected improvements in the results of the reinsurance subsidiaries, the Group profit for the year should reach at least the same level as in 1997/98, even though the parent company will only be included for a short business year. However, this forecast presupposes that we are not affected by exceptional developments in the remainder of 1998, especially by heavy claims burdens from natural catastrophes or other very large losses.

Parent company

Competition among insurers is increasing, so that original rates are falling. In addition, our cedants are significantly raising their retentions. At the same time, the supply of capacity in reinsurance is growing. Nevertheless, the parent company will succeed in more or less maintaining its premium volume in the risk period 1998.

Premium income to stay at last year’s level

The premium income from German business – despite the successful defence of our market share – is showing a marked decrease; this applies especially to motor business and industrial fire insurance. By contrast, our premium volume will show further pleasing expansion abroad, especially in life business but also in agricultural insurance and in fire.

Parent company's underwriting result likely to deteriorate

Owing to the market situation, but also on the basis of claims development to date, we have to reckon with a deterioration in the parent company's underwriting result for 1998.

Claims experience for 1998 has so far been less favourable than last year. The claims costs for natural catastrophe losses are higher. This is due to several ice storms in Canada and the USA at the beginning of the year and to a tropical cyclone in India in June 1998, which among other things damaged several large technical installations. The claims burdens from other large losses have also increased considerably, especially in fire and engineering, but also in space business.

Appropriate profit in short business year

The proven principles of our investment policy remain unchanged in 1998. Owing to the parent company's short business year, a portion of its regular income from investments will be missing in the investment result. Despite this, we will still be able to post an appropriate result. In connection with its acquisition by Merrill Lynch, we have sold our longstanding interest in Mercury Asset Management. The proceeds from the sale of these shares, which were held by our branch in London, will have a positive effect on the result of the short business year. Also included in the short business year will be the gains on the sale of AMB shares to Generali.

Altogether, therefore, the parent company will be able to show an appropriate profit for the short business year despite lacking some of the regular income from investments. This presupposes that claims experience for the rest of the risk period 1998 does not produce any negative surprises and that the turbulence on the capital markets remains within tolerable bounds.

Reinsurance group develops as planned

American Re has terminated or reduced its shares in some treaties, owing to deteriorating prices and conditions. In addition, the consolidation process in the primary insurance market has had a direct influence on its business opportunities. American Re consequently recorded a 6.8% fall in premium income to US$ 1,570m in the first six months of the risk period.

Its result has improved by more than 70% to US$ 147m. However, the data can only be compared with the figures for last year to a limited extent because of the merger-related costs incurred in that period.

As far as the other consolidated reinsurance subsidiaries are concerned, there have been no exceptional developments so far. Business experience has matched our expectations.

All in all, we expect premium income of around DM 25bn (24.9bn) for the reinsurers in the risk period 1998. Their overall profit for the year should be lower than last year, owing to the short business year of the parent company.

Direct insurers

The development of our direct insurers depends to a large extent on the general economic situation in Germany, which continues to be marked by a very modest increase in disposable incomes and sustained high unemployment. This limits opportunities for growth in insurances of the person: German life and health insurers are expecting premium income to grow by about 4% each (4.8% and 5.5%). In property-casualty insurance, the battle for good risks will intensify. Prices and conditions in motor insurance and industrial fire business are continuing to come under pressure; in German property-casualty business, overall premium income is expected to decline by 2%. Altogether, the German insurance industry is only reckoning with premium growth of 2%.

Increase in premium income to DM 25bn

In the first six months of the business year, the business of the direct insurers in the Munich Re Group developed very satisfactorily. In life insurance there was pleasing growth in new business and in premium income as a whole. In health insurance new business production was brisk; the level of premium income clearly exceeded last year's. In property-casualty insurance, premiums show a slight increase, contrary to the general trend in this sector. Overall, the companies are expecting premium growth of over 3%.

The development of our direct insurance premium in the consolidated accounts will again be influenced by the changes in the group of consolidated companies: VICTORIA and D. A. S. will be fully consolidated for the first time, whereas Berlinische Leben ceased to be a member of our Group as at 1st January 1998. On balance, this will increase premium income for direct insurance to DM 25bn (19.6bn); the direct insurers will thus contribute about half the Group premium income.

Better result

On the claims side, there have so far been no exceptional developments. The increase in healthcare costs is slowing down; this will have a positive effect on the results in health insurance. The claims situation in property-casualty insurance has also improved further. At present we are anticipating a higher underwriting profit in direct insurance.

The investment result is likely to be better than last year.

All in all, we expect our direct insurers to show a larger profit for the year; their contribution to the Group result will be significantly bigger in any case, owing to the first full consolidation of the results of VICTORIA and D. A. S.

Risks of future development

On 1st May 1998 the German law on control and transparency in the corporate sector (KonTraG) came into force. One of the obligations it imposes on listed companies is to report on the risks of future development. For the insurers and reinsurers in the Munich Re Group, the risks of significance in this connection – besides the normal market risks – are in particular the underwriting risks, the risks in the investment sector and the currency risk.

The main underwriting risks are

- the risk of higher claims being incurred owing to chance factors (risk of random fluctuations) and
- the risk that legal, economic, social or technological parameters or behavioural patterns will change and that such changes cannot be countered in time by adjustments in the prices or conditions for the insurance or reinsurance cover (risk of change).

Both the insurers and the reinsurers in the Group have balanced portfolios and large underwriting provisions – the claims equalization provisions alone total almost DM 7bn. For our underwriting business, especially the reinsurance of natural catastrophe risks, there are precise underwriting guidelines. We write reinsurance business only within the framework of annually fixed budgets for precisely defined loss scenarios; adherence to these budgets is constantly monitored. As far as our retrocessions are concerned, we apply high standards to the security of our retrocessionaires.

The underwriting risk connected with claims that may arise from the changeover to the year 2000 cannot be reliably quantified at present; we have taken precautionary measures in this respect. Together with our clients we are also actively endeavouring to limit the possible losses from the effects of the millennium problem.

In the investment sector we counter interest rate and equity risks with a broad mix of investments, a geographical spread which follows that of our underwriting business, and also in individual cases by the controlled use of derivative financial instruments. As a result of our strict investment guidelines, the credit risk is not significant.

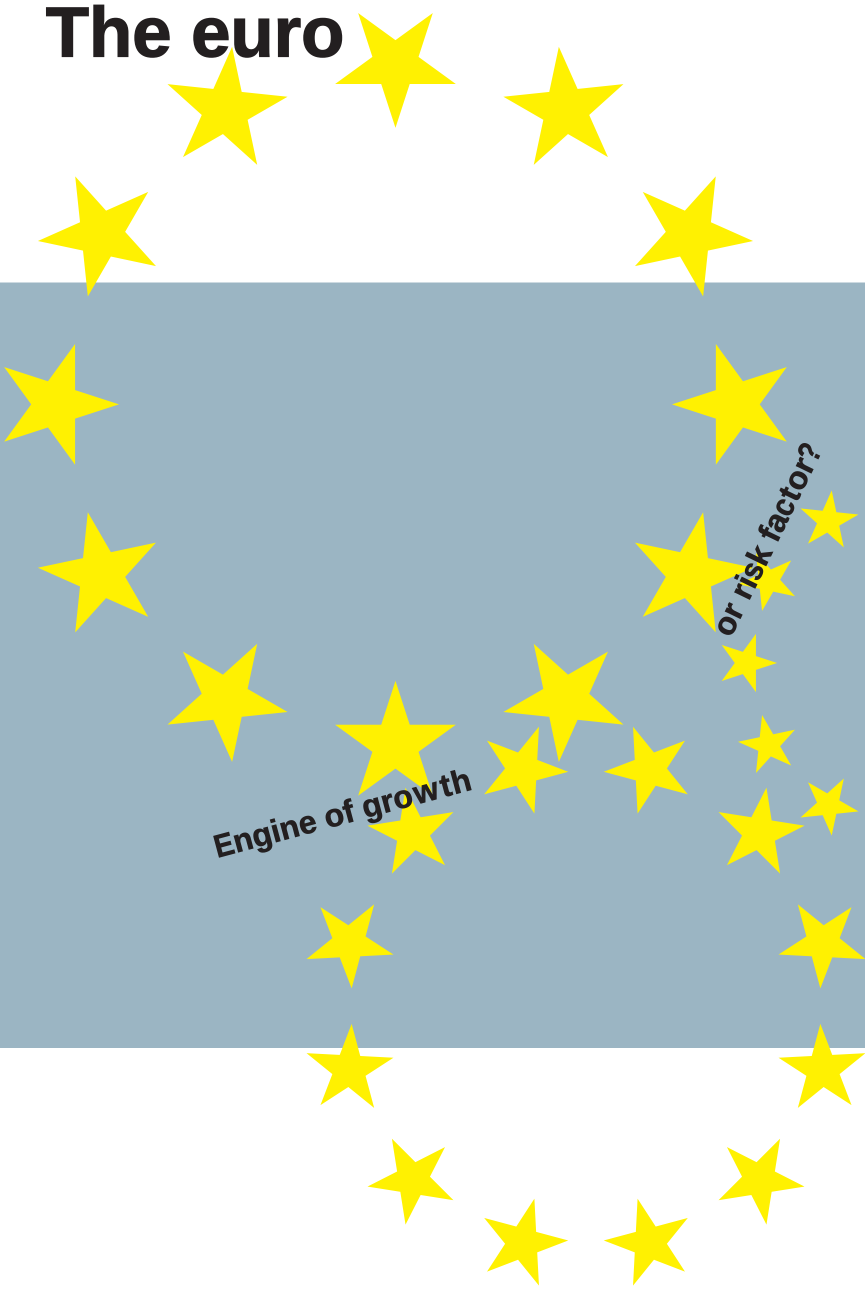
We endeavour to avoid currency risks by matching our liabilities in foreign currencies with investments in the same or similar currencies, so that exchange gains and losses largely neutralize each other.

Altogether, we cannot perceive any development at present that could have a lasting and significant adverse effect on the assets, liabilities, financial position or results of the Munich Re Group or the Munich Reinsurance Company.

Following the strategic measures taken in the last few years, the Munich Re Group is well equipped for the challenges of the future.

Topical subjects in reinsurance

The euro



The euro – engine of growth or risk factor?

What was still a subject of vigorous public debate only a matter of months ago is now a certainty: this May's decision means the euro is coming – and at an earlier date and in more countries than many commentators originally considered possible. Munich Re welcomes this development. Like most of the insurers in the markets concerned, we see it as an important step for the future.

In the countries that will be participating in EMU, we write approximately 69% of the Group's gross premiums and around 62% of the parent company's. Thus the area involved is a very significant business region for us. We will accompany our clients in these countries individually in the changeover to the euro, right from the start and in line with their own plans. This applies not only to new business but also to existing reinsurance contracts.

We have been preparing ourselves intensively for monetary union in a special long-term project, which will enable us to process our external business in euros from 1st January 1999. Clients will then be able to avail themselves of this option as soon as they wish. We will start publishing our company and consolidated accounts in euros for the year 1999. We want to have our own internal systems fully converted to the euro by the end of 2000. A large number of the necessary IT modifications will be taken care of in the general conversion of our IT to client-server systems, which is currently taking place.

The business press has repeatedly brought up the question of whether the changeover to the new currency may be exploited as an opportunity to terminate longer-term contracts on the grounds of a change in their implicit basis. Our clients can count on us not raising this issue.

How can Munich Re benefit from European monetary union?

If the euro results in the hoped-for cost benefits in the medium term and leads to an economic upswing – which we assume it will – the demand for reinsurance cover will also increase. As leading reinsurer in the markets, we are well equipped to take advantage of the additional business opportunities. The euro will probably also intensify competition, however. Especially in reinsurers' large-risk business, rate levels are likely to come under further pressure.

The euro will provide us with appreciable advantages in the field of investments. As international reinsurers, we conduct our business in many currencies. In order to safeguard ourselves against the currency risk, we endeavour to match our underwriting liabilities as closely as possible with assets in the same currencies; in other words, our investment policy is subject to currency-related constraints. The introduction of a single currency in most countries of the European single market will do away with these constraints in this area. It will open up many new investment opportunities in a substantially bigger capital market. This should have a positive influence on our investment income whilst at the same time saving transaction costs.

Altogether, therefore, the euro offers Munich Re significant advantages.
We are set to make good use of the opportunities resulting from monetary union in both our underwriting business and our investment operations.

Securitization of insurance risks

Insurance securitization, the process of turning insurance risk into a marketable security, has been in existence since the mid-nineties. The basic idea is to transfer insurance risks not to the insurance market but to the capital market, where they are assumed by institutional or private investors instead of by insurers and reinsurers. Large international investment banks that are looking for new areas of operation are the main driving force behind this development. The capital markets, for their part, are constantly on the lookout for new investment opportunities. From the investor's point of view, the appeal of an involvement in insurance risks is that they generally have little or no correlation with traditional financial risks like equity risk, interest rate risk or currency risk and thus make possible a broader risk spread.

Insurance Securitization

Although activities in the area of insurance securitization have increased somewhat worldwide (the number of major transactions doubling in 1997 from three in 1996), the amount of risk capacity transferred to the capital markets has remained insignificant at only US$ 700m.

The first capital market products for insurance risks were the catastrophe options of the Chicago Board of Trade. They have been traded since 1993 and provide insurance companies with the possibility of indirect, index-related hedging against their own natural catastrophe exposure. The volume of transactions has remained small to date. In the last two to three years attention has focused more on individual over-the-counter transactions. The area of application has also been limited largely to natural catastrophe covers, mainly in the US market.

In principle, highly volatile natural catastrophe risks do not provide the ideal basis for an investment. More homogeneous risks would be more appropriate as a stabilizing factor for an investment portfolio. But so far few products have been developed along these lines. The reason for this may be that homogeneous risks offer distinctly smaller margins than natural catastrophe risks and hence the return on such investments does not appear attractive enough.

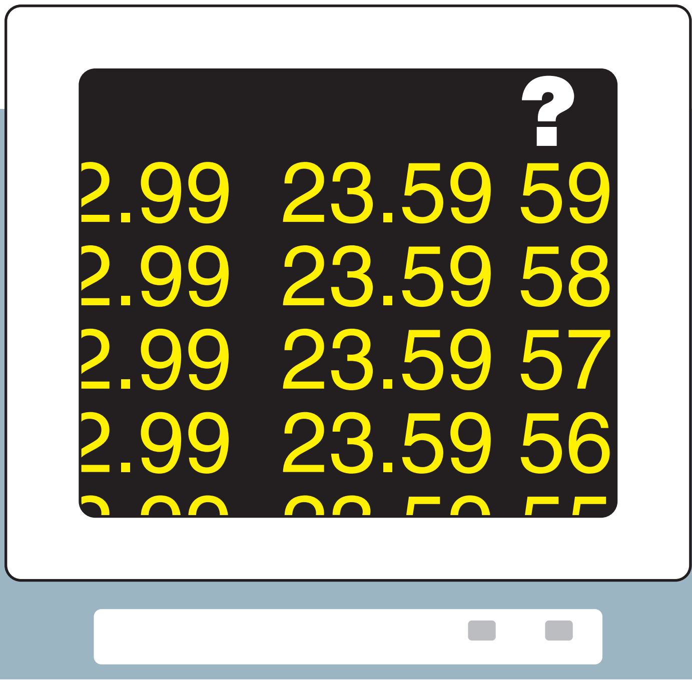
It is therefore to be expected that the capital markets will establish themselves as alternative risk carriers primarily in the natural catastrophe sector. The precondition for this, however, is a marked improvement in the economic parameters. For example, the substantial risk-transfer and transaction costs need to be reduced, the efficiency of the structures improved, and transactions made less time-consuming and administration-intensive. Only then may insurance securitization become a permanently interesting proposition.

Longer-term development will also depend on how investors react to a major natural catastrophe that results in a partial or complete loss of their invested capital. So far the continuity of the capital markets as risk carriers has not been tested by such losses.

In our view capital markets will not replace traditional reinsurance. Insurers generally have very differentiated reinsurance needs. They distinguish between relatively simple standard covers, which – subject to a corresponding development in supply – may also be transferred to the capital markets in future, and complex reinsurance programmes tailored to their individual needs, which can only be obtained from competent reinsurers.

At Munich Re we have also been devoting ourselves to the subject of insurance securitization. Our aim is to provide our clients with all-round risk management through risk transfer and risk financing. We offer not only know-how and expertise for structuring capital market concepts, including involvement in the placements, but also arrange for direct access to capital market investors, in cooperation with investment banks and fund managers. Clients who want to engage in such transactions despite today's shortcomings in terms of real efficiency – for test purposes or for strategic reasons – can receive comprehensive "one-stop" service from us.

The millennium



Information technology and the insurance industry

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Computers, microprocessors, memory chips and the associated computer programs are both a source of affluence and the cause of new problems in modern economies. If information technology stops working, things may grind to a halt.

In many cases the functioning of hardware and software requires the proper processing of dates. And the question now being asked is what will happen when the year 1999 ends and, at one second after 23.59.59 hrs, the first day of the year 2000 begins. Will all systems be able to recognize, interpret and process the date for the new year properly? Doubts are justified, given that up to the mid-eighties years were generally represented in data processing by two digits. Computers that have not been modified recognize the year 1998 on the basis of the figure 98, for example. But they are not able to associate the digits 00 with the year 2000. Possible consequences are calculation errors, loss of data, the shutting down of automatic production processes and the breakdown of whole computer systems. Users that do not have the latest hardware and software must ensure that their applications are millennium-compliant, i.e. that they will continue to process dates reliably in the year 2000.

The millennium is a challenge for the industry which provides this information technology. It is this industry's task to modify and test hardware and software in which the above-mentioned interpretation errors may occur, in good time before 1st January 2000. Substantial sums have already been spent on this; further large amounts will follow. Besides financial resources, specialists who are familiar with older program languages and who know exactly where and for what specific purpose microprocessors have been used are required to locate and modify the relevant data fields in hardware and software.

Ensuring that computers are millennium-compliant is literally a race against time. Experts are agreed: anyone who cannot begin testing the hardware and software by mid-1999 will have problems in achieving the desired goal; for some applications the deadline will be considerably sooner. Even if all measures are taken in time, hardware and software cannot necessarily be relied on to function perfectly: critical date fields or microprocessors may have been overlooked or testing may have been insufficient.

In order to be equipped for the millennium, Munich Re began the necessary modifications for the year 2000 in its own IT systems at the beginning of the nineties. We will have completed most of them by the end of 1998, so that we will be able to use the year 1999 for the requisite tests and implementation measures.

But this issue is important for us as insurers as well: if hardware or software is not converted or not converted properly, so that millennium compliance is not achieved in time, malfunctions are possible that may result in financial losses, material damage or even bodily injury. Is such loss or damage insured? Opinions vary on whether the conditions of existing insurance policies mean that the insurance industry has to indemnify the consequences of a policyholder's hardware or software not being converted, or not properly or too late. Widely varying loss scenarios are being discussed.

It is in fact very likely that there will be malfunctions involving hardware, software and microprocessors. This will result in extra costs as well as material damage and financial losses for IT users. They will make claims for damages, and liability insurers will most likely have to handle many insurance claims, some of which will be justified and others not.

The first thing that needs to be done is for IT users – both in their own interests and because of the obligations they have assumed in insurance policies – to take appropriate measures for loss avoidance and loss minimization in good time. In this connection the insurance industry can take precautionary measures, too:

- Inform policyholders of the specific hazards associated with the millennium problem and tell them what steps are appropriate for loss prevention.
- Make clear the scope of existing insurance covers where necessary to show which losses are not insured.
- Restrict cover in the event of tardy or incomplete conversion measures if the policyholder has not taken additional loss prevention measures to counter the greater exposure.

The increased loss potential of the millennium involves us as reinsurers as well. We attach great importance to our clients exercising the necessary risk awareness in the treatment of the millennium problem in their reinsured portfolios. For some time now we have been talking about the issue with our clients in the most important lines of business and in most markets, discussing what would be the most appropriate measures for them to take in order to tackle the millennium challenge as risk managers in their own interest. For only if we are convinced that every effort has been made to control and limit the loss potential will we be able to share the respective underwriting fortunes of our clients under reinsurance agreements.

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RehaCare

Rehabilitation after serious injuries

Every year German liability insurers pay large sums to indemnify the financial consequences of serious injuries. Besides the medical costs, a factor of substantial importance in these amounts is loss of earnings. Owing to lasting effects of injuries, accident victims often stop working permanently, so that loss of earnings has to be indemnified for the rest of their working lives. In many cases even a reduction in earning capacity of less than 50% leads to complete loss of earnings, with people who lose their original jobs frequently not being able to find their way back into the world of work.

But there is agreement among experts that these accident victims can work again if they are given appropriate help. Efficient rehabilitation must pursue two goals: restoring the victim's health as fully as possible (medical rehabilitation) and reintegrating the person as soon as possible in the world of work (vocational rehabilitation). If this can be done, then the insurer's claims expenditure can be significantly reduced.

Owing to the large number of cases that need to be handled, public bodies are often unable to provide the necessary support, acting too little or too late or arranging for retraining that is overcostly or has little prospect of success. This situation is very unsatisfactory for liability insurers. They are keen to do what they can to remedy it in the interest of all parties and to assume responsibility by helping to significantly improve accident victims' lives. For this purpose, private service centres have been created. They are designed to ensure that sensitive, intensive and above all rapid rehabilitation, tailored to the accident victim's personal circumstances, begins as soon as possible. Experience to date has shown that even the currently unfavourable situation in the labour market need not be a barrier to the successful reintegration of many accident victims in working life.

So efficient rehabilitation not only saves costs; it offers many accident victims the prospect of a return to a better quality of life.

Munich Re is playing a proactive role in these market developments with its own specially designed concept. Working together with partners, we have set up a service provider that helps in medical and vocational rehabilitation – Mercur RehaCare GmbH.

RehaCare's rehabilitation managers are commissioned by insurers to help accident victims throughout Germany, usually at the place where they live.

The services offered by RehaCare include an additional element: management of care costs for persons who remain permanently in need of nursing care and are unable to return to work. Here, too, we see substantial potential for improvement.

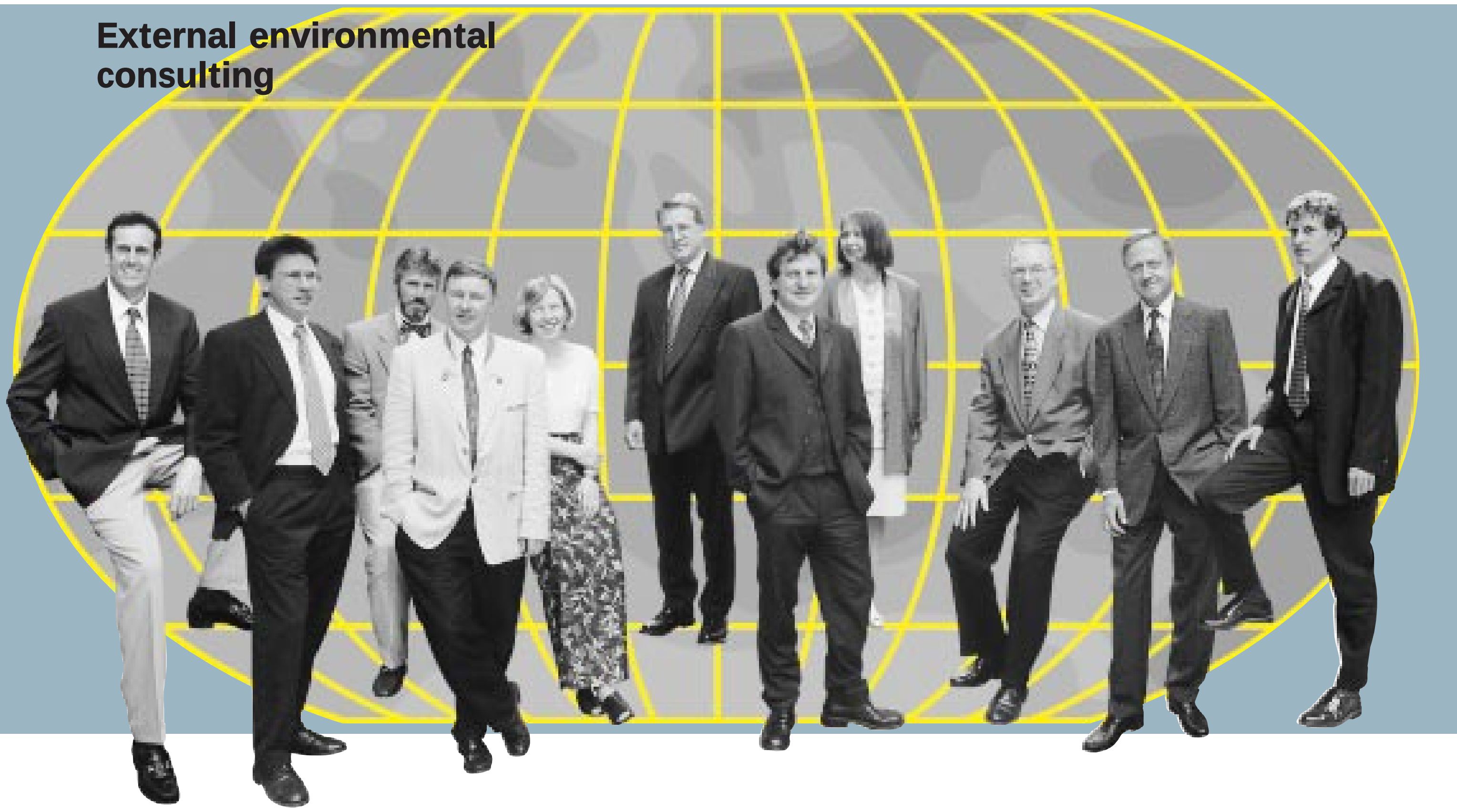
We give individual presentations to inform our clients about RehaCare's services, which are available to all insurers.

Munich Re and the environment: advising, preserving, changing

We are not an industrial concern. Our operations do not produce sewage sludge; we do not manufacture hazardous goods; nor do we use energy-intensive production processes. Nevertheless, environmental issues affect us as reinsurers directly and inevitably. We are facing up to them.

Together with other insurers and reinsurers, we aim to develop precautionary and preventive measures against the impacts of impending environmental changes. We are also working on concepts with which the insurance industry can promote environmentally friendly behaviour in future.

External environmental consulting



External environmental consulting

- For many years Munich Re's Geoscience Research Group has been regarded as one of the most competent teams of experts on the subject of natural catastrophes and climate change. The media worldwide regularly refer to its findings and draw on its specialist knowledge.

  Against the background of increasing catastrophe losses due to climatic and environmental changes, the Research Group advocates rapid and extensive measures to curb man's interference with the natural ecological balance.

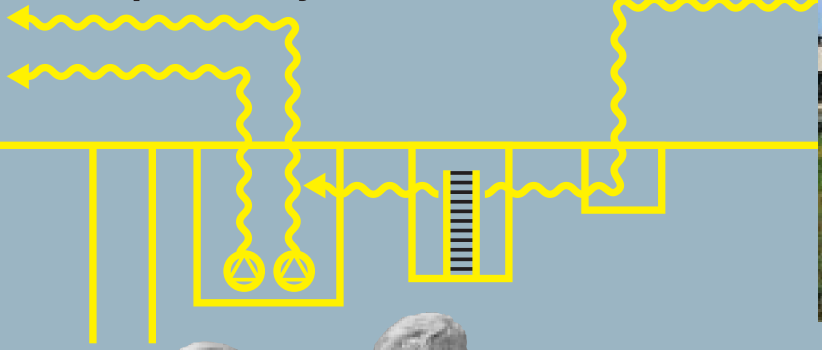
- Our business partners can make use of the services of our subsidiary Münchener Ecoconsult GmbH for risk analyses at industrial firms and other businesses. Its experts analyse the effectiveness of water protection measures, emission controls, prevention of fire and explosion, hazard avoidance and environmental protection management. They also give advice following actual cases of pollution, where contaminated water or soil has to be cleaned up, for example.

A further way in which we inform clients is our series of briefings "Environmental Technology – Information for Insurers". This presents advice on such individual topics as how to design service stations in order to avoid environmental damage.

- Our business section Agro advises politicians and insurers on the subject of crop insurance schemes. These aim to support locally suitable and sustainable agricultural production, not least in climatically difficult parts of the world.

Our successes in the environmental field are unspectacular. They are the cases in which we are able to help prevent environmental damage occurring in the first place.

Internal environmental responsibility



Internal environmental responsibility

Internally, for example at our Munich headquarters, we have also taken a number of measures aimed at easing the strain on the environment.

- In our office complex, which in the past 80 years has gradually spread from our original office building in Königinstrasse to encompass a total of ten buildings, we have devoted considerable space to gardens. Paved inner courtyards have been "unsealed", roof gardens made and ponds dug. The extensively greened roof of our new building on Leopoldstrasse also serves as a rainwater collector. The water runs down via drainpipes into a subterranean storage chamber, from which it is pumped for watering the gardens and flushing toilets.

- In our contracts with suppliers and other firms we have included an environmental protection clause. This states that the products supplied to us should not be harmful to the environment or dangerous to health, either in their production or their composition.

- Today we use environmentally sound paper for 95% of all our writing, copying and printing paper. We have converted our drinks vending

machines so that they handle reusable bottles instead of non-returnable ones. And only environmentally friendly products are used for cleaning our offices.

- We have undertaken to carry out an environmental audit by the year 2000.

Consolidated accounts as at 30th June 1998

In the interest of a clearer presentation, we have condensed many items in the balance sheet and the profit and loss account. The relevant subitems are shown separately in the notes on the accounts in each case. On request, we will be pleased to send you the long versions of the balance sheet and the profit and loss account, in the format required by the German statutory order on insurance companies' accounting and as presented to our auditor.

Summary of the most important figures

Balance sheet – assets	Reinsurers 1997/98 TDM	Direct insurers 1997/98 TDM	Total 1997/98 TDM	Total Previous year TDM
Investments	50,639,526	137,544,292	188,183,818	129,166,156
Deposits retained on assumed business	20,451,651	209,804	20,661,455	19,121,731
Accounts receivable on reinsurance business	3,391,025	93,932	3,484,957	2,747,201
Amounts receivable on direct insurance business	–	1,711,245	1,711,245	1,045,754
Other assets	6,788,219	6,404,575	13,192,794	10,271,740
Balance sheet total			227,234,269	162,352,582

Balance sheet – liabilities	Reinsurers 1997/98 TDM	Direct insurers 1997/98 TDM	Total 1997/98 TDM	Total Previous year TDM
Shareholders' funds			9,961,888	6,604,244
Underwriting funds and provisions	61,376,949	128,508,434	189,885,383	135,459,255
Deposits retained on ceded business	4,584,723	3,604,704	8,189,427	6,998,667
Accounts payable on reinsurance business	2,655,868	143,698	2,799,566	3,020,013
Amounts payable on direct insurance business	–	6,995,078	6,995,078	4,498,908
Other provisions	2,034,173	2,494,737	4,528,910	2,496,487
Other liabilities	3,468,171	1,405,846	4,874,017	3,275,008
Balance sheet total			227,234,269	162,352,582

Premium income	Reinsurers 1997 TDM	Direct insurers 1997 TDM	Total 1997 TDM	Total Previous year TDM
Gross premiums	24,944,286	19,577,964	44,522,250	32,181,466
– Life	4,216,735	9,474,819	13,691,554	11,538,395
– Health	–[1]	5,945,915	5,945,915	2,366,845
– Property-casualty	20,727,551	4,157,230	24,884,781	18,276,226
Net premiums	21,714,630	18,762,425	40,477,055	28,933,650
– Life	3,528,979	9,182,524	12,711,503	10,578,614
– Health	–[1]	5,596,578	5,596,578	2,264,980
– Property-casualty	18,185,651	3,983,323	22,168,974	16,090,056

[1] Shown for the reinsurers under property-casualty.

Results	Reinsurers 1997/98 TDM	Direct insurers 1997/98 TDM	Total 1997/98 TDM	Total Previous year TDM
Underwriting result of reinsurers and property-casualty insurers	–44,100	53,557	9,457	268,948
– Net premiums	21,714,630	3,983,323	25,697,953	19,325,169
– Interest income on premium funds	1,156,529	5,549	1,162,078	1,037,751
– Claims incurred	14,413,410	2,537,082	16,950,492	12,334,322
– Operating expenses	6,971,741	1,390,467	8,362,208	5,900,602
– Other underwriting income and expenditure	–1,530,108	–7,766	–1,537,874	–1,859,048
Underwriting result of life and health insurers	–	586,161	586,161	507,271
– Net premiums	–	14,779,102	14,779,102	9,608,481
– Result of investments	–	8,035,474	8,035,474	5,786,816
– Underwriting income and expenditure	–	–15,823,307	–15,823,307	–10,266,948
– Operating expenses	–	2,369,957	2,369,957	1,562,817
– Allocation to provisions for policyholders' dividends	–	4,035,151	4,035,151	3,058,261
Underwriting result	–44,100	639,718	595,618	776,219
Result of investments	4,524,705	8,727,499	13,252,204	9,362,465
Thereof included in underwriting result	1,342,528	8,041,839	9,384,367	7,103,694
Other income and expenditure	–540,649	–168,103	–708,752	–406,266
Unadjusted earnings	2,597,428	1,157,275	3,754,703	2,628,724
Special allocations to the provision for outstanding claims	–269,680	–	–269,680	–200,000
Change in the claims equalization provision and the provisions for major risks and earthquake risks	–1,225,451	–56,393	–1,281,844	–1,215,816
Operating result	1,102,297	1,100,882	2,203,179	1,212,908
Tax			–1,054,477	–514,402
Profit for the year			1,148,702	698,506

Consolidated balance sheet as at 30th June 1998

Assets	Notes	TDM	TDM	Previous year TDM
A. Liability of shareholders for uncalled capital			409,799	432,627
B. Intangible assets	(1)		4,128,126	3,814,324
C. Investments				
I. Real estate	(2)	10,994,110		7,687,754
II. Investments in affiliated companies and participations	(2, 3)	9,143,502		6,864,287
III. Other investments	(2)	167,841,394		114,552,441
		187,979,006		129,104,482
IV. Deposits retained on assumed reinsurance business	(5)	20,661,455		19,121,731
			208,640,461	148,226,213
D. Investments for the benefit of life insurance policyholders who bear the investment risk			204,812	61,674
E. Receivables	(4, 5)			
I. Amounts receivable on direct insurance business		1,711,245		1,045,754
II. Accounts receivable on reinsurance business		3,484,957		2,747,201
III. Other receivables		1,680,027		832,555
			6,876,229	4,625,510
F. Other assets	(6)		2,409,425	1,691,938
G. Deferred items	(7)		4,565,417	3,500,296
Total assets			227,234,269	162,352,582

Liabilities

	Notes	TDM	TDM	Previous year TDM
A. Shareholders' funds	(8)			
I. Subscribed capital		834,598		814,752
II. Capital reserve		2,459,066		1,976,401
III. Revenue reserves		4,067,033		2,787,923
IV. Balance sheet profit		152,928		141,058
V. Minority interests		2,448,263		884,110
			9,961,888	6,604,244
B. Special reserve	(9)		569,834	235,716
C. Underwriting funds and provisions for own account	(10)			
I. Unearned premiums		7,117,366		5,847,505
II. Premium funds		121,376,977		83,405,969
III. Provision for outstanding claims		41,217,302		32,458,685
IV. Provision for premium refunds and policyholders' dividends		12,461,282		8,361,012
V. Claims equalization provision and similar provisions		6,956,409		4,816,353
VI. Other underwriting provisions		558,435		514,233
			189,687,771	135,403,757
D. Underwriting provisions for life insurance policies where the investment risk is borne by the policyholders	(10)		197,612	55,498
E. Other provisions	(11)		4,528,910	2,496,487
F. Deposits retained on ceded business			8,189,427	6,998,667
G. Other liabilities				
I. Amounts payable on direct insurance business	(5, 12)	6,995,078		4,498,908
II. Accounts payable on reinsurance business	(5)	2,799,566		3,020,013
III. Notes and debentures	(13)	1,317,351		1,140,699
IV. Amounts owed to banks	(13)	1,392,524		1,117,204
V. Miscellaneous liabilities	(5, 13)	1,392,320		637,010
			13,896,839	10,413,834
H. Deferred items	(14)		201,988	144,379
Total liabilities			227,234,269	162,352,582

Consolidated profit and loss account for the business year 1997/98

Items	Notes	TDM	Previous year TDM
I. Technical account for reinsurance and property-casualty insurance			
1. Earned premiums for own account	(15)	25,733,280	19,084,998
2. Interest income on premium funds for own account		1,162,078	1,037,751
3. Other underwriting income for own account		18,773	15,012
4. Claims incurred for own account	(16)	16,950,492	12,334,322
5. Change in other underwriting provisions for own account	(17)	–1,479,395	–1,511,244
6. Expenditure for premium refunds for own account		43,156	54,149
7. Operating expenses for own account	(18, 19)	8,362,208	5,900,602
8. Other underwriting expenditure for own account	(20)	69,423	68,496
9. Subtotal	(21)	**9,457**	**268,948**
10. Change in the claims equalization provision and similar provisions		–1,281,844	–1,215,816
11. Underwriting result for own account in reinsurance and property-casualty insurance		**–1,272,387**	**–946,868**
II. Technical account for life and health insurance			
1. Earned premiums for own account	(15)	14,751,585	9,579,754
2. Premiums from the gross provision for policyholders' dividends		1,682,983	1,185,916
3. Allocated investment return transferred from the non-technical account		8,035,474	5,786,816
4. Unrealized gains on investments		22,845	11,755
5. Other underwriting income for own account		65,444	53,181
6. Claims incurred for own account	(16)	10,311,539	6,498,910
7. Change in other underwriting provisions for own account	(17)	–6,528,339	–4,397,125
8. Expenditure for policyholders' dividends for own account		4,035,151	3,058,261
9. Operating expenses for own account	(18, 19)	2,369,957	1,562,817
10. Unrealized losses on investments		1,663	8
11. Other underwriting expenditure for own account	(20)	725,521	593,030
12. Underwriting result for own account in life and health insurance	(21)	**586,161**	**507,271**

	Notes	TDM	TDM	Previous year TDM
III. Non-technical account				
1. Underwriting result for own account				
a) Reinsurance and property-casualty insurance		–1,272,387		–946,868
b) Life and health insurance		586,161		507,271
			–686,226	–439,597
2. Investment income	(22)	14,928,286		10,385,591
3. Investment expenditure	(23)	1,676,082		1,023,126
		13,252,204		9,362,465
4. Allocated investment return transferred to the technical account for reinsurance and property-casualty insurance		1,348,893		1,316,878
4a. Allocated investment return transferred to the technical account for life and health insurance		8,035,474		5,786,816
			3,867,837	2,258,771
5. Other income			474,495	331,597
6. Other expenditure	(24)		1,452,927	937,863
7. Operating result			**2,203,179**	**1,212,908**
8. Taxes on profit and income		986,620		463,358
9. Other taxes		67,857		51,044
			1,054,477	514,402
10. Profit for the year	(25)		**1,148,702**	**698,506**

Consolidated cash flow statement for the business year 1997/98

	TDM
I. Cash flows from operating activities	
Profit for the year	1,148,702
Writedowns on investments	575,754
Gains and losses on the disposal of investments	–2,082,069
Change in net underwriting provisions	13,962,518
Change in other assets and liabilities	–788,772
Other adjustments (in particular for exchange gains/losses on investments)	–1,588,786
Cash flows from operating activities	11,227,347
II. Cash flows from investing activities	
Changes in cash as a result of the acquisition/sale of consolidated subsidiaries	180,018
Inflows from the sale of investments	54,644,178
Outflows for the acquisition of investments	–66,521,919
Cash flows from investing activities	–11,697,723
III. Cash flows from financing activities	
Inflows from capital increases	492,588
Changes in cash as a result of other financing activities (net)	–31,201
Dividends paid	–151,070
Cash flows from financing activities	310,317
Cash flow for the business year (I. + II. + III.)	**–160,059**
Effect of exchange rate changes on cash	36,244
Cash flow from the formation of the ERGO Insurance Group	479,885
Cash at the beginning of the business year	1,037,079
Cash at the end of the business year	1,393,149

Additional information:	
Income taxes paid (net)	1,053,549
Interest paid	170,394

Notes on the consolidated accounts

The business year 1997/98 covers the parent company’s underwriting business for the calendar year 1997 and the result of its investments plus all other income and expenditure for the period from 1st July 1997 to 30th June 1998; in the case of the consolidated subsidiaries it covers their last full business year – mostly the calendar year 1997.

The 1997/98 consolidated accounts were prepared in accordance with the provisions of the German Commercial Code and the German statutory order on insurance companies’ accounting.

In accordance with the accounting regulations, all the underwriting business of the reinsurers (including life) and of the property-casualty insurers is contained in Part I of the profit and loss account, whilst Part II covers the underwriting business of the life and health insurers (including the result of their investments).

Notes on consolidation

Consolidated companies, associated companies

In addition to the Munich Reinsurance Company as the parent company, all the subsidiaries operating as reinsurers or direct insurers have been consolidated, plus all our significant holding and investment companies. A list of the consolidated companies and other important participations can be found on page 86 ff.

Number of consolidated companies

	Germany	Other countries	Total
Consolidated as at 30.6.1997	24	55	79
Consolidated for first time	14	32	46
No longer consolidated	–	2	2
Consolidated as at 30.6.1998	38	85	123

As a result of the merger of VICTORIA with Hamburg-Mannheimer/DKV to form the ERGO Insurance Group with effect from 1st August 1997, there has been a significant change in the group of consolidated companies:

The VICTORIA Group has been consolidated for the first time; its income and expenditure has been included on a pro rata basis as from August 1997. The income and expenditure of DKV has been included for a full year for the first time.

Great Lakes American Reinsurance Company, New York, is no longer a Group company. Its income and expenditure have been included in the consolidated profit and loss account only up to the end of June 1997.

American Re Corporation, Princeton, acquired at the end of 1996, has been included in the consolidated profit and loss account for the first time.

We have not consolidated those companies in which we have a majority of the voting rights but which are not significant individually or together for assessing the Group’s assets, liabilities, financial position and results. In the year under review this involved 112 companies.

Participations in non-affiliated companies on whose business and financial policy the parent company or any other company consolidated in the Group accounts exercises a significant influence are treated as associated companies and valued at equity in the accounts. In the year under review this involved eight companies.

Consolidation methods

As regards the consolidation of investment in subsidiaries, the book value method has been used for all the subsidiaries, with the acquisition values of the participations being eliminated against the amount of the subsidiary’s shareholders’ funds apportionable to members of the Group at the time of acquisition. As far as differences resulting from the first-time consolidation are concerned, to the extent that they do not represent hidden reserves, they are capitalized as goodwill or offset against the revenue reserves.

The profits earned by the subsidiaries after the first consolidation – insofar as they were not distributed – are allocated to the Group’s revenue reserves. This item also includes the effects of consolidation measures on profits, so that the balance sheet profit shown for the Group corresponds to the balance sheet profit of the parent company.

For valuation of shares in associated companies at equity, the same principles have been applied as for consolidation of investment in subsidiaries.

Amounts relating to intercompany transactions (receivables, liabilities, expenses and income between consolidated companies) have generally been eliminated; the same applies to profits and losses which result from intercompany sales and purchases of assets.

An adjustment item is included for payments made between the balance sheet dates of the consolidated subsidiaries or the companies valued at equity and the balance sheet date of the parent company (consolidated balance sheet date).

Accounting and valuation methods

Basic principle

The assets and liabilities shown in the consolidated accounts are included and valued uniformly according to the regulations applicable to the annual accounts of the parent company.

Intangible assets

Capitalized goodwill is offset over a period of 15 years against the revenue reserves.

Other intangible assets are valued at the acquisition cost less straight-line depreciations.

Investments

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

Shareholdings in non-consolidated affiliated companies and participations are valued at the acquisition cost; all admissible writedowns are made. Shares in associated companies are valued at equity. In the case of additions to this category, the acquisition costs are used for the first-time application of this method. Uniform valuation principles are not applied for the companies valued at equity.

Loans to affiliated companies and to companies in which participations are held, mortgage loans, registered bonds, loans and promissory notes, and miscellaneous loans are included in the balance sheet at their nominal values or at their acquisition costs; in the case of inclusion at the nominal values, the relevant premiums and discounts are placed to account pro rata temporis.

Shares, investment fund certificates, bearer bonds and other fixed-interest and variable-yield securities are valued at the acquisition cost or at the market price at the balance sheet date, whichever is the lower; lower valuations from previous years are maintained even if the reason for these lower valuations no longer applies.

Loans and advance payments on insurance policies, as well as deposits retained on assumed reinsurance business, are stated at the nominal value of the amount outstanding.

The other investments are valued at their acquisition costs less admissible writedowns.

Investments for the benefit of life insurance policyholders who bear the policy risk are included at their market values, with due regard to the principle of prudent valuation.

Receivables

Amounts receivable on direct insurance business, accounts receivable on reinsurance business and other receivables are included at the nominal values; all necessary adjustments of value are made.

Other assets

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

Shareholders' funds

The subscribed capital and the capital reserve show the amounts paid in by the shareholders of the parent company: the paid-up nominal amounts of their shares in the one case and share premiums in the other. The revenue reserves comprise the earned surplus of the Group companies and the results of profit-affecting consolidation methods. The balance sheet profit is the amount at the disposal of the AGM of the parent company. Consolidated subsidiaries' shareholders' funds apportionable to shareholders that are not members of the Group are shown under the item "Minority interests".

Underwriting funds and provisions

The underwriting funds and provisions of the parent company and the German subsidiaries are calculated in accordance with the requirements of German commercial law. The underwriting funds and provisions of the foreign subsidiaries are set up in accordance with the respective legal regulations of their countries. We generally include these funds and provisions unaltered in the consolidated accounts. In fact, in the case of every subsidiary the calculation of underwriting funds and provisions is based on methods which are comparable with those of the parent company.

The unearned premiums are accrued premiums already written for future risk periods. They are calculated pro rata temporis or using nominal percentages based on many years of experience and the latest knowledge we have.

The premium funds are the actuarial reserves calculated for life, health and personal accident insurance.

Claims not yet paid at the balance sheet date are shown as provisions for outstanding claims. These provisions are calculated on an individual basis. For claims that have been incurred but not yet reported, provisions are calculated on the basis of statistical methods.

The provision for premium refunds and policyholders' dividends contains the amounts payable to insureds or insurers by law or by contractual agreement insofar as they are not yet payable at the balance sheet date. In particular, this item contains the amounts for profit-related policyholders' dividends in life business with a savings element and in health insurance.

The item "Claims equalization provision and similar provisions" contains the amounts required in accordance with commercial law to mitigate fluctuations in claims experience, plus the provisions for major risks (nuclear facilities and pharmaceutical products liability) and for earthquake risks; these provisions mostly involve the parent company.

The "Other underwriting provisions" mainly comprise provisions for anticipated losses, which are calculated on the basis of many years' experience and current developments.

Underwriting provisions apportionable to business ceded in reinsurance are calculated in accordance with the terms of the reinsurance agreements.

Other provisions

The provisions for employees' pensions are calculated according to the entry age normal method on the basis of the actuarial interest rate of 6% provided for under German tax law.

The other provisions are posted in accordance with the probable requirements.

Liabilities

Liabilities are stated at the amount repayable.

Deferred taxes

After revaluation of assets and liabilities in accordance with German accounting regulations, deferred taxes are newly calculated for the consolidated accounts. In addition, deferred taxes are posted for consolidation measures affecting the profit and loss account.

Currency translation

For the translation of foreign currencies, the exchange rates at the year-end are used in each case.

Realized exchange gains and realized and unrealized exchange losses are included under "Other income" and "Other expenditure" respectively; unrealized exchange gains are eliminated through the formation of an appropriate provision.

The exchange rates of the most important currencies for us developed as follows:

	31.12.1997 DM	Previous year DM
Australian dollar	1.17	1.24
Canadian dollar	1.24	1.14
Dutch guilder	0.89	0.89
French franc	0.30	0.30
Italian lira	0.001	0.001
Pound sterling	2.98	2.63
Rand	0.37	0.33
Swiss franc	1.23	1.15
US dollar	1.79	1.55
Yen	0.014	0.013

Notes on the consolidated balance sheet – assets

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

	Book values 30.6.1997 TDM	Additions TDM
(1) Intangible assets		
Goodwill	3,687,427	570,958
Other intangible assets	126,897	141,397
	3,814,324	712,355
(2) Investments		
Real estate	7,687,754	3,819,404
Investments in affiliated companies and participations		
– Shares in affiliated companies	96,741	193,716
– Loans to affiliated companies	42,732	6,545
– Participations in associated companies	97,591	146,099
– Other participations	6,617,416	1,483,467
– Loans to participations	9,807	67,797
	6,864,287	1,897,624

	30.6.1998 TDM	Previous year TDM
Other investments		
– Shares, investment fund certificates and other variable-yield securities	48,419,760	27,693,688
– Bearer bonds and other fixed-interest securities	20,309,428	17,158,417
– Mortgage loans	13,823,732	9,538,538
– Other loans		
• Registered bonds	52,346,360	36,854,454
• Loans and promissory notes	30,040,623	21,787,904
• Loans and advance payments on insurance policies	1,207,866	738,025
• Miscellaneous	113,427	51,369
– Deposits with banks	1,362,949	725,419
– Miscellaneous investments	217,249	4,627
Total	167,841,394	114,552,441

Reallocations TDM	Disposals TDM	Appreciation TDM	Depreciation TDM	Book values 30.6.1998 TDM
–	–	–	321,910	3,936,475
–13	12,445	–	64,185	191,651
–13	12,445	–	386,095	4,128,126
–	222,926	55	290,177	10,994,110
–	31,760	–	306	258,391
–	3,524	–	–	45,753
–	–	–	–	243,690
660,860	226,315	–	178	8,535,250
–93	17,080	–	13	60,418
660,767	278,679	–	497	9,143,502

	30.6.1998 Current market value TDM	30.6.1998 Book value TDM
Real estate	17,291,341	10,994,110
Equity investments	131,408,848	57,457,091
Fixed-interest securities	21,986,102	20,309,428

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

The equity investments include the parent company's shareholdings in Allianz (25%) and Allianz Leben (44.4%); the current market values of these holdings on 30th June 1998 amounted to DM 36.4bn and DM 5.2bn respectively.

For a breakdown of the valuation reserves by Group section, see page 52.

Investments of TDM 44,744,220 are apportionable to VICTORIA/D. A. S., consolidated for the first time in 1997/98.

The goodwill results from the acquisition of American Re in November 1996.

The other intangible assets consist of purchased insurance portfolios and software.

The book value of self-occupied real estate amounts to TDM 2,395,057 (1,152,691).

The additions to shares in associated companies, which are valued at equity, includes TDM 81,968 resulting from the difference between the book value and the share of equity.

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

(3) Affiliated companies, participations, other shareholdings*

	% share of capital	Shareholders' funds TDM**	Result for the year TDM**
REINSURANCE			
Consolidated subsidiaries			
American Re Corporation, Princeton	92.3	4,630,559	396,377
American Re-Insurance Company, Princeton	92.3	5,374,835	486,683
Munich American Reassurance Company, Atlanta	100.0	214,498	10,891
Munich Reinsurance Company of Canada, Toronto	100.0	151,625	17,958
Munich Reinsurance Company of Africa Limited, Johannesburg	100.0	93,656	12,829
Munich Mauritius Reinsurance Company Ltd., Port Louis	100.0	4,007	69
Munich Reinsurance Company of Australasia Limited, Sydney	100.0	183,207	–24,086
Münchener Rück Italia S. p. A., Milan	99.1	154,577	649
Great Lakes Reinsurance (UK) PLC, London	100.0	204,005	17,609
New Reinsurance Company, Geneva	99.9	650,072	6,689

	% share of capital	Sharehold-ers' funds TDM**	Result for the year TDM**
Associated companies			
Prévoyance Re S. A., Paris	34.0	10,200	–
Torino Riassicurazioni S. p. A., Turin***	20.0	143,716	6,666
DIRECT INSURANCE			
Consolidated subsidiaries			
ERGO Versicherungsgruppe AG, Düsseldorf	54.1	2,669,044	373,480
VICTORIA Lebensversicherung Aktiengesellschaft, Berlin	53.8	442,000	35,200
VICTORIA Versicherung Aktiengesellschaft, Berlin	53.0	900,126	120,103
VICTORIA Krankenversicherung Aktiengesellschaft, Düsseldorf	51.6	99,125	7,875
VICTORIA MERIDIONAL Compañía Anónima de Seguros y Reaseguros, S. A., Madrid	50.0	288,557	36,492
VICTORIA-Seguros de Vida, S. A., Lisbon	50.0	31,140	–851
VICTORIA-Seguros S. A., Lisbon	50.0	38,150	–11,056
VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna	50.0	32,722	3,957
Nieuwe Hollandse Lloyd Levensverzekeringmaatschappij N.V., Woerden	50.0	23,874	762
Nieuwe Hollandse Lloyd Schadeverzekeringmaatschappij N.V., Woerden	50.0	36,942	3,928
Hamburg-Mannheimer Versicherungs-Aktien-Gesellschaft, Hamburg	54.1	638,500	118,499
Hamburg-Mannheimer Sachversicherungs-AG, Hamburg	54.1	643,201	103,464
DKV Deutsche Krankenversicherung Aktiengesellschaft, Berlin/Cologne	54.0	850,265	102,100
dkv International S. A., Brussels	54.0	24,234	3,045
NVS Zorgverzekeringen N.V., Amsterdam	54.0	44,534	–6,736
D. A. S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich	44.0	374,153	33,844
D. A. S. Deutscher Automobil Schutz Versicherungs-Aktiengesellschaft, Munich	44.0	72,080	–
DAS Legal Expenses Insurance Company Limited, Bristol	44.0	69,419	10,984
D. A. S. Nederlandse Rechtsbijstand Verzekeringsmaatschappij N.V., Amsterdam	44.0	32,126	4,112
Europäische Reiseversicherung Aktiengesellschaft, Munich	100.0	173,219	10,382
Europæisk Rejseforsikring A/S, Copenhagen	100.0	35,798	14
Karlsruher Lebensversicherung Aktiengesellschaft, Karlsruhe	54.0	219,377	27,650
Karlsruher Versicherung Aktiengesellschaft, Karlsruhe	53.0	96,454	11,205
Associated companies			
TELA Versicherung Aktiengesellschaft, Berlin/Munich	25.0	312,776	25,000
Union Versicherungs-AG, Vienna	18.0	52,163	10,637
VEREINSBANK VICTORIA Bauspar Aktiengesellschaft, Munich	15.2	30,778	3,557

	% share of capital	Sharehold- ers' funds TDM**	Result for the year TDM**
Other participations in insurance companies			
Allianz Aktiengesellschaft, Munich	25.0	14,943,159	1,175,496
Allianz Lebensversicherungs-Aktiengesellschaft, Berlin/Munich	44.4	1,431,500	212,000
Bayerische Versicherungsbank Aktiengesellschaft, Munich	45.0	483,542	66,412
Frankfurter Versicherungs-Aktiengesellschaft, Frankfurt am Main	49.9	581,628	81,556
Deutscher Lloyd Versicherungs-Actien-Gesellschaft, Berlin/Munich	29.8	116,139	4,451
ALBINGIA Versicherungs-Aktiengesellschaft, Hamburg	10.0	401,320	30,573
Mecklenburgische Leben Versicherungs-Aktiengesellschaft, Hanover	25.0	11,480	480
ASR Verzekeringsgroep N.V., Rotterdam	10.7	1,916,971	199,449
Belstar Assurances S. A., Brussels	25.0	45,100	34
De Amersfoortse Reinsurance Limited, Dublin	25.0	33,183	5,289
Golden Gate Reinsurance Company Limited, Hamilton	33.3	59,732	6,014
Hibernian Group plc, Dublin	10.9	187,560	85,506

Other shareholdings in listed companies, some via investment management companies

Over 5 %

Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich
BHF-Bank Aktiengesellschaft, Frankfurt am Main
IKB Deutsche Industriebank AG, Düsseldorf/Berlin
Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg
MAN Aktiengesellschaft, Munich
Nürnberger Beteiligungs-Aktiengesellschaft, Nuremberg

Over10 %

WMF Württembergische Metallwarenfabrik Aktiengesellschaft, Geislingen/Steige

Over 25 %

BHS tabletop AG, Selb
Forst Ebnath Aktiengesellschaft, Ebnath

* Selected companies.
** The amounts are taken from the individual companies' accounts. They have been translated using the exchange rates applicable on 31.12.1997.
*** Acquisition of remaining 80% in July 1998.

The list of shareholdings required by Article 313 para. 2 of the German Commercial Code will be filed with the commercial registry in Munich; we will be glad to send you a copy on request.

(4) Amounts receivable on direct insurance business

	30.6.1998 TDM	Previous year TDM
From policyholders		
a) Due	562,122	214,718
b) Not yet due	683,851	628,153
	1,245,973	842,871
From intermediaries	465,272	202,883
Total	1,711,245	1,045,754

(5) Receivables and liabilities in respect of affiliated companies and participations

	Affiliated companies		Participations	
	30.6.1998 TDM	Previous year TDM	30.6.1998 TDM	Previous year TDM
Deposits retained on assumed reinsurance business	–	–	9,360,091	8,289,950
Amounts receivable on direct insurance business from intermediaries	348	318	1,189	891
Accounts receivable	36,494	16	19,708	17,011
Other receivables	42,142	20,892	35,783	34,957
Amounts payable on direct insurance business to intermediaries	11,441	11,287	3,351	3,632
Accounts payable	4,815	148	64,575	64,304
Miscellaneous liabilities	9,380	9,725	342,369	24,091

(6) Other assets

	30.6.1998 TDM	Previous year TDM
Tangible assets and inventories	439,302	328,624
Cash at bank in current accounts, cheques and cash in hand	1,393,149	1,037,079
Miscellaneous	576,974	326,235
Total	2,409,425	1,691,938

(7) Deferred items

	30.6.1998 TDM	Previous year TDM
Accrued interest and rent	3,406,065	2,644,245
Other deferred items	1,159,352	856,051
Total	4,565,417	3,500,296

For loans posted in the balance sheet at their nominal values, the difference between these nominal values and higher acquisition costs totals TDM 87,030 (7,162). "Other deferred items" contains an amount of TDM 999,002 (805,946) for anticipated tax relief in future business years, in accordance with Articles 274 para. 2 and 306 of the German Commercial Code.

Notes on the consolidated balance sheet – liabilities

(8) Shareholders' funds

The Group's shareholders' funds developed as follows in the business year 1997/98:

	TDM
Group's shareholders' funds at beginning of year under review	6,604,244
Changes	
– Changes in exchange rates	631,700
– Capital increases	502,511
– Changes in share of capital, changes in group of consolidated companies	1,232,138
– Earned surplus	1,148,702
– Dividends	–151,627
– Other	–5,780
Total changes	3,357,644
Group's shareholders' funds at end of year under review	9,961,888

Origin of Group's shareholders' funds:

	TDM
Amounts paid in by shareholders	4,242,879
Earned surplus	5,719,009
Total	9,961,888

The revenue reserves are made up as follows:

	30.6.1998 TDM	Previous year TDM
Reserves required by law	1,969	2,390
Other revenue reserves	4,065,064	2,785,533
Total	4,067,033	2,787,923

The other revenue reserves include positive and negative differences resulting from first-time consolidation.

(9) Special reserve

The special reserve contains reserves set up as per Article 6 b of the German Income Tax Act. It also contains reserves set up by the foreign subsidiaries on the basis of comparable regulations.

(10) Underwriting funds and provisions

	30.6.1998 Gross TDM	30.6.1998 Ceded TDM	30.6.1998 Net TDM	Pr. year Gross TDM	Pr. year Ceded TDM	Pr. year Net TDM
Unearned premiums	7,770,095	652,729	7,117,366	6,438,369	590,864	5,847,505
Premium funds	128,846,046	7,469,069	121,376,977	89,996,962	6,590,993	83,405,969
Provision for outstanding claims	47,218,390	6,001,088	41,217,302	37,391,946	4,933,261	32,458,685
Provision for premium refunds and policyholders' dividends	12,481,836	20,554	12,461,282	8,375,725	14,713	8,361,012
Claims equalization provision and similar provisions	6,956,409	–	6,956,409	4,816,353	–	4,816,353
Other	569,241	10,806	558,435	512,206	–2,027	514,233
Total	203,842,017	14,154,246	189,687,771	147,531,561	12,127,804	135,403,757

Underwriting provisions for life insurance policies where the investment risk is borne by the policyholders	30.6.1998 Gross TDM	30.6.1998 Ceded TDM	30.6.1998 Net TDM	Pr. year Gross TDM	Pr. year Ceded TDM	Pr. year Net TDM
Premium funds	205,616	8,810	196,806	61,497	6,159	55,338
Other underwriting provisions	874	68	806	177	17	160
Total	206,490	8,878	197,612	61,674	6,176	55,498

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

	Unearned premiums	Premium funds	Claims provision	Equalization provisions	Other provisions	Total	Reserves as % of net premiums[1]
Reinsurers	4,904	16,719	33,261	6,072	421	61,377	286
– Life	695	15,432	357	–	17	16,501	477
– Personal accident/health	348	1,287	2,879	2	17	4,533	300
– Liability	665	–	13,086	883	–77	14,557	609
– Motor	748	–	7,594	543	24	8,909	226
– Marine/aviation	194	–	1,705	292	3	2,194	174
– Fire	943	–	3,405	2,731	288	7,367	159
– Engineering	691	–	2,435	511	55	3,692	216
– Other classes	620	–	1,800	1,110	94	3,624	141
Direct insurers	2,213	104,855	7,956	884	12,600	128,508	544
– Life	1,143	90,095	372	–	9,848	101,458	895
– Health	57	14,530	1,109	–	2,533	18,229	304
– Personal accident	55	107	928	4	101	1,195	97
– Motor	52	65	2,091	321	40	2,569	163
– Other classes	906	58	3,456	559	78	5,057	146
Total	7,117	121,574	41,217	6,956	13,021	189,885	421

[1] In this calculation the net premiums written by the new companies in the consolidated group were taken into account on a full-year basis.

The claims equalization provision and similar provisions are made up as follows:

	30.6.1998 TDM	Previous year TDM
Claims equalization provision	5,273,977	3,477,045
Provisions for major risks	188,585	169,478
Provision for earthquake risks	1,493,847	1,169,830
Total	6,956,409	4,816,353

(11) Other provisions

	30.6.1998 TDM	Previous year TDM
Provisions for employees' pensions and similar commitments	1,239,079	862,784
Provisions for tax	1,377,733	692,107
Miscellaneous	1,912,098	941,596
Total	4,528,910	2,496,487

There are pension provisions of TDM 26,596 (22,581) for former members of the Board of Management or their surviving dependants.

(12) Amounts payable on direct insurance business

	30.6.1998 TDM	Previous year TDM
To policyholders	6,768,414	4,389,464
To intermediaries	226,664	109,444
Total	6,995,078	4,498,908

(13) Notes and debentures, amounts owed to banks, miscellaneous liabilities

Liabilities with a remaining term of more than five years total TDM 1,291,909. Liabilities secured by mortgages amount to TDM 56,701.

The amount apportionable to liabilities from taxes is TDM 169,720 (134,914) and for social security TDM 48,520 (44,570).

(14) Deferred items

For loans posted in the balance sheet at their nominal values, the difference between these nominal values and lower acquisition costs totals TDM 142,981 (109,127).

Notes on the consolidated profit and loss account

(15) Earned premiums for own account	Reinsurers, property-casualty insurers		Life and health insurers		Total	Total
	1997 TDM	Pr. year TDM	1997 TDM	Pr. year TDM	1997 TDM	Pr. year TDM
Gross premiums written	29,101,516	22,172,940	15,420,734	10,008,526	44,522,250	32,181,466
Ceded premiums	3,403,563	2,847,771	641,632	400,045	4,045,195	3,247,816
Net premiums written	25,697,953	19,325,169	14,779,102	9,608,481	40,477,055	28,933,650
Change in unearned premiums						
– Gross amount	298,343	–197,926	–	–	–	–
– Ceded share	–263,016	–42,245	–	–	–	–
– Net amount	35,327	–240,171	–27,517	–28,727	7,810	–268,898
Net earned premiums	25,733,280	19,084,998	14,751,585	9,579,754	40,484,865	28,664,752

The gross premiums written show the following breakdown for assumed reinsurance business and direct insurance business:

	1997 TDM	Previous year TDM
Assumed reinsurance business	25,032,555	19,422,229
Direct insurance business		
– Life	9,448,192	7,661,771
– Health	5,927,675	2,359,638
– Property-casualty	4,113,828	2,737,828
	19,489,695	12,759,237
Total	44,522,250	32,181,466

Origin of the direct insurance business:

	1997 TDM	Previous year TDM
Germany	18,261,075	12,227,493
Other EU and EEA states	1,212,663	531,734
Other countries	15,957	10
Total	19,489,695	12,759,237

(16) Claims incurred for own account

	Reinsurers, property-casualty insurers		Life and health insurers		Total	Total
	1997 TDM	Pr. year TDM	1997 TDM	Pr. year TDM	1997 TDM	Pr. year TDM
Claims paid						
– Gross amount	17,451,044	13,114,089	10,681,578	6,787,380	28,132,622	19,901,469
– Ceded amount	2,243,952	1,431,068	460,222	293,744	2,704,174	1,724,812
– Net amount	15,207,092	11,683,021	10,221,356	6,493,636	25,428,448	18,176,657
Change in provision						
– Gross amount	553,334	1,224,115	99,057	1,960	652,391	1,226,075
– Ceded amount	–1,190,066	572,814	8,874	–3,314	–1,181,192	569,500
– Net amount	1,743,400	651,301	90,183	5,274	1,833,583	656,575
Total	16,950,492	12,334,322	10,311,539	6,498,910	27,262,031	18,833,232

(17) Change in other underwriting provisions for own account

	Reinsurers, property-casualty insurers		Life and health insurers		Total	Total
	1997 TDM	Pr. year TDM	1997 TDM	Pr. year TDM	1997 TDM	Pr. year TDM
Premium funds						
– Gross amount	–	–	–6,603,815	–4,408,164	–	–
– Ceded amount	–	–	78,711	11,250	–	–
– Net amount	–1,605,532	–1,563,432	–6,525,104	–4,396,914	–8,130,636	–5,960,346
Other underwriting provisions for own account	126,137	52,188	–3,235	–211	122,902	51,977
Total	–1,479,395	–1,511,244	–6,528,339	–4,397,125	–8,007,734	–5,908,369

(18) Operating expenses for own account

	1997 TDM	Pr. year TDM
Reinsurers and property-casualty insurers:		
– Gross operating expenses	9,042,747	6,605,541
– Less commission received on ceded business	680,539	704,939
Total	8,362,208	5,900,602

	1997 TDM	Pr. year TDM
Life and health insurers		
– Acquisition expenses	1,981,782	1,333,736
– Management expenses	652,956	447,764
– Less commission received on ceded business	264,781	218,683
Total	2,369,957	1,562,817

(19) Personnel costs

Personnel costs totalled TDM 2,896,136 (1,938,283).

The total emoluments of the Board of Management of the Munich Reinsurance Company for the performance of its duties in respect of the parent and subsidiary companies amounted to TDM 13,523 (12,320) and those of the Supervisory Board to TDM 958 (972). Payments to former members of the Board of Management, including pension payments for their surviving dependants, amounted to TDM 3,570 (3,305).

(20) Other underwriting expenditure

The other underwriting expenditure consists mainly of fire brigade tax, underwriting interest expenditure and expenses arising from the reduction of not yet due amounts receivable on direct insurance business from policyholders.

(21) Underwriting result by class of business

Before changes in the claims equalization provision and similar provisions, the underwriting result by class of business is as follows:

	Reinsurers 1997 TDM	Reinsurers Pr. year TDM	Direct insurers 1997 TDM	Direct insurers Pr. year TDM	Total 1997 TDM	Total Pr. year TDM
– Life	–42,916	–3,536	442,703	407,245	399,787	403,709
– Health	–[1]	–	143,458	100,046	143,458	100,046
– Personal accident	–108,099	–19,326	143,682	157,085	35,583	137,759
– Liability	–375,516	–176,832	–13,085	–17,126	–388,601	–193,958
– Motor	–188,132	–159,996	–49,623	–68,982	–237,755	–228,978
– Marine/aviation	102,324	24,400	2,478	844	104,802	25,244
– Fire	473,340	329,414	4,573	1,668	477,913	331,082
– Engineering	–1,025	86,977	2,452	210	1,427	87,187
– Other classes	95,924	149,932	–36,920	–35,804	59,004	114,128
Total	–44,100	231,033	639,718	545,186	595,618	776,219

[1] Shown for the reinsurers under personal accident.

(22) Investment income

	Reinsurers, property-casualty insurers 1997/98 TDM	Life and health insurers 1997/98 TDM	Total 1997/98 TDM	Total Pr. year TDM
Dividends from participations	704,858	175,062	879,920	555,249
Income from other investments				
– Rents from real estate	292,940	651,675	944,615	748,691
– Other	3,861,614	6,813,810	10,675,424	7,938,497
	4,859,412	7,640,547	12,499,959	9,242,437
Income from write-ups	1,243	272	1,515	–
Realized gains on investments	1,290,556	949,882	2,240,438	1,125,358
Income from profit-transfer agreements	3,624	–	3,624	4,641
Income from the reduction of the special reserve	178,819	3,931	182,750	13,155
Total	6,333,654	8,594,632	14,928,286	10,385,591

This includes the following income from affiliated and associated companies:

	1997/98 TDM	Previous year TDM
Dividends		
– from affiliated companies	5,981	7,943
– from associated companies	15,244	11,493
Income from other investments		
– from affiliated companies	76,227	11,874

(23) Investment expenditure

	Reinsurers, property-casualty insurers 1997/98 TDM	Life and health insurers 1997/98 TDM	Total 1997/98 TDM	Total Pr. year TDM
Expenses for the management of investments, interest paid and other expenses for investments	331,563	265,224	596,787	443,598
Writedowns on investments	310,632	265,122	575,754	338,288
Realized losses on investments	145,406	12,963	158,369	91,279
Expenditure for assumption of losses	3,708	–	3,708	–
Allocations to the special reserve	325,615	15,849	341,464	149,961
Total	1,116,924	559,158	1,676,082	1,023,126

Of the writedowns on investments, TDM 22,979 (51,714) comprised exceptional depreciations as per Article 253 para. 2 sentence 3 of the German Commercial Code.

In the business year reinstatements of value amounting to TDM 137,680 were not made for tax reasons, in accordance with the option open to us. The posting of the special reserve as per Article 6 b of the German Income Tax Act affected the result for the year by an amount of TDM 341,464. The effects of the reinstatements of value not made for tax reasons in previous years are not significant for the result for the year. The effect that such measures in the business year and previous years will have on future business years is not significant either.

(24) Other expenditure

The other expenditure includes an amount of TDM 269,680 (200,000) for special allocations made to the provision for outstanding claims.

(25) Profit for the year

	1997/98 TDM	Previous year TDM
Profit for the year	1,148,702	698,506
Profit apportionable to minority interests	246,668	120,630
Loss apportionable to minority interests	9,144	16,375
Apportionable to Group	911,178	594,251

Other information

(26) Number of staff

The number of staff employed by the consolidated companies averaged as follows:

	1997/98	Previous year
Reinsurance companies	4,307	3,489
Direct insurance companies	19,641	14,532
Total	23,948	18,021

(27) Other financial commitments

There are no other financial commitments of significance for the assessment of the Group's financial position.

Munich, 1st September 1998

The Board of Management

Company accounts as at 30th June 1998

In the interest of a clearer presentation, we have condensed many items in the balance sheet and the profit and loss account. The relevant subitems are shown separately in the notes on the accounts in each case. On request, we will be pleased to send you the long versions of the balance sheet and the profit and loss account, in the format required by the German statutory order on insurance companies' accounting and as presented to our auditor.

Summary of the most important figures

Balance sheet – assets	1997/98 TDM	Previous year TDM
Investments	39,177,028	36,131,879
Deposits retained on assumed reinsurance business	27,133,320	24,928,796
Accounts receivable on reinsurance business	1,256,155	1,103,850
Other assets	1,112,359	632,763
Liability of shareholders for subscribed capital	409,799	399,876
Balance sheet total	69,088,661	63,197,164

Balance sheet – liabilities	1997/98 TDM	Previous year TDM
Shareholders' funds	4,199,792	3,535,411
– Subscribed capital	834,598	814,752
– Reserves	3,212,266	2,579,601
– Balance sheet profit	152,928	141,058
Reinsurance funds and provisions	55,533,243	51,645,387
Deposits retained on retroceded business	3,933,644	3,530,047
Accounts payable on reinsurance business	2,062,867	2,159,221
Other liabilities	3,359,115	2,327,098
Balance sheet total	69,088,661	63,197,164

Premium income	1997 TDM	Previous year TDM
Reinsurance premiums	19,446,900	18,540,559
– Life	4,711,335	4,397,944
– Personal accident/health	1,351,245	1,300,089
– Liability	1,492,093	1,493,747
– Motor	3,163,304	3,050,994
– Marine/aviation	1,100,640	630,384
– Fire	3,282,285	3,176,817
– Engineering	1,751,846	1,782,008
– Other classes	2,594,152	2,708,576

Results	1997/98 TDM	Previous year TDM
Reinsurance underwriting result	192,721	344,625
– Life	39,924	70,719
– Personal accident/health	–42,511	23,012
– Liability	–118,945	–122,539
– Motor	–212,461	–207,240
– Marine/aviation	41,296	10,408
– Fire	346,077	355,223
– Engineering	–3,394	88,517
– Other classes	142,735	126,525
Investment result	2,095,143	1,765,723
– Investment income	3,006,840	2,277,668
– Investment expenditure	911,697	511,945
Other income and expenditure	–121,822	–99,198
Unadjusted earnings	2,166,042	2,011,150
Special allocations to the provision for outstanding claims	–250,000	–200,000
Change in the claims equalization provision and the provisions for major risks and earthquake risks	–1,199,319	–1,200,688
– Claims equalization provision	–932,027	–911,330
– Provisions for major risks	–4,981	–2,738
– Provision for earthquake risks	–262,311	–286,620
Operating result	716,723	610,462
Tax	–413,795	–329,404
Profit for the year	302,928	281,058
Transfer to revenue reserves	150,000	140,000
Balance sheet profit at the disposal of the AGM	152,928	141,058

Balance sheet as at 30th June 1998

Assets	Notes	TDM	TDM	Previous year TDM
A. Liability of shareholders for uncalled capital			409,799	399,876
B. Intangible assets	(1)		59,841	64,258
C. Investments				
I. Real estate	(2)	1,989,547		2,036,025
II. Investments in affiliated companies and participations	(2)	15,230,012		12,214,535
III. Other investments	(2)	21,957,469		21,881,319
		39,177,028		36,131,879
IV. Deposits retained on assumed reinsurance business	(3)	27,133,320		24,928,796
			66,310,348	61,060,675
D. Receivables	(3)			
I. Accounts receivable on reinsurance business		1,256,155		1,103,850
II. Other receivables		477,162		109,663
			1,733,317	1,213,513
E. Other assets	(4)		116,788	74,532
F. Deferred taxes			247,890	99,890
G. Other deferred items	(5)		210,678	284,420
Total assets			69,088,661	63,197,164

Liabilities

	Notes	TDM	TDM	Previous year TDM
A. Shareholders' funds	(6)			
I. Subscribed capital		834,598		814,752
II. Capital reserve		2,459,066		1,976,401
III. Revenue reserves		753,200		603,200
IV. Balance sheet profit		152,928		141,058
			4,199,792	3,535,411
B. Special reserve	(7)		318,422	185,156
C. Underwriting funds and provisions for own account	(8)			
I. Unearned premiums		3,316,077		3,491,963
II. Premium funds		22,493,039		20,801,972
III. Provision for outstanding claims		23,240,957		22,191,900
IV. Provision for premium refunds		33,199		31,411
V. Claims equalization provision and similar provisions		5,814,363		4,555,044
VI. Other underwriting provisions		635,608		573,097
			55,533,243	51,645,387
D. Other provisions	(9)		1,420,729	1,080,075
E. Deposits retained on retroceded business	(3)		3,933,644	3,530,047
F. Other liabilities	(3, 10)			
I. Accounts payable on reinsurance business		2,062,867		2,159,221
II. Amounts owed to banks		1,030,533		1,000,000
III. Miscellaneous liabilities		587,674		59,394
			3,681,074	3,218,615
G. Deferred items	(11)		1,757	2,473
Total liabilities			69,088,661	63,197,164

Profit and loss account
for the business year 1997/98

Items	Notes	TDM	Previous year TDM
I. Technical account			
1. Earned premiums for own account	(13)	17,507,289	16,087,981
2. Interest income on premium funds for own account		1,439,964	1,301,834
3. Other underwriting income for own account		3,270	5,200
4. Claims incurred for own account	(14)	11,432,701	10,281,748
5. Change in other underwriting provisions for own account	(15)	–1,703,164	–1,909,211
6. Expenditure for premium refunds for own account		20,540	21,240
7. Operating expenses for own account	(16, 17)	5,540,262	4,774,261
8. Other underwriting expenditure for own account		61,135	63,930
9. Subtotal		**192,721**	**344,625**
10. Change in the claims equalization provision and similar provisions		–1,199,319	–1,200,688
11. Underwriting result for own account	(12)	**–1,006,598**	**–856,063**
II. Non-technical account			
1. Investment income	(18)	4,647,211	3,862,081
2. Investment expenditure	(17, 19)	911,697	511,945
		3,735,514	3,350,136
3. Interest income on premium funds and provisions		1,640,371	1,584,413
		2,095,143	1,765,723
4. Other income		177,149	114,480
5. Other expenditure	(20)	548,971	413,678
6. Operating result		**716,723**	**610,462**
7. Taxes on profit and income		406,244	323,630
8. Other taxes		7,551	5,774
9. Profit for the year		**302,928**	**281,058**
10. Transfer to revenue reserves		150,000	140,000
11. Balance sheet profit		**152,928**	**141,058**

Notes on the accounts

The business year 1997/98 covers the Munich Reinsurance Company's underwriting business for the calendar year 1997 and the result of its investments plus all other income and expenditure for the period from 1st July 1997 to 30th June 1998.

Accounting and valuation methods

Basic principle

The assets and liabilities shown in the consolidated accounts are included and valued uniformly according to the same conservative principles as in previous years.

Intangible assets

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

Investments

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

Shareholdings in affiliated companies and other participations are valued at the acquisition cost; all admissible writedowns are made.

Loans to affiliated companies and to companies in which participations are held, mortgage loans, registered bonds, and loans and promissory notes are included in the balance sheet at their nominal values or at their acquisition costs; in the case of inclusion at the nominal values, the relevant premiums and discounts are placed to account pro rata temporis.

Shares, investment fund certificates, bearer bonds, fixed-interest and variable-yield securities, and other investments are valued at the acquisition cost or at the market price at the balance sheet date, whichever is the lower; lower valuations from previous years are maintained even if the reason for these lower valuations no longer applies.

Receivables

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

Other assets

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

Deferred taxes

As from the business year 1996/97, as a consequence of a change in German tax law, provisions for anticipated losses from pending business are no longer deductible for tax purposes; provisions posted in previous years must be reduced to zero in the tax returns over a certain period. The deferred taxes resulting from this temporary difference between financial statements and valuations prescribed for determining taxable income are included on the assets side of the balance sheet. Other deferred taxes are not included.

Underwriting funds and provisions

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

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

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

The item “Claims equalization provision and similar provisions” contains the amounts required in accordance with commercial law to mitigate fluctuations in claims experience, plus the provisions for major risks and for earthquake risks.

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

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

Other provisions

The provisions for employees’ pensions are calculated according to the entry age normal method on the basis of the actuarial interest rate of 6% provided for under German tax law. The other provisions are posted in accordance with the probable requirements.

Liabilities

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

Currency translation

All business transactions are entered in our books in the respective original currencies; assets, liabilities, income and expenditure are translated using the relevant exchange rates at the end of the calendar year. We also take account of the development in exchange rates up to the balance sheet date in our result for the year.

Realized exchange gains and realized and unrealized exchange losses are included under "Other income" and "Other expenditure" respectively; unrealized exchange gains are eliminated through the formation of an appropriate provision.

The exchange rates of the most important currencies for us are listed in the notes on the consolidated accounts.

Notes on the balance sheet – assets

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

	Book values 30.6.1997 TDM	Additions TDM
(1) Intangible assets	64,258	2,568
(2) Investments		
Real estate	2,036,025	250,179
Investments in affiliated companies and participations		
– Shares in affiliated companies	7,609,902	2,602,550
– Loans to affiliated companies	8,178	6,438
– Participations	4,589,827	716,183
– Loans to participations	6,628	406
	12,214,535	3,325,577
Other investments		
– Shares, investment fund certificates and other variable-yield securities	10,880,049	5,759,981
– Bearer bonds and other fixed-interest securities	5,685,823	8,724,697
– Mortgage loans	37,086	6,327
– Other loans		
• Registered bonds	1,265,001	–
• Loans and promissory notes	3,694,415	1,195,858
– Deposits with banks	318,935	42,444
– Miscellaneous investments	10	–
	21,881,319	15,729,307
Total investments	36,131,879	19,305,063

The intangible assets consist of purchased insurance portfolios and software.

The book value of self-occupied real estate amounts to TDM 363,515 (400,323).

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

The information to be disclosed in accordance with Article 285 item 11 of the German Commercial Code will be filed with the commercial registry in Munich. The companies of significance in this connection are listed in the notes on the consolidated accounts.

Reallocations TDM	Disposals TDM	Depreciation TDM	Book values 30.6.1998 TDM
–	–	6,985	59,841
–	1,031	295,626	1,989,547
63,431	814,589	–	9,461,294
–	1,360	–	13,256
661,231	214,894	–	5,752,347
–	3,919	–	3,115
724,662	1,034,762	–	15,230,012
–724,662	2,100,542	61,790	13,753,036
–	9,706,459	3,752	4,700,309
–	9,242	–	34,171
–	452,095	–	812,906
–	2,594,615	–	2,295,658
–	–	–	361,379
–	–	–	10
–724,662	14,862,953	65,542	21,957,469
–	15,898,746	361,168	39,177,028

Of our total investments (excluding deposits retained on assumed reinsurance business) with a book value of TDM 39,177,028 (36,131,879), an amount of TDM 3,186,070 (4,560,246) is deposited with ceding companies or foreign governments or in the custody of trustees nominated by us.

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

	30.6.1998 Current market value TDM	Book value TDM	Valuation reserves TDM
Real estate	4,378,309	1,989,547	2,388,762
Equity investments	96,210,247	28,966,677	67,243,570
Fixed-interest securities	4,999,510	4,700,309	299,201
Total			69,931,533

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

The equity investments include the Munich Reinsurance Company's shareholdings in Allianz (25%) and Allianz Leben (44.4%); the current market values of these holdings on 30th June 1998 amounted to DM 36.4bn and DM 5.2bn respectively.

(3) Receivables and liabilities in respect of affiliated companies and participations

	Affiliated companies		Participations	
	30.6.1998 TDM	Previous year TDM	30.6.1998 TDM	Previous year TDM
Deposits retained on assumed reinsurance business	7,570,395	6,924,778	9,308,604	8,247,688
Accounts receivable	270,034	137,514	14,092	13,858
Other receivables	121,164	10,129	5,285	7,965
Deposits retained on retroceded business	312,203	310,814	983,586	915,854
Accounts payable	210,561	166,143	56,594	52,769
Miscellaneous liabilities	18,243	18,293	328,110	15,987

(4) Other assets

	30.6.1998 TDM	Previous year TDM
Tangible assets and inventories	17,710	14,398
Cash at bank in current accounts, cheques and cash in hand	84,653	60,134
Miscellaneous	14,425	–
Total	116,788	74,532

(5) Deferred items

	30.6.1998 TDM	Previous year TDM
Accrued interest and rent	171,927	258,963
Other deferred items	38,751	25,457
Total	210,678	284,420

This item includes differences totalling TDM 551 (251) arising from the posting of loans in the balance sheet at nominal values.

Notes on the balance sheet – liabilities

(6) Shareholders' funds

In the year under review the company's share capital was increased from TDM 814,752 to TDM 834,598 through the exercise of warrants issued in 1994, utilizing part of the contingent capital as per Article 3 a of the Articles of Association.

At the balance sheet date the increased share capital comprised 3,000,000 bearer shares with a par value of DM 5 each and 81,959,840 (previously 79,975,200) registered shares with a par value of DM 10 each, DM 5 being paid up and entitled to dividend and one vote.

	Number	Par value TDM	Amount paid up TDM	Votes
Bearer	3,000,000	15,000	15,000	3,000,000
Registered	81,959,840	819,598	409,799	81,959,840
Total		834,598	424,799	84,959,840

By resolution of the AGM on 8th December 1995 the Board of Management was authorized to increase the company's share capital by a nominal amount of up to TDM 250,000 in one or more stages at any time up to 8th December 2000 by issuing new shares against cash contribution.

The contingent capital of TDM 30,000 created by resolution of the Annual General Meeting on 3rd December 1993 has been reduced to TDM 8,752 as a result of its utilization through the exercise of the warrants issued in 1994. TDM 8,750 of this serves to safeguard the warrants issued in 1998.

TDM 150,000 of the profit for the year 1997/98 has been transferred to the revenue reserves.

Altogether, therefore, our shareholders' funds have increased as follows:

	Previous position TDM	Increase TDM	Current position TDM
Subscribed capital	814,752	19,846	834,598
Capital reserve	1,976,401	482,665	2,459,066
Other revenue reserves	603,200	150,000	753,200
Balance sheet profit	141,058	11,870	152,928
Total	3,535,411	664,381	4,199,792

(7) Special reserve

The special reserve has been posted as per Article 6 b of the German Income Tax Act.

(8) Underwriting funds and provisions

	30.6.1998 Gross TDM	30.6.1998 Retro TDM	30.6.1998 Net TDM	Pr. year Gross TDM	Pr. year Retro TDM	Pr. year Net TDM
Unearned premiums	3,692,023	375,946	3,316,077	3,905,761	413,798	3,491,963
Premium funds	26,178,887	3,685,848	22,493,039	24,054,911	3,252,939	20,801,972
Provision for outstanding claims	24,826,725	1,585,768	23,240,957	24,267,499	2,075,599	22,191,900
Provision for premium refunds	41,311	8,112	33,199	38,221	6,810	31,411
Claims equalization provision and similar provisions	5,814,363	–	5,814,363	4,555,044	–	4,555,044
Other	637,687	2,079	635,608	570,596	–2,501	573,097
Total	61,190,996	5,657,753	55,533,243	57,392,032	5,746,645	51,645,387

The "other" underwriting provisions include provisions for anticipated losses totalling TDM 316,363 (416,338).

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

	Unearned premiums	Premium funds	Claims provision	Equalization provisions	Other provisions	Total	Reserves as % of net premiums
Life	770	20,816	251	–	13	21,850	552
Personal accident/ health	141	1,677	830	–	43	2,691	223
Liability	230	–	9,875	817	28	10,950	826
Motor	293	–	5,857	478	82	6,710	233
Marine/aviation	144	–	1,291	254	4	1,693	171
Fire	544	–	1,536	2,687	327	5,094	171
Engineering	626	–	2,039	495	59	3,219	223
Other classes	568	–	1,562	1,083	113	3,326	137
Non-life combined	2,546	1,677	22,990	5,814	656	33,683	254
Total	3,316	22,493	23,241	5,814	669	55,533	323

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

	30.6.1998 TDM	Previous year TDM
Claims equalization provision	4,177,147	3,245,120
Provisions for major risks	145,075	140,094
– For nuclear facilities	71,337	71,792
– For pharmaceutical products liability	73,738	68,302
Provision for earthquake risks	1,492,141	1,169,830
Total	5,814,363	4,555,044

(9) Other provisions

	30.6.1998 TDM	Previous year TDM
Provisions for employees' pensions and similar commitments	277,253	250,974
Provisions for tax	692,120	578,302
Miscellaneous	451,356	250,799
Total	1,420,729	1,080,075

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

There are pension provisions of TDM 26,596 (22,581) for former members of the Board of Management or their surviving dependants.

The miscellaneous other provisions include, in particular, provisions of TDM 162,255 for currency risks and TDM 97,338 for management expenses not yet due at the balance sheet date.

(10) Amounts owed to banks, miscellaneous liabilities

The miscellaneous liabilities contain liabilities from taxes amounting to TDM 9,641 (8,915) and for social security amounting to TDM 4,132 (4,460). The total amount of the liabilities secured by mortgages is TDM 808 (803). The liabilities with a remaining term of more than five years total TDM 1,000,808.

(11) Deferred items

This item includes differences totalling TDM 1,164 (1,694) arising from the posting of loans in the balance at nominal values.

Notes on the profit and loss account

(12) Reinsurance underwriting result by class of business

See pages 118/119.

(13) Earned premiums for own account

	1997 TDM	Previous year TDM
Gross premiums written	19,446,900	18,540,559
Retrocession premiums	2,230,581	2,386,668
Net premiums written	17,216,319	16,153,891
Change in unearned premiums		
– Gross amount	349,511	–150,696
– Retroceded amount	–58,541	84,786
– Net amount	290,970	–65,910
Net earned premiums	17,507,289	16,087,981

(14) Claims incurred for own account

	1997 TDM	Previous year TDM
Claims paid		
– Gross amount	14,031,557	11,270,712
– Retroceded amount	2,093,855	1,141,459
– Net amount	11,937,702	10,129,253
Change in provision		
– Gross amount	–1,155,730	589,079
– Retroceded amount	–650,729	436,584
– Net amount	–505,001	152,495
Total	11,432,701	10,281,748

(15) Change in other underwriting provisions for own account

	1997 TDM	Previous year TDM
Premium funds	–1,809,253	–1,957,489
Other underwriting provisions	106,089	48,278
Total	–1,703,164	–1,909,211

(12) Reinsurance underwriting result by class of business

DM m	Life	Personal accident/ health	Liability	Motor	Marine/ aviation	Fire
Gross premiums written	4,712	1,351	1,492	3,163	1,101	3,282
Net premiums written	3,958	1,206	1,325	2,877	990	2,985
Net premiums earned	3,959	1,218	1,430	2,873	991	3,067
Interest on premium funds and provisions	1,317	117	1	5	–	–
Claims incurred						
– Payments	2,266	830	1,870	2,290	588	1,714
– Change in provisions	8	19	–712	144	128	–85
	2,274	849	1,158	2,434	716	1,629
Operating expenses	1,242	426	470	662	232	1,122
Other income and expenditure	–1,720	–103	78	6	–2	30
Underwriting result	40	–43	–119	–212	41	346
Change in claims equalization provisions	–	0	–351	–150	–30	–516
Underwriting result after change in claims equalization provisions	40	–43	–470	–362	11	–170

Ratios in % – business year	Life	Personal accident/ health	Liability	Motor	Marine/ aviation	Fire
Loss ratio		68.6	75.5	84.3	72.5	52.1
Expense ratio		35.0	32.9	23.0	23.4	36.6
Combined ratio		103.6	108.4	107.3	95.9	88.7

Ratios in % – previous year	Life	Personal accident/ health	Liability	Motor	Marine/ aviation	Fire
Loss ratio		63.0	74.6	87.2	72.0	54.1
Expense ratio		35.0	35.5	20.4	25.3	32.8
Combined ratio		98.0	110.1	107.6	97.3	86.9

Engineering	Other classes	Non-life combined	Total	Pr. year non-life combined	Pr. year total	DM m
1,752	2,594	14,735	19,447	14,143	18,541	Gross premiums written
1,443	2,432	13,258	17,216	12,406	16,154	Net premiums written
1,512	2,457	13,548	17,507	12,345	16,088	Net premiums earned
–	–	123	1,440	118	1,302	Interest on premium funds and provisions
						Claims incurred
940	1,440	9,672	11,938	8,092	10,129	– Payments
12	–19	–513	–505	136	153	– Change in provision
952	1,421	9,159	11,433	8,228	10,282	
521	865	4,298	5,540	3,777	4,774	Operating expenses
–42	–28	–61	–1,781	–184	–1,989	Other income and expenditure
–3	143	153	193	274	345	Underwriting result
–135	–17	–1,199	–1,199	–1,201	–1,201	Change in claims equalization provisions
–138	126	–1,046	–1,006	–927	–856	Underwriting result after change in claims equalization provisions
						Ratios in % – business year
65.7	59.0	67.1				Loss ratio
34.5	35.2	31.7				Expense ratio
100.2	94.2	98.8				Combined ratio
						Ratios in % – previous year
58.8	60.5	67.2				Loss ratio
35.2	34.3	30.6				Expense ratio
94.0	94.8	97.8				Combined ratio

(16) Operating expenses for own account

	1997 TDM	Previous year TDM
Gross operating expenses	5,993,703	5,346,297
Less commission received on retroceded business	453,441	572,036
Total	5,540,262	4,774,261

(17) Personnel costs

The management expenses subsumed under operating expenses and under investment expenditure include the following personnel costs:

	1997/98 TDM	Previous year TDM
Wages and salaries	271,858	247,662
Social insurance contributions and voluntary assistance	66,998	66,506
Expenses for employees' pensions	34,270	20,858
Total	373,126	335,026

Taking into account the proposal for the distribution of the profit, the total emoluments of the members of the Board of Management amount to TDM 12,930 (11,813). Payments to retired members of the Board of Management or their surviving dependants amount to TDM 3,570 (3,247).

Also taking into account the proposal for the distribution of the profit, the total emoluments of the members of the Supervisory Board amount to TDM 934 (893). This sum includes emoluments of TDM 808 (765) dependent on the dividend paid to the shareholders.

(18) Investment income

	1997/98 TDM	Previous year TDM
Dividends from participations	469,217	462,522
Income from other investments:		
– Rents from real estate	218,241	225,258
– Income from other investments	2,888,430	2,754,487
	3,106,671	2,979,745
Realized gains on investments	891,809	418,268
Income from profit-transfer agreements	907	1,546
Income from the reduction of the special reserve	178,607	–
Total	4,647,211	3,862,081

This includes the following income from affiliated companies:

	1997/98 TDM	Previous year TDM
Dividends from participations	124,083	78,177
Income from other investments	504,458	441,829

(19) Investment expenditure

	1997/98 TDM	Previous year TDM
Expenses for the management of investments, interest paid and other expenses for investments	212,165	186,694
Writedowns on investments	361,168	151,350
Realized losses on investments	22,483	43,298
Expenditure for the assumption of losses	3,708	–
Allocations to the special reserve	312,173	130,603
Total	911,697	511,945

Of the writedowns on investments, TDM 8,566 (33,322) comprised exceptional depreciations as per Article 253 para. 2 sentence 3 of the German Commercial Code.

Special writedowns of TDM 189,578 (–) were made for tax purposes as per Article 6 b of the German Income Tax Act. In the business year reinstatements of value amounting to TDM 94,208 were not made for tax reasons, in accordance with the option open to us.

Writedowns for tax purposes and the posting of the special reserve as per Article 6 b of the German Income Tax Act affected the Munich Reinsurance Company's result for the year by an amount of TDM 501,751 (130,603). The effects of the reinstatements of value not made for tax reasons in previous years are not significant for the result for the year. The effect that such measures in the business year and previous years will have on future business years is not significant either.

(20) Other expenditure

	1997/98 TDM	Previous year TDM
Special allocations to the provision for outstanding claims		
– Liability business	250,000	190,000
– Health	–	10,000
Miscellaneous	298,971	213,678
Total	548,971	413,678

Other information

(21) Boards of the company

The members of the Supervisory Board and the Board of Management are listed on pages 4, 8 and 9 of this report.

(22) Other seats held by Board members

Supervisory Board	Seats held on supervisory boards of other German companies[1]	Membership of comparable bodies of German and foreign business enterprises[1]
Ulrich Hartmann	Daimler-Benz AG Degussa AG Deutsche Lufthansa AG Hochtief AG IKB Deutsche Industriebank AG RAG AG	Henkel KGaA
Dr. jur. Henning Schulte-Noelle	BASF AG Dresdner Bank AG Linde AG MAN AG Mannesmann AG Metro AG Siemens AG Thyssen AG VEBA AG	–
Dr. rer. pol. Wolfgang Röller	Bayerische Motoren Werke AG Heidelberger Zement AG	Henkel KGaA
Dr. jur. Rolf-E. Breuer (from 5th December 1997)	Deutsche Börse AG Deutsche Lufthansa AG Siemens AG VEBA AG	Compagnie de Saint-Gobain S. A., Paris Landwirtschaftliche Rentenbank
Dr. jur. Edgar Jannott (until 23rd October 1997)	Bayerische Hypo- und Vereinsbank AG Frankfurter Hypothekenbank Centralboden AG Hermes Kreditversicherungs-AG Schindler Deutschland Holding GmbH STRABAG AG	Trinkaus & Burkhardt KGaA
Hilmar Kopper (until 5th December 1997)	Bayer AG Daimler-Benz AG Deutsche Bank AG Mannesmann AG	AKZO-NOBEL N.V., Arnheim Solvay & Cie S. A., Brussels Unilever N. V., Rotterdam/London XEROX Corp., Stamford

[1] Not including own group companies as defined by the German Stock Companies Act.
Position: 16th September 1998

Supervisory Board	Seats held on supervisory boards of other German companies[1]	Membership of comparable bodies of German and foreign business enterprises[1]
Dr.-Ing. E. h. Eberhard v. Kuenheim	Bayerische Motoren Werke AG DELTON AG für Beteiligungen	–
Dr. techn. h. c. Dipl.-Ing. ETH Ferdinand Piëch	Dr.-Ing. h. c. F. Porsche AG	Porsche Holding Ges. mbH, Salzburg
Dr. jur. Albrecht Schmidt	Allianz AG Siemens AG VIAG AG	Lufthansa Commercial Holding GmbH
Dr.-Ing. Dieter Soltmann	Bankhaus Maffei & Co. KGaA Bayerische Motoren Werke AG Deutsche Postbank AG Meggle GmbH Münchener Tierpark Hellabrunn AG	Messe München GmbH
Professor Dr. jur. Dr.-Ing. E. h. Dieter Spethmann	J. M. Voith AG	–

Board of Management	Seats held on supervisory boards of other German companies[1]	Membership of comparable bodies of German and foreign business enterprises[1]
Dr. jur. Hans-Jürgen Schinzler	Degussa AG Dresdner Bank AG ERGO Versicherungsgruppe AG Hoechst AG MAN AG	Allianz of America Inc., Delaware Dresdner Kleinwort Benson North America Inc., New York
Dr. jur. Wolf Otto Bauer	Karlsruher Versicherung AG	–
Dieter Göbel	TELA Versicherung AG	–
Dr. jur. Heiner Hasford	D. A. S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG ERGO Versicherungsgruppe AG Europäische Reiseversicherung AG BHS tabletop AG MAN Nutzfahrzeuge AG VICTORIA Lebensversicherung AG VICTORIA Versicherung AG WMF Württembergische Metallwarenfabrik AG	–

[1] Not including own group companies as defined by the German Stock Companies Act.
Position: 16th September 1998

Supervisory Board	Seats held on supervisory boards of other German companies[1]	Membership of comparable bodies of German and foreign business enterprises[1]
Dr. jur. Claus Helbig	AUDI AG DEGEF mbH DKV Deutsche Krankenversicherung AG Hamburg-Mannheimer Sachversicherungs-AG Hamburg-Mannheimer Versicherungs-AG Hermes Kreditversicherungs-AG	Karlsruher Rendite Beratungsgesellschaft für Vermögensanlagen mbH Munich London Investment Management Ltd., London
Stefan Heyd (from 1st January 1998)	Allianz Versicherungs-AG Bayerische Versicherungsbank AG Frankfurter Versicherungs-AG Kraft Versicherungs-AG	–
Christian Kluge (from 1st January 1998)	Karlsruher Lebensversicherung AG	–
Dr. jur. Fedor Nierhaus	–	RINET S. C., Brussels Saudi National Insurance Company E. C., Jedda
Hans Rathnow	–	Allianz Insurance Company, Burbank
Dr. phil. Detlef Schneidawind	Berlinische Lebensversicherung AG Deutscher Lloyd Lebensversicherung AG Karlsruher Lebensversicherung AG Mecklenburgische Leben Versicherungs-AG	–
Dr. jur. Hans-Wilmar von Stockhausen	Allgemeine Kreditversicherung AG Alte Leipziger Europa Beteiligungsgesellschaft AG Münchener Hagelversicherung AG	GPM Assurances S. A., Paris Prévoyance Re S. A., Paris

[1] Not including own group companies as defined by the German Stock Companies Act.
Position: 16th September 1998

(23) Number of staff

The number of staff employed by the company in Munich and at its offices abroad in the business year 1997/98 averaged 2,027 (1,940).

(24) Contingent liabilities, other financial commitments

As a member of the German Reinsurance Pharmapool, we are committed – to the extent of our proportional share – to assuming the payment obligations of another pool member if the latter is not able to meet these obligations. Similar commitments exist in connection with our membership of the German Nuclear Insurance Pool and the German Aviation Pool.

There are no other financial commitments of significance for the assessment of the company’s financial position.

Munich, 28th August 1998

The Board of Management

Schinzler; Bauer, Göbel, Hasford, Helbig, Heyd, Kluge, Nierhaus, Rathnow, Schneidawind, von Stockhausen, Wittmann

Proposal for appropriation of profit

The balance sheet profit at the disposal of the Annual General Meeting amounts to DM 152,927,712.

We propose that the balance sheet profit be distributed as a dividend of DM 1.80 on every bearer and registered share, each entitled to dividend on an amount of DM 5.

Munich, 28th August 1998

The Board of Management

Schinzler; Bauer, Göbel, Hasford, Helbig, Heyd, Kluge, Nierhaus, Rathnow, Schneidawind, von Stockhausen, Wittmann

Auditor’s report

The auditor’s opinion is worded as follows:

We have audited the accounting records and financial statements of the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, its consolidated financial statements and its report on the position of the company and group for the business year ended 30th June 1998. The company’s management is responsible for preparing these documents in accordance with the provisions of German commercial and insurance supervisory law and the supplementary provisions of the company’s bylaws. Our responsibility is to express an opinion, based on our audit, on the company’s financial statements, its consolidated financial statements and its report on the position of the company and group.

We have performed our audit of the company and consolidated financial statements in accordance with Article 341 k of the German Commercial Code in conjunction with Article 317, observing the auditing standards laid down by the Institute of German Certified Public Accountants (IDW). These require that an audit be planned and performed to obtain reasonable assurance about whether the accounting records and the company financial statements, as well as its consolidated financial statements and its report on the position of the company and group, are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounting records, the company financial statements, the consolidated financial statements and the report on the position of the company and group. An audit also includes assessing the individual financial statements of the consolidated companies, the definition of companies to be consolidated, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the company and consolidated financial statements and the report on the position of the company and group. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections in respect of the above items.

In our opinion, with due regard to the generally accepted accounting principles, the company financial statements and the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and results of the company and the group. Altogether, the report of the Board of Management for company and group presents fairly the position of the company and group, including the risks of future development.

Munich, 4th September 1998
Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Wiegand	Peschel
Wirtschaftsprüfer	Wirtschaftsprüfer
(certified public accountant)	(certified public accountant)

Business development of the Munich Re Group in DM m

Consolidated balance sheet as at 30th June	1994	1995	1996	1997	1998
Investments (including deposits retained on assumed reinsurance)	102,425	111,008	120,279	148,288	208,845
Reinsurers	45,197	48,398	52,937	61,803	71,091
Direct insurers	57,228	62,610	67,342	86,485	137,754
Shareholders' funds	4,274	4,442	5,378	6,604	9,962
Claims equalization provisions	1,846	2,614	3,736	4,816	6,956
Underwriting funds and provisions (without equalization provisions)	92,863	97,548	104,047	130,643	182,929
Life	64,005	68,570	73,632	78,886	117,959
Non-life	28,858	28,978	30,415	51,757	64,970

Consolidated profit and loss account	1993/94	1994/95	1995/96	1996/97	1997/98
Gross premiums written	28,638	28,974	28,989	32,181	44,522
Life	10,445	10,898	11,177	11,538	13,691
Non-life	18,193	18,076	17,812	20,643	30,831
Net premiums written	25,490	25,937	26,232	28,934	40,477
Life	9,430	10,038	10,326	10,579	12,711
Non-life	16,060	15,899	15,906	18,355	27,766
Net earned premiums	24,981	25,802	26,220	28,665	40,485
Underwriting result*	–264	–100	573	776	596
Life	502	329	489	404	400
Non-life	–766	–429	84	372	196
Investment result*	7,112	7,322	7,935	9,362	13,252
Thereof included in underwriting result	4,958	5,313	5,685	7,104	9,384
Unadjusted earnings	1,490	1,764	2,586	2,629	3,755
Special allocations to the provision for outstanding claims	–350	–250	–500	–200	–270
Change in claims equalization provisions	–476	–788	–952	–1,216	–1,282
Operating result	664	726	1,134	1,213	2,203
Tax	–364	–401	–539	–514	–1,054
Profit for the year	300	325	595	699	1,149

* The figures for 1993/94 are comparable only to some extent with those for the years as from 1994/95 owing to the change in the allocation of the expenses for employees' pensions and "other depreciation".

Business development of the Munich Reinsurance Company in DM m

Balance sheet as at 30th June	**1994**	**1995**	**1996**	**1997**	**1998**
Investments (including deposits retained on assumed reinsurance)	44,910	49,376	54,263	61,061	66,310
Shareholders' funds	2,534	2,605	3,351	3,535	4,200
Claims equalization provisions	1,580	2,357	3,327	4,555	5,814
Underwriting funds and provisions (without equalization provisions)	38,685	41,937	44,532	47,090	49,719
Life	15,068	17,559	18,908	20,187	21,850
Non-life	23,617	24,378	25,624	26,903	27,869

Profit and loss account	**1993/94**	**1994/95**	**1995/96**	**1996/97**	**1997/98**
Gross premiums written	18,159	18,258	18,014	18,541	19,447
Life	3,695	3,974	4,069	4,398	4,712
Non-life	14,464	14,284	13,945	14,143	14,735
Net premiums written	16,175	16,178	16,186	16,154	17,216
Life	3,324	3,563	3,595	3,748	3,958
Non-life	12,851	12,615	12,591	12,406	13,258
Net earned premiums	15,834	16,089	16,283	16,088	17,507
Underwriting result*	–616	–318	132	345	193
Life	91	98	114	71	40
Non-life	–707	–416	18	274	153
Investment result*	2,880	2,804	3,163	3,350	3,736
Thereof included in underwriting result	1,026	1,134	1,350	1,584	1,640
Unadjusted earnings	1,134	1,360	1,957	2,011	2,166
Special allocations to the provision for outstanding claims	–350	–250	–500	–200	–250
Change in claims equalization provisions	–523	–798	–982	–1,201	–1,199
Operating result	261	312	475	610	717
Tax	–120	–150	–242	–329	–414
Profit for the year	141	162	233	281	303

* The figures for 1993/94 are comparable only to some extent with those for the years as from 1994/95 owing to the change in the allocation of the expenses for employees' pensions and "other depreciation".

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Munich Re worldwide

Reinsurance

Germany
Munich Reinsurance Company

Argentina
Münchener de Argentina Servicios Técnicos S. R. L.

Australia
Munich Reinsurance Company of Australasia Limited (MRA)
with office in New Zealand

Brazil
Münchener do Brasil Serviços Técnicos Ltda.

Canada
Munich Reinsurance Company of Canada (MROC)

Munich Reinsurance Company
Canada Branch (Life)

China
Munich Reinsurance Company
Hong Kong Branch

Munich Reinsurance Company
Representative Offices

Colombia
Münchener de Colombia S. A.
Corredores de Reaseguros

Egypt
Munich Reinsurance Company
Contact Office

France
Munich Ré France Services

Greece
Muenchener Rueck Hellas Services S. A.

India
Consultant for India to
Munich Reinsurance Company

Israel
Munich Reinsurance Company
Liaison Office

Italy
Münchener Rück Italia S. p. A.

Torino Riassicurazioni S. p. A.

Japan
Munich Reinsurance Company
Liaison Office

Korea
Munich Reinsurance Company
Liaison Office

Malaysia
Münchener Rückversicherungs-Gesellschaft
Malaysia Branch

Mexico
Muenchener de México, S. A.

Pakistan
Resident Correspondent

Philippines
Munich Management Pte. Ltd.
Munich Re Representative Office

Russia
Münchener Rückversicherungs-Gesellschaft
Liaison Office

Singapore
Münchener Rückversicherungs-Gesellschaft
Singapore Branch

South Africa
Munich Reinsurance Company of Africa Limited (MRoA)
with offices in Ghana, Kenya, Malawi, Mauritius and Zimbabwe

Spain
Münchener Correduría de Reaseguros, Grupo
Münchener Rückversicherungs-Gesellschaft, S. A.

Switzerland
New Reinsurance Company
with office in Singapore

Taiwan
Munich Reinsurance Company
Liaison Office

Turkey
Münih Re Reasürans Aracılık ve Danışma
Servisleri Limited Şirketi

UK
Great Lakes Reinsurance (UK) PLC

Munich Reinsurance Company
Main Representation Office

Munich Reinsurance Company
United Kingdom General Branch

Munich Reinsurance Company
United Kingdom Life Branch

USA
American Re Corporation/American Re-Insurance Company with offices in Argentina, Australia, Belgium, Bermuda, Canada, Chile, China, Colombia, Egypt, Japan, Mexico, Singapore and the UK

Munich American Reassurance Company (MARC-Life)

Venezuela
Münchener de Venezuela, C. A.
Intermediaria de Reaseguros

Direct insurance

ERGO

VICTORIA Leben VICTORIA Versicherung VICTORIA Kranken	Subsidiaries and branches in various European countries
Hamburg-Mannheimer Leben Hamburg-Mannheimer Sach Hamburg-Mannheimer Rechtsschutz	Subsidiaries and branches in various European countries
DKV Kranken	Subsidiaries and branches in various European countries
D. A. S. Rechtsschutz D. A. S. Versicherung	Subsidiaries and branches in various European countries

Karlsruher

Karlsruher Leben Karlsruher Versicherung Karlsruher Rechtsschutz	and other subsidiaries in Germany

Europäische

Europäische Reiseversicherung	Subsidiaries in various European countries

Position: 14th August 1998