Münchener Rück
Munich Re

1995/96

Münchener Rückversicherungs-Gesellschaft
Aktiengesellschaft in München

Königinstrasse 107 · D-80802 München
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Munich Re Group

	1993/94 DM million	1994/95 DM million	1995/96 DM million
Gross premiums written	28,638	28,974	28,989
Reinsurers	19,059	18,848	18,507
Direct insurers	9,579	10,126	10,482
Investments	102,425	111,008	120,279
Reinsurers	45,197	48,398	52,937
Direct insurers	57,228	62,610	67,342
Net underwriting funds and provisions	94,709	100,162	107,783
Reinsurers	39,450	42,305	45,663
Direct insurers	55,259	57,857	62,120
Shareholders' funds	4,274	4,442	5,378
Profit for the year	300	325	595
Earnings per share in DM according to DVFA/GDV* (previous years adjusted owing to 1995 capital increase)	45.70	67.60	140.00
Dividend of the Munich Reinsurance Company	91	102	133
Dividend per share in DM	12.00	13.50	16.00

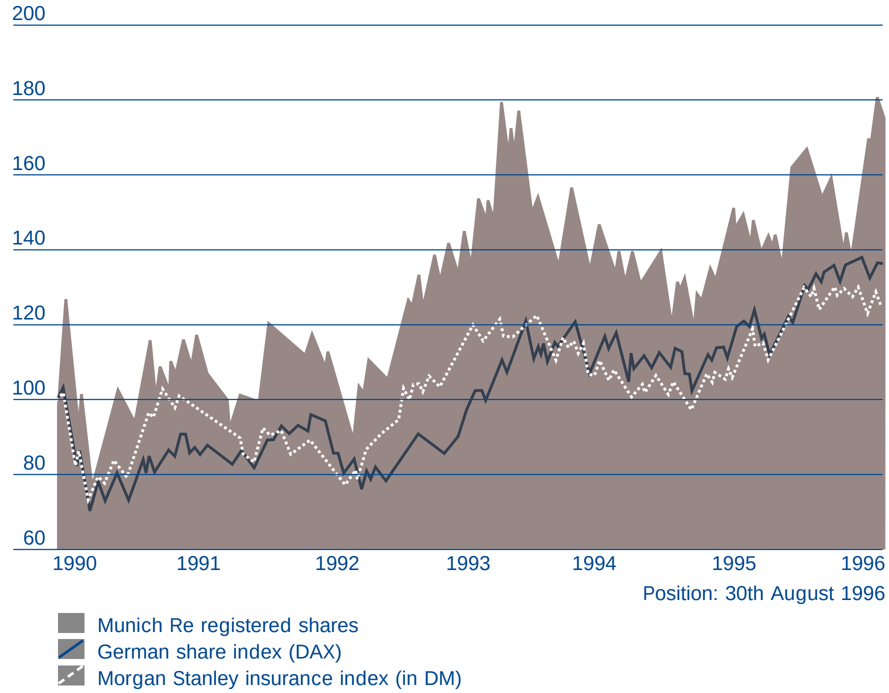
* German Association of Financial Analysts and Investment Consultants/Association of German Insurers

Munich Re registered shares

Development in the value of Munich Re registered shares

Investment in Munich Re registered shares has been very attractive for the long-term-oriented investor in recent years. Whereas the DAX share index has risen by 35 % since July 1990, Munich Re registered shares have increased in value by 74 %, also far outstripping the international index for the insurance sector, which rose by only 24 % in the same period. In the past months the share price, whilst subject to fluctuations, has increased significantly. The rights issue in November 1995 was very positively received by the capital market. After a generally weaker phase for shares in banks and insurers, the period since June 1996 has seen Munich Re registered shares recording above-average increases in value – partly just before and just after the decision of the Deutsche Börse AG to include Munich Re registered shares in the DAX 30 share index. This decision reflected the importance of the Munich Re in terms of market capitalization and share turnover. It is only logical, moreover, for the world's leading company in a particular sector to be represented in the top national share index. Public awareness of the attractiveness of an investment in Munich Re registered shares will now be substantially enhanced.

Price development
1st July 1990 = 100

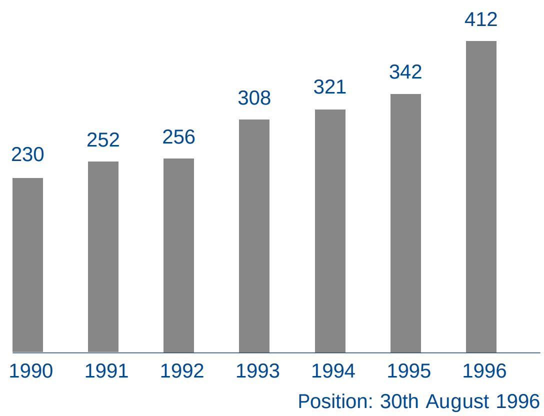


Development in the value of a specimen deposit of Munich Re registered shares

A German shareholder who bought 100 Munich Re registered shares at the beginning of July 1990 at a price of DM 2,300 per share paid a total of DM 230,000 (not including stock exchange transfer tax and other charges). By 30th August 1996, with reinvestment of the dividends to purchase a further 2 shares and of subscription rights (opération blanche) to purchase another 18, a total of 20 shares and 12 warrants had been added to the deposit. At a price of DM 3,405 per share and DM 258 per warrant, this makes the total value of the deposit DM 411,696, equivalent to an increase of 79 %. According to the Internal Rate of Interest method, this works out at an average annual rate of return of 9.9 %.

We will be happy to supply further information about Munich Re shares on request.

Development in the value
of a specimen deposit as from 1st July 1990
in DM thousand



Münchener Rückversicherungs-Gesellschaft
Report for the 116th Year of Business
1st July 1995 to 30th June 1996

Note: The abbreviation TDM used in this report stands for thousand Deutschmarks.

On 24th February 1996

Dr. jur. Wolfgang Schieren

Deputy Chairman of the Supervisory Board
of the Munich Reinsurance Company

passed away at the age of 68.

Dr. Schieren had been intimately connected with our company for many years. He was appointed to the Munich Re Supervisory Board in 1972 and elected Deputy Chairman. During the long period of our close cooperation, also on the Supervisory Boards of other companies in our Group, he rendered us valuable service as a wise and far-sighted counsellor.

We mourn and give thanks for a great entrepreneur and impressive strategic thinker, with a wealth of knowledge and an unshakeable sense of duty. He was an outstanding figure, enjoying the highest respect in both the German and the international insurance industry. The positive effects of his work were felt not only in broad areas of the economy but also in the fields of science and culture.

He was our friend and partner. We shall not forget him

The Munich Re

Millions of people and companies throughout the world are clients of insurance companies, which in turn are our clients – over 4,000 of them in more than 150 different countries. We assume a part of their risk, in particular the peak and catastrophe risks in their portfolios, and also provide support in many markets for the handling and development of insurance business, including the taking up of new lines. Our clients benefit from the expertise and personal attention of the Munich Re's more than 3,000 staff – at our head office in Munich and at over 60 reinsurance subsidiaries, branches, service companies and liaison offices worldwide.

Munich Re can look back proudly on 116 years of successful reinsurance operations. The foundations of our business philosophy are:

- Independence of the company
- Exceptional financial strength, with the ability and willingness to meet our obligations at all times
- Profit-oriented growth
- Global balance of risks through the writing of business in all classes of insurance throughout the world
- Extensive reinsurance capacity and comprehensive services for our clients
- Continuity of relationships with clients and markets
- Stabilization of our business through controlling interests in direct insurance companies

We take advantage of calculable opportunities without indulging in speculation. We act in accordance with proven principles while remaining receptive to new ideas, which we also help to develop. As the largest company of our kind in the world, our goal is to remain the leading reinsurer in as many potentially profitable business sectors as possible. For our clients, we want to continue to be what we have always been in the past – a reliable and highly professional service provider.

The Munich Re's share capital of DM 813,350,000 is furnished by approximately 12,000 shareholders. Our largest shareholder, with 25 %, is Allianz AG Holding, in which Munich Re also holds a 25 % share. Bayerische Vereinsbank, Deutsche Bank and Dresdner Bank each hold around 10 %. Commercial Union Assurance Company plc, London, with an interest of just under 5 %, is also a longstanding shareholder. Otherwise, our shareholders are widely distributed throughout Germany and abroad. Our shareholder structure reflects the breadth of the confidence placed in Munich Re. Indeed, international investment companies and pension funds are also showing an increasing interest in Munich Re shares.

Through appropriate dividend distributions, favourable subscription rights in capital increases and a steady rise in the price of Munich Re shares over the long term, it is our policy to ensure that our shareholders' investments in the company appreciate in value. The good overall return that Munich Re shares have provided for many years shows that an investment in our company is well worthwhile.

Supervisory Board

Chairman:	Professor Dr. jur. Dr.-Ing. E. h. Dieter Spethmann, Attorney, former Chairman of the Board of Management of Thyssen AG
Deputy Chairman:	Dr. rer. pol. Wolfgang Röller, Chairman of the Supervisory Board of Dresdner Bank AG
Deputy Chairman:	Dr. jur. Wolfgang Schieren († 24th February 1996), Chairman of the Supervisory Board of Allianz AG Holding
Deputy Chairman:	Dr. jur. Henning Schulte-Noelle (since 21st March 1996), Chairman of the Board of Management of Allianz AG Holding
	Herbert Bach, Employee of the Munich Reinsurance Company
	Christiane Bartl, Employee of the Munich Reinsurance Company
	Peter Burgmayr, Employee of the Munich Reinsurance Company
	Ulrich Hartmann, Chairman of the Board of Management of VEBA AG
	Dr. jur. Edgar Jannott, Chairman of the Boards of Management of VICTORIA Holding AG, VICTORIA Versicherung AG and VICTORIA Lebensversicherung AG
	Ludwig Knabl, Employee of the Munich Reinsurance Company
	Hilmar Kopper, Spokesman of the Board of Management 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 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

Report of the Supervisory Board

In accordance with the duties incumbent upon the Supervisory Board under German law and the Articles of Association, we have constantly monitored the conduct of the company's business. During the period under review we kept ourselves informed – by means of written and oral reports from the Board of Management – of the position and development of the company and its main participations. Fundamental matters of company management were discussed at several meetings with the Board of Management. Insofar as management measures required the approval of the Supervisory Board, all the points involved were discussed in detail. The share exchange with Allianz AG Holding carried out at the beginning of the new business year and the purchase of the American Re Corporation resolved in August 1996 were closely considered and assessed together with the Board of Management.

The Munich Reinsurance Company's bookkeeping, its company accounts and consolidated accounts as at 30th June 1996, 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 auditors' certificate. We have discussed the result of the audit in detail and it meets with our approval. Our own examination gives rise to no objections either.

We approve the company accounts drawn up by the Board of Management. The accounts are thus adopted in accordance with Article 172 of the German Stock Companies Act. We agree to the proposal for the appropriation of the balance sheet profit.

Dr. Wolfgang Schieren, who had been Deputy Chairman of the Supervisory Board since 1972, passed away on 24th February 1996. In the many years of his membership of the Supervisory Board, he made an especially valuable contribution to the development of our company, for which we shall always remember him with gratitude and appreciation.

On 21st March 1996 Dr. Henning Schulte-Noelle, Chairman of the Board of Management of Allianz AG Holding in Munich, was appointed to Munich Re's Supervisory Board. We have elected Dr. Schulte-Noelle to serve as Deputy Chairman of the Board alongside Dr. Röller.

On 31st December 1995 Mr. Dieter Nonhoff left the Board of Management of our company to take up the position of Chairman of the Board of Management of the Hamburg-Mannheimer Versicherungs-AG in Hamburg. In his many years on our Board, he represented the company's interests with skill and conviction. We thank him for his conscientious work and commitment.

We wish to thank the Board of Management and the staff of both the Munich Reinsurance Company and the Group companies for their hard work and commitment, and the staff representatives for their objective and constructive cooperation in the interest of our company.

Munich, 24th October 1996

For the Supervisory Board

Prof. Dr. Dieter Spethmann
Chairman

Board of Management

From left to right:

Dr. jur. Fedor Nierhaus
Dr. phil. Detlef Schneidawind
Hans-Dieter Sellschopp
Hans Rathnow
Dr. jur. Hans-Jürgen Schinzler (Chairman)
Dieter Göbel
Dr. jur. Heiner Hasford
Rudolf Ficker
Dr. jur. Wolf Otto Bauer
Dr. jur. Hans-Wilmar von Stockhausen
Dr. jur. Claus Helbig

Until 31st December1995:

Dieter Nonhoff

Dear Shareholders,

For the third year in succession we are able to report a notable improvement in the performance of Munich Re's business. Whilst the premium income of the companies consolidated in the Group accounts remained almost unchanged at DM 29.0 billion, we again succeeded in improving the result in the business year 1995/96: the profit for the year achieved by the Group as a whole rose by over 80 % to DM 595 million and the earnings per share more than doubled in comparison with the previous year, reaching an exceptionally high level of DM 140.

The Munich Reinsurance Company's profit for the year was DM 233 million. The Supervisory Board and Board of Management therefore propose increasing the dividend by DM 2.50 to DM 16 per share. The overall dividend amount will thus be increased to DM 133 million, which means that it will have almost doubled over the past four years. In addition, it will again be possible to allocate an appropriate amount to the company's revenue reserves.

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

These achievements provide us with confirmation that our business policy is the right one. Although we have to bear in mind that the positive development of our results was due in part to a reduced incidence of large losses and a generally favourable situation in many markets, it is our conviction that, for all the susceptibility of risk experience to fluctuations, our profit-oriented business policy has succeeded in structurally improving our results. This has been confirmed by developments so far in the business year 1996/97.

This gratifying development of our business is due in large part to the efforts of our staff. We wish to thank them both for their hard work and commitment and for their loyal and constructive cooperation.

Following the good results of the past three years, competition in the reinsurance sector has intensified again. Thanks to our worldwide organization and our highly qualified specialists we are, however, well equipped to face this challenge. In addition to conventional reinsurance covers, we also offer our clients financial reinsurance products, enabling them to optimize their risk management through individual reinsurance solutions. In our wide range of service products and other support services, we make every effort not only to maintain but also constantly to improve on the high quality that our clients have come to expect from us.

Direct insurers these days are paying increasing attention to the financial solidity of their reinsurers. Munich Re, with its outstanding financial strength, is well equipped to compete in this respect as well.

It is our aim to continue extending our market position in all important and potentially profitable business sectors. For us, however, growth is not an end in itself. It is desirable only if we are able at the same time to achieve our profitability targets.

Through the acquisition agreed in mid-August of American Re, the third largest property/casualty reinsurer in the USA, we will ideally strengthen our position in the world's largest reinsurance market, which in our opinion continues to offer attractive opportunities for future growth. In addition, however, we have been devoting particular attention for some time now to the growth markets of Asia.

Our objective of making the best possible use of the Group's capital resources was also served by our exchange of shareholdings with Allianz, decided on in July 1996. The complete acquisition of Deutsche Krankenversicherung in exchange for our participation in the more industrially and commercially oriented Hermes will have the effect of focusing the activities of the Munich Re's direct insurance group even more closely on personal lines business.

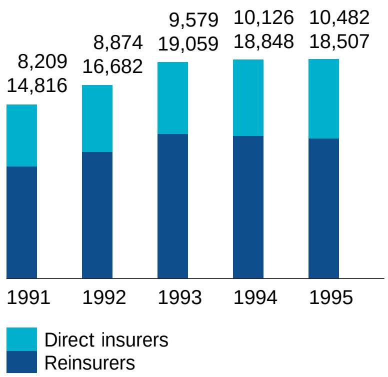
We want to be able to offer our shareholders a good overall long-term return on their Munich Re shares. The inclusion of the Munich Re in the DAX 30 share index will contribute to this, as will the changes planned for 1997: a stock split and the inclusion of our shares in the German giro transfer system.

In order to meet the growing demand for information on the part of our shareholders, financial analysts and clients, we have taken the opportunity presented by the implementation of new accounting regulations this year to redesign our annual report. After more than 20 years, we have also changed its outer appearance. As a dynamic counterpoint to our Munich Re logo, we have added a stylized pictogram of the "Walking Man", a 17-metre-high sculpture by the American artist Jonathan Borofsky, which stands outside one of our office buildings, on Munich's Leopoldstrasse. This figure allows many interpretations. What we chiefly associate with it are presence, progress, vigour, strength and confidence – the very qualities that are important both to our clients and to our shareholders.

Yours sincerely,

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

Gross premiums in DM million



Seen as a whole, the business year 1995/96 was a very satisfactory one for the Munich Reinsurance Company and its subsidiaries.

The companies consolidated in the Group accounts recorded a total premium income of DM 28,989 million. Of this, around two thirds was written by the reinsurance companies and one third by the direct insurance companies.

The Group's premium volume was almost the same as in the previous year. Whilst changes in exchange rates resulted in a decrease of DM 341 million in premiums from reinsurance business, the premiums from direct insurance business increased by DM 356 million.

Net premiums rose by 1.1 %, amounting to DM 26,232 million as compared with DM 25,937 million in the previous year.

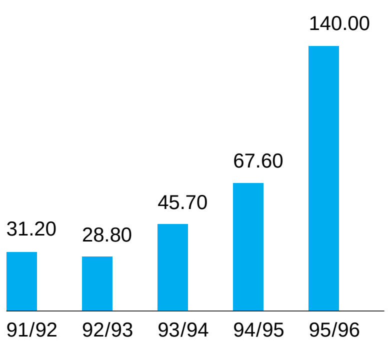
The Group's underwriting result again improved markedly, the Munich Reinsurance Company being largely responsible for this favourable development. Following a loss of DM 100 million in the previous year (figure before changes in the claims equalization provisions and adjusted to take account of the new accounting regulations) an underwriting profit of DM 573 million was achieved in the year under review.

Owing to the much more favourable development of the Munich Reinsurance Company's business, another very substantial addition was made to the claims equalization provisions and similar provisions. At DM 952 million, this sum even surpassed the previous year's very large allocation of DM 788 million.

In addition, the Munich Reinsurance Company was again able to make very substantial special allocations to its provision for outstanding claims, amounting to DM 500 million as compared with DM 250 million in the previous year.

The profit from investments was again very satisfactory. Owing to the increase in the volume of investments, investment income rose further. Writedowns were appreciably lower than in the previous year. Altogether, our investment profit increased from DM 7,322 million to DM 7,935 million year on year. In accordance with accounting regulations, DM 5,685 million of this has been included in the underwriting result.

Earnings per share in DM



Previous years adjusted owing to 1995 capital increase

The Group result before tax improved by DM 408 million, or 56 %, to DM 1,134 million. The Group's profit for the year amounted to DM 595 million as compared with DM 325 million in the previous year.

On account of the improved underwriting result, the earnings per share – calculated in accordance with the DVFA/GDV system – were more than double those of the business year 1994/95. They amounted to DM 140.00 as compared with DM 67.60 in the previous year.

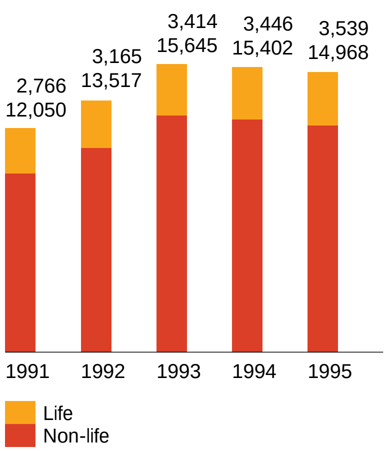
The Munich Reinsurance Company's profit for the year is DM 233 million. After allocation of DM 100 million to the revenue reserves, the balance sheet profit remaining is DM 133 million. This has been earmarked for distribution to shareholders in the form of an increased dividend of DM 16 per share (previous year: DM 13.50).

Reinsurance

As the world's leading reinsurer, Munich Re works together with direct insurance companies in more than 150 different countries. We operate on the one hand directly from our head office in Munich, Germany; on the other hand we are represented in 32 other countries through reinsurance subsidiaries, branch offices, service companies and liaison offices.

A geographical balancing of risks by means of a global presence is as essential for conducting professional reinsurance as financial strength. In the last few years, these requirements have resulted in an ongoing process of consolidation throughout the reinsurance industry worldwide. The acquisition of American Re by Munich Re agreed in August 1996 may be seen as part of this process. The Munich Re Group's position in the US market will be considerably strengthened as a result. In addition, the acquisition will enable Munich Re to supplement its own outstanding expertise in international reinsurance business with American Re's strengths, especially the latter's highly specialized knowledge in the areas of financial reinsurance and alternative markets.

Gross premiums in DM million



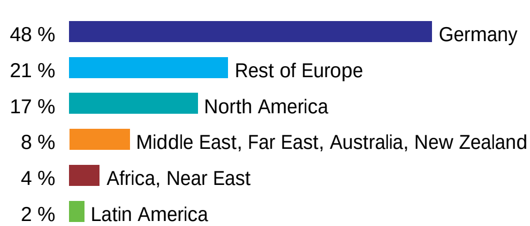
In the year under review the development of our reinsurance business was again influenced by our clear profit orientation. We only wrote new business or increased shares in cases where prices and conditions were commercially acceptable. We again terminated business connections that did not offer any tangible prospects of reasonable development. All in all, the combined premium income from the business we renewed and potentially profitable new shares showed growth of 2.8 % in original currencies. When the figures are translated into our balance sheet currency, however, this growth is more than neutralized by the negative effects of changes in exchange rates amounting to approximately DM 871 million. The consolidated gross premium income of our reinsurers is therefore, at DM 18,507 million, 1.8 % down on the previous year. More than 80 % of this premium income was again written by the Munich Reinsurance Company. The net premium income from reinsurance business changed very little in the year under review, amounting to DM 16,526 million (previous year: DM 16,531 million).

The geographical division of the Group's reinsurance premium was as follows:

	1995 DM million	Previous year DM million
Germany	8,846	8,947
Rest of Europe	3,881	4,427
North America	3,124	2,617
Middle East, Far East Australia, New Zealand	1,580	1,685
Africa, Near East	730	732
Latin America	346	440
Total	18,507	18,848

Business divisions	North America	Latin America	Germany Rest of Europe	Africa, Near East	Middle East, Far East, Australia, New Zealand
	New York Atlanta Chicago Columbus Dallas Hartford Philadelphia San Francisco Toronto Montreal Vancouver	Mexico City Bogotá Caracas Buenos Aires	Munich Madrid London Paris Brussels Geneva Milan Athens Istanbul Moscow	Johannesburg Blantyre Durban Harare Cape Town Nairobi Port Louis Pretoria Windhoek Tel Aviv	Karachi Kuala Lumpur Singapore Hong Kong Taipei Manila Seoul Tokyo Sydney Brisbane Melbourne Perth Auckland

Reinsurance premiums



Gross premiums by class of business

Life	19 %
Personal accident/health	6 %
Liability	11 %
Motor	18 %
Marine	4 %
Fire	20 %
Engineering	10 %
Other classes	12 %

By class of business, the premium income developed as follows:

	1995 Gross DM m	1995 Net DM m	Pr. year Gross DM m	Pr. year Net DM m
Life	3,539	3,054	3,446	2,942
Personal accident/health	1,209	1,113	1,367	1,219
Liability	2,092	1,943	1,772	1,525
Motor	3,267	2,933	3,560	3,043
Marine	683	666	707	669
Fire	3,623	3,166	3,727	3,404
Engineering	1,847	1,615	1,973	1,651
Other classes	2,247	2,036	2,296	2,078
Total	18,507	16,526	18,848	16,531

The reinsurance underwriting result again improved markedly. This is attributable above all to the considerably more favourable business experience of the Munich Reinsurance Company. Following the appreciable reduction in the losses recorded in our underwriting account over the two preceding years, the emphasis we have been placing on profitability again had a very positive effect. This development was helped by a lower incidence of large losses and the generally favourable situation in many markets.

The combined result of our reinsurance subsidiaries was also better than in the previous year. Although there was a deterioration in the underwriting results of the Munich Reinsurance Company of Australia, Sydney, the Munich American Reassurance Company, Atlanta, and the Great Lakes American Reinsurance Company, New York, this was more than made up for by very pleasing improvements in the results of the Munich American Reinsurance Company, New York, and the Great Lakes Reinsurance Company, Toronto.

Experience was more favourable than in the previous year in nearly all classes of business. Results developed positively in particular in motor, liability and engineering, with deficits being significantly reduced and motor achieving a break-even result for the first time again after the underwriting losses of the previous years. In fire and marine the pleasing results of the previous year were even surpassed.

The result of the reinsurance companies' investments also improved. Owing to the more favourable cash-flow situation, it was possible to increase the overall volume of investments, which led to higher investment income. Writedowns were appreciably lower than in the previous year.

The reinsurance companies' unadjusted earnings were, at DM 2,163 million, markedly higher than the DM 1,270 million achieved in the previous year.

Another very large allocation was made to the claims equalization provisions and similar provisions; at DM 984 million, this was even larger than the previous year's very sizeable allocation of DM 798 million. In particular, the sum allocated to the provision for earthquake risks was substantially larger than in the previous year, when withdrawals for earthquakes in the USA (Los Angeles) and Japan (Kobe) resulted in only a small overall increase.

In the case of the Munich Reinsurance Company, it was again possible to make very large special allocations to the provision for outstanding claims, amounting to DM 500 million (previous year: DM 250 million).

The reinsurance companies' pre-tax profit for the year increased from DM 222 million in the previous year to DM 679 million in the year under review; this represents an improvement of more than 200 %.

The important figures for the reinsurers in DM million (consolidated):

	1991/92	1992/93	1993/94	1994/95	1995/96
Gross premiums	14,816	16,682	19,059	18,848	18,507
Net premiums	12,730	14,385	16,750	16,531	16,526
Underwriting result*	–1,454	–1,652	–746	–562	98
Investment result*	2,612	2,317	2,857	2,745	3,174
Unadjusted earnings	379	664	1.097	1,270	2,163
Special allocations to the provision for outstanding claims	–125	–450	–350	–250	–500
Change in the claims equalization provisions and similar provisions	–40	–33	–523	–798	–984
Operating result	214	181	224	222	679

* The figures for the years 1991/92 to 1993/94 are comparable only to some extent with those for the years 1994/95 and 1995/96 owing to the change in the allocation of the expenses for employees' pensions and "other depreciation".

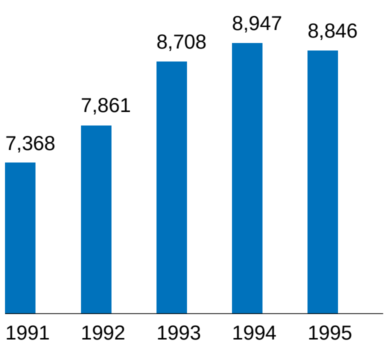
The insurance markets

Germany

GDP in *Germany* rose by 1.9 % in real terms in 1995. This moderate rate of growth was again attributable mainly to foreign demand, and to a lesser extent to investments and the building industry. Owing to the unfavourable development of the labour market and additional burdens resulting from increased taxes and social insurance contributions, private consumption provided no decisive impulses for an economic upswing. One positive factor that should be mentioned, however, was the continued slowing of upward price movement.

Against this background, premium growth in German direct insurance continued to decline in 1995, although it still remained above the growth rate of the gross domestic product. Whereas business in indemnity insurance developed only moderately, insurances of the person recorded stronger growth. This was due, above all, to the success of annuity products in life insurance and to the growth of health insurers' business as a result of the introduction of compulsory long-term care coverage.

Gross premiums in DM million



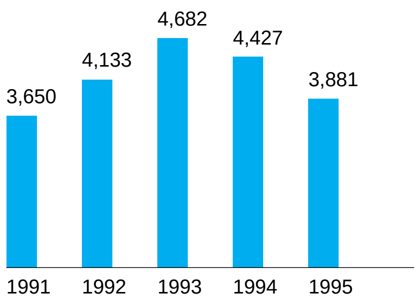
Our German reinsurance business did not match these rates of growth and declined slightly by 1.1 % to DM 8.8 billion. There are several reasons for this development. On the one hand, insurances of the person, which enjoyed a stronger growth rate, are reinsured only to a small extent, whereas direct insurers' premium volume for the highly reinsured industrial business stagnated. On the other hand, owing to their growing financial strength, the large German direct insurers have been increasing their retentions, i.e. the part of their business that is not reinsured. We were only able to partially compensate for this loss of premium through the acquisition of potentially profitable new business. In addition, in the year under review we again terminated a number of business connections that showed no tangible sign of appropriate further development. Thus the quality of our German portfolio has been further improved.

The completion of the single European market for insurance as at 1st July 1994 did not have an appreciable effect on the development of our portfolio in the year under review. As expected, the range of products on offer has expanded; this applies particularly to motor insurance. Altogether, a greater differentiation between risks and an intensification of price competition are becoming noticeable in those classes of insurance where plans were previously subject to prior approval by the supervisory authorities. In the medium term the underwriting results of the direct insurers and – insofar as their fortunes are shared by the reinsurers through proportional reinsurance – of the reinsurers, too, will again come under greater pressure. From the point of view of the reinsurers, however, this circumstance will open up new opportunities, since direct insurers will have to attach a greater significance in the long term to safeguarding their underwriting results against the effects of fluctuations in claims experience if their margins are increasingly narrow. We are not, however, expecting this to have any appreciable effect on our German business in 1996. In motor insurance, admittedly, the positive trend of results in the last few years is not likely to continue in 1996, since fiercer competition will have an effect on the results of both direct insurers and reinsurers.

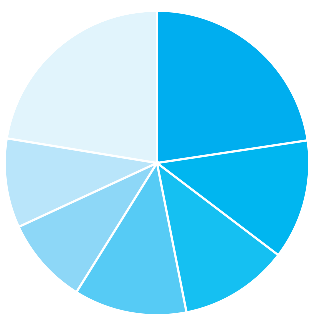
Altogether, we do not anticipate a significant improvement in the premium income from our domestic reinsurance business in 1996. The result is likely to be much the same as in the previous year, provided we are not affected by any exceptional developments in the area of natural catastrophes or other major losses.

Rest of Europe

Gross premiums in DM million



Gross premiums by country



	UK	23 %
	Netherlands	12 %
	France	11 %
	Switzerland	11 %
	Italy	10 %
	Austria	10 %
	Other 32 countries	23 %

From our business in the rest of Europe we recorded a premium income of DM 3.9 billion as compared with DM 4.4 billion in the previous year. The main reason for this 12.3 % decline is, apart from the negative effects of changes in exchange rates, our selective acceptance policy. Developments in individual markets did differ, however.

For us the *UK* is, after Germany, still the country from which we derive the largest premium volume in Europe. Our UK clients are above all the large composite insurers, most of which operate internationally, and Lloyd's.

The results of our UK business have improved markedly in the last few years, owing to the fact that in many areas of business we were able to achieve rate increases that had become urgently necessary as a result of large claims burdens from natural catastrophes and other major losses. In the course of the year under review, however, price competition became keener again.

We have been represented in London for many years by our Main Representation Office and by two branch offices that chiefly handle local British business. In contrast, our British subsidiary, *Great Lakes Reinsurance Company (UK), London,* writes international business and is also available for special business segments. The latter was able to increase its gross premium income in the year under review by 31.5 % to £96 million (previous year: £73 million) and to make a satisfactory profit.

In the *Netherlands* we have managed to maintain our important market position, despite the trend towards a decline in reinsurance volume. In view of the lively developments taking place in the direct insurance market, especially in the area of employee benefits products, we see good opportunities for an expansion of our portfolio in the future.

In *France, Belgium* and *Luxembourg* we again achieved a satisfyingly positive result, since we were largely spared claims burdens from natural catastrophes and other major losses. Despite keener competition among the reinsurers, we have been able to improve our position in various classes of business during the current business year.

In *Switzerland* the process of deregulation continues. Since 1st January 1996 general insurance conditions and rates have to be approved only in life and health insurance, and in the area of coverage for natural hazards. The trend towards concentration within the Swiss insurance market, observable for many years now, is having the effect of further increasing competition.

Since 1994 our Swiss subsidiary, the *New Reinsurance Company*, *Geneva,* has been concentrating its activities on certain European markets, Israel, Turkey and, through its office in Singapore, the growth markets of Asia, including Japan. This geographical reorientation meant that its gross premium income for the year 1995 decreased to Sfr 458 million (previous year: Sfr 558 million). Its reinsurance underwriting result deteriorated somewhat, owing to the allocation of considerable funds to the company's reserves. It was nevertheless able to record an improved profit for the year of Sfr 3.5 million (previous year: Sfr 2.5 million). In order to open up additional business opportunities for the New Re, we will be increasing its shareholders' funds by Sfr 400 million to approximately Sfr 500 million.

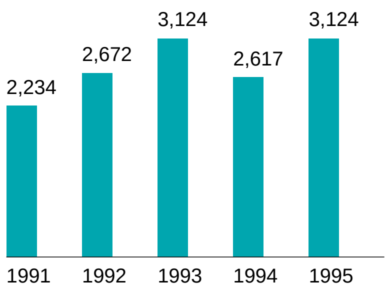
In *Italy* our subsidiary, the *Münchener Rück Italia S.p.A., Milan*, is one of the country's leading reinsurance companies. It has been instrumental in formulating underwriting standards for the engineering classes of insurance in particular. In 1995 it contributed Lit 336,496 million (previous year: Lit 308,517 million) to the premium income of the Group. Although its reinsurance underwriting result deteriorated, the company achieved a profit for the year of about the same level as in the previous year. We see opportunities for expanding our Italian business mainly in insurances of the person. The reform of the state pension system, which is being accompanied by an increased demand for private provision for old age and disability, offers considerable development potential for such business.

In the *Scandinavian countries* the situation was characterized by further consolidation in the direct insurance markets, with increasing retentions on the part of direct insurers and a reduction in reinsurance cessions. We were nevertheless able to maintain our leading position. Despite stronger competition in the reinsurance market, we managed to increase our premium volume slightly. In the Scandinavian countries, too, new business opportunities will arise in the private life and health insurance sectors as a result of the reduction in social insurance benefits.

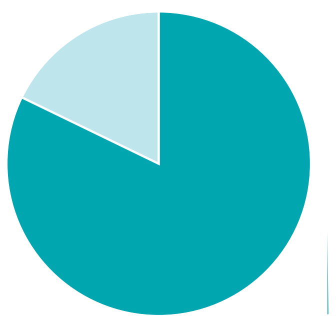
Some of the countries of *Central and Eastern Europe* are experiencing a considerable degree of economic growth. This, together with the great pent-up demand that exists, is leading to a strong increase in the overall demand for insurance protection. In these countries we are therefore expecting the next few years to bring a considerable increase in premium, for which we are also well equipped through our offices in Moscow and – for the growing market in the Turkic states of Central Asia – in Istanbul.

North America

Gross premiums in DM million



Gross premiums by country



USA	81 %
Canada	19 %

In the North American market we achieved a total premium income in the year under review of DM 3.1 billion as compared with DM 2.6 billion in the previous year. This marked increase of 19.4 % is mainly attributable to our assumption of a portfolio of liability business in return for a single premium payment.

In the *USA*, the world's largest insurance market, non-life insurers were spared major losses in the year under review. Nevertheless, the claims costs from various individual loss events were considerable, overall claims incurred having been higher only in the years 1992 and 1994. The need to set up additional reserves for asbestos and environmental impairment losses also had a noticeably negative effect on the underwriting result for the market as a whole. These strains were, however, more than compensated for by high investment earnings. Competition among direct insurers therefore continues to be intense.

The reinsurers' non-life results were pleasing, if one excludes from the figures the substantial additional reserves that were set up by two companies, one of which was American Re.

The US life insurance market is characterized by tough price competition and an increasing trend towards consolidation. The remaining direct insurance companies are tending to require less reinsurance coverage.

Our non-life subsidiary, *Munich American Reinsurance Company, New York*, was able to increase its gross premium income by 4 % to US$ 749 million (previous year: US$ 720 million) despite the tight competitive situation. The company's reinsurance underwriting result improved noticeably, as remedial measures began to have a visible effect and no major natural catastrophes occurred either. The profit for the year increased significantly, from US$ 5.9 million in the previous year to US$ 40.0 million.

Munich American Reassurance Company, Atlanta, which is a life reinsurance specialist, increased its gross premium income by 29.1 % to US$ 222 million (previous year: US$ 172 million). Claims experience was less favourable than in the previous year; the financing costs for new business were also greater. Overall, the company showed a deficit of US$ 3.8 million, following the small profit of the previous year.

Great Lakes American Reinsurance Company, New York, has been operating as an independent subsidiary within the Munich Re Group since 1st October 1994, concentrating mainly on US broker business. In the year under review it recorded a gross premium income of US$ 60 million, following US$ 17 million in the abbreviated financial year 1994. The reinsurance underwriting result was distinctly negative, owing to the strengthening of reserves. Overall, the company achieved a small profit for the year of US$ 1.0 million.

In *Canada* both insurers and reinsurers were able further to reduce their underwriting losses in the non-life sector. Owing to increased investment income, the overall result was pleasing. In life insurance, competition will become keener as a result of the increasing participation of banks in the market.

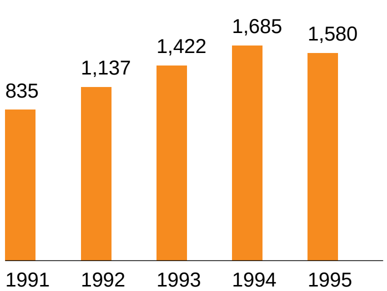
We are the leading non-life and life reinsurer in Canada. *Munich Reinsurance Company of Canada, Toronto*, our non-life reinsurer, increased its gross premium income by 11.3 % to Can$ 257 million (previous year: Can$ 231 million). The company's reinsurance underwriting result was markedly improved. The profit for the year rose from Can$ 7.9 million in the previous year to Can$ 14.9 million.

Our Canadian life gross premiums, which we write through the *Munich Reinsurance Company Canada Branch (Life), Toronto,* increased by 15.8 % to Can$ 279 million (previous year: Can$ 241 million).

The internationally operating *Great Lakes Reinsurance Company, Toronto,* will largely cease its active business operations on 31st December 1996. The business has been transferred, where desirable, to other companies in the Munich Re Group. Our analyses revealed that in the changed business environment the market segment hitherto serviced by Great Lakes could be sufficiently covered by our own organization and that an additional independent entity was not necessary for this. Great Lakes, Toronto, recorded a gross premium income of Can$ 149 million in the year 1995 (previous year: Can$ 187 million). Its reinsurance underwriting result was considerably improved. Following a deficit of Can$ 8.1 million in the previous year, the company closed the year under review with a gratifying profit for the year of Can$ 34.2 million.

Middle East, Far East, Australia, New Zealand

Gross premiums in DM million

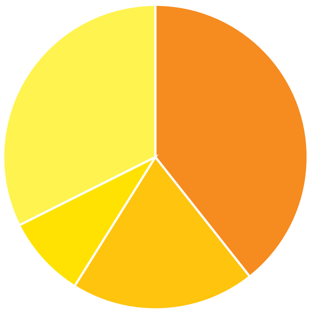


The premium income from the business region *Middle East, Far East, Australia, New Zealand* totalled DM 1.6 billion in the year under review as compared with DM 1.7 billion in the previous year. This decline of 6.2 % is attributable solely to the negative effects of changes in exchange rates.

The Asian markets, developing dynamically as a whole, are characterized by their high degree of exposure to natural catastrophes. The year under review also brought its fair share of such events. On the other hand, these did not affect either the insurance industry or the international reinsurance market too heavily. The earthquake in Kobe on 17th January 1995 is an example of this. Owing to the fact that the Japanese treaty year differs from that of other markets, we had already placed our losses from this event to account in the business year 1994/95.

In the context of our sustained efforts to further our business in the Asian markets, in which we are a leading reinsurer, *Japan* continues to merit our special attention as one of the world's most important insurance markets. As a result of the difficult economic environment, growth in the Japanese insurance market in the year under review was small, but the market's underwriting result was satisfactory. In the longer term, more favourable economic development ought to stimulate the country's insurance sector. We continue to be a particularly close partner of the Japanese insurance industry, which is presently undergoing deregulation.

Gross premiums by country



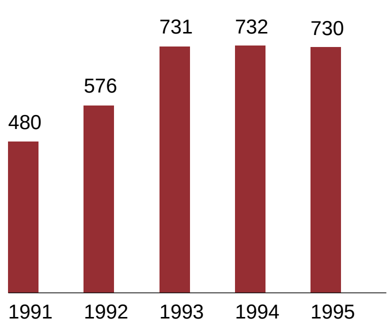
Japan	39 %
Australia	19 %
Taiwan	11 %
Other 28 countries	31 %

We have been represented in the growth region of Asia for many years through a well-developed network of branches, service companies and liaison offices, thus acknowledging the importance of the region and its reinsurance requirements. During the past year we re-examined the structure of our organization in Asia and adjusted it to take account of expected economic development. In addition to our new branch office in *Malaysia*, our branch in *Singapore* will function in future as an independent centre for our activities in South-East Asia, with an office in Manila. Our *Hong Kong* office will concern itself not only with the local market but increasingly with the growing business opportunities in the *People's Republic of China*, where we plan to open a representative office in Beijing.

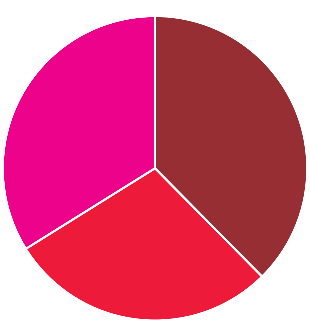
In *Australia*, our subsidiary, *Munich Reinsurance Company of Australia, Sydney,* is one of the market leaders. In the year under review it recorded a slightly reduced premium income of A$ 275 million (previous year: A$ 288 million). Following the very good reinsurance underwriting result of the previous year, the result of the year under review was fairly normal. The investment result was significantly improved. In its commercial balance sheet, the Munich Reinsurance Company of Australia has to value its investments at market value, which can lead to strong fluctuations in results – both positive and negative – from one year to the next. Consequently, following a deficit of A$ 12.7 million in the previous year, which resulted solely from unrealized losses on investments, the company was able to show a profit of A$ 26.6 million in the year under review.

Africa, Near East

Gross premiums in DM million



Gross premiums by country



South Africa	37 %
Israel	30 %
Other 56 countries	33 %

In the business region *Africa, Near East* we achieved a total premium income of DM 730 million in the year under review, as compared with DM 732 million in the previous year.

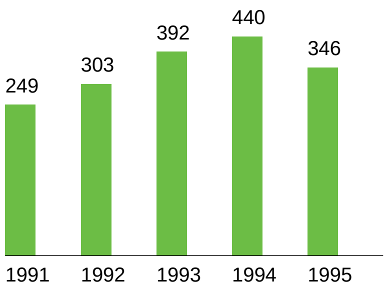
The most important and most highly developed insurance market in Africa is *South Africa*. South Africa's typical combination of first-world and third-world elements is reflected in the structure of the local insurance market. Whereas petrochemical plants, power stations, mining and other branches of trade and industry, including the service sector, are highly developed and make corresponding demands on the insurance industry, a large portion of the population has little or no insurance protection. It is insurances of the person, therefore, that above all offer good growth prospects for the future here.

Our South African subsidiary, the *Munich Reinsurance Company of Africa, Johannesburg*, is the country's leading non-life reinsurer. In the year under review it earned a premium income of R 809 million (previous year: R 662 million). It again achieved a clear profit for the year, R 35.3 million as compared with R 32.5 million in the previous year. In the course of 1996 we have transferred the whole of the reinsurance business we conduct in the sub-Saharan region to the Munich Reinsurance Company of Africa so as to be able to service our clients in these countries more directly, from South Africa.

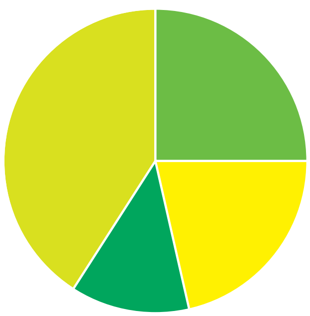
The insurance market in *Israel* is a highly developed one. An important segment of our business here comprises the various classes of engineering insurance. In view of the sophisticated demands made on underwriting and technical expertise in this field, it is particularly important for us to be able to provide reinsurance services on the spot. In acknowledgement of this fact and of our leading market position, we established a new engineering office in Tel Aviv in 1995.

Latin America

Gross premiums in DM million



Gross premium by country



Mexico	25 %
Colombia	22 %
Argentina	11 %
Other 25 countries	42 %

In the year under review, *Latin America* contributed a total of DM 346 million to the Group's premium income, following DM 440 million in the previous year. The decline of 21.4 % is due to the negative effects of changes in exchange rates.

In Latin America, too, we have traditionally ensured that our clients and the market as a whole are well served on the spot through a local presence. For many years we have been represented in Latin America's most important markets by our own service companies. We intend, moreover, to maintain our position as the leading reinsurer in this part of the world. To this end we have equipped ourselves for the challenges of rapidly changing market conditions and client requirements, as well as of increasing competition, by means of appropriate adjustments in our organization.

The economic difficulties in Mexico, the prolonged economic crisis in Venezuela and the recent political uncertainties in Colombia ought not to have a lasting negative influence on Latin America's further development. On the whole, a stabilization of this economic area can be expected.

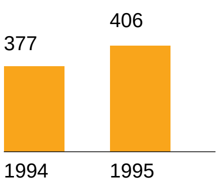
Given this environment, new business opportunities in many direct insurance and reinsurance markets in the region should be considerable in the medium term. This applies particularly to Mexico, Argentina and Chile, but also to Colombia, Venezuela and Peru. We are prepared for the abolition of the reinsurance monopoly in Brazil, the largest Latin American insurance market, where we will also be directly present and aiming to assume a leading position among the foreign reinsurers.

Classes of business

Life

Gross premiums in DM million

Life insurance portfolios in DM billion



In *life* business, we were able to increase our premium income further. Following a negative result in the previous year, which was due to certain special influences, we this time recorded a significant profit, also because of more favourable claims experience.

Our premium income from German business grew only slightly, owing to a decline in new business production. This was a reflection of the decrease in disposable income among large sections of the population and of the development of the maximum contribution levels for German statutory pension insurance, which resulted in a very marked decline in adjustments of the sums insured and premiums under “dynamic” plans. The medium- and long-term development of life insurance in Germany will depend not only on the economic and political climate but also to a decisive extent on the direction taken as regards the reform of the state pension insurance system.

Widely as the European markets differ, the financial problems currently facing the social insurance systems appear very similar. The demand for private provision for old age and surviving dependants as well as for disability cover is expected to grow in all the countries of Europe. Considerations involving the restructuring of social insurance systems through the incorporation of elements of private provision are already creating more demand for life insurance products.

The North American markets are characterized by continuing tough price competition. The competitive pressure is being enhanced by the increasing involvement in this business of banks, which, in Canada especially, are beginning to develop into an important market factor. Both in the USA and in Canada a growing trend towards concentration is observable. Like the unremitting price competition, this concentration of the market is having a detrimental effect on the growth of life reinsurance.

Asia is generally recognized as the market region of the future. We have traditionally had a strong market position in both Japan and South-East Asia, so that we consider ourselves to be well equipped for the growing competition here. Markets such as China or India, with their enormous populations, have little life insurance business as yet, but there are signs of future growth here as well.

We entertain hopes of favourable developments in the Near East, too. In the medium term, we are expecting a considerable economic upturn in this region, which will be accompanied by a major demand for life insurance.

Reinsurance underwriting result for 1995 by class of business

DM million	Life	Personal accident/ health	Liability	Motor	Marine
Gross premiums written	3,539	1,209	2,092	3,267	683
Net premiums written	3,054	1,113	1,943	2,933	666
Net premiums earned	3,029	1,124	1,917	2,934	669
Interest on premium funds and provisions	840	123	7	11	–
Claims incurred	1,464	731	1,849	2,334	441
Operating expenses	815	344	503	609	172
Other income and expenditure	–1,545	–116	–5	4	4
Underwriting result	45	56	–433	6	60
Change in the claims equalization provisions	–	–	–4	–229	–49
Underwriting result after change in claims equalization provisions	45	56	–437	–223	11
Key figures in %					
Loss ratio		64.4	96.3	79.0	65.3
Expense ratio		30.6	26.2	20.8	25.7
Combined ratio		95.0	122.5	99.8	91.0

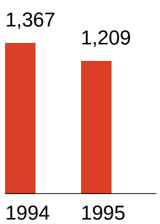
Fire	Engineering	Other classes	Non-life combined	Total	DM million
3,623	1,847	2,247	14,968	18,507	Gross premiums written
3,166	1,615	2,036	13,472	16,526	Net premiums written
3,189	1,630	2,045	13,508	16,537	Net premiums earned
–	–	–	141	981	Interest on premium funds and provisions
1,754	1,114	1,182	9,405	10,869	Claims incurred
1,014	559	654	3,855	4,670	Operating expenses
–175	–4	–44	–336	–1,881	Other income and expenditure
246	–47	165	53	98	Underwriting result
–451	–27	–224	–984	–984	Change in the claims equalization provisions
–205	–74	–59	–931	–886	Underwriting result after change in claims equalization provisions
					Key figures in %
60.5	68.6	59.9	71.1		Loss ratio
31.8	34.3	32.0	28.5		Expense ratio
92.3	102.9	91.9	99.6		Combined ratio

The situation throughout the African continent is overshadowed by the continuing rapid spread of AIDS. In many markets this has seriously affected, if not completely paralysed, the development of the life insurance industry. Only in South Africa, where the risk has been reduced through efficient underwriting and appropriate product design on the part of insurers and reinsurers, do we see medium-term business opportunities for life and health insurance products.

In Latin America the privatization of the social insurance systems is continuing. As a result, new business opportunities are opening up here for reinsurers.

Personal accident/health

Gross premiums in DM million



	1995
Loss ratio	64.4
Expense ratio	30.6
Combined ratio	95.0

Our *personal accident* premium volume decreased as a result of a reduction in premium income from our foreign business. We did, however, achieve a very pleasing profit of the same order as in the previous year.

Our clients do not reinsure much of their personal accident business, largely retaining it for own account. Our opportunities for expansion in this sector are therefore limited. Our capacity is increasingly in demand, however, in cases where additional protection is required for large risks or where state systems are being privatized. For the current business year we are therefore expecting slight growth with continuing good results.

The premium income from *health* business decreased, as had been expected after the previous year's boost due to a special influence. The profit was much the same as in the previous year.

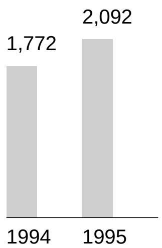
Private health insurance is a growth sector everywhere in the world. The state health insurance systems are increasingly coming up against the limits of what is affordable. The consequences are often restrictions of cover or the exclusion of certain benefits from the range previously provided. The market for private insurance protection is opening up as a result.

In the Netherlands, for example, a change in legislation means that in the private sector it is now employers who are required to continue payment of wages to their employees when they fall ill. This gives rise to a considerable additional risk for the employers, who are seeking the necessary coverage from the private insurance industry.

In view of these changes, we are expecting to see a marked increase in premium income in 1996, with continuing good results.

Liability

Gross premiums in DM million



	1995
Loss ratio	96.3
Expense ratio	26.2
Combined ratio	122.5

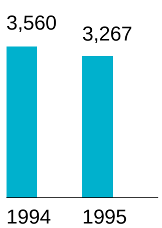
Owing to a special influence – the assumption of an entire portfolio in return for a single premium payment – the premium income from our *liability* business showed above-average growth in the year under review. Since we considered it expedient to make another increase in our reserves for long-terminated US business, the result was once again negative. The other business, especially our new business, showed satisfactory results.

Liability insurance is, for us, one of the most promising classes of business for growth worldwide. We see good opportunities for converting into profitable growth both the increasing capacity requirements of our clients in the industrial countries and the rising demand in threshold and developing countries, some of whose economies are making dynamic strides forward. The most important sectors in this connection are products liability and public liability, accompanied by professional liability and D&O insurance (cf. the section “Topical subjects in reinsurance”). In writing this business, we take care not to lose sight of the special long-term nature of the risks involved. This is demonstrated by the fact that we have advocated the need to restrict unlimited liability covers and have already implemented such a restriction in parts of our business.

For 1996 we are expecting premium income to be lower than in the year under review, which was positively affected by the special influence mentioned above. If this effect is discounted, we can expect premium to show moderate growth. The result will very likely be better than in the year under review.

Motor

Gross premiums in DM million



	1995
Loss ratio	79.0
Expense ratio	20.8
Combined ratio	99.8

In *motor* business, the development of our premium income and results is greatly influenced by our strong presence in the German market.

Following the very negative impact that the claims situation in the motor own damage insurance sector had on the results of the German direct insurers and their reinsurers in the years 1992 and 1993, the situation in 1994 and 1995 was markedly less strained. Adjustments of direct insurance premiums and the measures initiated by the insurance industry to reduce claims costs – for example, the installation of electronic immobilizers – contributed to this trend. With improved results, however, competition in the German direct insurance market picked up again in 1995. The deregulation of the market has prompted almost all companies to introduce new kinds of discount in their attempts to win clients. On balance, therefore, following the premium growth of the past few years, we can expect the premium volume in this class of business to stagnate, which will put a corresponding pressure on earnings. These developments in the direct insurance market were reflected in reduced premiums from our German reinsurance business even in 1995, although our results again strongly improved; for 1996 we are expecting a deterioration in the result.

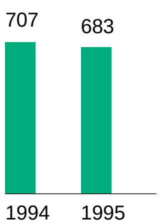
Foreign motor business is characterized by fierce competition everywhere in the world. We were able, however, to defend our position successfully at a high level and to expand our shares in individual markets with results that continued to be largely satisfactory. Especially in some European markets and in North America we see good opportunities for profitable expansion of our business.

Overall our premium income from motor insurance declined in the year under review. After a marked deficit in the previous year, we managed to achieve a break-even result. For 1996 we are expecting slower growth, but with still satisfactory results.

Marine

In the year under review our premium volume from *marine* business decreased slightly. The result was again highly satisfactory, the previous year's gratifying profit even being surpassed.

Gross premiums in DM million



	1995
Loss ratio	65.3
Expense ratio	25.7
Combined ratio	91.0

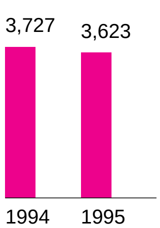
The massive influx of new reinsurance capacity observable in some of the important marine insurance markets has led to an intensification of competition. As a consequence there is considerable pressure on hull and cargo premium rates, which remedial measures on the part of insurers and reinsurers had succeeded in raising to a risk-commensurate level over the past three years.

In view of the interdependence of the international marine insurance markets, it is to be feared that, following the favourable development of results over the past three years in marine insurance worldwide, 1996 will probably already bring a drop in profits. For this reason, and because of our profit-oriented risk selection policy, we will be able to increase our premium income in 1996 only in some sectors of marine insurance; the result, however, should again be satisfactory.

Fire

Our premium income from *fire* business declined in the year under review. Whereas facultative acceptances of individual risks brought a pleasing increase in premium, the premium from obligatory reinsurance treaties continued to decrease. This further decline was due partly to the trend towards a lowering of premiums for industrial fire insurance covers in most of the large industrial markets, which had a negative effect on our premium income from proportional reinsurance treaties. In addition, changes in exchange rates had a negative effect on premium income from our foreign portfolio.

Gross premiums in DM million



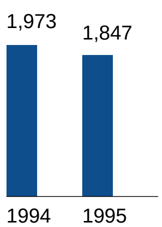
	1995
Loss ratio	60.5
Expense ratio	31.8
Combined ratio	92.3

Our business experience was very satisfactory, however, the previous year's large profit even being exceeded. When evaluating the result for 1995 it is nevertheless important to bear in mind that our business in the year under review was largely spared major losses from individual risks and natural catastrophes. Particularly in fire business, subject as it is to strong fluctuations, it is important for us to achieve good earnings in years in which the claims burden is, by chance, relatively light, so as to be prepared for the exceptional costs that may occur in other years. We regard the overall prices and conditions of our fire business at present as adequate to meet the risks involved.

Following three years of positive fire results, the pressure of competition in the reinsurance markets has increased again in 1996. As a result of the growing supply of capacity worldwide, there is a danger that reinsurance prices and conditions will begin to soften. It is one of our central objectives to ensure that we retain promising areas of our business, open up new business opportunities and make our reinsurance capacity available only in those sectors in which prices and conditions are still commensurate with the risks.

Engineering

aGross premiums in DM million



	1995
Loss ratio	68.6
Expense ratio	34.3
Combined ratio	102.9

In the *engineering classes of business* (machinery, EAR and CAR, electronic equipment, etc.) our premium income also declined in the year under review. The result was markedly improved: owing to more favourable experience with regard to large losses, we were able to reduce our deficit significantly.

In Germany the direct insurance market for EAR business again recorded a high loss ratio. The CAR insurance sector did not show a profit either. In both product areas reinsurance prices and conditions need to be improved substantially if positive results are to be achieved in the medium term. Owing to our major commitment in the reinsurance of EAR and CAR business, we too have recorded correspondingly bad results over the past few years.

Following the unfavourable loss experience that affected large areas of our foreign business during the first part of the 1990s, there has been an improvement which – owing to our large proportion of one-off business (EAR and CAR) – did not begin to have an effect on our results until recently. However, in some business sectors we were already seeing signs of a softening of rates and conditions in the year under review.

In general we have been able to maintain our market position in the various individual reinsurance markets; where possible we have further expanded our business, both directly and through our local offices. In some business areas, where we have been unable to achieve satisfactory terms and conditions, we have reduced our commitments.

For 1996 we are expecting to achieve approximately the same premium income from our engineering business. The result should also be much the same as in the previous year, provided that we are not affected by any exceptionally large losses.

Other classes of business

Gross premiums in DM million

	1995
Loss ratio	59.9
Expense ratio	32.0
Combined ratio	91.9

All the other classes of business – that is 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, aviation, legal expenses, luggage and the specie insurance of private risks – together produced a premium income that was slightly down on the previous year. The overall result for these classes of business was again very favourable, the profit being much the same as in the previous year. Developments in the different classes naturally differed.

Homeowners' comprehensive, a form of cover which is of particular importance in the German market and which includes the risk elements fire, water damage, windstorm and hail, showed a slight premium increase and another good profit, the latter being mainly attributable to the chance absence of severe windstorm losses. The same applies to *householders' comprehensive*, which provides cover for the burglary risk as well. Although crimes against property, whose incidence continues to be high, placed a great strain on the German *burglary insurance* market in particular, we were nevertheless able to show a small profit here, also in our commercial business.

Credit business again brought an increase in premium income. The unexpectedly large rise in insolvencies in Germany led to a considerable deterioration in the result, which could not be fully compensated for by good results from abroad. German fidelity guarantee business also recorded losses in the year under review. The situation with regard to German credit insurance continues to be unsatisfactory. The economic recovery expected in Germany for 1996 has not taken place. On the contrary, the number of company insolvencies has continued to increase dramatically, this trend being aggravated by structural problems in individual branches of industry. We are therefore expecting another very negative result in 1996 for our German business, which largely determines our overall result. Our foreign credit insurance business should, on the other hand, again bring us a satisfactory profit.

The premium income from *aviation* business decreased slightly, owing to the effects of changes in exchange rates. Thanks to favourable experience as regards the incidence of large losses, the result in this class of business was very good. However, the fortuitous good claims experience of the year under review has already led to appreciable pressure on premium rates. Thus our continued concentration on the profitability of the business we underwrite means that we can only expect modest growth in premium income in 1996.

In our *space* business, which is conducted solely by the Munich Reinsurance Company, the premium income again grew substantially. Despite a considerable increase in the market capacity available for these types of risk, we were able to extend our leading position. The result was again very good. In the current year we are also expecting a significant increase in our premium volume.

Our financial strength

The question of reinsurers' financial strength is becoming an increasingly important one for our clients when it comes to deciding where they should place their reinsurance business.

The Munich Reinsurance Company, as the world's leading reinsurer, further strengthened its financial resources in the year under review. The capital increase carried out at the end of 1995, in which we added a substantial sum of more than DM 615 million to our shareholders' funds, was a clear signal to the market. We also made a further scheduled improvement in our financial base by allocating DM 100 million out of our profit for the business year 1995/96 to our revenue reserves. The company's total shareholders' funds now amount to DM 3,351 million.

In an environment that is subject to radical change, we shall continue to devote particular attention to an appropriate development of our equity capital base.

The DM 982 million allocation to our claims equalization provisions and other similar provisions also underlines the Munich Reinsurance Company's financial strength. These provisions, which serve to mitigate future fluctuations in annual results, now total DM 3,327 million.

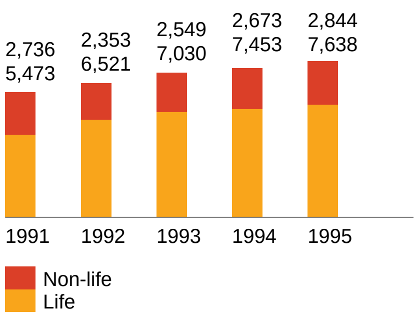
The underwriting provisions required for our reinsurance business were again calculated in the year under review using the same prudent methods as in previous years. At the same time our claims provisions were further increased by means of special allocations of DM 500 million. In this way we have, as in previous years, made allowance for possible long-tail claims, especially from environmental impairment risks. The total underwriting provisions of the Munich Reinsurance Company are now equivalent to 295.7 % of net premiums (previous year: 273.8 %).

Not only the financial strength of the Munich Reinsurance Company is outstanding. The capitalization of our subsidiary companies is also constantly re-evaluated and adjusted if necessary. Thus we will be substantially increasing the shareholders' funds of our Swiss subsidiary, the New Reinsurance Company, Geneva, raising it by around Sfr 400 million to over Sfr 500 million. This will open up new business opportunities for the company.

Direct insurance

The Munich Re Group includes a number of well-known direct insurance companies in which we have had participations for many years. Our group of direct insurers operates primarily in the area of personal lines business. This focus on personal lines was strengthened even further in 1996: as part of an exchange of shares with Allianz AG Holding we are acquiring DKV Deutsche Krankenversicherung AG while parting with the industrially and commercially oriented Hermes Kreditversicherungs-AG and a few minority holdings. DKV, Europe's largest health insurance company, which has worked together successfully for several decades now with Hamburg-Mannheimer Versicherungs-AG, ideally complements the activities of our other direct insurers.

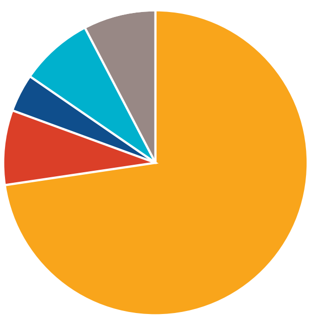
Gross premiums in DM million



In the year under review, our direct insurance companies contributed a total of DM 10,482 million to the premium income of the Group as a whole; this was 3.5 % more than in the previous year. The growth rate in life insurance was 2.5 % (previous year: 6.0 %) and in non-life 6.4 % (previous year: 4.9 %). These figures do not take into account the business of the subsidiaries acquired by Europäische Reiseversicherung in the autumn of 1995 and at the beginning of 1996. These subsidiaries recorded gross premiums of around DM 190 million in 1995.

The considerably lower premium growth rates shown by our direct insurance subsidiaries as compared with the previous year are a reflection of the development of the economy as a whole, which – together with increases in taxes and other charges – has led to a reduction in the disposable income of private households and to a serious decline in new business in the German life insurance market. The rise in the German gross domestic product of only 1.9 % and the increasingly intensive competition resulting from deregulatory moves had the effect of reducing premium growth in the non-life classes of insurance as well. The exception was credit insurance, where the strong increase in the number of company insolvencies ensured that demand for this type of coverage remained high, although this also resulted in very high claims expenditure.

Gross premiums by class of business



Life	73 %
Personal accident/health	8 %
Motor	4 %
Credit and fidelity guarantee	8 %
Other classes	7 %

The division of gross premium income between the various classes of insurance is much the same as in the previous year: just under three quarters of the direct insurers' gross premiums again came from life insurance.

The consolidated net premiums increased by 3.2 % to DM 9,706 million (previous year: DM 9,406 million).

The underwriting profit in non-life insurance business (before the change in the claims equalization provisions) decreased by DM 66 million to DM 31 million. This is attributable above all to the unsatisfactory situation in credit insurance.

The underwriting profit in our life insurance business – which, in accordance with the accounting regulations, includes the entire investment income and expenditure – rose by DM 79 million to DM 444 million. The life insurers allocated a total amount of DM 1,947 million (previous year: DM 2,008 million) to the provisions for policyholders' dividends.

The direct insurers' operating result was a profit of DM 455 million (previous year: DM 504 million).

The important figures for the direct insurers in DM million (consolidated):

	1991	1992	1993	1994	1995
Gross premiums	8,209	8,874	9,579	10,126	10,482
Net premiums	7,479	8,095	8,740	9,406	9,706
Payments and bonuses to policyholders*	8,535	9,693	10,567	11,448	12,004
Underwriting result of the non-life insurers*	89	86	30	97	31
Investment result*	3,388	3,811	4,255	4,577	4,761
Operating result	294	384	440	504	455

* The figures for 1991 to 1993 are comparable only to some extent with those for the years 1994 and 1995 owing to the change in the allocation of the expenditure for employees' pensions and "other depreciation".

The most important subsidiaries developed as follows:

The new business of *Hamburg-Mannheimer Versicherung, Hamburg*, a life insurance company, declined markedly in 1995. Gross premiums rose by 2.2 % to DM 4,933 million. The in-force sums insured of business written by the company increased slightly to DM 136.6 billion. A sum of DM 1,313 million (previous year: DM 1,390 million) was allocated to its provision for policyholders' dividends. Its profit for the year totalled DM 102.4 million (previous year: DM 123.9 million).

Hamburg-Mannheimer Sachversicherung, Hamburg, which writes non-life insurance, recorded a gratifying overall development of new business, managing to increase its gross premium income in 1995 by 6.6 % to DM 1,255 million, more than half of which comes from personal accident insurance. The company's underwriting profit was markedly lower than in the previous year, not least owing to the introduction of organizational measures aimed at improving future efficiency. The profit for the year was DM 46.4 million (previous year: DM 61.4 million).

In the case of the life insurer *Karlsruher Lebensversicherung, Karlsruhe*, new business was less than in the previous year. Gross premiums rose nevertheless by 1.4 % to DM 1,717 million. The in-force sums insured increased by 1.0 % to DM 54.3 billion. The company was able to allocate a sum of DM 442 million (previous year: DM 413 million) to its provision for policyholders' dividends. The profit for the year amounted to DM 20.7 million (previous year: DM 19.7 million).

The gross premium income of *Karlsruher Versicherung, Karlsruhe*, which writes non-life insurance, declined in 1995 by 2.0 % to DM 386 million; this is attributable not least to the effects of the portfolio streamlining measures initiated in 1994. Following a small deficit in the previous year, the company was able to show a pleasing underwriting profit in 1995, before allocations to claims equalization provisions. Its profit for the year rose to DM 8.3 million (previous year: DM 6.0 million).

The life insurer *Berlinische Lebensversicherung, Wiesbaden*, suffered from a decline in the demand for credit life insurance as a result of the overall economic situation; altogether, however, its new business decreased less markedly than the market average. The company's gross premiums rose by 5.0 % to DM 878 million. Its in-force sums insured decreased by 10.0 % to DM 29.6 billion. The provision for policyholders' dividends was increased by DM 172 million (previous year: DM 200 million). The company showed a profit for the year of DM 2.5 million (previous year: DM 7.2 million).

Hermes Kreditversicherung, Hamburg, showed an increase in its gross premiums of 11.3 % to DM 809 million for 1995. Owing to the further rise in the number of insolvencies, the company's underwriting loss more than doubled; the claims ratio of the business written by the company increased significantly. This deterioration was, however, largely compensated for by means of substantial withdrawals from the claims equalization provisions, so that all in all the company was able to show an increased operating profit of DM 11.9 million (previous year: DM 8.0 million).

Owing to the noticeably tighter financial situation of German households in the current year, our travel insurer *Europäische Reiseversicherung, Munich*, was able to show premium growth of only 1.8 % to DM 304 million in 1995, following the major premium increases recorded in the previous years. The company recorded a break-even underwriting result and its profit for the year amounted to DM 8.9 million (previous year DM 9.0 million). In the autumn of 1995 and at the beginning of 1996 the company consolidated and extended its market position in Europe through the acquisition of former sister companies in Denmark, France, Sweden and the Czech Republic, and the establishment of a subsidiary in Slovakia.

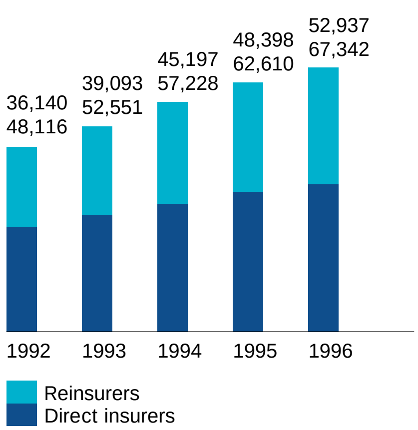
Investments

The Munich Re's outstanding financial strength, in addition to its underwriting expertise, is a major contributory factor to the Group's success in both the reinsurance and the direct insurance business. Special importance is therefore attached to ensuring that our investments are managed both profitably and with a high degree of security.

For the Munich Re – which in its core business, reinsurance, seeks a global balance of risks – the free international movement of capital and a stable world currency system are particularly important if it is to be able to meet its obligations everywhere and at all times.

In this connection we are following with close attention the current endeavours to create a European single currency and are doing what we can to promote these efforts. If this project is to meet with lasting success, however, it is essential that the countries concerned should agree upon a strict policy of economic stability which they are prepared to implement consistently.

Investments, including deposits retained on assumed reinsurance, in DM million



In the past business year the international capital markets were again characterized by strong fluctuations in both interest rates and share prices, as well as in currency exchange rates. The Deutschmark again increased substantially in value against the other most important world currencies. The changes in exchange rates had the effect of reducing the value of the investment portfolios of both the Munich Re and its reinsurance subsidiaries. Nevertheless, the Group's investments rose by 8.4 % in all to DM 120 billion.

We continue to attach particular importance to matching our underwriting liabilities in foreign currencies with investments in the same or similar currencies. We minimize our currency risks by balancing the currencies of our assets and our liabilities to the greatest possible extent.

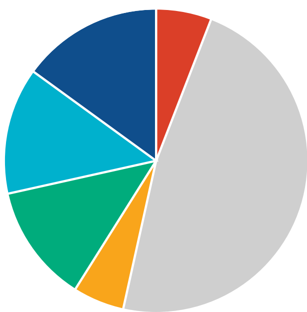
The quality of our investments remains as important as ever for us.

We continue to make limited use of derivatives, solely for hedging purposes in respect of parts of the portfolio and for implementing planned purchases and sales. In so doing, we observe strict rules 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. The use of derivative products had no appreciable effect on our investment result.

The most important capital markets for our business – besides Germany, where owing to the large investment volume of the life insurers, more than three quarters of the Group's funds are invested – are the USA, the UK and Canada, which together account for a total of 12 % of our investments.

In the period under review, against the background of developments in the USA and the rather subdued economic situation in the world as a whole, interest rates again fluctuated considerably. At the end of 1995 and beginning of 1996 interest rates in the most important world trading countries had reached an almost historical low. Recovering only slowly and to a very limited extent, they remained at a comparatively low level right up to the end of the business year. During the period under review new investments were therefore possible only at relatively low interest rates as compared with the long term. On the other hand, the largely favourable development of share prices, with all-time highs in many important markets, gave us opportunities to realize accumulated capital gains.

Investment mix



Real estate	6 %
Loans	46 %
Participations	5 %
Fixed-interest securities, fixed deposits	12 %
Shares, investment fund certificates	17 %
Deposits retained on assumed reinsurance	14 %

The structure of our investment portfolio did not change substantially in the year under review. Loans account for by far the largest part (46 %). We again increased our investment fund shares appreciably. This flexible form of investment makes it easier for us to use the increasing volatility of the capital markets to the advantage of our operative investments.

In the real estate sector, we continued to invest in the scheduled continuation of our building programme, although to a much smaller extent than in the previous years.

Our investment income, which was augmented in the previous years by tax-related extraordinary dividends, increased again this time owing to the overall increase in our investments. It grew by DM 296 million, or 3.5 %, to DM 8,801 million and thus developed satisfactorily in view of the prevailing situation on the capital markets.

Owing to the capital market developments, writedowns on our investments were considerably reduced. All in all, our investment expenses are within reasonable bounds considering the investment volume.

The profit from our investments amounted to DM 7,935 million as compared with DM 7,322 million in the previous year. In accordance with accounting regulations, DM 5,685 million of this has been incorporated in the underwriting result.

Our staff

It is of decisive importance for a leading international provider of financial services that its staff are highly qualified, strongly motivated and personally well suited to their tasks. These are the prerequisites for good client relations and hence the most important factors in the success of our enterprise. Personnel planning, too, has to take account of the increasingly rapid changes in products and markets. We attach great importance to the constant further development of our staff and their ability to meet new challenges.

In the last two years especially, we have implemented important decisions in the area of personnel policy at the Munich Reinsurance Company. The company's organizational structure has been streamlined and managerial functions have been more clearly defined and also extended. The number of executive managerial positions in the company has been almost halved. The hierarchy of titles and the various "perks" attached to them have been abolished. Instead, the functions actually fulfilled by our staff are described and evaluated. Salary components linked solely to length of service have been eliminated and performance-related components introduced in their place.

The aim of these measures is to enable us to attend to our clients' needs and wishes even more closely, to speed up operational procedures and in this connection above all to reduce time-consuming internal approval processes. The existence of a broad-based personnel development system extending throughout the company will ensure that we continue to have staff whose suitability, qualification and motivation make them the right people for our clients to talk to and do business with.

Our trainee graduation class of 1996, photographed in the Japanese garden behind our Leopoldstrasse office building.

Prospects

The business year 1996/97 will be strongly marked by two important additions to the Munich Re Group: the increase in our participation in DKV Deutsche Krankenversicherung AG as the result of the exchange of certain insurance shareholdings with Allianz AG Holding, and the acquisition of the American Re Corporation.

As part of a share exchange with Allianz, resolved at the end of July 1996, Munich Re is acquiring Allianz's 51 % interest in DKV, so that together with Hamburg-Mannheimer Versicherungs-AG it now holds 100 % of the shares. In return Allianz is receiving, among other participations, our 50.3 % holding in Hermes Kreditversicherungs-AG. This share exchange serves to focus the activities of our direct insurance group even more strongly on personal lines business. Including the premium income from DKV and excluding that from Hermes, our direct insurers' gross premiums will be increased by approximately DM 4 billion; the exchange will have a positive influence on the Group result.

Moreover, in mid-August 1996 agreement was reached with the Board of Directors of the American Re and their chief shareholder, the investment firm of Kohlberg Kravis Roberts & Co., on the acquisition of the American Re by Munich Re. The total purchase price will be approximately US$ 3.3 billion. Since this acquisition still has to be approved by the Annual General Meeting of the American Re and by the competent authorities, the agreements are not expected to be completed until the end of this year. The American Re, whose estimated gross premium income for 1996 totals approximately US$ 2.6 billion, recorded a profit for the first half-year of US$ 97.5 million and, as things stand at present, is expecting to achieve a very good result for the business year 1996 as a whole.

In the reinsurance business of the Munich Reinsurance Company, we again anticipate only a small rise in premium income in original currencies for 1996. The growth, such as it is, will be attributable mainly to life and fire business. If we also take into account the effects of changes in exchange rates, the picture is likely to be rather more favourable, since – on the basis of the current position – these would have the effect of increasing our premium income this year, in contrast to last year.

As regards the reinsurance underwriting result, the experience of the first nine months of 1996 shows the following trends:

Claims costs for natural catastrophes have so far again been relatively small. Claims expenditure for other major loss events, however, is higher than it was at the same time last year.

Our largest individual loss to date occurred in the space insurance sector. On 14th February 1996 the launch of a Chinese Long March rocket carrying the communications satellite Intelsat 708 failed, destroying the insured satellite. Our share of this loss amounted to DM 60 million.

No claims costs resulted for our Group, on the other hand, from the spectacular failure of Ariane 5 on 4th June 1996. Ariane 5 is, in nearly all its essential elements, a new development. Since the operating conditions of a launch vehicle cannot be simulated (or fully simulated) on the ground, test flights have to be made; failures are thus virtually inevitable. Test flights of this kind are not insured by the space insurance industry, and the same applies to any payloads carried on such occasions. In the present case, the payload consisted of four scientific research satellites, which are not normally insured anyway.

On 11th April 1996 a fire destroyed large sections of Düsseldorf airport; a number of people were killed and a considerable number injured. One consequence of the fire was widespread contamination of the disaster area with toxic residues. On the basis of the latest figures available to us, the fire caused an overall loss of several hundred million marks. We currently estimate our possible own loss from this event to be in the region of DM 55 million.

Despite differing developments in the individual classes of business, the overall claims burden from natural catastrophes and other major losses is slightly higher than in the comparable period of the previous year. The weight of these losses abroad has been heavier than in our domestic business.

The development of our results has varied from one class of business to the next. Whereas we are anticipating another improvement in the result of liability business, the competitive situation in motor insurance leads us to expect that our results in this class will deteriorate. For a discussion of the various factors involved, please refer to the section headed “Classes of business”.

The result picture for the Munich Reinsurance Company so far is similar to that of the previous year. We nevertheless cannot yet forecast whether the underwriting profit we achieved last year will be attained again this time. The decisive factor will be the extent to which we are affected by natural catastrophes and other major losses before the end of the present risk period, which includes both the rest of the hurricane season in America and the start of the winter storm season in western Europe.

Firm predictions are not possible either at this stage regarding the Munich Reinsurance Company’s investment result on our next balance sheet date, for only a few months have passed in the present reporting period. With a further increase in the volume of our investments, our investment result will also be decisively influenced by the way in which the capital markets of importance for us – i.e. especially the stock markets in Europe, in the USA, and also in Japan – develop up to the end of our business year.

The business development of our consolidated reinsurance subsidiaries has varied. As a whole, they will probably not manage to achieve such an exceptionally good result as in the past business year.

The composition of our direct insurance group has been substantially altered through our exchange of shareholdings; the individual companies are developing according to plan in the current year.

In life insurance, new business is developing pleasingly, despite the still difficult economic environment. Impulses for growth are coming from, among other things, “dynamic” plans linked to the development of the maximum contribution levels for German statutory pension insurance. The attractiveness of annuity insurances remains unbroken, and they continue to have a significant positive influence on overall development.

In health insurance we anticipate a rising premium income and a satisfactory result, despite higher claims costs.

The growth of our indemnity insurance business is likely to stagnate owing to the continued slow development of the economy and the growing intensity of price competition. The increased competitive pressure is due not least to the generally improved earnings situation in 1995 and also to increasing product competition, especially in the field of motor insurance.

The share exchange with Allianz and the acquisition of the American Re will favourably affect the development of the Munich Re Group in the years to come.

Topical subjects in reinsurance

Private financing of infrastructure projects – Opportunities for the insurance industry

In many parts of the world, budget consolidation has led to the state withdrawing from certain fields to concentrate on its core responsibilities. Large projects in such areas as infrastructure, transport, energy production and health care are increasingly being executed, financed and operated by the private sector. This means new and in some cases very large risks for industry, giving rise in turn to extensive long-term insurance requirements. The Munich Re plays a leading role in this growth sector (page 44).

The reinsurance of natural catastrophe risks

Natural perils can give rise to immense costs. It is one of the central tasks of the international insurance industry to deal with this problem. The Munich Re continues to see the reinsurance of natural catastrophe risks as one of its main fields of business (page 46).

D&O insurance increasingly important – Protection against liability risks of boards and managers

There is a growing trend in the business world for shareholders and creditors to sue managers and boards for mistakes they have made or are alleged to have made. Directors' and officers' liability insurance, which is already commonplace in the USA, is a sensible way of limiting decision-makers' liability risks. The Munich Re can provide D&O insurers with tailor-made reinsurance cover and extensive service (page 48).

Electronic communication in reinsurance

Insurers and reinsurers must make use of every opportunity to increase efficiency. This includes the electronic interchange of data. The Munich Re was one of the founder members of RINET, a pioneer among the insurance networks (page 49).

Private financing of infrastructure projects – Opportunities for the insurance industry

In order to “slim down” their public sectors, more and more governments around the world are taking the decision to withdraw from fields of activity that do not necessarily have to be conducted by the state. Behind the trend towards privatization as a positive solution in this connection lies the perception that the state can control public expenditure better by concentrating on its core responsibilities and that many tasks can be dealt with more efficiently by the private sector.

Many countries, for instance, are pressing ahead with the construction, financing and operation of major traffic infrastructure projects on a private basis. Elsewhere the responsibility for operating hospitals, previously in the hands of public institutions or the church, is being handed over to private investors, and these are also being entrusted with the financing of new clinics.

Particularly in the “emerging” economies, large projects in the field of energy and communications technology are increasingly being realized and operated by the private sector. The state restricts itself to setting the parameters (e.g. through general development plans), granting concessions and exercising legal supervision: in other words, steering and controlling.

As private investors have to consider the long-term return on their investment, they rely in such cases on the international insurance industry to carry the typical insurance risks so that their liability remains restricted to the entrepreneurial risk. Insurers often play a significant role as the providers of capital as well.

Munich Re experts provide cedants and their clients worldwide with advice and support for major projects, such as before and during the construction of the Petronas Towers in Kuala Lumpur (Malaysia), currently the tallest office buildings in the world.

But even if other institutions take on the long-term financing, the constructors and operators require comprehensive and continuous insurance cover to safeguard loans both in the construction phase and during the loan redemption period, which often extends far into the operating phase of major projects.

Such projects in preparation or under construction are the new Athens and Hong Kong airports, the underground railways in Los Angeles and Taipei, the multi-transport link over the Öresund between Copenhagen and Malmö, the Korean high-speed railway system and the Three Gorges hydroelectric power station project in the People’s Republic of China. Domestic and foreign insurance companies, supported by financially strong reinsurers, assume the risk of costs arising from property damage, financial losses and liability claims.

As the world’s largest reinsurer in the engineering classes of insurance, the Munich Re is always particularly in demand when it comes to covering these risks: it has the most extensive risk and claims statistics in the international insurance industry, statistics that are updated and evaluated in line with the latest scientific methods and using the most modern facilities. This gives it a significant competitive edge in risk analysis and assessment, loss inspection and claims settlement. Its experts, not least its more than 100 engineers and scientists of all disciplines, can be contacted swiftly through Munich Re’s dense network of offices and subsidiaries all over the world. Thanks to its expertise and outstanding financial strength, the Munich Re Group can offer an exceptionally large amount of reinsurance capacity for covering these risks.

The new Athens airport, a BOT project (computer model).

An increasing number of combined-cycle power stations, financed and insured as BOO or BOT projects, are being built worldwide to generate power using natural gas.

Increasingly, two basic models are being used for the private-sector financing of major engineering projects:

With the BOO model (build, own, operate), the state in which the major project is located awards a concession to an international construction and financing consortium to finance, build and operate the plant or structure.

In the case of the BOT model (build, operate, transfer), the consortium agrees to transfer ownership of the plant or structure to a local operator after an agreed operating period of 10 to 25 years at a contractually fixed residual value or the saleable value at that date.

These models and possible mixed forms (e.g. involving the participation of construction and operating firms from the customer country) give rise to a very long-term risk for the usually international industrial consortia.

As far as the construction phase is concerned, demand is growing for tailor-made advance loss of profits (ALOP) insurance to supplement the contractors' all-risks (CAR) and erection all-risks (EAR) insurances. ALOP covers are designed to minimize financial losses that may arise from delays in the start of operations as a result of indemnifiable material damage.

When the operating phase begins, there is a seamless transition from these covers to the classic lines of property insurance such as fire, machinery and electronic equipment insurance. These are often complemented by business interruption insurance for losses following fire or machinery breakdown. Public liability insurance and environmental liability insurance complete the insurance cover of the enterprise and its private investors by protecting them against third party claims.

The insurance of major engineering projects requires careful risk assessment, expert control through inspections during the whole period of the cover and highly specialized risk-related know-how for fixing prices and conditions and for handling claims. Particularly valuable for the client, as well as its insurers and their reinsurers, is the active involvement of experienced engineering insurance specialists throughout – from the design stage, through the construction phase, to actual operation. Drawing on experience with losses involving comparable risks, these specialists make expert recommendations for loss prevention and minimization, particularly for fire protection and for controlling the on-site risks from natural hazards (earthquake, windstorms, floods). This was the case, for instance, with the construction of the Petronas Towers in Kuala Lumpur.

Especially in Asia, but also in Latin America and Africa, rapid population growth is giving rise to infrastructural needs on a scale that requires international cooperation in the fields of engineering, finance and insurance. Such cooperation is the only way of satisfactorily realizing, within a reasonable time, such projects as the expansion of energy production and distribution, the necessary structural improvements in road, water and air transport, and measures to tackle the problems of water supply and sewage disposal in densely populated urban agglomerations.

For the national insurance markets in the threshold countries – often still in the development phase – and for the internationally experienced insurers and reinsurers, these major engineering risks represent challenges and opportunities for offering long-term comprehensive insurance cover, particularly in regions exposed to natural hazards.

The fixed link over the Öresund (road/rail, tunnel and bridge) is an important addition to the network of transport connections not only between Denmark and Sweden but also between Scandinavia and the rest of Europe.

The Munich Re aims to extend its leading position further and fully utilize the business opportunities of this growth market.

The reinsurance of natural catastrophe risks

San Francisco, 18th April 1906, 513 a.m. local time. The violent tremors of a catastrophic earthquake bring buildings crashing to the ground. Fires break out and spread; a terrible conflagration destroys almost the entire city. Cost of the catastrophe: 750 dead, 250,000 homeless and damage of US$ 350 million.

The earthquake shook the world, and many insurers and reinsurers did not survive their first big test. For the Munich Re, however, the prompt payment of all indemnifiable reinsurance claims brought a considerable boost to its reputation, epitomized by the saying of the time “Thieme is money”.

Carl Thieme, co-founder and first Chairman of the Munich Re Board of Management.

The Munich Re has devoted itself for many decades to the geoscientific analysis of natural catastrophe risks, especially earthquake, windstorm and flood, and has developed underwriting methods for dealing with them. A particular feature of covering these risks is the accumulation of liabilities, because one and the same event can cause losses involving many different insured objects at the same time, giving rise to immense claims burdens. The balancing of risks within a community of policyholders, one of the fundamental principles of insurance, therefore functions only on a regional or global basis.

The insured losses from the winter storms in Europe in 1990 amounted to US$ 10 billion, those from Hurricane Andrew in the USA in 1992 to US$ 20 billion, and those from the earthquake near Los Angeles in 1994 to US$ 12.5 billion.

In fact, the estimated potential maximum losses for such events are far beyond these amounts: for example, US$ 20 billion for a windstorm loss event in Europe, US$ 50 billion for a hurricane in the USA and US$ 150 billion for an earthquake in California.

Providing cover for losses caused by natural catastrophes continues to be a central task of the international insurance industry. Owing to the immense loss potentials involved, however, this can only be tackled properly by means of a "risk partnership" involving state, insureds, insurers and reinsurers.

On 4th and 5th September 1995 Hurricane Luis caused widespread devastation on the Caribbean islands of St. Martin and St. Barthélemy.

The state needs to create the necessary legal framework. This requires above all adopting and enforcing building codes and land-use regulations in order to prevent and reduce losses. The state also needs to ensure freedom of services and free movement of capital. This gives the local direct insurers access to the international reinsurance market and allows reinsurers to achieve the requisite global balance.

The involvement of the state as risk financer, on the other hand, is only called for – if at all – where the coverage required exceeds the capacity that can be organized by the insurance and reinsurance markets worldwide.

Insureds, too, need to play their part in this risk partnership – on the one hand by complying with regulations and recommendations and on the other by bearing an appropriate part of claims themselves in the form of deductibles, as has long been customary in such classes of insurance as motor own damage. Deductibles substantially diminish the overall insured loss, not least through the lower number of claims that need to be settled. This reduces the capacity requirements for the market and has a positive effect on insurance premiums.

Direct insurers need to create the technical basis for the coverage of natural hazards. This involves fixing risk-commensurate prices that take account of the respective exposure and also ensuring transparency of the liabilities assumed for the purposes of accumulation assessment.

Only careful accumulation control shows clearly the exposure of the portfolio and enables insurers to carry an appropriate portion of the risk themselves, in keeping with their capital resources.

Reinsurers are responsible in this risk partnership for organizing a global balance of risks. How do they perform this function?

To do it best, they need to assume risks at appropriate terms and conditions from as many exposed regions in the world as possible. Hence the necessity for freedom of services and free movement of capital in reinsurance.

In addition, reinsurers must be able to build up the necessary reserves in years with below-average claims costs in order to have the requisite funds for dealing with catastrophe losses when they do occur. This presupposes that commercial and tax law provide the necessary framework for this.

Even when these preconditions are fulfilled, reinsurers cannot assume unlimited liability. Even their funds are restricted. Reinsurance treaties with insurers therefore need to provide for liability limits.

On the basis of the above risk partnership the international insurance industry can largely satisfy the demand for insurance against natural hazards. The Munich Re will continue to play a leading role here. It remains probably the biggest provider of capacity for natural catastrophe risks worldwide. It can draw on outstanding scientific and underwriting expertise, and it has unparalleled financial resources.

D&O insurance increasingly important – Protection against liability risks of boards and managers

All over the world the liability risks for companies' directors and managers are growing substantially. Directors' and officers' policies provide these persons with cover, above all, against claims arising from financial losses suffered by third parties as a result of wrong decisions made or alleged to have been made in running companies.

Especially in the case of spectacular company crises, the public are tending to look much more critically at the personal responsibility of managers and directors. More and more often takeovers, mergers and sales of holdings are resulting in suits for damages from shareholders, creditors or other aggrieved parties.

In recent years, starting in the USA, legislators and courts in nearly all industrial nations have extended the scope for suing managers and directors personally for losses. This trend is continuing.

To contain such liability risks, companies need to take certain organizational measures: due care must be exercised in the selection of staff and in assigning duties and responsibilities, with the requisite controls being carried out. For losses that occur nevertheless, companies in some countries can limit the financial consequences for their managers and directors by means of hold-harmless agreements; the more appropriate solution in most cases, however, is specially designed insurance cover. The product which the insurance industry offers for this – directors' and officers' liability (D&O) insurance – is comparatively new in Europe, where it only started to establish itself at the beginning of the nineties, initially in England, France, Holland, Italy and Scandinavia.

In the USA, D&O insurance has been common since the beginning of the seventies. Today it is taken for granted that companies will conclude such insurance for persons entrusted with directorial and managerial duties.

The most frequently used policies cover the individual liability of all the company's directors and officers and also the company itself insofar as it is legally or contractually obliged to hold these persons harmless. Only losses arising from evident or objectively determinable wrongful acts are insured, not the entrepreneurial risk as such, although in individual cases it can be very difficult to make a clear distinction. D&O policies provide indemnification both for actual claims for damages and for legal costs. With litigation often dragging on for many years, it is not unusual for legal costs to be much higher than the damages themselves.

The sometimes very long settlement periods result from the fact that D&O claims usually involve the interaction of complicated legal and economic elements and that the claims often relate to decisions dating back many years. This makes the reconstruction of events difficult and gives much scope for expert evidence and counter-evidence, often stretching courts to the limit in terms of both technical understanding and the demands made on their time.

D&O insurance is certainly a very complex product, requiring extensive legal, business and underwriting expertise on the part of the insurer. Precise knowledge of the greatly varying legal environments from country to country, the ongoing monitoring of all events and data that are economically relevant for the insured, the calculation of appropriate prices and conditions for the insurance of the risk, and professional claims management – all these are essential for success in this attractive but exposed market segment. Also important is adequate reinsurance cover.

The Munich Re has extensive experience with this form of insurance and not only in the USA, easily the most important D&O market. Our experts are ready to provide tailor-made reinsurance cover for insurers who want to take up or expand this interesting and difficult line of business. We can also offer comprehensive service for the design of policies, the rating of risks and the wording of insurance conditions.

Electronic communication in reinsurance

Electronic communication is essential for companies to remain competitive nowadays. In reinsurance it has been a fact of life for a considerable number of years. Electronic communication increases the speed of processing business, streamlines business procedures and thus helps reduce costs. A distinction can be made between two basic types:

E-mail makes it possible for individual correspondence to be sent in electronic form from one workstation to another. These workstations need not be within the same company: messages can be swiftly exchanged with staff at group or client companies as well as with in-house staff.

Electronic data interchange (EDI) involves the largely automatic transmission of data in standard formats between the communication partners' computer systems.

This requires special preparations in addition to the PC, software, modem and telephone connection basically sufficient for electronic correspondence: sender and receiver have to agree on the structure and format of the data to be transmitted. The realization that individual agreements for this with each reinsurance client would mean an inordinate amount of work and expense led, back in 1987, to the formation of the Reinsurance and Insurance Network – RINET for short – an initiative of several major reinsurers, in which the Munich Re played a leading part. RINET has developed standards precisely defining the data fields and the codes for the different types of message, e.g. for the exchange of accounting or claims data. This means both sender and receiver each require only a single interface to their internal systems. Via this interface they can carry out all their data interchanges with every client connected to the network.

The message standards developed in the last three years in a joint venture between RINET, the London market and the US reinsurance market today cover the most important areas of communication between cedants and reinsurers: accounting, claims information, payments. Standards are currently being developed for the electronic placement of risks in reinsurance. Generally applicable documentation and practical implementation recommendations minimize the work of individual member companies in the creation of internal interfaces.

The further development of these standards and their more widespread use in the insurance markets is in the interests of both insurers and reinsurers: uniform standards and usage guidelines, plus the widely recognized products and services that RINET has developed for the connection of internal systems to international electronic networks, will produce a marked increase in efficiency in administration.

Cost pressure and globalization of markets require that electronic data interchange can take place not only within but also between networks, i.e. with any market participant in another network. The more fragmented the world of networks in the insurance industry becomes – with such facilities existing alongside or even competing with each other – the more important are uniform, internationally recognized standards and the more indispensable is a “synergetic” centre for the international insurance industry. This is the function that RINET fulfils.

Consolidated accounts as at 30th June 1996

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 1995/96 TDM	Direct insurers 1995/96 TDM	Total 1995/96 TDM	Total Previous year TDM
Investments	35,580,871	67,304,740	102,885,611	94,918,366
Deposits retained on assumed business	17,355,844	37,310	17,393,154	16,089,722
Accounts receivable on reinsurance business	1,383,016	47,445	1,430,461	1,269,536
Amounts receivable on direct insurance business	–	1,146,172	1,146,172	1,296,236
Other assets	1,259,254	2,745,514	4,004,768	3,796,332
Balance sheet total			126,860,166	117,370,192

Balance sheet – liabilities	Reinsurers 1995/96 TDM	Direct insurers 1995/96 TDM	Total 1995/96 TDM	Total Previous year TDM
Shareholders' funds			5,377,506	4,441,954
Underwriting funds and provisions	45,662,851	62,120,441	107,783,292	100,162,376
Deposits retained on ceded business	2,540,018	2,408,106	4,948,124	4,399,034
Accounts payable on reinsurance business	2,145,699	57,009	2,202,708	1,985,825
Amounts payable on direct insurance business	–	4,099,193	4,099,193	3,927,456
Other provisions	947,111	887,677	1,834,788	1,722,937
Other liabilities	126,011	488,544	614,555	730,610
Balance sheet total			126,860,166	117,370,192

Premium income	Reinsurers 1995 TDM	Direct insurers 1995 TDM	Total 1995 TDM	Total Previous year TDM
Gross premiums	18,507,109	10,481,659	28,988,768	28,973,529
– Life	3,538,894	7,637,593	11,176,487	10,898,065
– Non-life	14,968,215	2,844,066	17,812,281	18,075,464
Net premiums	16,525,538	9,706,152	26,231,690	25,937,476
– Life	3,053,573	7,272,290	10,325,863	10,037,644
– Non-life	13,471,965	2,433,862	15,905,827	15,899,832

Results	Reinsurers 1995/96 TDM	Direct insurers 1995/96 TDM	Total 1995/96 TDM	Total Previous year TDM
Underwriting result of reinsurers and non-life insurers	97,669	31,277	128,946	–464,683
– Net premiums	16,525,538	2,433,862	18,959,400	18,841,102
– Interest income on premium funds	981,112	3,074	984,186	802,501
– Claims incurred	10,869,000	1,563,968	12,432,968	12,858,785
– Operating expenses	4,670,106	761,458	5,431,564	5,543,304
– Other underwriting income and expenditure	–1,869,875	–80,233	–1,950,108	–1,706,197
Underwriting result of life insurers	–	443,748	443,748	364,639
– Net premiums	–	7,272,290	7,272,290	7,096,374
– Result of investments	–	4,582,542	4,582,542	4,399,643
– Underwriting income and expenditure	–	–8,185,021	–8,185,021	–7,735,143
– Operating expenses	–	1,279,440	1,279,440	1,388,167
– Allocation to provisions for policyholders' dividends	–	1,946,623	1,946,623	2,008,068
Underwriting result	97,669	475,025	572,694	–100,044
Result of investments	3,174,378	4,760,703	7,935,081	7,322,225
Thereof included in underwriting result	1,099,731	4,585,616	5,685,347	5,313,306
Other income and expenditure	–9,178	–227,193	–236,371	–144,926
Unadjusted earnings	2,163,138	422,919	2,586,057	1,763,949
Special allocations to the provision for outstanding claims	–500,000	–	–500,000	–250,000
Change in the claims equalization provision and the provisions for major risks and earthquake risks	–984,301	32,233	–952,068	–788,398
Operating result	678,837	455,152	1,133,989	725,551
Tax			–538,493	–400,520
Profit for the year			595,496	325,031

Consolidated balance sheet as at 30th June 1996

Assets	Notes	TDM	TDM	Previous year TDM
A. Liability of shareholders for uncalled capital			444,000	410,153
B. Intangible assets	(1)		122,795	117,774
C. Investments				
I. Real estate	(2)	6,574,822		6,659,228
II. Investments in affiliated companies and participations	(2, 3)	6,482,587		5,846,199
III. Other investments	(2)	89,784,615		82,370,714
		102,842,024		94,876,141
IV. Deposits retained on assumed reinsurance business	(5)	17,393,154		16,089,722
			120,235,178	110,965,863
D. Investments for the benefit of life insurance policyholders who bear the investment risk			43,587	42,225
E. Receivables	(4, 5)			
I. Amounts receivable on direct insurance business		1,146,172		1,296,236
II. Accounts receivable on reinsurance business		1,430,461		1,269,536
III. Other receivables		495,024		469,723
			3,071,657	3,035,495
F. Other assets	(6)		856,004	840,267
G. Deferred items	(7)		2,086,945	1,958,415
Total assets			126,860,166	117,370,192

Liabilities	Notes	TDM	TDM	Previous year TDM
A. Shareholders' funds	(8)			
I. Subscribed capital		813,350		743,350
II. Capital reserve		1,942,305		1,396,467
III. Revenue reserves		1,682,169		1,361,280
IV. Balance sheet profit		132,536		102,377
V. Minority interests		807,146		838,480
			5,377,506	4,441,954
B. Special reserve	(9)		81,619	109,175
C. Underwriting funds and provisions for own account	(10)			
I. Unearned premiums		4,715,118		4,733,896
II. Premium funds		67,356,735		62,440,362
III. Provision for outstanding claims		25,191,661		23,793,361
IV. Provision for premium refunds and policyholders' dividends		6,072,659		5,879,106
V. Claims equalization provision and similar provisions		3,735,915		2,614,312
VI. Other underwriting provisions		672,444		661,833
			107,744,532	100,122,870
D. Underwriting provisions for life insurance policies where the investment risk is borne by the policyholders	(10)		38,760	39,506
E. Other provisions	(11)		1,834,788	1,722,937
F. Deposits retained on ceded business			4,948,124	4,399,034
G. Other liabilities				
I. Amounts payable on direct insurance business	(5, 12)	4,099,193		3,927,456
II. Accounts payable on reinsurance business	(5)	2,202,708		1,985,825
III. Miscellaneous liabilities	(5, 13)	391,426		478,627
			6,693,327	6,391,908
H. Deferred items	(14)		141,510	142,808
Total liabilities			126,860,166	117,370,192

Consolidated profit and loss account for the business year 1995/96

Items	Notes	TDM	Previous year TDM
I. Technical account for reinsurance and non-life insurance			
1. Earned premiums for own account	(15)	18,971,399	18,766,890
2. Interest income on premium funds for own account		984,186	802,501
3. Other underwriting income for own account		3,655	3,089
4. Claims incurred for own account	(16)	12,432,968	12,858,785
5. Change in other underwriting provisions for own account	(17)	–1,837,020	–1,515,611
6. Expenditure for premium refunds for own account		48,084	52,079
7. Operating expenses	(18)	5,431,564	5,543,304
8. Other underwriting expenditure for own account		80,658	67,384
9. Subtotal	(20)	**128,946**	**–464,683**
10. Change in the claims equalization provision and similar provisions		–952,068	–788,398
11. Underwriting result for own account in reinsurance and non-life insurance		**–823,122**	**–1,253,081**
II. Technical account for life insurance			
1. Earned premiums for own account	(15)	7,249,004	7,035,336
2. Premiums from the gross provision for policyholders' dividends		1,057,453	1,018,095
3. Allocated investment return transferred from the non-technical account		4,582,542	4,399,643
4. Unrealized gains on investments		858	–
5. Other underwriting income for own account		47,958	142,459
6. Claims incurred for own account	(16)	4,752,222	4,302,076
7. Change in other underwriting provisions for own account	(17)	–3,931,761	–3,921,281
8. Expenditure for policyholders' dividends for own account		1,946,623	2,008,068
9. Operating expenses	(18)	1,279,440	1,388,167
10. Other underwriting expenditure for own account		584,021	611,302
11. Underwriting result for own account in life insurance	(20)	**443,748**	**364,639**

	Notes	TDM	TDM	Previous year TDM
III. Non-technical account				
1. Underwriting result for own account				
a) Reinsurance and non-life insurance		–823,122		–1,253,081
b) Life insurance		443,748		364,639
			–379,374	–888,442
2. Investment income	(21)	8,800,672		8,504,756
3. Investment expenditure	(22)	865,591		1,182,531
		7,935,081		7,322,225
4. Allocated investment return transferred to the technical account for reinsurance and non-life insurance		1,102,805		913,663
4a. Allocated investment return transferred to the technical account for life insurance		4,582,542		4,399,643
			2,249,734	2,008,919
5. Other income			341,565	347,909
6. Other expenditure			1,077,936	742,835
7. Operating result			**1,133,989**	**725,551**
8. Taxes on profit and income		504,874		357,330
9. Other taxes		33,619		43,190
			538,493	400,520
10. Profit for the year			**595,496**	**325,031**
Thereof:				
– Profit apportionable to minority interests			97,352	70,919
– Loss apportionable to minority interests			226	20,929

Notes on the consolidated accounts

The business year 1995/96 covers the Munich Reinsurance Company's underwriting business for the calendar year 1995 and the result of its investments plus all other income and expenditure for the period from 1st July 1995 to 30th June 1996; in the case of the consolidated subsidiaries it covers their last full business year – mostly the calendar year 1995.

The consolidated accounts for 1995/96 are our first consolidated financial statements prepared in accordance with the new regulations resulting from the implementation of the EC insurance accounting directive in German law, i.e. the amended provisions of the German Commercial Code and the new German statutory order on insurance companies' accounting. Previous years' figures have been adjusted accordingly to take account of the new format.

In accordance with the new accounting regulations, all the underwriting business of the reinsurers (including life) and of the non-life insurers is contained in Part I of the profit and loss account, whilst Part II covers the underwriting business of the life 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.

The group of consolidated companies did not change significantly in the year under review. The business of the foreign travel insurers acquired or established by Europäische Reiseversicherung AG in Denmark, France, Sweden, the Czech Republic and Slovakia in autumn 1995 and the first half of 1996 will not be included in our consolidated accounts until the business year 1996/97. The gross premiums of these new subsidiaries in 1995 totalled around DM 190 million.

In the first half-year 1996 the Munich Reinsurance Company acquired the 10 % stake held by VICTORIA Lebensversicherung AG, Düsseldorf, in the share capital of Munich American Reassurance Company, Atlanta, so that it now holds 100 % of the shares in this subsidiary.

We have not consolidated those companies in which we have a majority interest but which are not significant individually or together for assessing the Group's assets, liabilities, financial position and results.

Participations in non-affiliated companies on whose business and financial policy the Munich Reinsurance 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.

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 did not represent understated values of the underlying assets and were therefore added to the asset values, they have been included in 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 Munich Reinsurance 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. Insofar as income from intercompany transactions involving life insurers has flowed into a provision for policyholders' dividends, this income has not been consolidated, in accordance with the option provided for under German commercial law.

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 Munich Reinsurance Company.

Intangible assets

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

Investments

Our real estate is valued at the acquisition or construction cost less admissible depreciations.

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.

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 on 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 writedowns 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 Munich Reinsurance 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 Annual General Meeting 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 Munich Reinsurance 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, personal accident and health 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.

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 Munich Reinsurance 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.

After revaluation of assets and liabilities in accordance with German accounting regulations, deferred taxes are newly calculated for the consolidated accounts. Deferred taxes on the assets side of the individual company balance sheets are, in contrast to the practice in the parent company's accounts, included to the extent that there are deferred taxes on the liabilities side of the consolidated balance sheet as a result of consolidation measures; deferred taxes on the assets side resulting from consolidation are shown in the consolidated balance sheet.

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

Liabilities

Liabilities are stated at the amount repayable.

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:

	31.12.1995 DM	31.12.1994 DM
Australian dollar	1.07	1.20
Canadian dollar	1.05	1.10
Dutch guilder	0.89	0.89
French franc	0.29	0.29
Italian lira	0.00090	0.00095
Pound sterling	2.21	2.42
Rand	0.39	0.44
Swiss franc	1.25	1.18
US dollar	1.43	1.55
Yen	0.014	0.016

Notes on the consolidated balance sheet – assets

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

	Book values 30.6.1995 TDM	Additions TDM
(1) Intangible assets	117,774	142,775
(2) Investments		
Real estate	6,659,228	228,707
Investments in affiliated companies and participations		
– Shares in affiliated companies	191,655	250,714
– Loans to affiliated companies	107,862	1,295
– Participations in associated companies	89,566	7,781
– Other participations	5,436,938	502,323
– Loans to participations	20,178	34,786
	5,846,199	796,899

	30.6.1996 TDM	Previous year TDM
Other investments		
– Shares, investment fund certificates and other variable-yield securities	20,869,338	16,005,131
– Bearer bonds and other fixed-interest securities	13,046,116	13,334,389
– Mortgage loans	9,399,610	9,083,649
– Other loans		
• Registered bonds	28,215,187	25,812,371
• Loans and promissory notes	16,790,255	16,617,423
• Loans and advance payments on insurance policies	740,055	738,796
• Miscellaneous	23,663	23,862
– Deposits with banks	700,293	751,504
– Miscellaneous investments	98	3,589
Total	89,784,615	82,370,714

Reallocations TDM	Disposals TDM	Depreciation TDM	Book values 30.6.1996 TDM
–	110,544	27,210	122,795
–	53,184	259,929	6,574,822
–	189,603	5,145	247,621
5,608	50,397	–	64,368
–	–	–	97,347
250,180	93,275	33,182	6,062,984
–5,806	38,891	–	10,267
249,982	372,166	38,327	6,482,587

The intangible assets consist of purchased insurance portfolios and software.

The book value of self-occupied real estate amounts to TDM 1,082,230.

The shares in affiliated companies involve those subsidiaries that are not consolidated in the accounts because of their subordinate importance for assessing the Group's assets, liabilities, financial position and results. These are mainly holding companies and service and management companies.

Derivative financial products are used exclusively for hedging purposes in respect of parts of the portfolio and for implementing planned purchases and sales. In relation to the balance sheet total, the volume of open positions on 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	Sharehold-ers' funds TDM*	Result for the year TDM*
Consolidated subsidiaries			
Reinsurance			
Reinsurance companies			
Münchener Rück Italia S.p.A., Milan	100.0	77,491	1,323
Munich American Reassurance Company, Atlanta	100.0	74,296	–5,490
Munich American Reinsurance Company, New York	50.0	465,998	57,187
Munich Reinsurance Company of Australia Limited, Sydney	100.0	134,867	28,451
Munich Reinsurance Company of Canada, Toronto	100.0	116,637	15,668
Munich Reinsurance Company of Africa Limited, Johannesburg	100.0	58,759	13,772
The Great Lakes Reinsurance Company, Toronto	100.0	117,290	35,869
Great Lakes American Reinsurance Company, New York	100.0	145,168	1,463
Great Lakes Reinsurance (UK) PLC, London	100.0	87,909	5,244
New Reinsurance Company, Geneva	99.9	145,181	4,399
Holding companies			
Munich Holdings Ltd., Toronto	100.0	258,452	16,548
Munich Holdings of Australia Pty. Ltd., Sydney	100.0	27,954	5,203
Great Lakes Reinsurance Holdings Ltd., Toronto	100.0	114,955	–37
European International Holding A/S, Copenhagen	100.0	35,847	–547
Investment companies			
Munichre of Australia Equity Investment Company Pty. Limited, Sydney	100.0	127,431	13,851
Munichre of Australia Property Company Pty. Limited, Sydney	100.0	–1,079	–198
Direct insurance			
Life insurance companies			
Berlinische Lebensversicherung AG, Berlin/Wiesbaden	64.6	80,414	2,457
Hamburger Lebensversicherung AG, Hamburg	48.5	10,984	421
Hamburg-Mannheimer Versicherungs-AG, Hamburg	80.0	766,339	102,399
Hamburg-Mannheimer N.V., Brussels	80.0	13,214	2,070
Karlsruher Lebensversicherung AG, Karlsruhe	54.0	174,447	20,720
Karlsruher Hinterbliebenenkasse AG, Karlsruhe	44.3	5,430	530
Non-life insurance companies			
Europäische Reiseversicherung AG, Munich	100.0	97,211	8,863
Compagnie Européenne d'Assurances S.A., Neuilly**	100.0	8,664	–21,541
Europeiska Försäkringsaktiebolaget, Stockholm	100.0	32,398	669
Europæiske Rejseforsikring A/S, Copenhagen	100.0	39,694	6,044
Evropská Cestovní Pojišťovna A.S., Prague	100.0	3,983	440
Európska Cestovná Poisťovňa A.S., Bratislava**	100.0	1,440	–
Hamburg-Mannheimer Sachversicherungs-AG, Hamburg	71.3	521,355	46,403
Hamburg-Mannheimer Rechtsschutzversicherungs-AG, Hamburg	71.3	11,578	1,388
Hermes Kreditversicherungs-AG, Berlin/Hamburg	50.3	204,885	11,938
Karlsruher Versicherung-AG, Karlsruhe	53.0	83,751	8,306
Karlsruher Beamten-Versicherung AG, Karlsruhe	52.2	2,840	348
Karlsruher Rechtsschutzversicherung AG, Karlsruhe	53.0	10,189	978

	% share of capital	Sharehold-ers' funds TDM*	Result for the year TDM*
Associated companies***			
Munich London Investment Management Ltd., London	50.0	3,881	2,754
TELA Versicherung AG, Berlin/Munich	25.0	313,970	20,700
Union Versicherungs-AG, Vienna	26.7	43,556	6,230
Other participations in insurance companies***			
Allianz AG Holding, Berlin/Munich	25.0	13,164,820	680,540
Allianz Lebensversicherungs-AG, Berlin/Munich	44.4	1,134,850	158,000
Bayerische Versicherungsbank AG, Munich	45.0	490,250	43,420
De Amersfoortse Verzekeringsgroep N.V., Amersfoort	25.0	286,790	47,362
DKV Deutsche Krankenversicherung AG, Berlin/Cologne	41.2	721,265	79,600
Deutscher Lloyd Versicherungs-AG, Berlin/Munich	29.8	116,166	3,602
Frankfurter Versicherungs-AG, Frankfurt am Main	49.9	500,144	53,172
Mecklenburgische Leben Versicherungs-Aktiengesellschaft, Hanover	25.0	10,340	840
Vereinte Krankenversicherung Aktiengesellschaft, Berlin/Munich	25.7	360,892	50,000

Other shareholdings, some via investment management companies***

Over 5 %

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

Over 10 %

Degussa Aktiengesellschaft, Frankfurt am Main
Salamander Aktiengesellschaft, Kornwestheim
WMF Württembergische Metallwarenfabrik Aktiengesellschaft, Geislingen/Steige

Over 25 %

Hutschenreuther Aktiengesellschaft, Selb

* The amounts are taken from the individual companies' accounts.
They have been translated using the exchange rates applicable on 31.12.1995.
** To be consolidated for the first time in the 1996/97 accounts.
*** Selected companies.

The list of shareholdings required by Article 313 para. 2 of the German Commercial Code will be filed with the commercial registry in Munich.

(4) Amounts receivable on direct insurance business

	30.6.1996 TDM	Previous year TDM
From policyholders		
a) Due	198,795	180,657
b) Not yet due	752,071	930,939
	950,866	1,111,596
From intermediaries	195,306	184,640
Total	1,146,172	1,296,236

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

	Affiliated companies		Participations	
	30.6.1996 TDM	Previous year TDM	30.6.1996 TDM	Previous year TDM
Deposits retained on assumed reinsurance business	–	–	8,643,521	8,083,929
Amounts receivable on direct insurance business from intermediaries	1,060	713	2,440	2,320
Accounts receivable	73	2,263	24,680	21,644
Other receivables	36,220	30,675	45,549	76,362
Amounts payable on direct insurance business to intermediaries	8,305	8,498	2	–
Accounts payable	65	–	107,122	130,721
Miscellaneous liabilities	7,528	1,628	15,688	46,277

(6) Other assets

	30.6.1996 TDM	Previous year TDM
Tangible assets and inventories	212,869	208,553
Cash at bank in current accounts, cheques and cash in hand	336,372	336,269
Miscellaneous	306,763	295,445
Total	856,004	840,267

(7) Deferred items

	30.6.1996 TDM	Previous year TDM
Accrued interest and rent	1,993,725	1,864,894
Other deferred items	93,220	93,521
Total	2,086,945	1,958,415

For loans posted in the balance sheet at their nominal values, the difference between these nominal values and higher acquisition costs totals TDM 7,058. The amount for deferred taxes resulting from consolidation measures is TDM 40,229 (previous year: TDM 50,352).

Notes on the consolidated balance sheet – liabilities

(8) Shareholders' funds

The Group's shareholders' funds developed as follows in the business year 1995/96:

	TDM
Group's shareholders' funds at beginning of year under review	4,441,954
Changes	
– Changes in exchange rates	–38,680
– Capital increases, changes in share of capital	511,454
– Earned surplus	595,496
– Dividends	–132,718
Total changes	935,552
Group's shareholders' funds at end of year under review	5,377,506

Origin of Group's shareholders' funds:

	TDM
Amounts paid in by shareholders	3,110,070
Earned surplus	2,267,436
Total	5,377,506

The revenue reserves are made up as follows:

	30.6.1996 TDM	Previous year TDM
Reserves required by law	2,346	1,999
Other revenue reserves	1,679,823	1,359,281
Total	1,682,169	1,361,280

(9) Special reserve

The special reserve contains reserves set up as per Articles 6 b and 7 g of the German Income Tax Act. It also contains reserves set up by the subsidiaries abroad on the basis of comparable regulations.

(10) Underwriting funds and provisions	30.6.1996 Gross TDM	30.6.1996 Ceded TDM	30.6.1996 Net TDM	Pr. year Gross TDM	Pr. year Ceded TDM	Pr. year Net TDM
Unearned premiums	5,097,636	382,518	4,715,118	5,182,891	448,995	4,733,896
Premium funds	72,085,535	4,728,800	67,356,735	66,494,692	4,054,330	62,440,362
Provision for outstanding claims	27,184,509	1,992,848	25,191,661	25,939,138	2,145,777	23,793,361
Provision for premium refunds and policyholders' dividends	6,086,610	13,951	6,072,659	5,895,859	16,753	5,879,106
Claims equalization provision and similar provisions	3,735,915	–	3,735,915	2,614,312	–	2,614,312
Other	673,672	1,228	672,444	667,076	5,243	661,833
Total	114,863,877	7,119,345	107,744,532	106,793,968	6,671,098	100,122,870

Underwriting provisions for life insurance policies where the investment risk is borne by the policyholders	30.6.1996 Gross TDM	30.6.1996 Ceded TDM	30.6.1996 Net TDM	Pr. year Gross TDM	Pr. year Ceded TDM	Pr. year Net TDM
Premium funds	43,572	4,826	38,746	42,225	2,719	39,506
Other underwriting provisions	16	2	14	–	–	–
Total	43,588	4,828	38,760	42,225	2,719	39,506

Broken down by class of business, the net underwriting funds and provisions are as follows:

		30.6.1996 DM million
Reinsurers		45,663
	– Life	14,451
	– Personal accident/health	2,696
	– Liability	9,997
	– Motor	6,716
	– Marine	981
	– Fire	4,686
	– Engineering	2,975
	– Other classes	3,161
Direct insurers		62,120
	– Life	59,181
	– Personal accident/health	663
	– Motor	539
	– Credit	943
	– Other classes	794
Total		107,783

(11) Other provisions

	30.6.1996 TDM	Previous year TDM
Provisions for employees' pensions and similar commitments	636,779	588,614
Provisions for tax	640,658	517,727
Miscellaneous	557,351	616,596
Total	1,834,788	1,722,937

There are pension provisions of TDM 24,323 (previous year: TDM 23,194) for former members of the Board of Management and their surviving dependants.

(12) Amounts payable on direct insurance business

	30.6.1996 TDM	Previous year TDM
To policyholders	4,024,412	3,842,218
To intermediaries	74,781	85,238
Total	4,099,193	3,927,456

(13) Miscellaneous liabilities

The miscellaneous liabilities include liabilities with a remaining term of more than five years totalling TDM 35,963. Liabilities secured by mortgages total TDM 74,812.

They also include liabilities from taxes amounting to TDM 85,065 (previous year: TDM 76,064) and for social security amounting to TDM 29,961 (previous year: TDM 32,171).

(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 117,303.

Notes on the consolidated profit and loss account

(15) Earned premiums for own account	Reinsurers, non-life insurers 1995 TDM	Reinsurers, non-life insurers Pr. year TDM	Life insurers 1995 TDM	Life insurers Pr. year TDM	Total 1995 TDM	Total Pr. year TDM
Gross premiums written	21,351,175	21,520,836	7,637,593	7,452,693	28,988,768	28,973,529
Ceded premiums	2,391,775	2,679,734	365,303	356,319	2,757,078	3,036,053
Net premiums written	18,959,400	18,841,102	7,272,290	7,096,374	26,231,690	25,937,476
Change in unearned premiums						
– Gross amount	38,363	–59,545	–	–	–	–
– Ceded share	–26,364	–14,667	–	–	–	–
– Net amount	11,999	–74,212	–23,286	–61,038	–11,287	–135,250
Net earned premiums	18,971,399	18,766,890	7,249,004	7,035,336	26,220,403	25,802,226

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

	1995 TDM	Previous year TDM
Assumed reinsurance business	18,611,883	18,970,851
Direct insurance business		
– Life	7,622,131	7,439,375
– Non-life	2,754,754	2,563,303
	10,376,885	10,002,678
Total	28,988,768	28,973,529

Origin of the direct insurance business:

	1995 TDM
Germany	10,245,855
Other EU and EEA states	131,030
Other countries	–
Total	10,376,885

(16) Claims incurred for own account

	Reinsurers, non-life insurers 1995 TDM	Reinsurers, non-life insurers Pr. year TDM	Life insurers 1995 TDM	Life insurers Pr. year TDM	Total 1995 TDM	Total Pr. year TDM
Claims paid						
– Gross amount	12,087,378	13,191,126	4,971,469	4,462,080	17,058,847	17,653,206
– Ceded amount	1,410,650	2,116,507	217,443	201,971	1,628,093	2,318,478
– Net amount	10,676,728	11,074,619	4,754,026	4,260,109	15,430,754	15,334,728
Change in provision						
– Gross amount	1,727,437	1,506,203	–4,475	39,394	1,722,962	1,545,597
– Ceded amount	28,803	277,963	2,671	2,573	31,474	280,536
– Net amount	1,756,240	1,784,166	–1,804	41,967	1,754,436	1,826,133
Total	12,432,968	12,858,785	4,752,222	4,302,076	17,185,190	17,160,861

(17) Change in other underwriting provisions for own account

	Reinsurers, non-life insurers 1995 TDM	Reinsurers, non-life insurers Pr. year TDM	Life insurers 1995 TDM	Life insurers Pr. year TDM	Total 1995 TDM	Total Pr. year TDM
Premium funds						
– Gross amount	–	–	–4,021,196	–4,290,106	–	–
– Ceded amount	–	–	89,626	369,011	–	–
– Net amount	–1,675,469	–1,426,406	–3,931,570	–3,921,095	–5,607,039	–5,347,501
Other underwritting provisions for own account	–161,551	–89,205	–191	–186	–161,742	–89,391
Total	–1,837,020	–1,515,611	–3,931,761	–3,921,281	–5,768,781	–5,436,892

(18) Operating expenses for own account

	1995 TDM	Previous year TDM
Reinsurers and non-life insurers:		
– Operating expenses	6,042,938	6,180,060
– Less commission received on ceded business	611,374	636,756
Total	5,431,564	5,543,304

	1995 TDM	Previous year TDM
Life insurers		
– Acquisition expenses	1,040,540	1,122,376
– Management expenses	374,574	450,163
– Less commission received on ceded business	135,674	184,372
Total	1,279,440	1,388,167

(19) Personal costs

Personnel costs totalled TDM 1,709,788 (previous year: TDM 1,708,040).

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 10,152 (previous year: TDM 9,996) and those of the Supervisory Board to TDM 928 (previous year: TDM 771). Payments to former members of the Board of Management, including pension payments for their surviving dependants, amounted to TDM 3,436 (previous year: TDM 4,202).

(20) Underwriting result by class of business

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

	Reinsurers TDM	Direct insurers TDM	Total TDM
– Life	44,811	443,748	488,559
– Personal accident/health	56,011	105,114	161,125
– Liability	–432,887	–6,113	–439,000
– Motor	5,927	57,347	63,274
– Marine	60,428	1,502	61,930
– Fire	245,560	2,794	248,354
– Engineering	–47,502	–196	–47,698
– Other classes	165,321	–129,171	36,150
Total	97,669	475,025	572,694

(21) Investment income

	Reinsurers, non-life insurers 1995/96 TDM	Life insurers 1995/96 TDM	Total 1995/96 TDM	Total Previous year TDM
Dividends from participations	328,727	112,055	440,782	716,060
Income from other investments				
– Rents from real estate	265,537	422,409	687,946	663,047
– Other	2,849,447	4,116,988	6,966,435	6,380,628
	3,443,711	4,651,452	8,095,163	7,759,735
Realized gains on investments	440,151	229,860	670,011	696,808
Income from profit-transfer agreements	6,561	–	6,561	8,287
Income from the reduction of the special reserve	2,954	25,983	28,937	39,926
Total	3,893,377	4,907,295	8,800,672	8,504,756

This includes the following income from affiliated and associated companies:

	1995/96 TDM	Previous year TDM
Dividends		
– from affiliated companies	31,507	38,587
– from associated companies	11,961	8,268
Income from other investments		
– from affiliated companies	12,815	12,239

(22) Investment expenditure

	Reinsurers, non-life insurers 1995/96 TDM	Life insurers 1995/96 TDM	Total 1995/96 TDM	Total Previous year TDM
Expenses for the management of investments, interest paid and other expenses for investments	238,799	178,388	417,187	347,436
Writedowns on investments	241,971	144,809	386,780	624,686
Realized losses on investments	60,068	475	60,543	165,375
Allocations to the special reserve	–	1,081	1,081	45,034
Total	540,838	324,753	865,591	1,182.531

Of the writedowns on investments, TDM 57,066 (previous year: TDM 31,560) comprised exceptional depreciations as per Article 253 para. 2 sentence 3 of the German Commercial Code.

Special writedowns for tax purposes as per Article 6 b of the German Income Tax Act amounted to TDM 28,937 (previous year: TDM 39,926). The calculation of reinstatements of value has been dispensed with in this transitional year, since various subsidiaries availed themselves of the option not to provide these figures. The result for the year was only affected to a negligible extent by writedowns for tax purposes and the posting of the special reserve as per Articles 6 b and 7 g of the German Income Tax Act; the effects of the reinstatements of value not made for tax reasons are not significant for the result for the year either, being spread over several years. These measures are of subordinate importance for Group earnings as regards the results of future business years as well.

Other information

(23) Number of staff

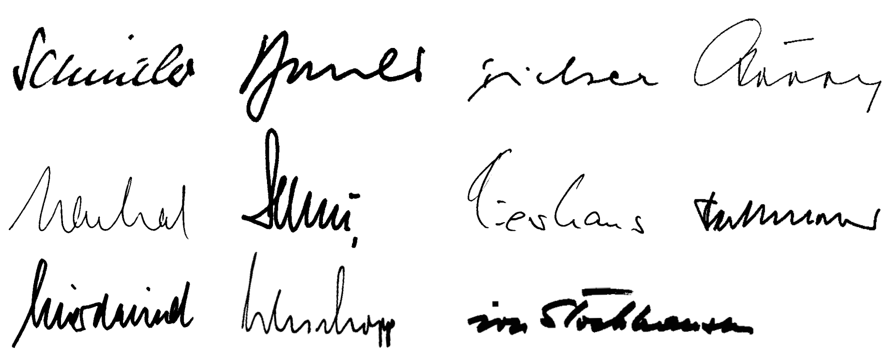
	1995/96	Previous year
Reinsurance companies	3,055	3,087
Direct insurance companies	13,288	13,438
Total	16,343	16,525

(24) Other financial commitments

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

Munich, 7th October 1996

The Board of Management



Company accounts as at 30th June 1996

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	1995/96 TDM	Previous year TDM
Investments	31,495,026	28,476,257
Deposits retained on assumed reinsurance business	22,768,301	20,899,662
Accounts receivable on reinsurance business	1,105,750	940,850
Other assets	645,316	634,616
Liability of shareholders for subscribed capital	399,175	364,175
Balance sheet total	56,413,568	51,315,560

Balance sheet – liabilities	1995/96 TDM	Previous year TDM
Shareholders' funds	3,351,391	2,605,394
– Subscribed capital	813,350	743,350
– Reserves	2,405,505	1,759,667
– Balance sheet profit	132,536	102,377
Reinsurance funds and provisions	47,859,352	44,293,634
Deposits retained on retroceded business	2,352,415	1,893,945
Accounts payable on reinsurance business	1,839,142	1,574,018
Other liabilities	1,011,268	948,569
Balance sheet total	56,413,568	51,315,560

Premium income	1995 TDM	Previous year TDM
Reinsurance premiums	18,013,604	18,258,249
– Life	4,068,875	3,973,726
– Personal accident/health	1,221,160	1,370,992
– Liability	1,918,689	1,574,617
– Motor	3,140,177	3,300,776
– Marine	627,075	656,828
– Fire	2,927,953	3,130,085
– Engineering	1,737,973	1,841,281
– Other classes	2,371,702	2,409,944

Results	1995/96 TDM	Previous year TDM
Reinsurance underwriting result	132,140	–317,988
– Life	113,546	98,651
– Personal accident/health	79,218	81,504
– Liability	–398,818	–548,597
– Motor	–24,580	–220,199
– Marine	57,076	35,281
– Fire	223,652	232,959
– Engineering	–53,656	–141,986
– Other classes	135,702	144,399
Investment result	1,813,004	1,670,642
– Investment income	2,219,466	2,256,612
– Investment expenditure	406,462	585,970
Other income and expenditure	12,059	7,524
Unadjusted earnings	1,957,203	1,360,178
Special allocations to the provision for outstanding claims	–500,000	–250,000
Change in the claims equalization provisions and the provisions for major risks and earthquake risks	–982,128	–797,896
– Claims equalization provisions	–559,266	–745,702
– Provisions for major risks	–5,504	–3,764
– Provisions for earthquake risks	–417,358	–48,430
Operating result	475,075	312,282
Tax	–242,539	–150,018
Profit for the year	232,536	162,264
Profit brought forward from previous year	–	113
Transfer to revenue reserves	100,000	60,000
Balance sheet profit at the disposal of the AGM	132,536	102,377

Balance sheet as at 30th June 1996

Assets	Notes	TDM	TDM	Previous year TDM
A. Liability of shareholders for uncalled capital			399,175	364,175
B. Intangible assets	(1)		69,481	74,821
C. Investments				
I. Real estate	(2)	2,185,636		2,274,732
II. Investments in affiliated companies and participations	(2)	6,222,914		5,574,821
III. Other investments	(2)	23,086,476		20,626,704
		31,495,026		28,476,257
IV. Deposits retained on assumed reinsurance business	(3)	22,768,301		20,899,662
			54,263,327	49,375,919
D. Receivables	(3)			
I. Accounts receivable on reinsurance business		1,105,750		940,850
II. Other receivables		189,268		170,061
			1,295,018	1,110,911
E. Other assets	(4)		52,387	61,370
F. Deferred items	(5)		334,180	328,364
Total assets			56,413,568	51,315,560

LIabilities	Notes	TDM	TDM	Previous year TDM
A. Shareholders' funds	(6)			
I. Subscribed capital		813,350		743,350
II. Capital reserve		1,942,305		1,396,467
III. Revenue reserves		463,200		363,200
IV. Balance sheet profit		132,536		102,377
			3,351,391	2,605,394
B. Special reserve	(7)		54,553	57,207
C. Underwriting funds and provisions for own account	(8)			
I. Unearned premiums		3,331,875		3,551,391
II. Premium funds		19,712,436		18,225,150
III. Provision for outstanding claims		20,911,289		19,736,263
IV. Provision for premium refunds		26,048		25,724
V. Claims equalization provision and similar provisions		3,327,476		2,356,961
VI. Other underwriting provisions		550,228		398,145
			47,859,352	44,293,634
D. Other provisions	(9)		903,485	841,497
E. Deposits retained on retroceded business	(3)		2,352,415	1,893,945
F. Other liabilities	(3, 10)			
I. Accounts payable on reinsurance business		1,839,142		1,574,018
II. Miscellaneous liabilities		47,880		44,174
			1,887,022	1,618,192
G. Deferred items	(11)		5,350	5,691
Total liabilities			56,413,568	51,315,560

Profit and loss account for the business year 1995/96

Items	Notes	TDM	Previous year TDM
I. Technical account			
1. Earned premiums for own account	(13)	16,282,697	16,089,091
2. Interest income on premium funds for own account		1,214,238	1,036,369
3. Other underwriting income for own account		2,666	1,268
4. Claims incurred for own account	(14)	10,619,155	10,910,248
5. Change in other underwriting provisions for own account	(15)	–2,114,925	–1,830,015
6. Expenditure for premium refunds for own account		17,097	15,588
7. Operating expenses for own account	(16, 17)	4,538,533	4,626,332
8. Other underwriting expenditure for own account		77,751	62,533
9. Subtotal		**132,140**	**–317,988**
10. Change in the claims equalization provision and similar provisions		–982,128	–797,896
11. Underwriting result for own account	(12)	**–849,988**	**–1,115,884**
II. Non-technical account			
1. Investment income	(18)	3,569,318	3,390,463
2. Investment expenditure	(17, 19)	406,462	585,970
		3,162,856	2,804,493
3. Interest income on premium funds and provisions		1,349,852	1,133,851
		1,813,004	1,670,642
4. Other income		131,201	119,633
5. Other expenditure	(20)	619,142	362,109
6. Operating result		**475,075**	**312,282**
7. Taxes on profit and income		236,488	146,173
8. Other taxes		6,051	3,845
9. Profit for the year		**232,536**	**162,264**
10. Profit brought forward from previous year		–	113
11. Transfer to revenue reserves		100,000	60,000
12. Balance sheet profit		**132,536**	**102,377**

Notes on the accounts

The business year 1995/96 covers the Munich Reinsurance Company's underwriting business for the calendar year 1995 and the result of its investments plus all other income and expenditure for the period from 1st July 1995 to 30th June 1996.

The company accounts for 1995/96 are our first company financial statements prepared in accordance with the new regulations resulting from the implementation of the EC insurance accounting directive in German law, i.e. the amended provisions of the German Commercial Code and the new German statutory order on insurance companies' accounting. Previous years' figures have been adjusted accordingly to take account of the new format.

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 depreciations.

Investments

Our real estate is valued at the acquisition or construction cost less admissible depreciations.

Shareholdings in affiliated companies and 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 on 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.

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, 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 into Deutschmarks 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 30.6.1995 TDM	Additions TDM
(1) Intangible assets	74,821	1,699
(2) Investments		
Real estate	2,274,732	20,692
Investments in affiliated companies and participations		
– Shares in affiliated companies	1,651,027	125,914
– Loans to affiliated companies	6,409	774
– Participations	3,915,689	425,229
– Loans to participations	1,696	10,576
	5,574,821	562,493
Other investments		
– Shares, investment fund certificates and other variable-yield securities	7,095,986	3,782,943
– Bearer bonds and other fixed-interest securities	6,481,050	15,740,529
– Mortgage loans	40,111	4,841
– Other loans		
• Registered bonds	1,100,623	936,896
• Loans and promissory notes	5,548,609	3,604,556
– Deposits with banks	359,977	–
– Miscellaneous investments	348	–
	20,626,704	24,069,765
Total investments	28,476,257	24,652,950

The intangible assets consist of purchased insurance portfolios and software.

The book value of self-occupied real estate amounts to TDM 440,737 (previous year: TDM 478,172).

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 30.6.1996 TDM
–	–	7,039	69,481
–	–	109,788	2,185,636
–	88,294	1,141	1,687,506
–	1,173	–	6,010
251,482	38,565	31,307	4,522,528
–	5,402	–	6,870
251,482	133,434	32,448	6,222,914
–251,482	871,518	29,384	9,726,545
–	16,222,955	1,398	5,997,226
–	6,339	–	38,613
–	252,821	–	1,784,698
–	3,946,660	–	5,206,505
–	27,098	–	332,879
–	338	–	10
–251,482	21,327,729	30,782	23,086,476
–	21,461,163	173,018	31,495,026

Of our total investments (excluding deposits retained on assumed reinsurance business) with a book value of TDM 31,495,026 (previous year: TDM 28,476,257), an amount of TDM 4,349,166 (previous year: TDM 4,342,324) is deposited with ceding companies or foreign governments or in the custody of trustees nominated by us.

Derivative financial products are used exclusively for hedging purposes in respect of parts of the portfolio and for implementing planned purchases and sales. In relation to the balance sheet total, the volume of open positions on the balance sheet date and all the transactions concluded in the period under review was negligible.

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

	Affiliated companies		Participations	
	30.6.1996 TDM	Previous year TDM	30.6.1996 TDM	Previous year TDM
Deposits retained on assumed reinsurance business	5,942,450	5,284,311	8,608,750	8,120,409
Accounts receivable	109,088	88,778	12,045	11,186
Other receivables	23,196	19,027	33,763	46,401
Deposits retained on retroceded business	47,455	2,506	853,825	793,422
Accounts payable	51,851	102,303	98,492	121,857
Miscellaneous liabilities	9,704	8,637	9,144	7,678

(4) Other assets

	30.6.1996 TDM	Previous year TDM
Tangible assets and inventories	15,902	17,534
Cash at bank in current accounts, cheques and cash in hand	36,485	43,836
Total	52,387	61,370

(5) Deferred items

	30.6.1996 TDM	Previous year TDM
Accrued interest and rent	300,751	301,572
Other deferred items	33,429	26,792
Total	334,180	328,364

This item includes differences totalling TDM 259 (previous year: TDM 268) arising from the posting of loans in the balance sheet at nominal values.

Notes on the balance sheet – liabilities

(6) Shareholders' funds

In November 1995, in partial utilization of the capital authorized for such purposes in Article 3a of the Articles of Association, the share capital was increased from TDM 743,350 to TDM 813,350.

The increased share capital is made up of 300,000 bearer shares with a nominal value of DM 50 each and 7,983,500 (previously 7,283,500) registered shares with a nominal value of DM 100 each, DM 50 of which is paid up and entitled to dividend and one vote.

	Number	Nominal value TDM	Amount paid up TDM	Votes
Bearer	300,000	15,000	15,000	300,000
Registered	7,983,500	798,350	399,175	7,983,500
Total		813,350	414,175	8,283,500

By resolution of the Annual General Meeting on 8th December 1995 an amount of up to TDM 250,000 has been authorized for increasing the company's share capital in one or more stages at any time up to 8th December 2000 by issuing new shares against cash contribution.

There is also a contingent capital of TDM 30,000, TDM 21,250 of which serves to safeguard warrants issued in the 1994 capital increase. The warrant exercise period initially runs until 13th March 1998. Should the market price of the registered shares at the end of this period be lower than the warrant exercise price (DM 2,482) applying since the capital increase of November 1995, the warrant conditions provide for the exercise period to be extended by a maximum of two years. No options had been exercised up to the end of the business year under review.

TDM 545,838 from the 1995 capital increase was allocated to the capital reserve. In addition, TDM 100,000 of the profit for the year 1995/96 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	743,350	70,000	813,350
Capital reserve	1,396,467	545,838	1,942,305
Other revenue reserves	363,200	100,000	463,200
Balance sheet profit	102,377	30,159	132,536
Total	2,605,394	745,997	3,351,391

The revenue reserves contain a special reserve for major losses amounting to TDM 170,000.

(7) Special reserve

The special reserve has been posted as per Articles 6 b and 7 g of the German Income Tax Act.

(8) Underwriting funds and provisions

	30.6.1996 Gross TDM	30.6.1996 Retro TDM	30.6.1996 Net TDM	Pr. year Gross TDM	Pr. year Retro TDM	Pr. year Net TDM
Unearned premiums	3,651,335	319,460	3,331,875	3,911,499	360,108	3,551,391
Premium funds	21,918,665	2,206,229	19,712,436	19,892,232	1,667,082	18,225,150
Provision for outstanding claims	22,482,990	1,571,701	20,911,289	21,380,164	1,643,901	19,736,263
Provision for premium refunds	32,489	6,441	26,048	31,750	6,026	25,724
Claims equalization provision and similar provisions	3,327,476	–	3,327,476	2,356,961	–	2,356,961
Other	550,416	188	550,228	398,885	740	398,145
Total	51,963,371	4,104,019	47,859,352	47,971,491	3,677,857	44,293,634

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

	Unearned premiums	Premium funds	Claims provision	Equalization provision	Others	Total	Reserves as % of net premiums
Life	728	17,918	215	–	47	18,908	526.0
Personal accident/ health	147	1,794	702	–	14	2,657	233.9
Liability	345	–	8,852	82	91	9,370	541.6
Motor	281	–	5,327	229	49	5,886	205.4
Marine	85	–	641	159	2	887	149.3
Fire	543	–	1,554	1,645	294	4,036	157.1
Engineering	638	–	1,935	179	13	2,765	187.6
Other classes	565	–	1,685	1,034	66	3,350	150.8
Non-life combined	2,604	1,794	20,696	3,328	529	28,951	229.9
Total	3,332	19,712	20,911	3,328	576	47,859	295.7

(9) Other provisions

	30.6.1996 TDM	Previous year TDM
Provisions for employees' pensions and similar commitments	237,608	207,508
Provisions for tax	512,866	398,687
Miscellaneous	153,011	235,302
Total	903,485	841,497

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 24,323 (previous year: TDM 23,194) for former members of the Board of Management and their surviving dependants.

(10) Miscellaneous

The miscellaneous liabilities contain liabilities from taxes amounting to TDM 8,295 (previous year: TDM 8,071) and for social security amounting to TDM 4,015 (previous year: TDM 3,911). The total amount of the liabilities secured by mortgages is TDM 875 (previous year: TDM 891). These liabilities have a remaining term of more than five years.

(11) Deferred items

This item includes differences totalling TDM 3,874 (previous year: TDM: 3,600) 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 (in DM million)

	Life	Personal accident/ health	Liability	Motor	Marine	Fire	Engineering	Other classes	Non-life combined	Total
Gross premiums written	4,069	1,221	1,919	3,140	627	2,928	1,738	2,372	13,945	18,014
Net premiums written	3,595	1,136	1,730	2,866	594	2,569	1,474	2,222	12,591	16,186
Net earned premiums	3,632	1,148	1,723	2,881	596	2,591	1,488	2,224	12,651	16,283
Interest income on premium funds	1,090	118	1	5	–	–	–	–	124	1,214
Claims incurred										
– Payments	1,818	662	986	2,028	305	1,450	776	1,198	7,405	9,223
– Increase in provision	–14	37	685	324	82	–85	246	121	1,410	1,396
	1,804	699	1,671	2,352	387	1,365	1,022	1,319	8,815	10,619
Operating expenses	956	367	447	559	155	821	516	718	3,583	4,539
Other income and expenditure	–1,848	–121	–5	1	3	–181	–4	–52	–359	–2,207
Underwriting result	114	79	–399	–24	57	224	–54	135	18	132
Change in claims equalization provisions	–	–	–4	–229	–49	–450	–26	–224	–982	–982
Underwriting result after change in claims equalization provisions	114	79	–403	–253	8	–226	–80	–89	–964	–850
Key figures in %										
Loss ratio		*61.1*	*97.2*	*81.4*	*64.4*	*59.7*	*69.0*	*61.6*	*71.6*	
Expense ratio		*32.0*	*25.9*	*19.4*	*26.0*	*31.7*	*34.7*	*32.3*	*28.3*	
Combined ratio		*93.1*	*123.1*	*100.8*	*90.4*	*91.4*	*103.7*	*93.9*	*99.9*	

(13) Earned premiums for own account

	1995 TDM	Previous year TDM
Gross premiums written	18,013,604	18,258,249
Retrocession premiums	1,827,498	2,080,259
Net premiums written	16,186,106	16,177,990
Change in unearned premiums		
– Gross amount	126,465	–86,528
– Retroceded amount	–29,874	–2,371
– Net amount	96,591	–88,899
Net earned premiums	16,282,697	16,089,091

(14) Claims incurred for own account

	1995 TDM	Previous year TDM
Claims paid		
– Gross amount	10,264,121	11,259,404
– Retroceded amount	1,041,319	1,662,937
– Net amount	9,222,802	9,596,467
Change in provision		
– Gross amount	1,394,402	1,019,562
– Retroceded amount	–1,951	–294,219
– Net amount	1,396,353	1,313,781
Total	10,619,155	10,910,248

(15) Change in other underwriting provisions for own account

	1995 TDM	Previous year TDM
Premium funds	–1,978,612	–1,749,109
Other underwriting provisions	–136,313	–80,906
Total	–2,114,925	–1,830,015

(16) Operating expenses for own account

	1995/96 TDM	Previous year TDM
Gross operating expenses	4,992,287	5,106,865
Less commission received on retroceded business	453,754	480,533
Total	4,538,533	4,626,332

(17) Personnel costs

The management expenses subsumed under expenditure for underwriting business and under investment expenditure include the following personnel costs:

	1995/96 TDM	Previous year TDM
Wages and salaries	231,744	219,614
Social insurance contributions and voluntary assistance	53,408	53,334
Expenses for employees’ pensions	36,409	20,730
Total	321,561	293,678

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 9,777 (previous year: TDM 9,450). Payments to retired members of the Board of Management or their surviving dependants amount to TDM 3,272 (previous year: TDM 4,146).

Also taking into account the proposal for distribution of the profit, the total emoluments of the members of the Supervisory Board amount to TDM 845 (previous year: TDM 715). This sum includes emoluments of TDM 714 (previous year: TDM 587) dependent on the dividend paid to the share-holders.

(18) Investment income

	1995/96 TDM	Previous year TDM
Dividends from participations	357,289	574,413
Income from other investments:		
– Rents from real estate	221,880	207,307
– Income from other investments	2,663,080	2,226,206
	2,884,960	2,433,513
Realized gains on investments	322,157	352,124
Income from profit-transfer agreements	1,958	1,995
Income from the reduction of the special reserve	2,954	28,418
Total	3,569,318	3,390,463

This includes the following income from affiliated companies:

	1995/96 TDM	Previous year TDM
Dividends from participations	64,013	79,355
Income from other investments	364,413	299,139

(19) Investment expenditure

	1995/96 TDM	Previous year TDM
Expenses for the management of investments, interest paid and other expenses for investments	187,689	154,732
Writedowns on investments	173,018	306,751
Realized losses on investments	45,755	93,445
Allocations to the special reserve	–	31,042
Total	406,462	585,970

Of the writedowns on investments, TDM 33,654 (previous year: TDM 16,322) comprised exceptional depreciations as per Article 253 para. 2 sentence 3 of the German Commercial Code.

Special writedowns for tax purposes as per Article 6 b of the German Income Tax Act amounted to TDM 2,954 (previous year: TDM 28,418). In the business year and in the previous years reinstatements of value amounting to TDM 192,323 were not made for tax reasons, in accordance with the option open to us.

The Munich Reinsurance Company's result for the year was only affected to a negligible extent by writedowns for tax purposes and the posting of the special reserve as per Articles 6 b and 7 g of the German Income Tax Act; the effects of the reinstatements of value not made for tax reasons are not significant for the result for the year either, being spread over several business years. The consequences of these measures for the results of future business years are also insignificant.

(20) Other expenditure

	1995/96 TDM	Previous year TDM
Special allocations to the provision for outstanding claims (liability business)	500,000	250,000
Miscellaneous	119,142	112,109
Total	619,142	362,109

Other information

(21) Boards of the company

The members of the Supervisory Board and the Board of Management are listed on pages 6 and 9 of this Report.

(22) Number of staff

The number of staff employed by the company in the business year 1995/96 averaged 1,904 (previous year: 1,919).

(23) 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, 4th October 1996

The Board of Management

Schinzler; Bauer, Ficker, Göbel, Hasford,
Helbig, Nierhaus, Rathnow, Schneidawind,
Sellschopp, von Stockhausen

Proposal for appropriation of profit
Auditor's report

Proposal for appropriation of profit

The balance sheet profit at the disposal of the Annual General Meeting amounts to DM 132,536,000.

We propose that the balance sheet profit be distributed as a dividend of DM 16 on every bearer and registered share, each entitled to dividend on an amount of DM 50.

Munich, 4th October 1996

The Board of Management

Schinzler; Bauer, Ficker, Göbel, Hasford,
Helbig, Nierhaus, Rathnow, Schneidawind,
Sellschopp, von Stockhausen

Auditor's report

The auditor's opinion is worded as follows:

"The accounting, the company financial statements and the consolidated financial statements, which we have audited in accordance with professional standards, comply with the legal provisions and the company's Articles of Association. 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 Munich Reinsurance Company and the Munich Re Group. The report of the Board of Management for company and group combined is consistent with the company financial statements and the consolidated financial statements."

Munich, 14th October 1996
Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Wiegand	Peschel
Wirtschaftsprüfer	Wirtschaftsprüfer

Business development of the Munich Re Group in DM million

Consolidated balance sheet as at 30th June	**1992**	**1993**	**1994**	**1995**	**1996**
Investments (including deposits retained on assumed reinsurance)	84,256	91,644	102,425	111,008	120,279
– Reinsurers	36,140	39,092	45,197	48,398	52,937
– Direct insurers	48,116	52,552	57,228	62,610	67,342
Shareholders' funds	3,412	3,630	4,274	4,442	5,378
Claims equalization provisions	1,341	1,370	1,846	2,614	3,736
Underwriting funds and provisions (without equalization provisions)	76,945	84,174	92,863	97,548	104,047
Life	53,324	58,506	64,005	68,570	73,632
Non-life	23,621	25,668	28,858	28,978	30,415

Consolidated profit and loss account	**1991/92**	**1992/93**	**1993/94**	**1994/95**	**1995/96**
Gross premiums written	23,025	25,556	28,638	28,974	28,989
– Life	8,850	9,686	10,445	10,898	11,177
– Non-life	14,175	15,870	18,193	18,076	17,812
Net premiums written	20,209	22,480	25,490	25,937	26,232
– Life	7,965	8,676	9,430	10,038	10,326
– Non-life	12,244	13,804	16,060	15,899	15,906
Net earned premiums	19,847	22,222	24,981	25,802	26,220
Underwriting result*	–1,086	–1,241	–264	–100	573
– Life	324	364	502	329	489
– Non-life	–1,410	–1,605	–766	–429	84
Investment result*	6,001	6,949	7,112	7,322	7,935
Thereof included in underwriting result	3,959	4,448	4,958	5,313	5,685
Unadjusted earnings	693	1,044	1,490	1,764	2,586
Special allocations to the provision for outstanding claims	–125	–450	–350	–250	–500
Change in claims equalization provisions	–60	–29	–476	–788	–952
Operating result	508	565	664	726	1,134
Taxes	–229	–278	–364	–401	–539
Profit for the year	279	287	300	325	595

* The figures for the years 1991/92 to 1993/94 are comparable only to some extent with those for the years 1994/95 and 1995/96 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 million

Balance sheet as at 30th June	**1992**	**1993**	**1994**	**1995**	**1996**
Investments (including deposits retained on assumed reinsurance)	36,402	38,959	44,910	49,376	54,263
Shareholders' funds	1,721	1,725	2,534	2,605	3,351
Claims equalization provisions	1,024	1,057	1,580	2,357	3,327
Underwriting funds and provisions (without equalization provisions)	31,831	34,593	38,685	41,937	44,532
– Life	11,890	13,423	15,068	17,559	18,908
– Non-life	19,941	21,170	23,617	24,378	25,624

Profit and loss account	**1991/92**	**1992/93**	**1993/94**	**1994/95**	**1995/96**
Gross premiums written	14,574	16,033	18,159	18,258	18,014
– Life	3,065	3,415	3,695	3,974	4,069
– Non-life	11,509	12,618	14,464	14,284	13,945
Net premiums written	12,693	14,020	16,175	16,178	16,186
– Life	2,728	3,039	3,324	3,563	3,595
– Non-life	9,965	10,981	12,851	12,615	12,591
Net earned premiums	12,466	13,859	15,834	16,089	16,283
Underwriting result*	–1,265	–1,458	–616	–318	132
– Life	62	68	91	98	114
– Non-life	–1,327	–1,526	–707	–416	18
Investment result*	2,490	3,050	2,880	2,804	3,163
Thereof included in underwriting result	830	921	1,026	1,134	1,350
Unadjusted earnings	327	634	1,134	1,360	1,957
Special allocations to the provision for outstanding claims	–125	–450	–350	–250	–500
Change in claims equalization provisions	–39	–32	–523	–798	–982
Operating result	163	152	261	312	475
Taxes	–95	–80	–120	–150	–242
Profit for the year	68	72	141	162	233

* The figures for the years 1991/92 to 1993/94 are comparable only to some extent with those for the years 1994/95 and 1995/96 owing to the change in the allocation of the expenses for employees' pensions and "other depreciation".

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The Munich Re worldwide

		Germany	Rest of Europe
Reinsurance	**Reinsurers and branches**	Munich Reinsurance Company	*Belgium* The Great Lakes Reinsurance Company Brussels Branch *UK* Great Lakes Reinsurance (UK) PLC Munich Reinsurance Company United Kingdom General Branch Munich Reinsurance Company United Kingdom Life Branch *Italy* Münchener Rück Italia S.p.A. *Switzerland* New Reinsurance Company
	Service companies and liaison offices	IIC – International Insurance Consultants Münchener Ecoconsult	*France* Münchener Rückversicherungs-Gesellschaft Bureau de Paris *Greece* Muenchener Rueck Hellas Services S.A. *UK* Munich Reinsurance Company Main Representation Office *Russia* Münchener Rückversicherungs-Gesellschaft Liaison Office *Spain* Münchener Correduría de Reaseguros, Grupo Münchener Rückversicherungs-Gesellschaft, S.A. *Turkey* Münih Re Reasürans Aracılık ve Danışma Servisleri Limited Şirketi
Direct insurance	Berlinische Leben	(life insurance)	
	Europäische Reise	(travel insurance)	
	Hamburg-Mannheimer	(life insurance, non-life insurance)	
	Hermes Kredit	(credit insurance)	
	Karlsruher	(life insurance, non-life insurance)	

North America, Latin America

Canada
Munich Reinsurance Company of Canada (MROC) with regional offices in Toronto, Montreal and Vancouver

Munich Reinsurance Company
Canada Branch (Non-Life)

Munich Reinsurance Company
Canada Branch (Life)
with regional office in Montreal

The Great Lakes Reinsurance Company

USA
Munich American Reinsurance Company (MARC) with regional offices in New York, Atlanta, Chicago, Columbus, Dallas, Hartford, Philadelphia and San Francisco

Munich American Reassurance Company (MARC-Life)

Great Lakes American Reinsurance Company (GLARC)

Munich Reinsurance Company
United States Branch

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

Colombia
Münchener de Colombia S.A.
Corredores de Reaseguros

Mexico
Muenchener de México, S.A.

USA
Munich American Services Corporation (MAS)

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

Africa, Near East

South Africa
Munich Reinsurance Company of Africa (MRoA) with regional offices in Johannesburg, Durban, Cape Town and Pretoria as well as offices in Kenya, Malawi, Mauritius, Namibia and Zimbabwe

Israel
Munich Reinsurance Company
Liaison Office

Middle East, Far East,
Australia, New Zealand

Australia
Munich Reinsurance Company of Australia (MRA) with regional offices in Sydney, Brisbane, Melbourne and Perth

Münchener Rückversicherungs-Gesellschaft
Australian Branch

Malaysia
Münchener Rückversicherungs-Gesellschaft
Malaysia Branch

Singapore
Münchener Rückversicherungs-Gesellschaft
Singapore Branch

New Reinsurance Company
Singapore Branch

Hong Kong
Munichre Service Limited

India
Consultant for India

Japan
Munich Reinsurance Company
Liaison Office

Korea
Munich Reinsurance Company
Liaison Office

New Zealand
Munichre New Zealand Service Limited

Pakistan
Resident Correspondent

Philippines
Munich Management Pte. Ltd. (Singapore)
Philippine Branch Office

Taiwan
Munichre Service Limited (Hong Kong)
Liaison Office

Position: October 1996

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Besides this English translation of the official German original (also available from the company), a shortened version of the Annual Report 1995/96 is obtainable in French and Spanish.

Information on other Munich Re publications is available in a separate catalogue. We will be pleased to send you a copy on request.

The paper used for this Annual Report was produced without chorine bleaching.