Annual Report 1998

Münchener Rück
Munich Re Group

Munich Re Group

	1996/97 DM m	1997/98 DM m	1998[1] DM m	1998 €m
Gross premiums written	32,181	44,522	49,791	25,458
Reinsurers	19,329	24,944	24,989	12,777
Direct insurers	12,852	19,578	24,802	12,681
Investments	148,288	208,845	217,143	111,024
Reinsurers	61,803	71,091	75,222	38,460
Direct insurers	86,485	137,754	141,921	72,564
Net underwriting funds and provisions	135,459	189,885	194,990	99,697
Reinsurers	55,313	61,377	63,521	32,478
Direct insurers	80,146	128,508	131,469	67,219
Shareholders' funds	6,604	9,962	12,262	6,270
Profit for the year	699	1,149	1,197	612
Earnings per share in DM/€ (according to DVFA/GDV)[2]	15.42	19.13	13.95	7.13
Dividend of the Munich Reinsurance Company	141	153	159	81
Dividend per share in DM/€	1.70	1.80	1.80	0.92

[1] Balance sheet date of the Munich Reinsurance Company changed to 31st December.

[2] Previous years adjusted to take account of the capital increase in July 1998; 1999 capital measures not included, cf. page 19.

Münchener Rückversicherungs-Gesellschaft
Report for the 119th year of business
1st July 1998 to 31st December 1998

Note: The abbreviations TDM and T€ used in this report stand for thousand D-marks and thousand euros respectively.

The Munich Re Group

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

In **reinsurance** our clients are insurers: over 5,000 of them in around 150 countries. We assume a part of their risk; we advise them on the taking up of new lines; we help them in developing and expanding their insurance portfolios. Our clients benefit from the expertise and personal attention of around 4,900 staff – at our head office in Munich and at over 60 locations throughout the world. We write reinsurance business in all classes of insurance worldwide, thus providing for a global balance of risks.

Qualities our business partners value in us are

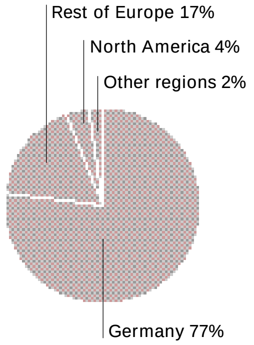
- innovative solutions,
- comprehensive service,
- wide-ranging knowledge,
- proximity to clients,
- extensive reinsurance capacity,
- exceptional financial strength.

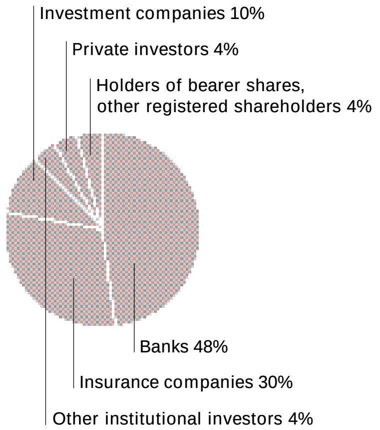
We attach importance to continuity of business relationships. We remain a reliable and professional partner for our clients – also in a rapidly changing environment.

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

Having a strong footing in direct insurance has been, and will continue to be, an important part of our strategy. We thereby create a balance between more volatile reinsurance business and more stable personal lines insurance; this diversification makes the Munich Re Group particularly strong. A further addition in the near future will be a Munich Re and ERGO joint-venture asset management company, which will also manage investments for third parties.

Munich Re registered shares





Munich Re's shareholders

An important criterion for assessing a company's shares is its shareholder profile. In 1998 Munich Re's registered shareholders grew in number by more than 100% to just under 34,000. We are particularly proud of the fact that this increase contained a disproportionately large number of private investors. And we are very pleased about the more than 18,000 new shareholders we were able to enter in our shareholders' register for the first time in the short business year. In the current business year the number of registered shareholders has meanwhile grown to around 45,000.

Munich Re stock is popular with international investors. More than 20% of our shares are held outside Germany.

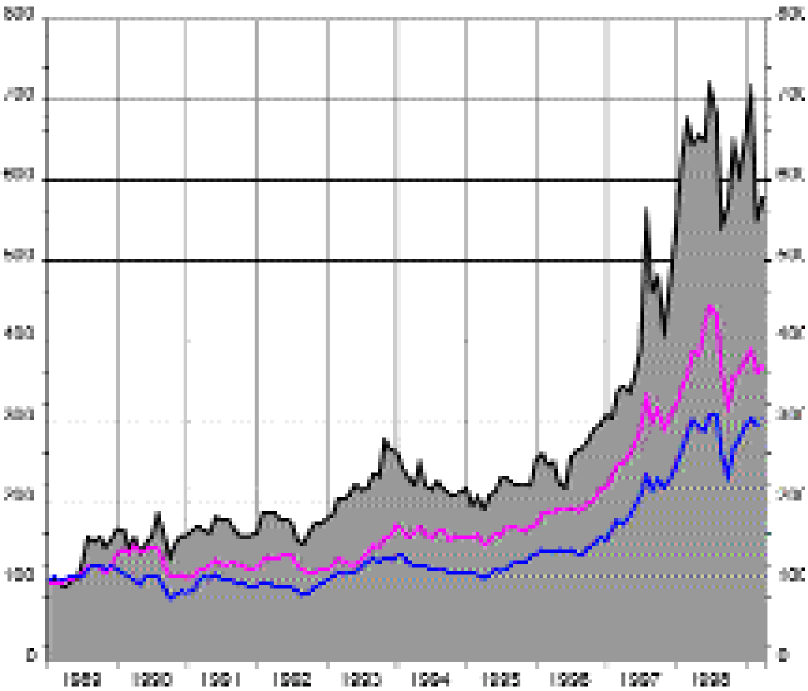
Allianz is Munich Re's largest shareholder, with a stake of 25%. Other major shareholders are German banks: HypoVereinsbank holds over 13%, whilst Deutsche Bank and Dresdner Bank each hold over 9%. Our largest foreign shareholder is CGU, London, with nearly 4%.

Investor Relations

The communication we have cultivated for many years with our investors and with financial analysts was further intensified in 1998. Our investor relations team in Munich presented our reinsurance business and Group strategy to financial analysts and institutional investors in around 100 individual and group meetings.

On page 158 of this report you can find information on important dates and on persons to contact at Munich Re who will be glad to deal with any questions you may have.

Price performance
1st January 1989 = 100



Munich Re registered shares
German share index (DAX)
Morgan Stanley insurance index (in DM)

Position: 20th April 1999

Notable price performance

Last year Munich Re registered shares again numbered among the winners on the German stock market. Their value rose by more than 20% in 1998. The German share price index (DAX) rose by just under 18% in the same period.

The fluctuations on the international capital markets in autumn 1998 were also reflected in Munich Re's share price. But our shareholder-friendly capital measures and the disclosure of Munich Re's valuation reserves ensured that it quickly recovered.

In mid-April 1999 Munich Re had a market capitalization of around €35,179m (equivalent to DM 68,804m), making it one of the biggest stocks on the German equity market. We regard this is as an impressive endorsement of our business policy by our shareholders.

Current prices can be obtained from the daily papers or from Reuters and Bloomberg.

	Securities ref. no.	**Reuters**	**Bloomberg**
Munich Re registered shares	843002	MUVGn	MUV2
Munich Re warrants	843009	843009	MUVA

Do you have any questions about Munich Re shares? If so, please do not hesitate to call our service telephone number **+49 01 80 / 2 22 62 10** during our normal office hours.

Steady growth

Munich Re registered shares represent an attractive investment for the long-term investor. They have given a convincing performance over a ten-year period, with an average annual increase in value of 23.7%. The average increase in the DAX in the same period was 16.3%. Munich Re shares number among the top performers within the insurance industry as well. This is shown by a comparison with the Morgan Stanley insurance index, whose average annual increase was around 13.5%.

Attractive dividend and shareholder-friendly capital measures

An important factor for the overall yield on shares is the company's dividend policy. We can point to six successive years of dividend increases, and the dividend for 1998 is to remain unchanged at DM 1.80 per share despite the short business year.

Following the market's positive reception of our rights issue in July 1998, we concentrated on our objective of further enhancing the transparency and ease of handling of Munich Re shares. The aim is to have only one category of Munich Re share listed on the stock exchange – fully paid-up no-par-value registered shares – all being well, before the end of 1999.

In order to achieve this single share category, we first called in the unpaid amounts on our registered shares at the turn of the year 1998/99. This was followed by a 1:2 stock split, in which every fully paid-up registered share was replaced by two registered shares, each with a par value of DM 5. This made the par values of our registered and bearer shares the same, so that we could then convert them into no-par-value shares. The last phase of streamlining our share structure commenced in mid-February 1999 with the publication of our offer to the holders of bearer shares to convert these into registered shares.

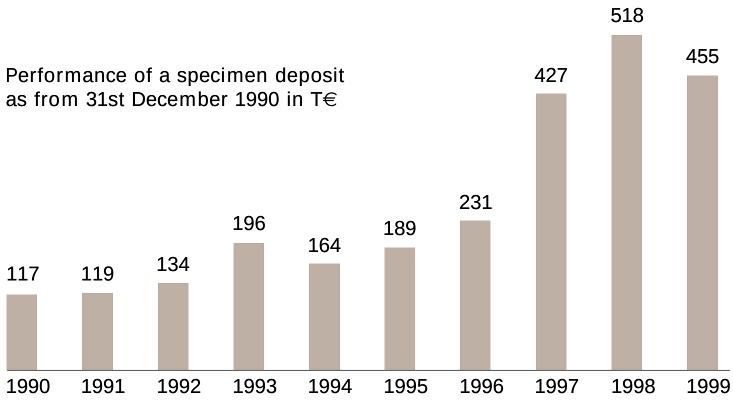
Performance of a specimen deposit

At the end of December 1990, with the share price at DM 2,295, a deposit of 100 Munich Re registered shares (par value then: DM 100) cost a total of DM 229,500 (not including transaction costs). After the two stock splits on 18th August 1997 and 25th January 1999, this investment today amounts to a portfolio of 2,000 registered shares.

By reinvesting dividends to purchase further shares and making use of opération blanche (i.e. reinvesting the proceeds of subscription rights), a German shareholder would have been able to add a total of 470 no-par-value shares and 17 warrants to the deposit.

On the basis of a price of €184.00 (DM 359.87) per share and €33.20 (DM 64.93) per warrant on 20th April 1999, the value of the deposit amounts to €455,044 (DM 889,989), equivalent to an increase of 287%. According to the internal rate of return method, this works out at an average annual return of 17.7%.

Performance of a specimen deposit
as from 31st December 1990 in T€



Position: 20th April 1999

Supervisory Board

Chairman	Ulrich Hartmann Chairman of the Board of Management of VEBA AG
Deputy Chairman	Dr. jur. Henning Schulte-Noelle Chairman of the Board of Management of Allianz AG
Deputy Chairman	Dr. rer. pol. Wolfgang Röller Honorary Chairman of the Supervisory Board of Dresdner Bank AG
	Herbert Bach Employee of the Munich Reinsurance Company
	Christiane Bartl Employee of the Munich Reinsurance Company
	Dr. jur. Rolf-E. Breuer Spokesman of the Board of Managment of Deutsche Bank AG
	Peter Burgmayr Employee of the Munich Reinsurance Company
	Rudolf Ficker Versicherungskaufmann, former member of the Board of Management of the Munich Reinsurance Company
	Ludwig Knabl Employee of the Munich Reinsurance Company
	Dr.-Ing. E.h. Eberhard v. Kuenheim Chairman of the Supervisory Board of Bayerische Motoren Werke AG (until 18th May 1999)
	Dr. techn. h.c. Dipl.-Ing. ETH Ferdinand Piëch Chairman of the Board of Management of Volkswagen AG
	Dr. jur. Albrecht Schmidt Spokesman of the Board of Management of Bayerische Hypo- und Vereinsbank AG
	Dr. rer. nat. Klaus Schumann Employee of the Munich Reinsurance Company
	Dr.-Ing. Dieter Soltmann General Partner of Gabriel Sedlmayr Spaten-Franziskaner-Bräu KGaA
	Dr. phil. Ron Sommer (from 5th November 1998) Chairman of the Board of Management of Deutsche Telekom AG
	Professor Dr. jur. Dr.-Ing. E.h. Dieter Spethmann (until 5th November 1998) Attorney, former Chairman of the Board of Management of Thyssen AG

For seats held on other supervisory boards and comparable bodies see page 145 f.

Report of the Supervisory Board

Ladies and gentlemen,

The insurance and reinsurance markets are changing significantly worldwide. Competition among insurers is continuing to grow in many markets as a result of deregulation; numerous mergers and acquisitions in both insurance and reinsurance have increased competitive pressure further. What is more, in the years with relatively low insured losses from natural catastrophes, the amount of reinsurance capacity available on the world market has increased to a high level. Lastly, the borders between direct insurance and reinsurance on the one hand and between insurance markets and the capital markets on the other are tending to become blurred, which has also made for greater competition in insurance and reinsurance.

The Board of Management provides a detailed account of these developments in its report. The Supervisory Board has also considered these subjects on repeated occasions and discussed Munich Re's position in the changing markets.

Meetings of the Supervisory Board and its committees

At two meetings in the short business year 1998 the Supervisory Board obtained detailed information from the Board of Management on the situation in the important insurance and reinsurance markets, the development of business and the position of the company and its main participations. We discussed the Board of Management's reports and important individual measures in detail. Between the meetings the Chairman of the Supervisory Board remained in close contact with the Chairman of the Board of Management and obtained ongoing information on all important business transactions. In addition, all members of the Supervisory Board were informed without delay, as well as at the two meetings, about transactions that were of particular significance for the further development of the company.

One of the main topics in the second half of 1998 was the further exchange of shareholdings with Allianz AG, in which Munich Re transferred to Allianz AG shares of 15.6% in Allianz of America and 3.9% in Allianz Lebensversicherungs-AG and in return received shares of 6.5% in ERGO Versicherungsgruppe AG and 6.9% in American Re Corporation. This exchange, of which the participants had given notice some time in advance, was completed in two steps in 1998 and 1999; it improves our company's strategic position through a clearer arrangement of corporate participations.

The Board of Management reported in detail on the planned formation of a joint asset management company by Munich Re and the ERGO Insurance Group. This company will provide financial services – initially within the Group – on a high professional level; in so doing it will be able to draw on the many years' experience of all involved and the global expertise of Munich Re. The

Supervisory Board and the Board of Management expect this move to further enhance the Group's profitability.

At the meeting in September 1998 the Board of Management informed us extensively about Munich Re's position and business prospects in Asia, where there are still good opportunities for development in important markets despite the ongoing economic difficulties. With the recent establishment of Munich Re Japan Services K.K., the company is strengthening its presence and its long-standing involvement in one of its most important foreign markets.

In order to further improve the flexibility and marketability of its large portfolio of long-term shareholdings, Munich Re transferred significant portions to a total of 33 limited partnerships in December 1998. All the members of the Supervisory Board were informed in writing about this restructuring of the portfolio.

The Supervisory Board also closely considered the many measures relating to the company's share capital. We are convinced that these extensive and complex measures are well suited to making Munich Re shares even more attractive to a broad range of investors. Another positive factor in this respect will be the change to International Accounting Standards, which will be used for the first time in the consolidated accounts for 1999.

The Supervisory Board's two committees – the Standing Committee, whose work includes business requiring authorization, and the Board of Management Committee, which is responsible for personnel matters involving members of the Board of Management – each met once in the six months of the short business year 1998. Where resolutions were required in addition to those dealt with at the meetings, written votes were taken.

Audit of annual accounts

The Munich Reinsurance Company's bookkeeping, its company accounts and consolidated accounts as at 31st December 1998, as well as the Board of Management's report for the company and the Group as a whole, were audited by the Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft and received an unqualified auditor's opinion. The auditor's reports were promptly sent to all the members of the Supervisory Board. After detailed discussion between the Chairman of the Supervisory Board and the auditor, there was also extensive discussion of the company and consolidated accounts, the Board of Management's report and the auditor's reports at the meeting of the Supervisory Board on 15th June 1999, at which the auditor was present.

The Supervisory Board has examined the company accounts, the consolidated accounts, the report of the Board of Management and the latter's proposal for appropriation of the balance sheet profit and agrees with the auditor's conclusions.

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

Changes on the Supervisory Board and the Board of Management

At the end of the Annual General Meeting on 5th November 1998 Professor Spethmann gave up his seat on the Munich Reinsurance

Company's Supervisory Board. He had been a member of this body since 1976 and its Chairman from 1978 to 1996.

We wish to thank Professor Spethmann very much indeed for his many years of outstanding service and the valuable counsel with which he constantly contributed to the development of our company.

At the Annual General Meeting on 5th November 1998 Dr. Ron Sommer, Chairman of the Board of Management of Deutsche Telekom AG, was elected to the Supervisory Board for the remainder of its term of office, i.e. until the Annual General Meeting on 22nd July 1999.

Since the company now employs more than 2,000 staff in Germany, the Supervisory Board will in future comprise ten shareholder representatives and ten staff representatives, in accordance with the Articles of Association. The term of office of the new Supervisory Board will commence at the end of the Annual General Meeting on 22nd July 1999.

Mr. Hans Rathnow retired as member of the company's Board of Management on 31st December 1998, having reached the retirement age. In his many years of service he represented the company's interests with skill and conviction. We thank him for his dedicated work on behalf of Munich Re.

With effect from 1st January 1999 we appointed Mr. Clement Booth (45), who had worked for the Munich Re organization in Africa in senior positions since 1986, a member of the Board of Management.

The continuing success of the Munich Re Group is substantially due to the members of the Board of Management and to the staff and staff representatives of the Munich Reinsurance Company and its subsidiaries. The Supervisory Board wishes to thank them all for their hard work and commitment.

Munich, 15th June 1999

For the Supervisory Board

Ulrich Hartmann
Chairman

Dear Shareholders,

The Munich Re Group has always ranked among the top players in the international insurance industry. In a time that is characterized by great change in the insurance markets around the world, we have again demonstrated our outstanding strength. Our strategy has proved its effectiveness: we have more than compensated for worse results in volatile reinsurance business with higher profits in more stable personal lines insurance. This diversification will also provide us with a good base for operating successfully in the increasingly competitive environment we will face in the years to come.

Earlier information for our shareholders

This year we are able to report to you substantially earlier than hitherto and thus also able to provide for payment of the dividend at an earlier date. We have achieved this by changing the Munich Reinsurance Company’s balance sheet date. This measure is part of a process in which we are continually improving the quality of information provided to our shareholders. Two further steps envisaged also lead in this direction: the publication of a half-year report for the first time, in September 1999, and the publication of the 1999 consolidated accounts on the basis of International Accounting Standards (IAS).

In order to make Munich Re shares more transparent, more liquid and thus even more attractive for German and foreign shareholders, we have carried out a series of shareholder-friendly capital measures in recent months. They have all gone according to plan. A facility that has proved very effective in this connection is our shareholder service telephone, which many of you have used and which has enabled us to give direct answers to your enquiries regarding our package of capital measures.

We are especially pleased about the fact that the number of shareholders again increased markedly in the past year. Munich Re registered shares were once more among the winners on the German stock market last year; their value rose by more than 20%, thus outperforming the DAX.

Munich Re Group continuing on a successful course

Premium income has increased to almost DM 50bn; the Group profit for the year has improved to DM 1.2bn. Despite the parent company’s short business year, it will be possible to pay an unchanged dividend of DM 1.80 to you, our shareholders. As expected, earnings per share were down on the previous year, but at an excellent DM 13.95 they still compare favourably with those of other companies in our industry.

Position in reinsurance successfully maintained despite intense competition

We have not only held our position in many important markets but have also extended it. Segments we regard as especially promising for the future are insurances of the person, financial reinsurance, alternative risk transfer and the Fortune-1000 and captives market. We are well positioned in these fields. In financial reinsurance, for instance, we have substantially strengthened our resources. And with our company Munich-American RiskPartners we are also a competent business partner for alternative markets.

In order to be able to offer our clients the best possible service, we have invested further in our international organization. Our office in Tokyo has been expanded into a service company and we have opened a new office in Warsaw. In the current year we will also open an office in Chile, which is mainly intended to help expand our life reinsurance business in South America.

ERGO Group grows together

In our direct insurance operations, the integration of VICTORIA, Hamburg-Mannheimer, DKV and D.A.S. in the ERGO Group is progressing well. Thus VICTORIA, Hamburg-Mannheimer Sach and D.A.S. will be combining claims handling resources in non-life insurance and introducing joint claims management. Cooperation in the distribution of products has already been restructured. Besides this, a detailed concept is being produced for the integration of their computer centres and the communication and data networks.

Increasing profitability in the investment sector

In the area of investments the Munich Reinsurance Company and ERGO will be pooling their resources in MEAG MUNICH ERGO AssetManagement GmbH. Given the globalization of the financial markets, our objective here is to jointly enhance our professionalism in terms of technology and know-how for our own investments. But it is also to develop asset management for third parties – both institutional and private clients – as a field of business in its own right. The Munich Re Group's range of products will thus be expanded by this particularly promising segment of financial services business.

Exchange of shareholdings with Allianz

At the turn of the year Munich Re and Allianz completed the restructuring of some more of their shareholdings. This enabled Munich Re to increase its interest in American Re to 100%, whilst Allianz became the sole shareholder of Allianz of America. In addition, Allianz transferred some of its shares in ERGO to Munich Re, which in return reduced its involvement in Allianz Lebensversicherung. The transaction provides for a clear arrangement of the corporate shareholdings involved and is the logical continuation of similar adjustments in previous years.

Heavier tax burden for insurance companies

Ladies and gentlemen, one subject that has occupied us a great deal in the last few months and has also given us great cause for concern is tax legislation. Although the German tax reform law, passed on 24th March 1999, originally gave rise to fears that the burden for the insurance industry would be enormous, it has proved possible to achieve a limitation of the additional tax related to insurance. Nevertheless, the insurance industry is still disproportionately affected. It is to be hoped that the business tax reform that has now been announced, holding out the prospect of lower tax rates, will indeed ease the tax burden so that Germany can regain some of its attractiveness internationally as a location for the insurance industry.

Another good result expected for 1999

For 1999 we currently expect a better overall Group result than last year. In particular, a considerably higher profit for the year looks likely for the parent company. As things stand at present, this should make it possible to maintain a dividend of DM 1.80 even though the number of shares has doubled as a consequence of the stock split and the capital measure for the holders of bearer shares, meaning that the overall dividend amount would need to be doubled to keep the dividend rate unchanged. This naturally presupposes that no exceptional loss events occur before the end of the current business year and that we are not hit by big price losses on the capital markets.

Munich Re shares are an attractive investment for long-term investors. The ten-year comparison shows a convincing performance with an average annual increase in value of 23.7%. Our objective is to continue to offer you, our shareholders, an above-average return.

Yours sincerely,

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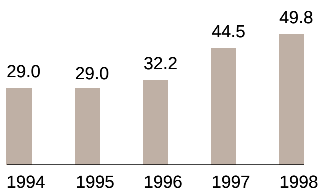
Report of the Board of Management

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

Gross premiums in DM bn



In the year under review the Munich Re Group achieved an improved result and a marked increase in premium income, despite the fact that the parent company brought forward its balance sheet date and thus only had a short business year consolidated in the accounts for 1998. The positive development was attributable above all to the first full consolidation of VICTORIA and D.A.S.

Munich Re Group again very successful

The premium income of the companies consolidated rose by 11.8% to DM 49.8bn (44.5bn). Without the changes in the consolidated group, the increase would have been approximately 2.5%. Net premiums totalled DM 46.0bn (40.5bn) or 13.7% more than in the previous year. Around half the premium volume now derives from the reinsurers and half from the direct insurers.

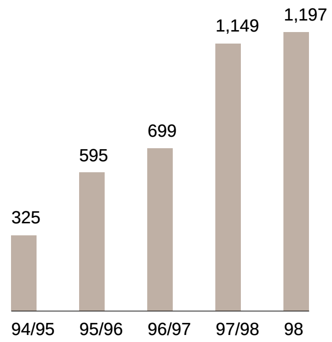
Gross premiums	1994 DM m	%	1995 DM m	%	1996 DM m	%	1997 DM m	%	1998 DM m	%
Reinsurers	18,848	65.1	18,507	63.8	19,329	60.1	24,944	56.0	24,989	50.2
Direct insurers	10,126	34.9	10,482	36.2	12,852	39.9	19,578	44.0	24,802	49.8
Total	28,974	100.0	28,989	100.0	32,181	100.0	44,522	100.0	49,791	100.0

The Group's underwriting profit rose to DM 692m (596m). The pleasing growth in profits from direct insurance more than compensated for the deterioration in reinsurance results, thus improving the overall underwriting result. The investment result also improved markedly to DM 15.2bn (13.3bn); in accordance with accounting regulations, DM 11.5bn (9.4bn) of this is incorporated in the underwriting result.

Further strengthening of reserves

The claims equalization provision and similar provisions have once more been increased by a very large amount, totalling DM 0.8bn (1.3bn). Even so, the allocation is considerably lower than in the previous two years, when the excellent result situation in reinsurance meant that exceptionally high amounts had to be allocated.
By contrast, the special allocations to the provision for outstanding claims are, at DM 282m, on a par with the previous year (DM 270m).

Group profit for the year in DM m



Overall result improves again

The Group profit for the year is slightly higher than in the previous year, despite the parent company's short business year. It shows an increase of 4.2% to DM 1,197m (1,149m).

The Munich Reinsurance Company's profit for the year is DM 309m (303m). After another allocation of DM 150m to the revenue reserves, the balance sheet profit remaining is DM 159m (153m). This has been earmarked for distribution to shareholders in the form of a dividend of DM 1.80 per share, which thus remains unchanged despite the short business year.

Earnings per share according to DVFA/GDV*

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

Owing to the Munich Reinsurance Company's short business year 1998, a portion of its regular income from investments is missing in the Group result. No adjustment has been made for this.

		1996/97	1997/98	1998
Group profit for the year	DM m	**699**	**1,149**	**1,197**
Investment income/expenditure	DM m	9	62	47
Change in claims equalization provisions	DM m	696	541	338
Miscellaneous	DM m	0	154	0
Minority interests (adjusted)	DM m	–105	–256	–347
Adjusted earnings	DM m	**1,299**	**1,650**	**1,235**
Number of shares	million units	83.0	85.0	88.5
Earnings per share[1]	DM	**15.42**	**19.13**	**13.95**
Adjusted earnings per share[2]	DM	7.71	9.57	6.98

* German Association of Financial Analysts and Investment Consultants/Association of German Insurers.
[1] Previous years adjusted to take account of capital increase in July 1998.
[2] After capital measures at the beginning of 1999 (stock split, rights issue for holders of bearer shares).

Goodwill continues to be offset against the revenue reserves over a period of 15 years without impact on the profit and loss account; in the business year 1998 the amount offset was DM 277m.

Reinsurance

As leading international reinsurers, we work together with insurance companies in around 150 different countries. We operate on the one hand directly from our head office in Munich, Germany; on the other hand we are represented at over 60 locations worldwide through reinsurance subsidiaries, branch offices, service companies and liaison offices.

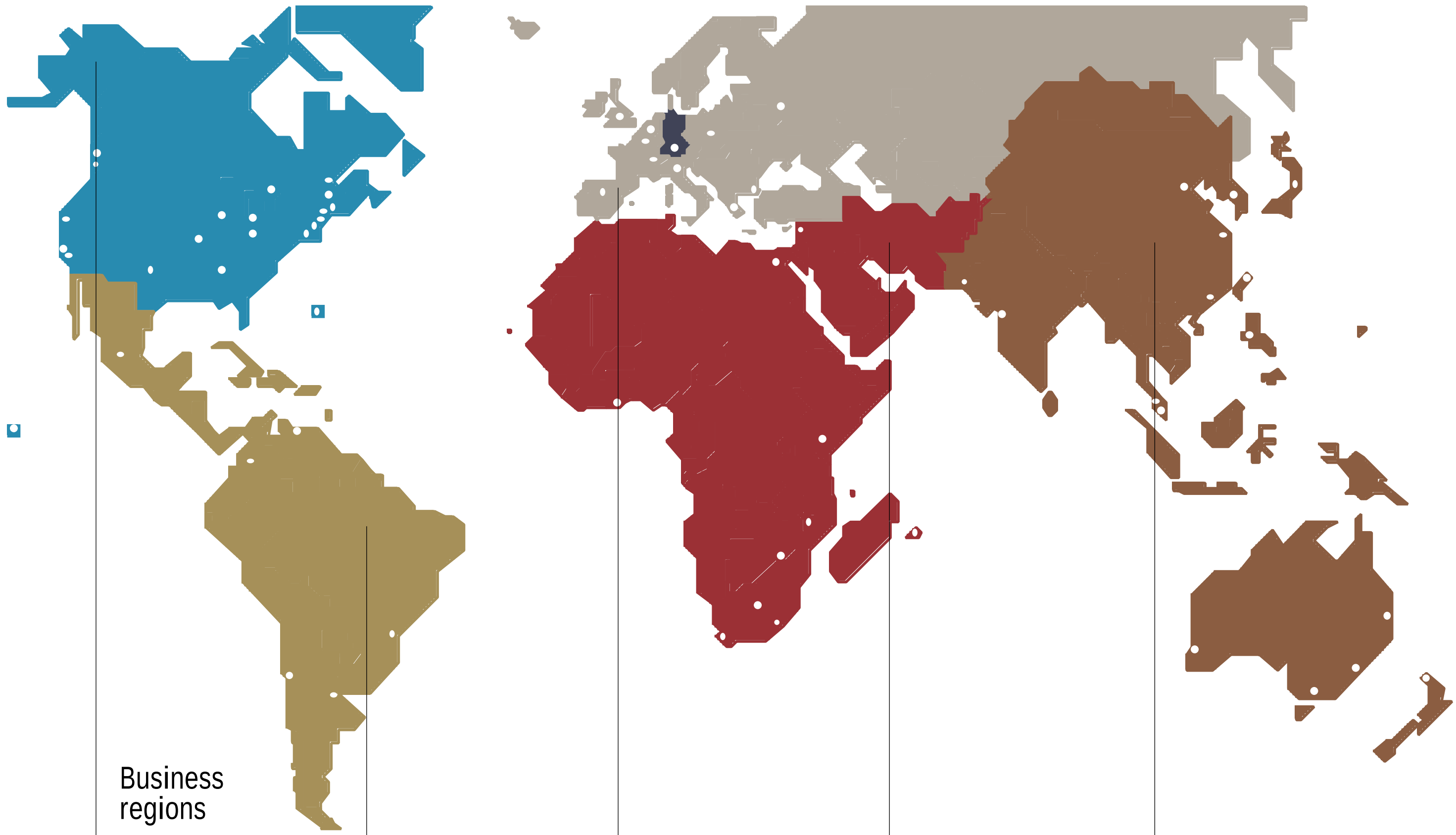
Overcapacity continues to put pressure on prices

Reinsurance is still going through a "soft" market phase, which means that there is substantial overcapacity and that the prices for reinsurance are under considerable pressure. This pressure is exacerbated by the fact that in Europe and North America – which account for 80% of the global market premium – insurance and reinsurance can continue to expect little growth, owing to the general economic environment. The weakness in growth can only be partially compensated for by the higher growth rates of other regions such as Asia and Latin America, because these markets have a substantially lower overall volume.

Even more crucial are the structural changes in demand, i.e. on our clients' side. Changes of outstanding importance are the consolidation process among insurers, the related increase in retentions and the shift from proportional to non-proportional covers. This is accompanied by a growing individualization of clients' needs: demand is increasing for integrated reinsurance and financial solutions exactly tailored to their individual financial situation.

Opportunities for organic growth limited

Against this background, organic growth of the reinsurance market in the classic fields of business is only possible to a limited extent at present; this also made itself evident in our business in the year under review. On the other hand, the demands that insurers are making with regard to the quality and security of their reinsurers are becoming greater as well; this benefits us particularly, owing to our market position and our financial strength.



Business regions

North America

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

Latin America

Bogotá
Buenos Aires
Caracas
Mexico City
Santiago de Chile
São Paulo

Germany Rest of Europe

Munich

Athens
Brussels
Geneva
Istanbul
London
Madrid
Milan
Moscow
Paris
Warsaw

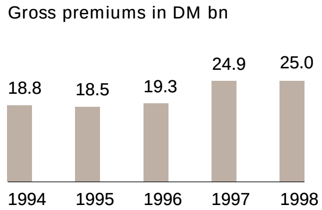
Africa, Near and Middle East

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

Asia and Australasia

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

Reinsurance premiums



On a consolidated basis the reinsurance group recorded a slightly increased gross premium income of DM 25.0bn (24.9bn). Growth was, however, partly affected by changes in exchange rates. The generally higher valuation of the D-mark produced a reduction of DM 1,791 (+599m) in our premium volume. Without this influence, premium income in the year under review would have shown an increase of 7.4%.

Net premium income from reinsurance business rose to DM 22.0bn (21.7bn). The retention ratio amounts to 88.0% (87.1%).

Gross premiums written by reinsurers	1994 DM m	%	1995 DM m	%	1996 DM m	%	1997 DM m	%	1998 DM m	%
Life	3,446	18.3	3,539	19.1	3,860	20.0	4,217	16.9	4,479	17.9
Non-life	15,402	81.7	14,968	80.9	15,469	80.0	20,727	83.1	20,510	82.1
Total	18,848	100.0	18,507	100.0	19,329	100.0	24,944	100.0	24,989	100.0

Portfolio structure continues to be excellent

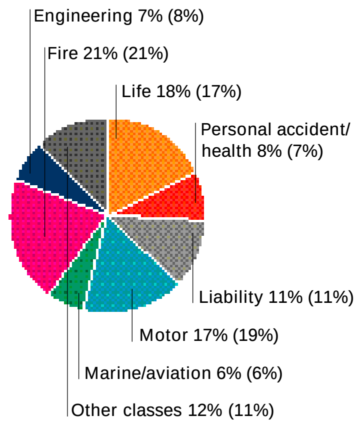
The regional distribution of our reinsurance business only changed to a small extent in the year under review. Whilst the share of gross premium income from European business increased by three percentage points, the share from North American business decreased by just under two percentage points. This was mainly related to changes in exchange rates.

Gross premiums written by reinsurers	1998 DM m	%	Pr. year DM m	%
Europe	14,891	59.6	14,111	56.6
North America	6,778	27.1	7,218	28.9
Asia and Australasia	1,723	6.9	1,872	7.5
Africa, Near and Middle East	930	3.7	1,044	4.2
Latin America	667	2,7	699	2.8
Total	24,989	100.0	24,944	100.0

Premium development in the individual classes of business varied. Pleasing growth was achieved in life and health business, whereas there were significant decreases in motor and engineering. Fire continues to be the class of business with the largest premium volume. Our portfolio is balanced, with the weight equally distributed between the promising sector of insurances of the person, where results tend to be more stable, property business, whose results are more volatile due to large losses, and motor and liability business, which is longer-term in orientation.

	1998		Previous year	
Premiums written by reinsurers	Gross DM m	Net DM m	Gross DM m	Net DM m
Life	4,479	3,951	4,217	3,529
Personal accident/health	2,136	1,853	1,746	1,520
Liability	2,725	2,444	2,798	2,418
Motor	4,250	3,666	4,612	4,049
Marine/aviation	1,450	1,219	1,544	1,268
Fire	5,288	4,724	5,238	4,632
Engineering	1,686	1,431	1,948	1,716
Other classes	2,975	2,710	2,841	2,583
Total	24,989	21,998	24,944	21,715

Gross premiums by class of business



Price reductions affect reinsurance underwriting result

Our reinsurance underwriting result reflects market developments. Last year, after two years of profits, we recorded a small underwriting loss of DM 44m. Compared with the years prior to 1995, however, this result was still outstanding. In the year under review we recorded a deficit of DM 404m. This development is mainly attributable to price reductions and other concessions in conditions resulting from keener competition. In addition, we had to carry higher claims burdens from natural catastrophes and other major losses. In view of the current market situation in reinsurance, the result is still satisfactory.

Development of the underwriting results in the different classes of reinsurance business varied. In life we achieved a satisfying profit after negative results in the two previous years caused by high financing costs. The classes of business subsumed under “Other classes” showed a marked increase in profit, which was particularly due to German credit business. By contrast, the fire result was affected by increased costs for natural catastrophe losses and the profit was thus considerably reduced. In marine, aviation and space business we recorded a deficit after a pleasing profit in the previous year; this was especially due to very high claims expenditure in space reinsurance and to the fact that the earnings situation in marine business has deteriorated appreciably as a consequence of the persistent fall in rates. In personal accident/health, too, the result was worse than last year. In liability the deficit remained at around the same level. Engineering again shows a break-even result.

Reinsurance underwriting result	1998 DM m	Previous year DM m
Life	132	–43
Personal accident/health	–175	–108
Liability	–411	–376
Motor	–205	–188
Marine/aviation	–65	103
Fire	159	473
Engineering	–6	–1
Other classes	167	96
Total	–404	–44

Despite the parent company’s short business year, the result of the reinsurance companies’ investments was a profit of DM 4.2bn (4.5bn).

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

Claims equalization provisions and similar provisions were increased by DM 0.7bn (1.2bn). The lower allocation reflects the less favourable experience of the reinsurance underwriting business. There are now total provisions of more than DM 6.8bn (6.1bn) available to mitigate future fluctuations in annual results – an impressive amount, but one that is necessary in view of the volatility of reinsurance business.

In addition, we have again made large special allocations, totalling DM 282m (270m), to the provision for outstanding claims, especially for liability business.

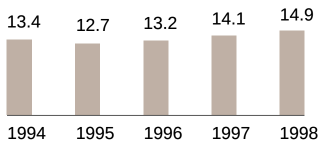
The reinsurance companies’ pre-tax profit for the year remained almost unchanged at DM 1,105m (1,102m).

The most important figures for the reinsurers in DM m

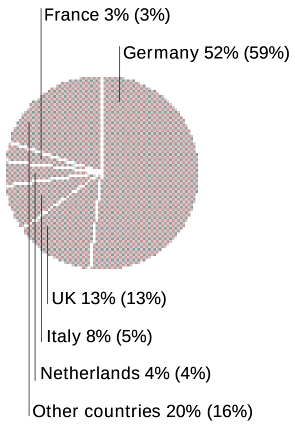
	1994/95	1995/96	1996/97	1997/98	1998
Gross premiums	18,848	18,507	19,329	24,944	24,989
Net premiums	16,531	16,526	16,775	21,715	21,998
Underwriting result	–562	98	231	–44	–404
Investment result	2,745	3,174	3,392	4,525	4,186
Unadjusted earnings	1,270	2,163	2,119	2,598	2,079
Special allocations to the provisions for outstanding claims	–250	–500	–200	–270	–282
Change in the claims equalization provision and similar provisions	–798	–984	–1,203	–1,226	–692
Operating result before tax	222	679	716	1,102	1,105

Europe

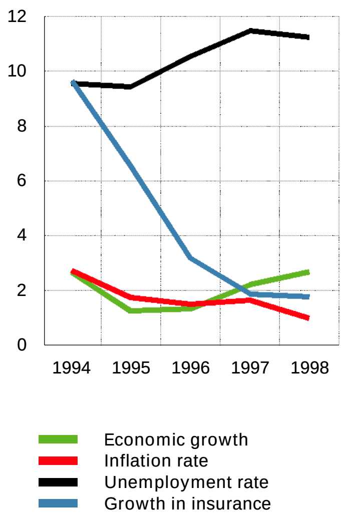
Gross premiums in DM bn



Gross premiums by country



Economic development in Germany (in %)



Insurance markets

In our European business we were able to increase our premium income by around DM 780m to DM 14.9bn (14.1bn). The underwriting result deteriorated.

Development in the European insurance markets was marked by further company mergers, by an unchanged trend towards raising retentions and restructuring reinsurance programmes, and by growing pressure on reinsurers as regards prices. At the same time there was no let-up in the intense competition among reinsurers.

Germany

In Germany the economic upswing continued in 1998, with prices remaining very stable; there was only a slight fall in unemployment, however. The growth in real GDP was mainly due to external demand, which remained high. The development of the domestic economy on the other hand was unsatisfactory, so that impulses for the German insurance industry were largely lacking.

As in the previous year, life and health insurance achieved pleasing growth rates – 4.0% and 4.6% respectively – due to the public's increased perception of the need to make private provision in these areas. By contrast, premium income in property-casualty insurance again decreased, this time by 1.9%. Apart from the lack of economic impulses, this decline was attributable to a continuation of the fierce competition with regard to prices and conditions, especially in industrial fire and motor insurance. This is naturally affecting the profitability of the direct insurance business. Altogether, the insurance industry recorded growth of 1.8% in 1998, thus lagging behind the economy as a whole for the first time.

We are by far the largest reinsurer in Germany. In response to the difficult market circumstances at present and the further reduction in the amount of business ceded by insurers, we have reacted flexibly, innovatively and with additional services. Thus despite the high standards we continue to apply as regards the quality of the business we accept, we were able to further strengthen our excellent competitive position in the German reinsurance market. This did not prevent our premium income falling, as expected. But we again managed to achieve an underwriting profit, even though the result was not as good as in the previous year.

For 1999 we do not expect any fundamental change in the economic environment or the competitive situation in the German insurance and reinsurance market. We are therefore reckoning with further falls in premium income and another deterioration in the underwriting result.

The UK

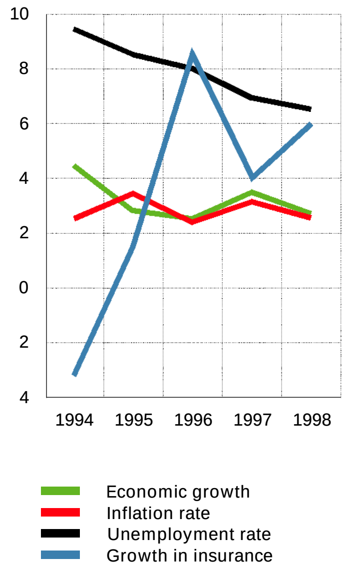
The British economy experienced a slight slowdown in growth in 1998 compared with the previous year. There was a further decrease in the unemployment rate and the inflation rate also fell. Insurers' premium income increased. This growth was largely due to life insurance, whilst property-casualty business stagnated owing to the keen competition.

Despite the general decrease in the amount of business ceded, we were able to increase our premium income in the UK, and this to an equal extent in life and property-casualty insurance. The result improved, as expected.

We have been represented in London for many years by our Main Representation Office and by two branch offices that chiefly handle local UK business. In contrast, our British subsidiary, Great Lakes Reinsurance Company (UK), writes international business and is also available for special business segments. In the year under review its gross premium income decreased to £134m (£164m); this was largely due to an exceptional factor, however. Its profit for the year rose from £5.9m to £7.9m. American Re offices supplement our local organization and strengthen our market position in the UK, as do Lloyd's Managing Agency Apollo Underwriting Ltd. and Artemis Capital Ltd., a Lloyd's corporate member.

We do not expect any significant changes in premium income or the result of our business for 1999.

Economic development in the UK (in %)



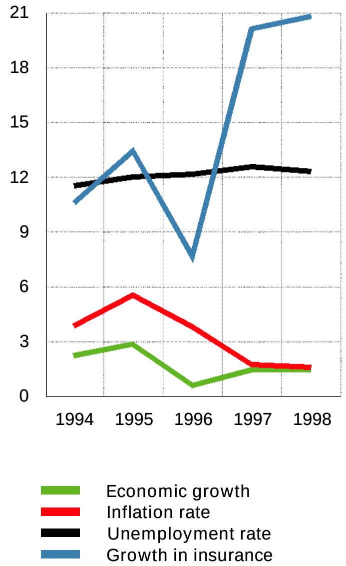
Italy

The economic situation in Italy remained much the same as in the previous year: moderate growth and only slight inflation, but continued high unemployment. Insurers recorded significant expansion in business, especially in life insurance.

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

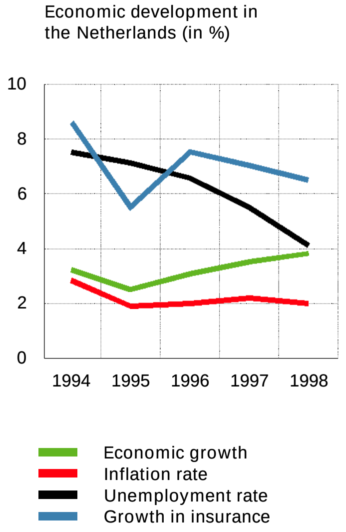
Our subsidiary Münchener Rück Italia (MRI), Milan, considerably strengthened its position in the Italian market last year. In July 1998 it completed the acquisition of Reale Ri, the second largest reinsurer in Italy. The mainly Italian portfolio of this company, renamed Torino Ri and scheduled to be merged with MRI in 1999, ideally complements MRI's business. Torino Ri already transferred reinsurance business to MRI in the year under review. Altogether, therefore, MRI's premium income increased by over 50% to Lit 813bn (527bn) in 1998. The result for the year, on the other hand, was down on 1997, mainly because of very negative experience again in hail insurance and high pre-financing costs in life business.

Economic development in Italy (in %)



There is still great potential for development in the Italian market. In particular, cuts in state social benefits mean there is a pronounced demand for private provision through insurances of the person. Furthermore, legislation is currently being drafted to deal with the problem of coverage for losses from natural catastrophes. In the building industry, the adoption of the bill to regulate public construction orders should, once the implementation provisions have been passed, provide the long hoped-for impulses for growth and thus open up additional business opportunities for the insurance industry.

For 1999 we therefore expect a further increase in premium income from our Italian business. The result should show an improvement on last year.

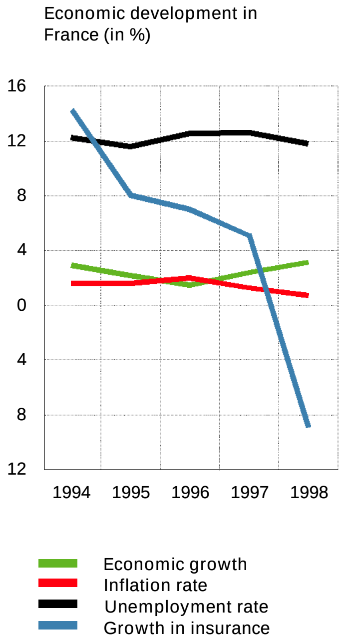


The Netherlands

The Dutch economy again enjoyed high growth and low inflation in 1998. This led to a further fall in the unemployment rate. Insurers were once more able to record significant premium growth.

The premium volumes ceded to reinsurers, however, declined in the Netherlands as well. Despite this we were able to maintain our premium volume, which means we increased our market share further. The result was worse than in the previous year. Besides falling prices, a significant contributory factor was a large hail loss in the summer of 1998.

By actively taking advantage of our market opportunities and using our service measures to good effect, we are endeavouring to increase our market share further in 1999. The result should improve.



France

The economic upswing in France gathered momentum in 1998; consequently, there was a slight fall in the high unemployment rate for the first time in three years. Inflation fell to a very low level. But despite this positive economic environment, insurers' premium income declined.

In order to serve the needs of our clients even better, we upgraded our liaison office in France to a service company with effect from 1st January 1998. This had an immediate positive effect on the development of our premium income. For although the premium volume ceded to reinsurers in France decreased, we were able to record premium growth and thus further consolidate our market position. The result deteriorated, as expected.

We are reckoning with further premium growth for 1999. In view of the tight competitive situation we do not expect any significant change in the result.

Switzerland

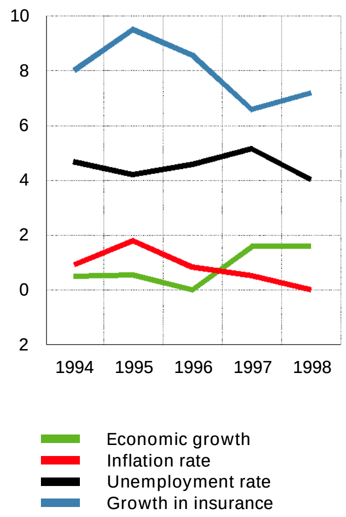
In Switzerland there was again moderate economic growth. Unemployment fell from an already low level and prices remained virtually stable.

Swiss insurers' premium income continued to grow in 1998; this was mainly due to life insurance, there being only moderate growth in non-life insurance. Our premium income was higher than in the previous year, although this was due to a special factor. On an adjusted basis there would have been no growth. The underwriting result was not as good as in the previous year.

For 1999 we expect our premium income to fall. The result should be around the same as last year.

In the business year 1998 our Swiss subsidiary, New Reinsurance Company, Geneva, changed its accounting system: the accounting of the underwriting business, instead of being deferred for one year as hitherto, now covers the past calendar year in the same way as the general accounts. The transition from the old system means that the company's latest profit and loss account covers two underwriting years, namely 1997 and 1998, which explains the big leap in premium income to Sfr 1.8bn (0.8bn). For the risk period 1998 by itself, premiums of Sfr 0.9bn were written. The profit for the year increased slightly to Sfr 6.8m (5.4m).

Economic development in Switzerland (in %)



Austria

In Austria the insurance industry recorded marked growth in 1998. This was mainly due to life insurance, which profited from a significantly higher demand for covers to make private provision for old age.

The premium volume ceded to reinsurers declined, however. We also recorded a slight decline in premium from our Austrian business. The result was somewhat worse than in the previous year.

For 1999 we will have to reckon with a further fall in premium income for competitive reasons. There should be no significant change in the result.

Spain/Portugal

Our reinsurance business from the Iberian peninsula showed a considerably increased premium volume in 1998 and another positive result, albeit not as good as in the previous year. We see interesting potential for growth in Spain and Portugal, particularly in insurances of the person, in some areas of non-life insurance (e.g. liability) and in non-traditional reinsurance products.

For the current risk period 1999 we therefore expect further premium growth; owing to the keen price competition, however, the result is likely to deteriorate further.

Scandinavian countries

In the Scandinavian countries – Denmark, Finland, Iceland, Norway and Sweden – we succeeded in extending our position as market leader in 1998, in some cases considerably. Our overall premium income from these countries shows a marked increase. Owing to some major losses in fire business, the result was worse than in the previous year.

We see promising opportunities for growth here – also in connection with the development of the social insurance systems. We expect further premium growth in 1999. The overall result should improve.

Central and Eastern Europe

Despite the difficult circumstances in Russia, the prospects for the insurance industry in Central and Eastern Europe are good. This applies primarily to life insurance but also to non-life business, where high growth rates can also be expected. The reason for this is the growth in GDP, which is resulting in a disproportionate increase in the demand for insurance cover. There is also a general backlog demand for insurance.

Economic growth in Poland, Hungary and Slovenia is above average for the region, whereas the hitherto good macro-economic data for the Baltic States is deteriorating somewhat owing to the situation in Russia. Our premium income grew in 1998 and the result was better than in the previous year.

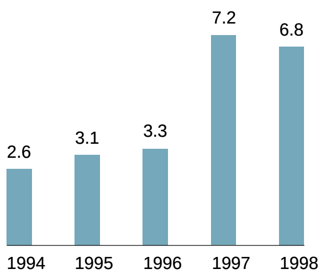
We expect further premium growth in 1999; the result should be satisfactory.

North America

Our premium income from the North American market fell to DM 6.8bn (7.2bn) owing to changes in exchange rates. The result was worse than in the previous year, mainly owing to higher costs for natural catastrophe losses.

For 1999 we expect the premium income from our North American business to grow somewhat. The result should be on a par with last year.

Gross premiums in DM bn



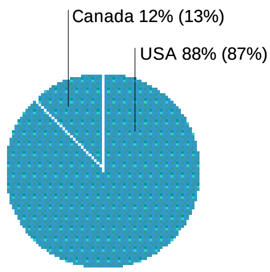
USA

The economy in the USA was marked by sustained dynamic growth. GDP again rose significantly and the rate of inflation decreased; there was a further fall in unemployment.

Despite the resultant impulses for growth, premium income in non-life business increased only slightly. The overall result of the property-casualty insurers deteriorated owing to higher claims costs and lower investment earnings.

Our subsidiary American Re, Princeton, wrote gross premiums of US$ 3.1bn (3.1bn) in 1998. This makes it one of the leading non-life reinsurers in the USA. Despite higher costs for natural catastrophe losses, its result was somewhat better than in the previous year, totalling US$ 226m (221m). We have now grouped together the broking activities of our reinsurance group under American Re. It is also the location of our Center of Competence for Alternative Markets, which works together with so-called captives and other large corporate clients.

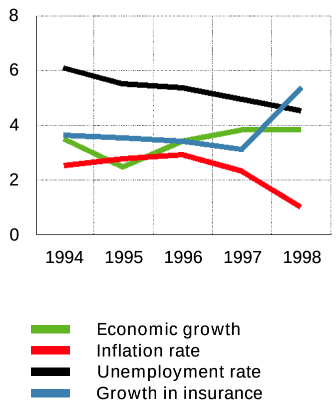
Gross premiums by country



The US life insurance market is still marked by intense competition. The consolidation process among primary insurers has continued, with perceived cost benefits being the main driving force.

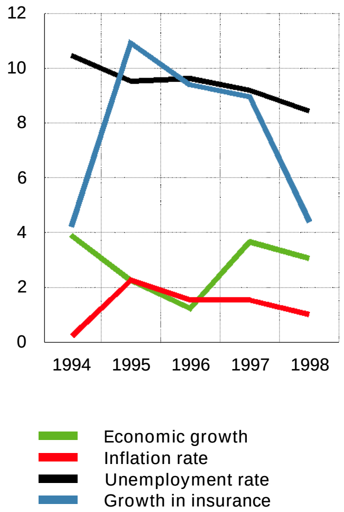
Our subsidiary MARC-Life, Atlanta, which specializes in life reinsurance, increased its premium income in 1998 by around 37% to US$ 182m (136m), thus extending its market position. The profit for the year rose to US$ 9.0m (6.1m). In 1998 we significantly increased MARC-Life's shareholders' funds by US$ 76m to US$ 206m in order to provide it with the financial base for the intended further expansion of its business.

Economic development in the USA (in %)



Canada

Economic development in Canada (in %)



Canada's economy also continued to enjoy growth. The unemployment rate fell, as did the rate of inflation.

The trend towards consolidation among Canadian primary insurers is persisting. This is leading to an overall decline in the market's reinsurance cessions. On the other hand, the reinsurance capacity available is still growing and prices for cover are sinking.

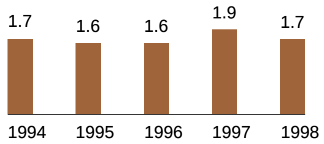
In January 1998 Eastern Ontario and Quebec were hit by an ice storm. This natural catastrophe proved to be the most costly ever for the Canadian insurance industry, giving rise to insured losses of Can$ 1.4bn, of which Can$ 950m was reinsured.

Our Canadian subsidiary Munich Reinsurance Company of Canada, Toronto, succeeded in defending its leading market position but recorded a slight fall in premium income to Can$ 281m (285m). Owing to substantial claims costs from the ice storm, its result deteriorated, closing with a deficit of Can$ 0.6m (+14.6m).

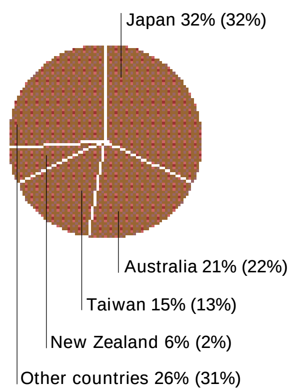
We write Canadian life business through Munich Reinsurance Company Canada Branch (Life), Toronto. Despite the very intense competition, we increased our premium income by 12% to Can$ 420m (376m). The result also showed a marked improvement, with a profit of Can$ 30.1m (21.9m). Our Canadian Life Branch thus remains the leading life reinsurer in Canada.

Asia and Australasia

Gross premiums in DM bn



Gross premiums by country



In our business region Asia and Australasia our premium income showed a decrease, as expected, to DM 1.7bn (1.9bn). This is mainly attributable to the weakness of some important currencies in South-east Asia but also to the stagnating economic development of important markets, the fall in original rates and the exceptionally reserved attitude of some of our clients to the purchase of reinsurance cover. In this environment we were nevertheless able to maintain our shares in the reduced reinsured portfolios and even to expand them in individual markets.

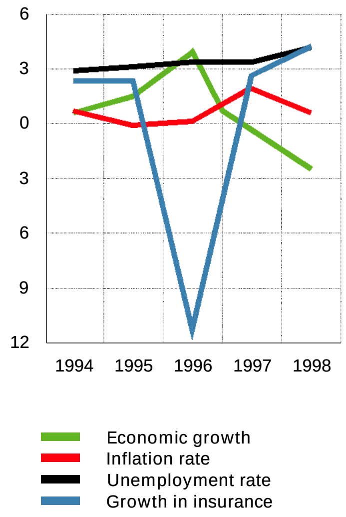
Although we were affected by an extremely large cyclone loss in India, by an earthquake and the political unrest in Indonesia and by some fairly large losses in Australia, the overall result was better than in the previous year.

In many of the markets in Asia we are currently partnering our clients through difficult times and thus ensuring a good basis for participating in what promise to be extensive development opportunities in future. For 1999 we expect to be able to maintain our premium volume. Owing to a severe hailstorm which hit Sydney in April 1999, the result is certain to deteriorate.

Japan

The difficult economic situation in Japan, the most important Asian market for us, left its mark on the insurance industry. In non-life insurance, the competition resulting from deregulation aggravated these growth-retarding influences; in life insurance, problems were created by the low interest rates and the need to make big write-downs on certain investments. These effects had a negative impact on the demand for reinsurance cover for the second year in succession. Owing to the deregulation in both life and property-casualty business, however, the demand for services and advice from reinsurers has increased. In response to this, we have expanded our office in Tokyo further. The overall result for the year under review was satisfactory.

Economic development in Japan (in %)



Southeast Asia

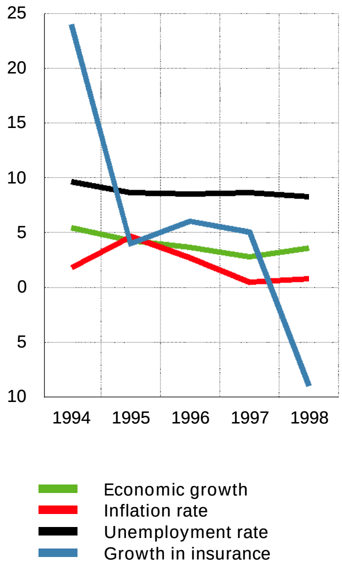
The individual ASEAN markets – with the exception of Indonesia – have meanwhile recovered from the currency and banking crises to differing extents. At present a considerable amount of sifting-out and consolidation is taking place among the local insurers; as a whole the internationally operating insurers have gained in importance there.

Owing to the appreciable reduction in economic activity in the region, we were forced to record a decline in premium income. But in consideration of the potential inherent in the individual markets, we nevertheless continued our investments as planned. In particular with a view to reinsurance cover for insurances of the person, we strengthened our regional base in Singapore.

India and China

These two markets, by far the most populous in the word, continue to require a long-term view, though for different reasons. We have organized our operations so that we can take advantage of opportunities as they present themselves. Our premium income from these markets currently totals around DM 70m. The result in China was positive, notwithstanding the enormous flood damage in summer 1998. This paradoxical situation can be explained partly by the low insurance density and partly by the fact that Chinese insurers have kept their reinsurance cover at a relatively low level. In India a fierce cyclone devastated an oil refinery that was being erected and the infrastructure of a whole province. This gave rise to huge losses for the state-owned Indian insurance industry and a very negative result for us.

Economic development in Australia (in %)



Australia and New Zealand

The recession in neighbouring Asian countries affected the Australasian economy to a lesser extent than originally feared; GDP actually grew somewhat more strongly than in the previous year. In New Zealand the decline in tourism from Korea, Japan and Southeast Asia, plus a fall in exports, put a strong brake on growth.

A large number of takeovers in the insurance industry has created a considerable stir; there is no sign of a break in this trend in 1999 either. In non-life insurance keen price competition reigns among insurers in property and liability business in both markets. Two developments will offer growth opportunities for a few strong insurers: the planned shift of workers' compensation business from state to private risk carriers in the most populous Australian state, New South Wales, and the envisaged dissolution of the state accident-compensation carrier in New Zealand.

Thus the overall environment for our subsidiary Munich Reinsurance Company of Australasia (MRA), Sydney, is difficult in its classic fields of business but also presents a range of opportunities. Premium income rose to A$ 336m (291m) mainly because we transferred the New Zealand business booked at the parent company to MRA in 1998. MRA recorded a break-even result in non-life business and a greatly improved result in life. All in all, it posted a loss for the year of A$ 3.1m (20.6m).

In the business region Africa, Near and Middle East our premium income fell to DM 930m (1,044m), a decline of 10.9% which was mainly attributable to changes in currency parities and the continuing erosion of original rates. The result improved, but is still negative. For 1999 we expect another slight decline in premium income. The deficit should be further reduced.

Africa

The largest and most advanced insurance market in Africa continues to be South Africa. Our South African subsidiary, Munich Reinsurance Company of Africa, Johannesburg, is the largest non-life reinsurer in the region. In 1998 it recorded a reduced premium income of R 1.2bn (1.4bn). Its profit for the year fell from R 34.8m to R 25.5m.

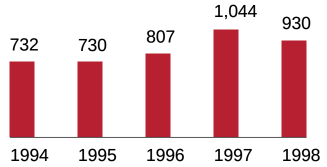
Near and Middle East

In the Arab countries our premium income decreased somewhat, in particular owing to our consolidation measures in health insurance and to the generally weak economic situation, which has spread to the oil-producing countries. By contrast, our result greatly improved. Given the above-mentioned factors, we do not expect any significant rise in our premium income for 1999.

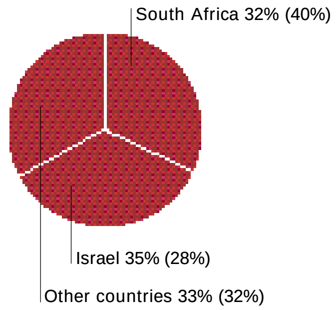
The standard of development and structure of the Israeli insurance market corresponds to that of European markets. It is currently feeling the effects of the general economic recession and very strong competition among insurers for market share. This is generally pushing down the price level and thus having an impact on reinsurance results. Nevertheless, we see opportunities for expanding our business in certain segments.

Africa, Near and Middle East

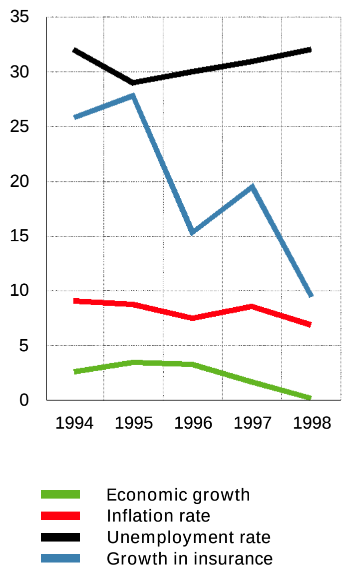
Gross premiums in DM m



Gross premiums by country

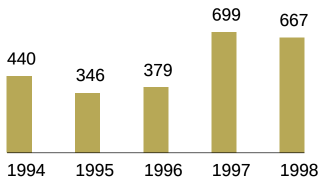


Economic development in South Africa (in %)

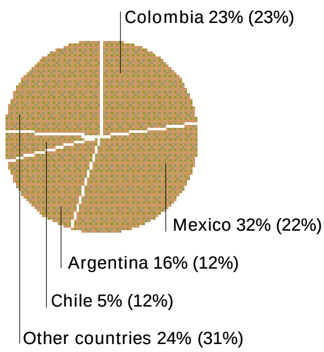


Latin America

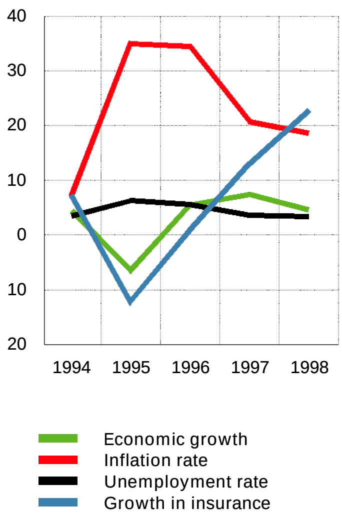
Gross premiums in DM m



Gross premiums by country



Economic development in Mexico (in %)



The business region Latin America contributed DM 667m (699m) to our Group premium income in the year under review. This represents a decline of 4.6%, which is mainly due to changes in exchange rates. The result was particularly affected by the damage wreaked by Hurricane Georges, coming on top of an inadequate rate level caused by excessive competition.

The economic upswing in Latin American clearly lost momentum in 1998. Two of the reasons for this were the rise in interest rates, triggered by the Asian and Russian crises, and weak exports. This increased the devaluation pressure on Latin American currencies. Further development depends on the success of the economic measures that the individual countries – especially Brazil – have taken to deal with this situation.

Despite major loss events – specifically Hurricane Georges – competition in insurance and reinsurance continues to be very intense. Whilst premium income in the property classes of business stagnated, there was growth in insurances of the person in particular. Especially in the main markets we have taken advantage of the business opportunities that have presented themselves. In Brazil we are continuing to prepare for the expected abolition of the reinsurance monopoly.

For 1999 we are reckoning with premium growth in Latin America. Despite the claims costs from the earthquake in Colombia at the beginning of the year, the result should still be satisfactory.

Classes of business

Life

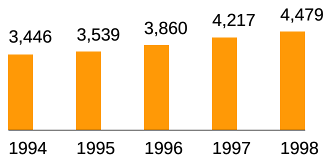
In life reinsurance we achieved our objectives in 1998. We were able to increase our premium income further and improve the result. After negative results in the two previous years, we recorded a clear profit. This was particularly due to the substantially improved result of our UK Life Branch

There are various growth factors affecting life insurance throughout the world, albeit with differing intensity. On the one hand there is the demographic development, marked by an increasingly ageing population with specific insurance needs, and on the other hand there is diminishing public confidence in the long-term financing capacity of social security systems. It is therefore to be expected that above all there will be an increase in the demand for annuity insurance, long-term care cover and other products that make provision for old age. This presents life insurance with new opportunities, which will also have positive consequences for reinsurance. However, the hard competition for this generally capital-intensive business – not least from banks and other financial service providers – and the continuing low level of interest rates are presenting life insurers with new challenges; in view of the long-term interest rates customarily guaranteed in life insurance, these require a thorough analysis of the interest and investment risks. We assist our clients with our know-how in these areas, providing them with advice and technical support.

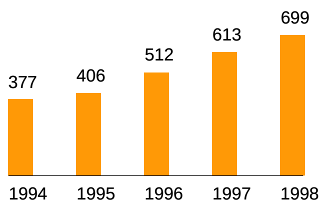
The experience of our German life reinsurance business was very satisfactory in the year under review; premium income rose further and the result developed positively.

The German federal government has decided to suspend large sections of the 1999 pension reform law and to issue new legislation to restructure statutory pension insurance by 31st December 2000. The continuing discussion about the future structure of statutory insurance systems has made people more inclined to make private provision for old age and surviving dependants. In addition, the government has announced its intention to promote company pensions, so that positive impulses for life insurance business can be expected from this area as well. Demand for reinsurance capacity and consultancy should therefore increase.

Gross premiums in DM m



Life insurance portfolios in DM bn



Reinsurance underwriting results for 1998 by class of business

DM m	Life	Personal accident/ health	Liability	Motor	Marine/ aviation	Fire
Gross premiums written	4,479	2,136	2,725	4,250	1,450	5,288
Net premiums written	3,951	1,853	2,444	3,666	1,219	4,724
Net premiums earned	3,829	1,813	2,441	3,737	1,204	4,753
Interest on premium funds and provisions	1,045	94	4	10	5	19
Claims incurred						
– Payments	2,366	1,191	1,629	2,591	999	2,598
– Change in provision	57	265	473	355	–8	592
	2,423	1,456	2,102	2,946	991	3,190
Operating expenses	1,229	556	752	1,036	286	1,417
Other income and expenditure	–1,090	–70	–2	30	3	–6
Underwriting result	132	–175	–411	–205	–65	159
Change in claims equalization provisions	–	0	–370	–95	98	–272
Underwriting result after change in claims equalization provisions	132	–175	–781	–300	33	–113
Ratios in % – business year						
Loss ratio		79.0	86.0	77.8	81.6	66.9
Expense ratio		30.7	30.8	27.7	23.8	29.8
Combined ratio		109.7	116.8	105.5	105.4	96.7
Ratios in % – previous year						
Loss ratio		69.9	82.3	78.0	67.6	55.2
Expense ratio		37.6	32.5	26.6	24.2	34.6
Combined ratio		107.5	114.8	104.6	91.8	89.8

Engineering	Other classes	Non-life combined	Total	Previous year non-life combined	Previous year total	DM m
1,686	2,975	20,510	24,989	20,727	24,944	Gross premiums written
1,431	2,710	18,047	21,998	18,186	21,715	Net premiums written
1,483	2,718	18,149	21,978	18,216	21,739	Net premiums earned
4	4	140	1,185	128	1,157	Interest on premium funds and provisions
						Claims incurred
1,113	1,601	11,722	14,088	11,072	12,995	– Payments
–85	–7	1,585	1,642	1,399	1,418	– Change in provision
1,028	1,594	13,307	15,730	12,471	14,413	
497	926	5,470	6,699	5,858	6,972	Operating expenses
32	–35	–48	–1,138	–16	–1,555	Other income and expenditure
–6	167	–536	–404	–1	–44	Underwriting result
15	–68	–692	–692	–1,226	–1,226	Change in claims equalization provisions
9	99	–1,228	–1,096	–1,227	–1,270	Underwriting result after change in claims equalization provisions
						Ratios in % – business year
66.9	59.8	72.9				Loss ratio
33.5	34.1	30.1				Expense ratio
100.4	93.9	103.0				Combined ratio
						Ratios in % – previous year
65.6	60.8	67.8				Loss ratio
34.5	35.5	32.2				Expense ratio
100.1	96.3	100.0				Combined ratio

The European markets are characterized by continuing consolidation. As large insurance groups tend to require less reinsurance, this development is restricting our opportunities for growth. On the other hand, owing to the increasingly keen competition, we anticipate a greater demand for individual advice and special reinsurance concepts. With our worldwide expertise and financial strength we are excellently equipped to satisfy our clients' particular requirements. Above all in France, the UK and Italy we have substantially strengthened our activities in insurances of the person, so that we can expect above-average growth in our business from these markets again in 1999.

Life insurance in Central and Eastern Europe is still comparatively underdeveloped. However, several countries are either considering or have implemented plans to privatize parts of the state pension systems and to support this privatization with tax measures, so that we see good opportunities for development in the future. Furthermore, the efforts of some states to join the EU could have an invigorating effect on the general political and economic climate and thus also on the development of life insurance.

Massive competition between life insurers, in which other financial service providers are increasingly joining, continues to characterize the North American markets. The ongoing market consolidation is an expression of the striving for size and cost efficiency, both of which are essential for prevailing in the face of hard price competition. The trend of large mutuals converting themselves into stock companies, observable for some years now, can be expected to intensify the consolidation process.

The financial crisis in Asia is likely to continue curbing growth in the relevant life insurance markets in the next few years. Nevertheless, we still regard the medium- to long-term growth potential as significant. In the coming year we will strengthen our local presence further in order to provide our clients in the region with optimum on-the-spot service.

As in the previous year, we were able to increase our premium income from Latin America considerably in 1998. Despite the recent currency turbulence, we see substantial opportunities for expansion in this region, especially after the scheduled opening of the reinsurance market in Brazil. In order to serve these markets better, we will be strengthening our local presence there as well.

All in all, we expect to achieve premium growth and a further improvement in the result in 1999. We attach great importance to life reinsurance business in the future, too. Components for success will be all-round expert service in the individual markets and Munich Re's outstanding financial strength.

Personal accident/health

In personal accident business we achieved further growth in our premium income, considerably expanding our business outside Germany. The result was less favourable than in the previous year, however.

The decline in the result is mainly attributable to our greater involvement outside Germany in workers' compensation business. Like liability insurance, this business has a long-tail component and therefore needs to be assessed in conjunction with the interest income to be earned over a longer period. It is a field of business that will gain in importance in the years to come. The demand for reinsurance in the remaining area of personal accident business, where results remain good, is continuing to fall.

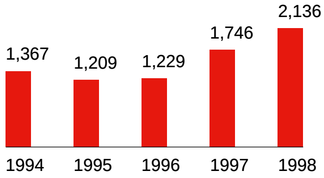
For 1999 we expect further expansion in workers' compensation insurance. The result will deteriorate as a consequence of the change in portfolio composition.

In health business we recorded strong growth in premium income. We were able to more than compensate for premium losses due to remedial measures in some markets by taking advantage of new business opportunities. As expected, the result was better than in the previous year but is still clearly negative. The remedial measures initiated in 1997 began to bear fruit, but they did not make themselves fully felt yet in 1998; they are being systematically continued.

In the eastern Mediterranean area and the Arab countries the introduction of efficient managed care techniques at our subsidiary MedNet enabled us to consolidate our market position and substantially improve the reinsurance results from this business. We thus have solid foundations for further business expansion. In Asia and Latin America we have strengthened our presence in the most important markets to enable us to take systematic advantage of the opportunities, partly through long-term partnerships with local insurers. The health unit of our subsidiary American Re has meanwhile established itself in the USA as a competent partner and consultant for managed-care reinsurance.

We see continued opportunities for growth in private health insurance in the threshold countries and generally in markets in which social insurance systems are liberalized or privatized. For 1999 we therefore expect a moderate increase in premium income and a significantly improved result.

Gross premiums in DM m

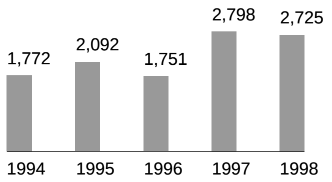


	1995	1996	1997	1998
Loss ratio	64.4	67.5	69.9	79.0
Expense ratio	30.6	34.2	37.6	30.7
Combined ratio	95.0	101.7	107.5	109.7

Liability

In our liability business, premium volume fell slightly owing to changes in exchange rates. The underwriting loss was about the same as in the previous year, though from an overall commercial point of view, i.e. taking interest income into account, the result of the business was positive.

Gross premiums in DM m



	1995	1996	1997	1998
Loss ratio	96.3	77.3	82.3	86.0
Expense ratio	26.2	34.9	32.5	30.8
Combined ratio	122.5	112.2	114.8	116.8

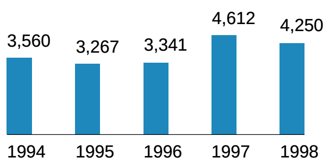
There was further confirmation of our view that liability is a class of business with growth potential. We were able to extend our leading position in industrial and professional liability business in our target markets. This is not necessarily reflected in the reinsurance premiums. The reason lies in the unbroken trend in many markets towards non-proportional covers. We will continue to offer our clients highly specialized reinsurance products that meet the growing demand for high capacities and, above all, security for complex risks.

We have systematically expanded our expertise in recent years, specifically in the actuarial sector and in the areas of loss analysis and loss control. We are countering the continual change in risks through increased analyses and service and especially through intensified risk management. We make this expertise available as a consultancy service to clients who are interested in expanding their liability business generally or in specific business segments.

For 1999 we are reckoning with premium growth and stable results.

Motor

Gross premiums in DM m



	1995	1996	1997	1998
Loss ratio	79.0	83.4	78.0	77.8
Expense ratio	20.8	22.2	26.6	27.7
Combined ratio	99.8	105.6	104.6	105.5

As expected, our premium volume in motor business declined. This was due to the impact of competition on the premium level in German direct insurance and also to higher retentions on the part of our German cedants, which could not be compensated for by growth from new business and larger shares abroad.

The result deteriorated slightly. This development reflected the situation in the direct insurance markets. In Germany competition on the conditions side generally led to worse results, despite a generally favourable claims situation. In the other markets we, along with our clients, are being affected by the consequences of more stringent court decisions, e.g. in France, where we are having to face an appreciable increase in existing and future pension payments.

As things stand at present, it looks as though premium and result will not change significantly in 1999.

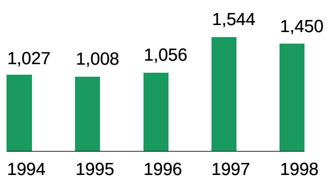
Marine/aviation

Our premium volume in marine business declined owing to the continuing erosion of rates. The hard competition naturally had an effect on our profitability; the result was less favourable than in the previous year.

The marked drop in earnings from marine insurance worldwide led to a notable reduction in the influx of new capacity in both insurance and reinsurance. However, owing to the overcapacity which continued to exist nevertheless, the rates for marine hull and cargo insurance fell further to what are now record lows. The consequence of this for proportional reinsurance is lower premiums and strongly deteriorating results. Moreover, the rates obtainable for non-proportional covers are now well below what is required as well.

We do not expect any reversal of this situation in 1999, but merely a significant slowing down of the trend. Although the market conditions are unfavourable, we still see opportunities for expanding our marine business in individual markets and in selected business segments. If the incidence of major losses remains normal, we can expect a break-even result at best.

Gross premiums in DM m



	1995	1996	1997	1998
Loss ratio	63.8	71.2	67.6	81.6
Expense ratio	23.9	24.7	24.2	23.8
Combined ratio	87.7	95.9	91.8	105.4

In aviation business we were again able to increase our premium income through selective acquisition. Rate levels for international airline business fell again by around 40%. Global claims experience in airline business was in line with the long-term average as far the number of claims was concerned, but in terms of amount it was much worse than in previous years owing to large individual losses. As we had only a below-average involvement in the biggest losses, however, we again managed to achieve a positive result.

Even if the overdue reversal of the trend should occur in 1999, our premium volume will only increase to a small extent, and we will have to reckon with a negative result even if claims incidence is only average. A cause for concern is the much higher expenditure to be expected for passenger liability claims as a consequence of the removal of liability limits in 1998 (see “Topical subjects in reinsurance”). The dramatically increased liability has so far not been matched by any premium increases.

In our space business, which is conducted solely by the parent company, we had to accept a marked decline in our premium volume for the first time. But this was purely due to the fact that the number of insured satellites worldwide was significantly lower than in the previous year. With a total of ten major losses, the space insurance market suffered its worst year to date. After a number of positive years, our result was very negative owing to the high loss incidence, which due to chance was far above the long-term average.

For 1999 we expect our premium volume to increase significantly again owing to a larger number of insured satellite launches. Despite the fall in the rate level due to competition and notwithstanding some major losses in the first few months of the current risk period, we currently still expect a positive result.

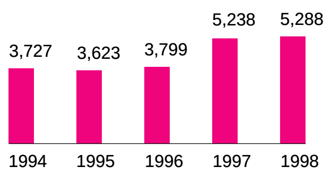
In fire insurance, premium rates for industrial fire cover continued to fall in most markets, in some cases substantially. Nevertheless, we recorded a slightly higher premium income than in the previous year, as we were able to acquire new business that met our quality standards in a number of European and overseas markets. This success is based on our intensive consulting activities and naturally on our outstanding financial strength, which enables us to assume high liabilities.

The result was hit by heavier claims costs from natural catastrophes. These include in particular Hurricane Georges, which caused severe damage in the Caribbean and in the USA in September 1998, and the ice storm in Canada in January 1998. The profit was therefore lower than in the previous year, but still pleasing as a whole. This can be attributed to our profit-oriented underwriting policy.

The portfolio of an internationally operating professional reinsurer is particularly exposed to natural catastrophes and other major losses. We therefore have to reckon with growing fluctuations in loss experience. But with our scientific expertise and our experience in mastering such risks, we are well armed to meet these financial challenges.

Fire

Gross premiums in DM m

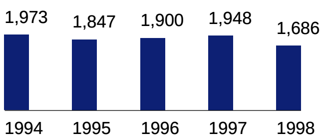


	1995	1996	1997	1998
Loss ratio	60.5	57.2	55.2	66.9
Expense ratio	31.8	33.0	34.6	29.8
Combined ratio	92.3	90.2	89.8	96.7

Competition in the reinsurance markets, and thus the supply of capacity worldwide, has increased even further. For 1999 we will therefore have to reckon with a decline in our premium income. The result will largely depend on our claims burdens from natural catastrophes and other major losses.

Engineering

Gross premiums in DM m



	1995	1996	1997	1998
Loss ratio	68.6	59.7	65.6	66.9
Expense ratio	34.3	34.9	34.5	33.5
Combined ratio	102.9	94.6	100.1	100.4

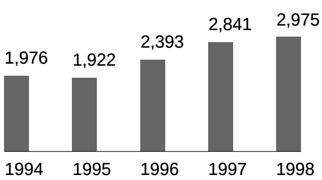
In the engineering classes of business (machinery, EAR and CAR, electronic equipment, etc.) there was a marked fall in our premium income, as expected. Reasons for this were higher retentions on the part of our clients, the adverse effects of competition on prices and conditions in some of the important markets for us, and economic problems especially in Asia – a region that is of particular importance for engineering insurance. On top of this, changes in exchange rates had a negative influence. On the other hand, we were also able to acquire attractive new business. Overall, therefore, we succeeded in maintaining our position.

Claims costs from natural catastrophes and other major losses were significantly higher than in the previous year; these included a cyclone in India that badly damaged two oil refineries and adjacent port facilities, as well as large wind farms, in June 1998. The fact that we were nevertheless able to achieve a break-even result overall, as in the previous year, speaks for the quality of our portfolio, which we also safeguard by means of regular inspections of particularly large risks by our highly qualified specialists.

In view of the continuing erosion of prices and conditions, we will have to reckon with a further decline in our premium volume and a difficult result situation in 1999.

Other classes of business

Gross premiums in DM m



	1995	1996	1997	1998
Loss ratio	61.6	59.3	60.8	59.8
Expense ratio	33.8	34.3	35.5	34.1
Combined ratio	95.4	93.6	96.3	93.9

All other classes of business together showed an increase in premium income. The combined result was very satisfactory.

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

Homeowners' comprehensive is a form of cover which is of particular importance in the German market and includes the risk elements fire, water damage, windstorm and hail. Although the price erosion in insurance and reinsurance persisted, lower claims costs for windstorm and frost damage meant we were able to improve our result and achieve a profit.

Business experience in householders' comprehensive was also satisfactory; it produced an increased profit.

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

In our agricultural lines of business (hail, crop, livestock), which we write worldwide with experts in Munich and at some of our local business units, percentage growth in premium income was in double figures. We regard these lines as an attractive field of business for the future, in which our expertise will provide us with very good opportunities. Predominant here are developed markets like the USA and Europe. On account of higher hailstorm frequency and an inadequate premium level in Italy, the result was negative in the year under review. We have initiated appropriate remedial measures for 1999, which have included giving up some business.

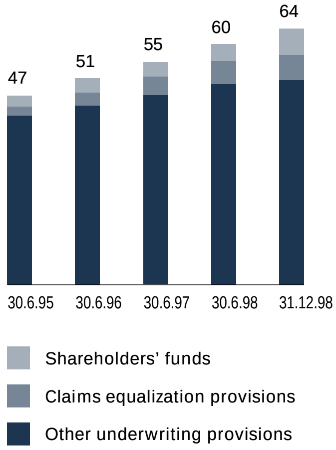
In credit business we succeeded in expanding our premium volume again. We achieved a pleasing increase in the profit. In Germany the rise in the number of insolvencies continued, but not to the same extent as in the last few years. Thanks to the effective remedial measures of our German cedants, the result in our domestic credit business has improved further. We are also satisfied with the experience of our non-German business, even if the result is somewhat less favourable than in the previous year.

For 1999 we expect the overall premium volume for “Other classes of business” to remain at around the same level. We anticipate another profit, albeit a reduced one.

Our financial strength

In view of growing risk exposure, insurers rightly attach great importance to their reinsurers' financial security. In this respect, too, Munich Re is in a very strong competitive position.

Funds in DM bn



Parent company's outstanding financial strength

The financial resources of the Munich Reinsurance Company were again substantially strengthened in the year under review. The 1998 capital measures raised a total of DM 2.6bn, and a further DM 0.7bn resulted from the rights issue in spring 1999 for the holders of bearer shares. We have also made another scheduled improvement to our financial base by allocating DM 150m out of our profit for the business year 1998 to our revenue reserves. Following these capital measures our company's total shareholders' funds total DM 7.2bn.

The high degree of financial security Munich Re offers its clients derives not least from its valuation reserves, i.e. the reserves resulting from the difference between the book values and current market values of its investments. These valuation reserves amounted to DM 67.4bn as at 31st December 1998; despite the volatile capital markets, they thus show almost no change compared with the position at the last balance sheet date (cf. page 134).

We have allocated DM 0.6bn to the claims equalization provision and similar provisions. These provisions, which serve to mitigate future fluctuations in annual results, now total DM 6.4bn; this, too, impressively underlines the parent company's financial strength.

The underwriting provisions required for our reinsurance business were calculated using the same prudent methods as in previous years. Our claims provisions, which are generally not discounted, were further increased by means of special allocations for possible long-tail claims, especially in liability insurance. Our total underwriting provisions now equal 333% (323%) of net premiums.

Further improvement in the capitalization of reinsurance subsidiaries

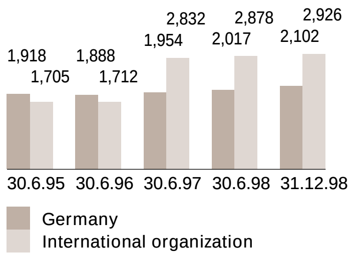
Not only the financial strength of the parent company is outstanding; the capitalization of our subsidiaries is also excellent. American Re, for instance, can boast capital resources of US$ 2.9bn, which compare very favourably with those of its competitors. Münchener Rück Italia's capital base was strengthened by Lit 300bn in the year under review. And we increased the shareholders' funds of Munich American Reassurance Company, Atlanta, by US$ 76m to give the company the requisite financial base for the planned expansion of its business.

Excellent ratings from leading rating agencies

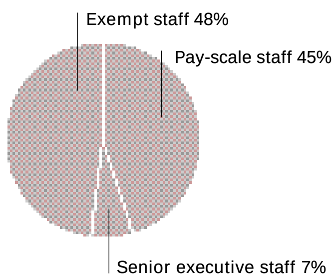
Munich Re's financial strength is also reflected in the ratings awarded by the leading rating agencies. Thus we have been given an A++ (Superior) by A.M. Best, an Aaa (Exceptional) by Moody's and an AAA (Extremely Strong) by Standard & Poor's, the top rating in each case.

Our staff

Personnel development



Staff groups



Percentage of graduates 34%

Average age of staff 40 years

The expansion of our business, and our business expectations for the next few years, resulted in a further increase in the number of staff employed in Munich in 1998. Our manpower planning envisages significant recruitment for 1999 as well. It continues to be hard to find enough suitable applicants on the labour market with professional experience and the qualifications we require. We have therefore stepped up our marketing for graduates and refined our selection procedure. We have also revised our trainee programme and adjusted it to today's requirements. The basic and advanced training we provide has been further developed and we have introduced special orientation programmes to supplement the professional training in our individual divisions.

The expansion in personnel means that the process of integrating new staff into the company – familiarizing them with our corporate culture – acquires particular significance. We attach importance to remaining predictable. The fact that over 70% of our staff have worked for the company for more than five years can be seen as an important basis for business continuity. And we want to retain our staff's loyalty. This has led to our developing a family-friendly concept for staff on parental leave, which allows them to combine the interests of job and family better and means their qualifications and experience are not lost to the company.

A look at our staff structure also shows the emphasis we place on well-qualified staff. The large percentage of graduates and exempt staff (those with salaries exceeding the pay scale of collective bargaining agreements) can be explained by the special features of our business, which require a high degree of expert knowledge and specialist skills. The international nature of our operations, moreover, is resulting in a gradual increase in the number of Munich staff who have spent several years working abroad.

There has also been an increase in the number of staff in our international organization, reflecting the importance that proximity to risks and clients has for us. An intensive transfer of knowledge and an ongoing exchange of experience takes place between staff in our international organization and staff in Munich, within a framework of international assignments. This is an important underlying factor in continuing to satisfy our clients' requirements.

In 1999 we will be devoting particular attention to the question of how we can systematically assess the existing potential and expert knowledge in our international organization and make even greater use of these resources globally in future.

Direct insurance

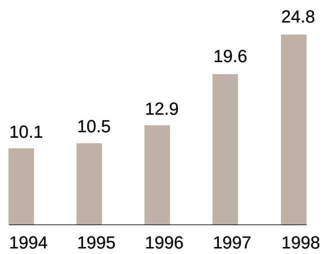
The Munich Re Group has for many years included a number of well-known German direct insurance companies, whose operations focus on the especially promising lines of life and health business. Our direct insurance subsidiaries – ERGO, Karlsruher, Europäische – contribute significantly to the stable development of Group premium income and results by balancing our reinsurance business, which is susceptible to stronger fluctuations. Our majority shareholding in Berlinische Leben was sold to CGU as at 1st January 1998.

In 1998 the direct insurers in our Group maintained their position well in a difficult environment; they achieved a considerable improvement in their underwriting result and overall growth which exceeded that of the market as a whole.

Another large increase in premium income to DM 24.8bn owing to the first full consolidation of VICTORIA and D.A.S.

Our direct insurance companies contributed a total of DM 24.8bn (19.6bn) to Group premium income in the year under review; this was 26.7% more than in the previous year. 90% of the premium derived from Germany and most of the remaining 10% from the rest of Europe.

Gross premiums in DM bn



Gross premiums written by direct insurers	1998 DM m	%	Pr. year DM m	%
Life	11,120	44.8	9,475	48.4
Health	6,813	27.5	5,946	30.4
Property-casualty	6,869	27.7	4,157	21.2
Total	24,802	100.0	19,578	100.0

Gross premium income increased by DM 5.2bn. DM 4.2bn of this is due to the following changes: VICTORIA and D.A.S. have been consolidated for the first time for a full business year; Berlinische Leben ceased to be a consolidated company as at 1st January 1998.

Without these changes, premium growth would have been 4.2%. The biggest growth on an adjusted basis took place in health insurance, with an increase in premium of 7.1%; life insurance grew by 3.1%. Also very pleasing is the fact that – contrary to the market trend – growth of 3.4% was achieved in property-casualty insurance.

Consolidated net premiums increased by 28.0% to DM 24.0bn (18.8bn).

Significantly higher underwriting profit

The underwriting profit rose by more than 70% to nearly DM 1.1bn (0.6bn); there was also a very satisfying improvement on an adjusted basis.

The amounts which the life and health insurers paid out or reserved for their policyholders once more increased appreciably in 1998.

In property-casualty insurance, claims experience was again more favourable than in the previous year.

Much was done to improve administrative processes and modernize agencies; thanks to consistent cost management, however, the increase in administrative expenses did not exceed premium growth. Acquisition costs show a rise as a consequence of the pleasing development of new business in life and health insurance.

Owing to the more favourable underwriting result, the property-casualty insurers allocated a higher amount of DM 80m (56m) to their claims equalization provisions.

Investment result again substantially improved

The direct insurers' investments increased to DM 142bn (138bn), even though Berlinische Leben was no longer a member of the Group.

Investment income totalled DM 12.1bn (9.4bn); the previous year's figure includes VICTORIA and D.A.S. on a pro rata basis only. The life and health insurers especially took advantage of the favourable opportunities that presented themselves from time to time on the stock market to realize capital gains.

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

	1994	1995	1996	1997	1998
Gross premiums	10,126	10,482	12,852	19,578	24,802
Net premiums	9,406	9,706	12,159	18,762	24,011
Underwriting result					
Life*	365	444	407	443	587
Health*	–	–	100	143	303
Property-casualty**	97	31	38	54	206
Total	462	475	545	640	1,096
Operating result	504	455	497	1,101	1,546

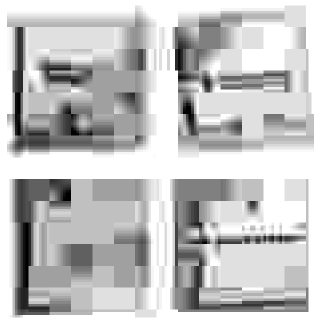
* Including the investment results.
** Before change in claims equalization provisions.

Overview of the most important direct insurance companies in the Group

The following information refers to the subsidiaries' individual or consolidated accounts for 1998.

ERGO Insurance Group was created by merging VICTORIA, Hamburg-Mannheimer, DKV and D. A. S. in 1997 and is the second largest direct insurance group in the German market. The clear focus of ERGO's business is on personal lines insurance and it serves over 15 million clients; in health insurance and legal protection insurance it is the market leader in Europe.

ERGO. Four companies. One strategy.



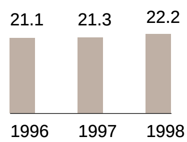
ERGO
The new major player

ERGO Insurance Group's premium income, including DM 1.8bn (1.6bn) in premiums from the provision for policyholders' dividends, rose by 4.9% to DM 24bn (22.9bn). 43% of this derived from life insurance, 31% from health insurance, 24% from property-casualty business and 2% from reinsurance business.

Foreign subsidiaries contributed gross premiums of DM 2.0bn (1.6bn), or 23.8% more than in the previous year. This pleasing growth is partly attributable to the first-time consolidation of Previasa, the fifth largest Spanish health insurance company, and Magdeburger Hellas, a Greek property-casualty insurer. The share of ERGO's premium from non-German business increased from just under 8% to 9%.

Premium income in life insurance, including premiums from the provision for policyholders' dividends, rose by 2.9% to DM 10.4bn (10.1bn). This means that ERGO remains the second largest life insurer in Germany. New business premium in Germany grew satisfyingly by 11.8% to DM 1.7bn (1.5bn); DM 960m (947m) of this was apportionable to regular-premium business and DM 697 (536) to single-premium business. The main emphasis in new business was on endowment insurance and term insurance. In terms of annual premiums, the insured portfolio of ERGO's German life insurers increased by 0.6% to DM 8bn. The life insurers' unadjusted earnings rose to DM 4.6bn (4.1bn); 93.9% of this was allocated to policyholders. Altogether, payments and allocations to clients totalled DM 14.7bn (13.9bn) in 1998.

Gross premium income
in DM bn



Premiums in health insurance, including those from the provision for policyholders' dividends, were up 9.4% to DM 7.4bn (6.8bn). Health insurance was ERGO's strongest field of growth in 1998. It extended its market leadership in Germany and Europe. The health insurers' unadjusted earnings rose to DM 1.4bn (1.3bn); 95% of this was transferred to the provision for policyholders' dividends or allocated directly to the actuarial reserves. Total payments and allocations to policyholders amounted to DM 8bn (7.2bn).

Counter to the market trend and despite the continuing pressure on prices in motor and industrial fire insurance, ERGO's premium income from property-casualty business grew by 1.9% to DM 5.8bn (5.7bn). Thanks to favourable claims experience, the overall underwriting result was excellent: the profit before allocations to the claims equalization provision climbed to DM 175m (78m). Legal protection insurance, in which ERGO is the market leader in both Germany and Europe, closed with a notably smaller underwriting loss than in the previous year.

In active reinsurance business, gross premium grew considerably to DM 488m (401m). The underwriting loss increased.

Altogether, before allocations to the claims equalization provision, ERGO's underwriting profit rose substantially to DM 886m (559m). Of this, DM 473m (357m) is apportionable to life insurance, DM 267m (134m) to health insurance and DM 145m (67m) to property-casualty insurance. DM 129m (135m) was allocated to the claims equalization provision.

ERGO's investments grew by 8.7% to DM 123bn (113bn). Its published valuation reserves reached a total of DM 24.4bn (22.5bn) at the end of 1998 – a figure that compares very favourably with the rest of the industry and underlines ERGO's financial strength.

The investment result improved substantially by over DM 1bn or 13.9% to DM 9.5bn (8.4bn). The ERGO companies took advantage of favourable opportunities on the capital markets to realize capital gains; these showed an increase to DM 2.1bn (1.1bn). The major portion of the investment return – an amount of DM 8.8bn (7.7bn) – was allocated to the underwriting account, particularly for life and health insurance.

The profit before tax rose by 37.4% to DM 1.2bn (0.9bn). At DM 595m (329m) tax expenditure was higher than in the previous year, which had benefited from special factors (e.g. tax-related extraordinary dividends). Despite the heavier tax burden, ERGO's profit for the year increased further by 10.6% to DM 592m (535m). Shareholders' funds rose to DM 4.5bn (4.2bn).

The ERGO companies employed an average total of 23,554 (23,765) staff in 1998.

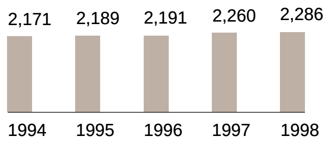
Karlsruher operates throughout Germany in life insurance and property-casualty insurance. The parent company is the life insurer Karlsruher Lebensversicherung; its most important subsidiary is the property-casualty insurer Karlsruher Versicherung. Altogether, the Karlsruher companies wrote gross premiums of DM 2.3bn in 1998.

Karlsruher Leben was able to keep up the previous years' good development in new business in 1998. Premiums from new business production increased by 7.6%, a higher rate than the market average. Premiums as a whole, including those from the provision for policyholders' dividends, grew by 1.5% to DM 2.03bn (2.00bn). The profit for the year increased to DM 28.8m (27.7m).

Karlsruher Versicherung wrote gross premiums of DM 356m, as in the previous year. The underwriting account closed with a profit of DM 11.8m (12.0m). The profit for the year rose to DM 12.5m (11.2m).

Karlsruher employed an average of 2,436 (2,467) staff in its group in 1998.

Group premium
in DM m

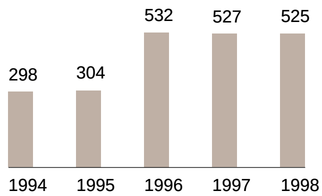


Europäische is one of the leading travel insurers in the European market. Together with its subsidiaries and participations, the company is represented in ten European countries and by an international assistance and service network from Sydney to Indianapolis.

In the business year 1998 the group's gross premium income totalled DM 525m (527m). Its underwriting loss increased to DM 10.4m (3.6m). The profit for the year amounted to DM 6.2m (9.7m).

An average of 535 (526) staff were employed by Europäische and its subsidiaries.

Group premium
in DM m

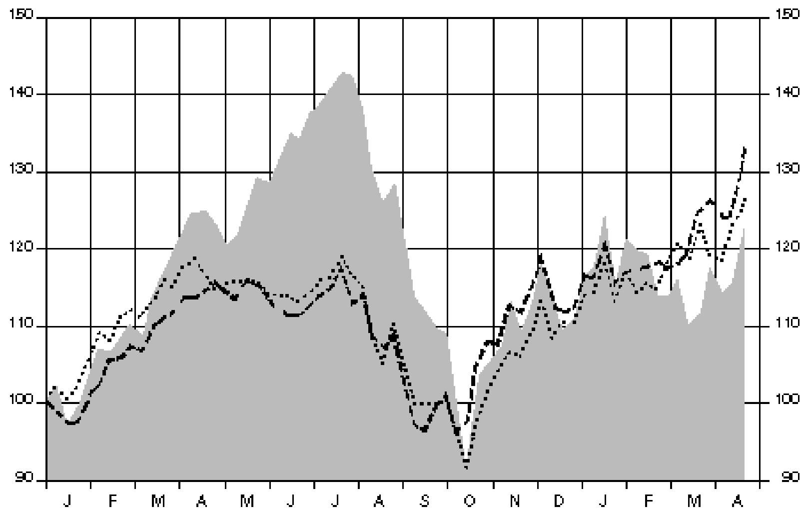


Investments

A turbulent year on the capital markets

The performance of the individual capital markets varied in the past year. Whilst the bond markets again did well and better than expected, developments on the equity markets were mixed. After the stock markets in Europe and North America had recorded new all-time highs in July 1998, renewed fears of a global financial crisis – this time caused by the situation in Russia – triggered a price slide. This was followed by concerted interventions on the part of governments, central banks and international organizations, which at least partially restored investors' confidence in the global capital markets. Thus by November 1998 the US share index, the Dow Jones, had already reached a new record mark of 9,374. In Europe, however, the Dow Jones Euro Stoxx 50 did not reach a new high again until April 1999.

Development of important indices between 1st January 1998 and 20th April 1999



DAX 30
Dow Jones Industrials
Financial Times Stock Exchange

Restrained start for the euro

In the past year the currencies of the dollar block tended to weaken and the British pound also became less attractive. On 31st December 1998 the US dollar was quoted at 1.67 against the D-mark, as opposed to 1.79 twelve months before. The Asian currencies, too, were not fully able to recover from the devaluation crisis that had begun in 1997. Only the Japanese yen, which was occasionally subject to extremely high fluctuations, increased in value against most currencies over the year as a whole. Exchange rates between the countries participating in EMU altered only slightly after the announcement of the bilateral fixed conversion rates in May 1998. The launch of the euro was successful, initially resulting in an upturn in prices on the European capital markets. In the following period, however, the continued robust development of the American economy and developments in the Balkans led to a marked strengthening of the dollar against the euro.

Our investment strategy has proved successful

For German direct insurers, the following principles apply with regard to investments: funds must be invested in such a way as to achieve the greatest possible security and profitability consistent with liquidity of the insurance enterprise at any time. In addition, there must be a prudent mix of types of investment and a balanced spread between countries and sectors. As reinsurers, we are not subject to these investment requirements, but we follow them nevertheless out of conviction.

Munich Re traditionally manages its assets itself. Our portfolio managers follow strict guidelines with regard to investment selection, which also govern the use of derivatives. Our risk management team permanently monitors adherence to these guidelines and compares the performance of our portfolio managers with benchmarks.

European and American bonds have always made up the bulk of our actively managed investments. Half the approximately DM 2.1bn raised by the capital increase in July 1998 was initially invested in European bonds and half in American bonds. We thus profited from the price advances that resulted from the renewed flight of global investors to the security of the Western bond markets. The interest rate cuts in the USA and several European countries led to a further fall in yields and had a stabilizing effect on the global capital markets.

Within our fixed-income portfolio we have restructured European investments in view of the single capital market that is emerging as a result of the euro. In this process, the credit quality of the individual issuers is the major factor for us. Structural shifts between the public and the private sector and differing valuations of individual sectors of industry thus assume a central importance. We pay particular attention to the liquidity of the individual investments. Besides government bonds, we choose bonds of top-quality issuers that have a rating of at least AA–.

The structure of our bond portfolio is oriented towards our underlying underwriting liabilities. Investments for covering the reserves in property-casualty business have an average duration of 3.5 years. Long-term commitments resulting from life and liability business are covered by assets with correspondingly longer maturities or by investments in shares.

The portion of our investments outside Germany has increased further. Next to our investments in euro-zone countries, those in the USA are most important. In the second half of 1998 we took advantage of the setbacks on the American stock market for a successive expansion of our equity portfolio in the US dollar sector. Altogether, however, the emphasis of our investments in shares is on European stocks. As we see it, the development of a European share culture, marked by restructurings and by company mergers and acquisitions, will offer good profit opportunities in the next few years.

We continue to adhere to the principle of matching our liabilities in foreign currencies with assets in the same currencies in order to minimize currency risks. However, as hitherto, we have covered commitments in threshold countries whose capital markets are not sufficiently liquid by investments on the American or European capital markets.

Positive development of investment portfolio and result

Even though growth was restricted as a result of Berlinische Leben's departure from the group of consolidated companies and by negative currency influences, Group investments increased again in the business year 1998, rising by more than DM 8bn to DM 217bn.

Whereas the bond markets only allowed new investments at historically low interest rates, fluctuations on the stock markets presented the long-term-oriented investor with good buying opportunities. Thus in the past year we successively expanded our equity portfolios. Shares and investment certificates now account for 28% of our investment portfolio, even though loans, with 43%, continue to account for the largest portion.

Investment mix

	Reinsurers		Direct insurers		Total	
	DM m	%	DM m	%	DM m	%
Real estate	2,778	4	8,047	6	10,825	5
Loans	16,095	21	76,297	54	92,392	43
Participations	5,948	8	3,724	2	9,672	4
Fixed-interest securities, fixed deposits	8,796	12	12,448	9	21,244	10
Shares, investment fund certificates	18,981	25	41,163	29	60,144	28
Deposits retained on assumed reinsurance	22,624	30	242	0	22,866	10
Total	75,222	100	141,921	100	217,143	100

Although the parent company's short business year means that a portion of regular investment income is missing, we succeeded in surpassing the previous year's overall investment result. Contributory factors here were the gains on the sale of long-held shares in Mercury Asset Management and AMB. Also of significance were the extreme fluctuations on the international financial markets.

Not only did we take advantage of sudden price falls to selectively expand our share portfolio but we also utilized phases where prices were excessively high to realize capital gains. As part of this active investment policy, oriented towards stocks and real assets, we also consciously accepted the risk of depreciations in individual cases. This risk was, however, limited at all times.

Investment result

	1998 DM m	Previous year DM m
Income	17,102	14,928
Expenditure	1,949	1,676
Result	15,153	13,252

In accordance with accounting regulations, DM 11.5bn of the investment profit has been incorporated in the underwriting results, mainly in those of the life and health insurers.

Large valuation reserves

Valuation under German accounting regulations is governed by the principle of prudence (no inclusion of unrealized profits; lower of cost or market value). As a consequence, the values shown in the balance sheet for our real estate, for our equity investments (which include shares, investment fund certificates and shareholdings in affiliated companies and other participations) and for our fixed-interest securities are much lower than their current market values. The difference between the current market values and the book values of these items in the consolidated balance sheet as at 31st December 1998 totalled DM 82.1bn and thus around DM 200m more than at 30th June 1998. In view of the significant changes on the international stock markets in the second half of 1998, this is proof of the quality of our investments.

Valuation reserves at 31st December 1998

	Reinsurers DM m	Life insurers DM m	Health insurers DM m	Property-casualty insurers DM m	Total DM m
Real estate	2,118	3,074	832	248	6,272
Equity investments	53,119	13,880	5,042	2,076	74,117
Fixed-interest securities	556	766	316	73	1,711
Total	55,793	17,720	6,190	2,397	82,100

Risks of future development

Reinsurers and insurers make their living from assuming risk – it is the core of their business. In an increasingly complex environment, our professional risk management provides security for our clients and earnings and appreciation in value for our shareholders. In keeping with the nature of our business, we also carry high risks if these are sufficiently transparent and their assumption is worthwhile for us and hence for our shareholders.

Over the course of time we have developed a whole range of processes and tools that enable us to identify, evaluate and master risks. And we endeavour to continually improve our operations and methods and to adjust them to take account of the changes in risks. Thus in the Munich Re Group we are currently working on a project whose aims include making risk-specific measures and information in our individual business units even more transparent and sharpening risk awareness further. Our Internal Auditing Division regularly checks the efficiency of risk management in all units of the Group. Looked at in this way, therefore, risk management is nothing new for us.

Besides the normal market risks, such as the appearance of new competitors or new products, the risks of significance for the insurers and reinsurers in the Munich Re Group are underwriting risks, risks in the investment sector and the currency risk.

– Underwriting risks

These include above all

- the risk of higher claims being incurred owing to chance factors, e.g. as a consequence of natural catastrophes (risk of random fluctuations);

- the risk that legal, economic, social or technological parameters or behavioural patterns will change and that such changes cannot be countered in time by adjustments in the prices or conditions of insurance or reinsurance cover (risk of change).

We endeavour to control the underwriting risks by means of the following measures in particular:

- A balanced mix and spread of business between insurance and reinsurance and between classes of business and markets

- Precise underwriting guidelines, adherence to which is constantly monitored

- Strictly controlled budgets for the reinsurance of natural catastrophe risks, the scope of which is fixed annually for a number of potential loss scenarios

- Effective planning and controlling instruments and suitable structures for ensuring that we have sufficient early warning of all important developments for the Group, can initiate the requisite measures in good time and can monitor them appropriately

- A conservative valuation of the provisions we make for uncertain liabilities arising from our commitments; claims provisions are generally not subject to any discounting, and our claims equalization provisions currently amount to more than DM 7.7bn

- Retrocession cover for certain risks we have assumed, with high standards applied to the security of our retrocessionaires

There is still considerable uncertainty worldwide as to what insurance losses will result from the year-2000 problem. In the Munich Re Group all the companies have examined their liabilities and the loss scenarios to be expected from these. In no case – nor as a whole – does the underwriting risk from the millennium changeover present itself as so significant that it could have a serious effect on the assets, liabilities, financial position or results of any of the Group companies. We are also continuing to work together closely with our clients to limit the possible effects. The parent company has additionally made special allocations to its claims provisions to take account of millennium-related losses that have already been incurred but not yet reported.

– Risks in the investment sector

In the investment sector we are exposed above all to interest rate risks, equity risks and credit risks. We counter these with

- a broad mix of investments,

- a geographical spread which follows that of our underwriting business,

- a careful selection of issuers

- and also, in individual cases, through the controlled use of derivative financial instruments.

Adherence to the strict investment guidelines for our portfolio managers is permanently monitored by an organizationally separate risk management team and by our Internal Auditing Division. We regularly check the investment guidelines and the organizational measures (e.g. functional separation of trading and administration, controls) and adjust these to take account of current developments where necessary.

– Currency risks

In particular in the reinsurance group, a substantial portion of the business is conducted in foreign currencies. We endeavour to avoid the resulting currency risks primarily by matching our liabilities in foreign currencies with assets in the same or similar currencies, so that exchange gains and losses largely neutralize each other. In individual cases, selective use is also made of derivative financial instruments for hedging purposes.

– Security in the IT sector

Munich Re attaches very great importance to information security. Within the framework of a global security concept, extensive mechanisms ensure the availability and integrity of the systems and programs. We have built up a global security organization and employ the latest security technologies such as firewalls and antivirus measures.

– Euro, millennium

We began our preparations for the euro and the year 2000 at a very early stage. Conversion to the euro has gone smoothly both internally and in business transactions with our clients. The euro will replace the D-mark in our internal business processes from 1st January 2001.

The modifications necessary to deal with the millennium problem in our IT systems were largely taken care of in the general conversion of our IT from mainframe to client-server systems, which had been scheduled to take place anyway. Nevertheless, all the systems necessary for our operating processes are being tested to make sure they are millennium-compliant. We are reckoning with a smooth start to the year 2000 as far as we are concerned.

– Legal risks

In 1997 and 1998 a number of Holocaust lawsuits were filed in the USA against European insurers and reinsurers, including Munich Re and VICTORIA Leben. Whereas the individual suit against VICTORIA Leben was dismissed in the court of first instance, the complaint in the Winters class action filed at the end of 1998 has not yet been served on Munich Re. We consider the charges to be unjustified and are endeavouring to refute them within the means available to us. We are taking the matter very seriously and are also complying with all the reporting requirements that the various US states have introduced for insurers doing business there.

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

Prospects

General economic environment

– Germany

Germany is by far the most important market for the direct insurers in the Munich Re Group and also for the parent company. Here growth in GDP for 1999 is expected to be between 1% and 2%, i.e. considerably less than last year (2.8%). Economic growth continues to be driven by exports, although this sector is showing a loss in momentum. Domestic demand is picking up; the disposable incomes of private households and private consumption could grow by 2.5% and 2% respectively. The federal government's reform plans are designed to create new jobs, but whether this goal can be achieved is still questionable; at any rate, no appreciable reduction in unemployment is in sight in 1999.

– Other countries

We expect GDP growth rates in the most important industrial nations to be lower in 1999 than last year, the loss of momentum being mainly due to the weakening of exports in Western states and the structural problems in Asian countries. However, the latest economic data – in particular in the USA – indicate that domestic demand will remain strong. It may therefore be assumed that the world markets will not sink into recession.

– Capital markets, performance of the euro

The low inflation rates point to a continuation of low interest rates. Whether the Western stock markets can continue to maintain the high price level they achieved in spring 1999 is very doubtful. Given the weakness in economic activity in important industrial nations, investors' high expectations with regard to growth rates in companies' profits appear difficult to satisfy in some cases.

In the medium term the euro will be able to establish itself as a stable currency and further the economic integration of Europe. Political influences and negative economic news may result in temporary weak phases, however.

Trends in reinsurance

Trends in reinsurance worldwide have not changed significantly compared with last year:

- The continuing consolidation process among direct insurers is resulting in larger and larger groups, which are restructuring their reinsurance programmes and ceding less premium but higher risks to reinsurers.

- The growing competition among direct insurers following the liberalization of insurance markets is increasing the pressure on original rates.

- After several years with relatively low losses from natural catastrophes and correspondingly good results despite falling prices, there is a large supply of capacity on the reinsurance markets and competition among reinsurers is very hard.

- Numerous mergers and acquisitions are changing the landscape in reinsurance. The four largest reinsurance groups today write around one third of global reinsurance premiums; ten years ago it was about 20%.

- Tailor-made coverage concepts and the linking of risk assumption and financing are assuming more and more importance; the borders between the capital markets and the reinsurance market are becoming blurred.

These trends will continue. Together with the general economic factors, they will result in low premium growth in reinsurance again worldwide in 1999.

Development of the German insurance industry

The direct insurers in the Munich Re Group write around 90% of their premium income in Germany. Here the general economic factors (e.g. investment activity, income of private households, inflation and estimation of future economic development) will on balance not give rise to any decisive impulses for new business or for the growth of in-force business in the insurance industry. Nevertheless, German insurers are reckoning with unchanged growth of 1.8%. This derives solely from insurances of the person, however; in view of the problems of the social security systems, people are having to consider – and are also interested in – making private provision for old age, occupational disability and illness.

In life insurance, premium growth of 4% is expected for the market as a whole. But special factors of relevance for this class of business are having conflicting influences, thus making predictions difficult: on the one hand, the demographically-based problems of statutory pension insurance are still unsolved, which positively influences demand for products offering private provision for old age; on the other hand, growth is being hampered by the continuing uncertainty regarding the political and economic parameters for life insurance and by the increased competition for private households' savings (current buzzword: "dedicated funds for old age provision" as offered by the investment industry).

German health insurers expect premium income to increase by 5% (4.6%). Impulses for growth are coming chiefly from the possibility of cuts in statutory health insurance benefits, which enhance the attractiveness of private health insurance. Healthcare costs are still rising and continuing to contribute significantly to the increase in claims payments.

As far as property-casualty insurance is concerned, a further fall in premium of around 1.5% (–2%) is anticipated. Especially in motor insurance, but also in a number of commercial and industrial lines, the hard competition resulting from the liberalization of the German insurance market is expected to lead to shrinking business volumes.

Tax reform in Germany

The new tax reform law entered into force with retroactive effect as from 1st January 1999. This means that the parent company and its German subsidiaries will have to face considerable additional tax burdens in 1999. These mainly result from the discounting requirement for provisions and the so-called "more realistic" valuation of claims provisions. Other negative factors are the retroactive requirement to reinstate original values and the limitations in respect of writedowns to the lower going-concern value.

According to the German government, the total tax burden for the insurance industry from the revaluation of claims provisions should not exceed DM 8.75bn. The implementation regulations, which are crucial in this respect, have yet to be issued, so that the additional tax which Munich Re will have to pay as a result of the tax reform cannot be quantified at present. However, it will probably be less than originally feared. Also, transitional regulations make it possible to spread the additional tax resulting from discounting and the reinstatement of values over a maximum of ten and five years respectively.

Business development of the Munich Re Group

- Reinsurance

  Around 30% of the reinsurers' premium derives from the German market, in which proportional reinsurance is of great importance. Owing to the substantial market share of the parent company in Germany, we are particularly affected by restructurings in reinsurance programmes to the detriment of premium-intensive proportional reinsurance and by increases in our clients' retentions. Thus the premium volume of our German business will fall even if our market share remains the same or even grows.

  In other markets, too, reinsurers' opportunities for growth are generally limited at present. Nevertheless, through innovative products and outstanding service we often succeed in extending our position even in shrinking markets. Increases in retentions usually apply only to simple risks; for complex and particularly exposed risks, there continues to be an unchanged or even enhanced demand for financially strong and experienced reinsurers like Munich Re.

  For 1999 we expect our gross premium from reinsurance as a whole to increase, with growth above all in life reinsurance. The reinsurers' underwriting result will deteriorate. This is the logical consequence of falling original rates and further erosion of reinsurance prices and conditions. The extent of the deterioration in the result will, however, mainly depend on the claims costs from natural catastrophes and other major losses.

- Direct insurance

We expect the positive development of our direct insurers to continue in 1999, both in terms of premium income and as regards the result.

The direct insurers' gross premiums will probably increase by around 3%. As last year, the mainstays of this growth will be the life and health insurers, who are reckoning with growth rates of 3% to 4%. In property-casualty insurance we anticipate an increase in premium of around 2%, despite the keen competition in important lines of business and counter to the general market trend.

Barring any unforeseen developments, our direct insurers expect another good underwriting result.

- Investments

Low yields on new issues on the bond markets and high price levels on the stock markets are making the investment and reinvestment of liquid funds more difficult. The insurers and reinsurers in the Group are therefore continuing to pursue their investment policy oriented towards stocks and real assets with appropriate caution. A central point of emphasis remains new investments in shares. Here the European stock markets still appear to have catching-up potential in relation to the USA. In the medium term, too, we consider the European financial markets to be particularly attractive internationally. We are keeping a close eye on developments in the Asian region. We have refrained from making major investments there for the time being, as too many economic problems still await a satisfactorily solution.

The direct insurers are increasing the proportion of real estate in their investment portfolios through investments in property and real estate trusts. However, in the case of the life and health insurers, over 40% continues to be invested in registered bonds and mortgage loans, i.e. in investments that guarantee a continual flow of income and a high degree of security.

For 1999 we expect investments to show an increase of around 6% and a further improvement in the result, always assuming that the situation on the capital markets does not undergo any fundamental negative changes before the end of the year.

- Group result for 1999

Despite the heavier tax burden for Munich Re and its German subsidiaries as a consequence of the tax reform, we currently expect a better Group result than in the previous year.

- Parent company's result for the year and dividend

Altogether, we expect a considerably improved result for the parent company as well. The Board of Management is proceeding on the assumption that it will be possible to maintain the dividend of DM 1.80 even though the number of shares has doubled. This forecast naturally presupposes that in the remainder of the business year we are not affected by exceptional loss events or big price losses on the capital markets.

Measures relating to the parent company's share capital

Our objective is to make our shares more liquid, more transparent and thus more attractive in a step-by-step process. At the end of June 1998 we therefore announced a series of capital measures with which Munich Re would be preparing its shares for the euro and simultaneously aiming to have only one category of share listed on the stock exchange in future. On 5th November 1998 the AGM adopted the necessary resolutions for this. At the end of 1998 we called in the unpaid amounts on the partly paid-up registered shares; this was followed in January 1999 by a 1:2 split of the registered shares and the conversion of the registered shares and bearer shares into no-par stock. In mid-February 1999 the last phase in the restructuring of Munich Re's share capital began with the publication of our offer to the holders of bearer shares, enabling them to convert their shares into registered shares and, for each share converted, to subscribe for a further registered share at an issue price of DM 247 (€126.29).

We were able to carry out all these measures as planned. The full paying-up of the registered shares raised an amount of DM 427m and the rights issue for the holders of bearer shares a total of DM 741m. The extensive package of measures will be concluded with the delisting of the bearer shares on the stock exchange, scheduled for the end of November 1999. Thus there will only be one category of Munich Re share on the stock exchange in future: fully paid-up no-par-value registered shares. We expect this simplification of our share structure to further enhance the interest of German and foreign private investors in Munich Re. The positive response to our measures so far has confirmed that we are on the right path.

Future requirements regarding the capitalization of the Munich Re Group

On 5th December 1998 the EU directive on insurance groups entered into force. The aim of this legislation is to further improve protection for policyholders. The directive, which still has to be implemented in German law, requires among other things that supervision of insurance companies' solvency be supplemented by supervision of the solvency of insurance groups. Owing to the Munich Re Group's outstanding capitalization, these new provisions do not give rise to any problems for us.

1999 consolidated accounts on the basis of International Accounting Standards

We will be preparing the consolidated accounts for 1999 on the basis of International Accounting Standards for the first time. Our chief objectives in this respect are

- a further broadening of our annual report's acceptance among shareholders, investors and analysts (even higher information content, even more transparency),
- greater comparability of our consolidated accounts with those of our international competitors (comparable accounting and valuation rules)
- and consequently even greater interest in our shares.

The main differences between IAS and the German Commercial Code for the Munich Re Group's accounting are as follows:

- Shares and securities are no longer valued according to the lower of cost or market principle but at their market values at the balance sheet date.
- Costs incurred in the conclusion of insurance contracts (acquisition costs) are no longer booked immediately as expenditure but are capitalized and written off over a certain period.
- Underwriting provisions and pension provisions are revalued; this usually leads to somewhat lower values for claims provisions and to higher values for pension provisions.

Altogether, these differences will result in our shareholders' funds being several times higher than those shown in the 1998 consolidated balance sheet. In the second half of 1999 we intend to inform our shareholders in more detail about the differences to be expected from the change in our accounting.

Half-year report for 1999

On 28th September 1999 we will be publishing our interim report: now that the balance sheet date has been switched to 31st December, the report will for the first time deal with the development of the Munich Re Group's business in the first six months of the current calendar year.

02
Topical subjects in reinsurance

Increasing life expectancy:

What are the consequences of this trend for life insurance?

Over the centuries human life expectancy has steadily increased.

This welcome development has been mainly due to the following factors:

- Advances in both preventive and therapeutic medicine
- Improvements in general living conditions
- An increase in health consciousness

The statistics tell a clear story. The mean life expectancy of a child born in Germany around 1900 was 47 years for a boy and 38 years for a girl; infant mortality was around 18%. Today men will live to be 73 on average and women 80, and infant mortality has fallen to below 1%.

Will human life expectancy continue to rise?

International studies seem to indicate this. By the year 2040 the mean life expectancy for men is projected to increase to between 74 and 77 and that of women to between 81 and 84. The differences in average life expectancy are not only considerable between the sexes but also between countries. Future mortality developments depend on many different parameters, whose individual influence is difficult to estimate. They involve some factors as yet unknown. The example of AIDS has shown that one cannot necessarily assume an unbroken trend towards ever higher life expectancies. Another phenomenon is the re-emergence of certain infectious diseases caused by new or known pathogens that had been thought conquered. On the other hand, in the age of molecular genetics, new medical knowledge or more efficient medicines and other types of therapy are very likely to have a positive influence on life expectancy, especially in highly developed countries.

What are the consequences of increasing life expectancy for life insurance?

Average life expectancy is one of the main bases for calculating premiums, which are customarily guaranteed for the whole policy period in life insurance. If average life expectancy increases, then the premiums agreed no longer correspond to what is actually required. The consequences of this for insurers and policyholders differ, depending on the type of policy.

Term insurance and endowment insurance, which cover the mortality risk, make up the bulk of life insurance business in many markets. With these policies, an underestimate of average life expectancy leads to so-called "mortality profits" for life insurers. These are usually returned to the policyholders by way of profit-sharing bonuses.

The picture is different for annuity insurances. Here increasing life expectancies are to the detriment of life insurers, who have to pay benefits – agreed on a long-term basis – for a longer time than originally assumed in the premium calculation. Substantial underwriting losses may be the consequence.

In the past it was possible for life insurers to compensate for these losses, because investment income was usually higher than the so-called actuarial interest rate guaranteed in the annuity insurance policies. But with a low capital-market interest rate and a relatively high actuarial interest rate, this safety margin can rapidly disappear.

The observation of mortality development, which certainly differs from country to country, and the conclusions drawn from this for risk management will therefore be of more importance than ever for life insurance companies in future. Munich Re's specialists, who include numerous actuaries and medical experts, are on hand to assist our clients with comprehensive advice and support.

Liability in the event of air crashes: No longer limited

In international air transport, limitation of liability in the event of air crashes is now largely a thing of the past. This development has two sources: the IATA Intercarrier Agreement and Council Regulation (EC) No. 2027/97.

At the end of 1995 the International Air Transport Association (IATA) adopted a new intercarrier agreement. This is a voluntary undertaking on the part of IATA member companies to assume an unlimited amount of liability – based on fault but with reversal of the burden of proof – in their conditions of carriage for international flights. It is up to each airline to sign this agreement separately. Up to 1st October 1998 a total of 190 airlines had done so, including most of the important carriers from the USA, Asia and Europe.

If an airline does not sign, its flights continue to be subject to the conditions of the Warsaw Convention of 1929 and the Hague Protocol of 1955 for the Unification of Certain Rules Relating to International Carriage by Air. This means liability is basically limited to U$ 75,000 per passenger for flights to and from the USA and to approximately US$20,000 for other flights, unless airlines have individually agreed to higher liability limits. Claimants can only overcome these limits if they can prove that the airline involved was grossly negligent. On the other hand, the airline can exempt itself from any liability by proving that the accident was the fault of third parties or caused by an act of God.

The IATA Intercarrier Agreement also provides airlines with the possibility of defending claims in this way; but it contains an option to waive any defence entirely or up to a specified amount.

For airlines that operate with a licence from one of the EU member states, the IATA Intercarrier Agreement has meanwhile ceased to be of significance. Since 18th October 1998 they have been subject to Council Regulation (EC) No. 2027/97 on air carrier liability in the event of accidents. This largely follows the IATA Intercarrier Agreement. However, it is not voluntary but has the character of law in each EU member state and is thus directly binding for the airlines. Non-EU airlines that fly to and from EU member states and whose conditions of carriage do not comply with the Council Regulation must take suitable measures to expressly inform passengers buying tickets in an EU member state what limitations apply in their conditions of carriage.

Despite some remaining inconsistencies and deficiencies, the abolition of liability limitations by the IATA Intercarrier Agreement and the EU Council Regulation are generally to be welcomed from a consumer's point of view. As a reinsurer that is one of the leading global risk carriers in aviation business, however, Munich Re also sees the other side of the coin.

The largely unlimited liability, which the reversal of the burden of proof brings very close to strict liability, must inevitably be expected to result in a substantial increase in the average amount of compensation per passenger. This will hit an insurance and reinsurance market whose prices for this business are close to a record low. After four years of continual reductions in rates, the premiums are well below what is technically necessary for the current amounts of compensation. At the present level, global liability premium in airline business is not even sufficient to cover the prospective liability claims of the passengers of just one fully laden jumbo jet. It is therefore clear that an immediate and radical change in the pricing of such liability cover is imperative.

The largely unlimited liability, which the reversal of the burden of proof brings very close to strict liability, must inevitably be expected to result in a substantial increase in the average amount of compensation per passenger. This will hit an insurance and reinsurance market whose prices for this business are close to a record low.

New challenges in space insurance

With the seemingly never-ending growth in our society's demand for information, the space industry is acquiring more and more importance in global communications. The rapid technical development of the related satellite systems is continually presenting space insurers – including Munich Re, one of the foremost risk carriers in this sector for over 20 years – with new challenges.

For some applications the capacity limits of the geostationary communications satellites, which occupy a "fixed" position 36,000 km above the equator, are now being reached. Besides this, the rights of use for the coveted satellite positions in geostationary orbit are distributed between states in accordance with UN rules and cannot be increased to an unlimited extent. For some time now, therefore, satellites have been traversing space in new orbits: LEOs (low earth orbits) and MEOs (medium earth orbits). Staggered in different orbital planes at heights of between 700 and 20,000 km, these satellites are interlinked as wireless networks – so-called "constellations".

On 1st November 1998, for example, the satellite-based mobile communications system IRIDIUM began commercial operations. This system makes it possible for the first time to communicate between any two points on the earth direct by satellite using standard-size mobile phones. With its leading participation in the IRIDIUM risk, Munich Re broke new ground in covering LEO constellations. The innovative coverage concept provides appropriate protection for the insured's commercial interests and takes into account the special space-related risks involved in low and medium earth orbits. Another point to be considered was the type of production involved, which was new for space flight technology, i.e. the "mass production" of low-flying satellites, with up to 14 communication units being produced for IRIDIUM per month and 84 satellites successfully launched within 14 months. This timetable could not have been adhered to with the production methods normally used in the space industry. In order to avoid the lead times that are usual between conception of geostationary communications satellites and their going into service, considerable use was made for the first time of components that were not originally envisaged for use in space.

What, then, were the particular challenges for underwriting? On the one hand, the complex systems risk had to be assessed technically. On the other hand, the underwriters needed to evaluate how the change in the insured's quality standards would influence the reliability of the components and subsystems involved. Experience with IRIDIUM to date has confirmed that, despite thorough and professional assessment, the pioneer character of such projects alone means that only limited predictions can be made about the loss experience of the launch and operating phases. The willingness of Munich Re to assume the risks involved in such innovative projects has repeatedly made a major contribution to their realization.

Since 1st December 1998 there have also been the 28 satellites of the ORBCOMM constellation available for the global exchange of news and navigation data. These services are used for such purposes as monitoring the transportation of hazardous goods, checking pipelines or locating missing vehicles.

The existing satellite constellations will be followed in the next few years by more that will make new applications possible. The 48 satellites of the Globalstar network are scheduled to start providing the IRIDIUM network with competition in 1999. The operators of the ten ICO satellites also see opportunities in the area of mobile communications. One of the most ambitious projects is that of the Teledesic network with 288 small satellites. Completely independent of any cables, the Teledesic customer will be able to obtain up-to-date software, video transmissions and the latest news in words, pictures and sound from the "Internet in the Sky". Long response times on the Internet may soon become a thing of the past thanks to satellite-based broadband communication.

Thus further opportunities for growth in the space industry are certainly apparent. Between 40 and 300 individual satellites have to be transported into orbit to create a LEO constellation. In the operational and maintenance phase, further launches are needed when replacement and back-up satellites are required. The constellations planned up to the year 2003 alone, including ICO, Teledesic and Skybridge, will require the launching of over 500 satellites. Worldwide there are over 50 different types of launch vehicle available with payload capacities of 1 to 18 tonnes to transport one or more LEO or MEO satellites. In the IRIDIUM installation phase launch vehicles like the Russian Proton or the American Delta rocket with capacity for more than one satellite were used. For the launching of individual replacement satellites, however, smaller launchers such as the Eurockot, a converted Russian intercontinental missile, are being considered. The great demand for launch capacity for the constellations planned has also attracted providers of as yet untested launch concepts. The evaluation and rating of these requires great experience in the insurance of launches and detailed monitoring and knowledge of the latest technical developments.

As with the insurance of geostationary satellites, Munich Re has been able to establish itself as the global market leader in the expanding segment of LEO and MEO space risks, thanks to its respected expert participation in the insurance of satellite constellations like IRIDIUM and ORBCOMM. Unfortunately competition in space insurance business, which is highly exposed, very technically demanding and volatile, has become so harsh that it is barely possible to obtain risk-commensurate premiums and conditions any longer. And it cannot be ruled out that Munich Re – as one of the few professional providers of space insurance – may very soon see itself forced to withdraw from this business.

New developments in credit insurance

With clients that are not private individuals but almost exclusively companies, it is a class of business still unknown among large sections of the population: credit insurance. Its function is to indemnify financial losses resulting from bad debts. Munich Re has been one of the leading reinsurers in this sector for many years. And the dynamic development of economic life is presenting credit (re)insurance with further opportunities for growth.

A field of business with considerable future potential is export credit insurance. Globalization of the markets and the worldwide increase in export volumes mean that promising growth rates can be expected, especially in Europe and the USA. Apart from this, banks are increasingly recognizing export credit insurance as a security when they finance investments in the production of export goods.

Up until a few years ago export credit insurance was exclusively in the hands of state agencies. Today the commercial risk (the risk of private buyers defaulting on payments) is covered by most of the non-state credit insurers. And corresponding coverages for the political risk (the risk of bad debts as a direct result of state action or inaction) have been offered by private credit insurers for some years now.

Since 1st January 1998 our clients have been able to reinsure political risks with us under short-term covers. But we assume these short-term risks only together with commercial export credit covers and only from insurers that possess or acquire the necessary professional knowledge. For as recent developments in Indonesia and Russia have shown, this field of business is very susceptible to major individual and accumulation losses. Our experts examine or prepare so-called “country ratings”; in addition, a specially developed computer program is used to assess and monitor accumulations. We can thus control our involvement and react swiftly in the event of changes in the risk situation.

In most of the central European markets the coverage of political risks under “global policies”, where both domestic and export credit risks are insured under one policy, is becoming more and more significant. In Germany the demand for such policies from private credit insurers is still relatively low. However, with the introduction of the euro and the resultant improvement in the comparability of products offered, this is likely to change rapidly.

A further new development is the reform of insolvency law in Germany, which took effect on 1st January 1999. This is of very substantial importance for credit insurers both in Germany and abroad. The principle of creditor protection is no longer predominant; in the foreground now are efforts to permit the debtor to “survive”. This has resulted in the introduction of the “insolvency plan” as a new legal tool for handling insolvencies, with the aim of ensuring that the company continues to exist if possible.

Such a plan, which must contain a proposal for deferring, reducing or safeguarding creditors’ claims, may be submitted by the debtor or the insolvency administrator. The idea is for creditors to agree on an arrangement for determining the realization of the debtor’s assets. This may deviate from the statutory insolvency order. It is the insolvency administrator’s job to oversee the fulfilment of the plan.

For the credit insurers involved it therefore initially remains uncertain in many cases whether a creditor will ultimately suffer a bad debt loss, e.g. in those instances where the insolvency plan primarily provides for payment respite. Thus the demand for “protracted default” covers, previously a rarity in Germany, will increase. These covers attach as soon as there are delays in payment and not only when a bad debt loss occurs. Besides this, in connection with the insolvency plan, creditors will probably put more pressure on credit insurers than in the past to continue providing their credit lines during the insolvency procedure so as to enable the business to continue operating.

A further point is that the new insolvency law restricts the securing of claims in the event of insolvency. This means that the value of securities provided may be reduced when an insolvency plan is drawn up.

Whether the number of insolvencies in Germany will actually increase as a result of the new legal situation remains to be seen. The enhanced risk of default for the creditors of German buyers should, however, tend to favour the market penetration of credit insurance in the medium term, which should also have a positive effect on the business opportunities for us, one of the leading credit reinsurers in Germany. And this does not only apply to the German market, because the insolvency law reform is also of considerable importance for foreign credit insurers that cover exports to Germany. We can offer our clients all-round service.

Munich Re and the environment

From company environmental protection to sustainable development

As part of the world and as an enterprise that operates throughout the world, Munich Re bears a piece of the responsibility for it – locally, nationally and internationally. We see the need to act as a socially responsible partner and as an enterprise that is affected by environmental damage in many different ways.

What we do

As far as external environmental responsibility is concerned, there is above all the know-how we make available to clients and the public. Our know-how providers include the experts in our Geoscience Research Group. They critically analyse such phenomena as changes in global climate and advocate rapid and extensive measures to curb man's interference with the natural ecological balance. In the reinsurance of technical risks, more than 100 Munich Re engineers inspect operational risks worldwide and thus help to prevent environmental damage. Our agricultural experts give advice on locally suitable and sustainable agricultural production. For risk analysis at industrial firms and other businesses, our clients can make use of the services of our subsidiary Münchener Ecoconsult GmbH.

We also support environmental initiatives and associations that we consider especially worthy of promotion.

We take our internal environmental responsibility seriously, endeavouring to give due regard to ecological concerns in all our operations. A consistent ecological concept is one of our central requirements in the building measures that we commission.

Our undertaking to carry out an environmental audit, the completion of our switch to reusable bottles instead of disposable packaging (annual saving: 90,000 tin cans), and our subsidy to staff members who use public transport, were honoured in June 1998 by our inclusion in the Bavarian Environmental Pact (a Bavarian state government initiative).

In addition, we have signed the insurance industry's UNEP declaration on the environment, thus giving a definite signal. This declaration initiated by UNEP – the United Nations Environment Programme – is a clear commitment by the insurance industry to the goal of ecologically sustainable development.

What we will do

The aim of sustainable development, with due regard to social, economic and ecological aspects, replaces and expands our previous efforts in the field of company environmental protection. All areas and activities of Munich Re are being carefully looked at.

In the second half of 1999 we will begin Munich Re's environmental audit with independent consultants. All operations will be examined and certified from the environmental point of view. This process will be repeated at regular intervals.

We are currently integrating our many different activities into a concerted environmental programme. We want to ensure a long-term development of our enterprise in harmony with our environment. Socially, economically and ecologically. Worldwide. And sustainably.

World Map of Natural Hazards

Our World Map of Natural Hazards, a depiction of the global distribution of significant risk potentials and their intensity

Every year windstorms, earthquakes, floods, storm surges, hailstorms, lightning and other natural events cause damage amounting to billions of dollars worldwide. In the third edition of its World Map of Natural Hazards Munich Re provides comprehensive information on all these hazards.

The earthquake and windstorm zones contained in the previous editions of this publication (total number of copies for all languages so far: 35,000) have been updated and also methodologically refined and augmented. Information on the earthquake risk, for instance, can be gleaned not only from the hazard zones but also from a plate tectonics map. The exposure of large cities to subsoil resonance effects (Mexico City effect) is charted, as are particularly hazardous volcanoes. The windstorm zones show the exposure to tropical cyclones, tornadoes, winter storms and regional windstorm systems such as the chinook, mistral and foehn. There are now also details of other significant natural hazards like severe rainfall, storm surges, hail and lightning.

A particularly interesting innovation is the auxiliary map on climate change. It deals with the effects of the climatic phenomenon El Niño, which was responsible for numerous natural catastrophes around the world in 1997/98 before being replaced by its no less hazardous opposite, El Niña. Even more important are the effects to be expected from the emerging phenomenon of global warming, which will lead to a distinct deterioration in the risk situation long term. The ozone hole, rising sea levels, changes in precipitation, windstorm exposure and glacier retreat are other important aspects dealt with by this map.

The special publication accompanying the World Map of Natural Hazards considers the related underwriting aspects in detail. It also provides a detailed catalogue of historic natural catastrophes that have occurred throughout the world; the events are grouped by continent and listed chronologically with additional information on the number of deaths and, where possible, the economic losses. Maps of each continent give a clear overview of the location and distribution of the catastrophe events. The brochure is completed by the customary scales and definitions used for earthquake intensity and wind speeds.

The new World Map of Natural Hazards is an aid for risk-commensurate insurance rating, catastrophe prevention and public planning – a unique source of information for insurance companies, engineering offices, planning authorities, geoscientists, schools and other interested parties worldwide. It is available as a wall map or folding map in a range of languages, including Chinese and Japanese, and also as an attractive Globe of Natural Hazards.

We are currently preparing a CD-ROM version of the World Map with additional features that enable the user to precisely access and select hazard-related information on particular countries or cities. The product will use multimedia techniques to present the current state of scientific knowledge in an attractive and modern way.

03
Consolidated accounts

as at 31st December 1998

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

Summary of the most important figures

Balance sheet – assets	Reinsurers 1998 TDM	Direct insurers 1998 TDM	Total 1998 TDM	Total Previous year TDM
Investments	52,597,661	141,679,213	194,276,874	188,183,818
Deposits retained on assumed business	22,624,189	242,239	22,866,428	20,661,455
Accounts receivable on reinsurance business	4,211,862	95,248	4,307,110	3,484,957
Amounts receivable on direct insurance business	–	1,520,330	1,520,330	1,711,245
Other assets	6,713,888	6,101,703	12,815,591	13,192,794
Balance sheet total			235,786,333	227,234,269

Balance sheet – liabilities	Reinsurers 1998 TDM	Direct insurers 1998 TDM	Total 1998 TDM	Total Previous year TDM
Shareholders' funds			12,262,408	9,961,888
Underwriting funds and provisions	63,520,873	131,468,853	194,989,726	189,885,383
Deposits retained on ceded business	4,670,567	3,200,272	7,870,839	8,189,427
Accounts payable on reinsurance business	3,140,246	100,725	3,240,971	2,799,566
Amounts payable on direct insurance business	–	7,744,906	7,744,906	6,995,078
Other provisions	2,256,911	2,459,780	4,716,691	4,528,910
Other liabilities	3,414,836	1,545,956	4,960,792	4,874,017
Balance sheet total			235,786,333	227,234,269

Premium income	Reinsurers 1998 TDM	Direct insurers 1998 TDM	Total 1998 TDM	Total Previous year TDM
Gross premiums	24,988,765	24,801,979	49,790,744	44,522,250
– Life	4,479,224	11,119,759	15,598,983	13,691,554
– Health	–[1]	6,813,546	6,813,546	5,945,915
– Property-casualty	20,509,541	6,868,674	27,378,215	24,884,781
Net premiums	21,998,464	24,011,365	46,009,829	40,477,055
– Life	3,950,675	10,900,733	14,851,408	12,711,503
– Health	–[1]	6,638,983	6,638,983	5,596,578
– Property-casualty	18,047,789	6,471,649	24,519,438	22,168,974

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

Results	Reinsurers 1998 TDM	Direct insurers 1998 TDM	Total 1998 TDM	Total Previous year TDM
Underwriting result of reinsurers and property-casualty insurers	–404,026	206,007	–198,019	9,457
– Net premiums	21,998,464	6,471,649	28,470,113	25,697,953
– Interest income on premium funds	1,184,615	15,852	1,200,467	1,162,078
– Claims incurred	15,730,231	3,973,505	19,703,736	16,950,492
– Operating expenses	6,699,152	2,256,127	8,955,279	8,362,208
– Other underwriting income and expenditure	–1,157,722	–51,862	–1,209,584	–1,537,874
Underwriting result of life and health insurers	–	890,226	890,226	586,161
– Net premiums	–	17,539,716	17,539,716	14,779,102
– Investment result	–	10,069,071	10,069,071	8,035,474
– Underwriting income and expenditure	–	–18,958,909	–18,958,909	–15,823,307
– Operating expenses	–	2,871,376	2,871,376	2,369,957
– Allocation to provisions for policyholders' dividends	–	4,888,276	4,888,276	4,035,151
Underwriting result	–404,026	1,096,233	692,207	595,618
Investment result	4,185,735	10,967,576	15,153,311	13,252,204
Thereof included in underwriting result	1,437,648	10,086,306	11,523,954	9,384,367
Other income and expenditure	–264,673	–351,205	–615,878	–708,752
Unadjusted earnings	2,079,388	1,626,298	3,705,686	3,754,703
Special allocations to the provision for outstanding claims	–282,273	–	–282,273	–269,680
Change in the claims equalization provision and the provisions for major risks and earthquake risks	–691,621	–80,295	–771,916	–1,281,844
Operating result	1,105,494	1,546,003	2,651,497	2,203,179
Tax			–1,454,732	–1,054,477
Profit for the year			1,196,765	1,148,702

Consolidated balance sheet as at 31st December 1998

Assets	Notes	TDM	TDM	Previous year TDM
A. Liability of shareholders for uncalled capital			–	409,799
B. Intangible assets	(1)		4,146,205	4,128,126
C. Investments				
I. Real estate	(2)	10,825,029		10,994,110
II. Investments in affiliated companies and participations	(2, 3)	9,963,070		9,143,502
III. Other investments	(2)	173,204,192		167,841,394
		193,992,291		187,979,006
IV. Deposits retained on assumed reinsurance business	(5)	22,866,428		20,661,455
			216,858,719	208,640,461
D. Investments for the benefit of life insurance policyholders who bear the investment risk			284,583	204,812
E. Receivables	(4, 5)			
I. Amounts receivable on direct insurance business		1,520,330		1,711,245
II. Accounts receivable on reinsurance business		4,307,110		3,484,957
III. Other receivables		2,707,747		1,680,027
			8,535,187	6,876,229
F. Other assets	(6)		2,225,035	2,409,425
G. Deferred items	(7)		3,736,604	4,565,417
Total assets			235,786,333	227,234,269

Liabilities	Notes	TDM	TDM	Previous year TDM
A. Shareholders' funds	(8)			
I. Subscribed capital		869,598		834,598
II. Capital reserve		4,568,916		2,459,066
III. Revenue reserves		4,201,785		4,067,033
IV. Balance sheet profit		159,228		152,928
V. Minority interests		2,462,881		2,448,263
			12,262,408	9,961,888
B. Special reserve	(9)		657,385	569,834
C. Underwriting funds and provisions for own account	(10)			
I. Unearned premiums		7,010,907		7,117,366
II. Premium funds		123,711,060		121,376,977
III. Provisions for outstanding claims		42,348,185		41,217,302
IV. Provision for premium refunds and policyholders' dividends		13,249,247		12,461,282
V. Claims equalization provision and similar provisions		7,744,215		6,956,409
VI. Other underwriting provisions		651,177		558,435
			194,714,791	189,687,771
D. Underwriting provisions for life insurance policies where the investment risk is borne by the policyholders	(10)		274,935	197,612
E. Other provisions	(11)		4,716,691	4,528,910
F. Deposits retained on ceded business	(5)		7,870,839	8,189,427
G. Other liabilities				
I. Amounts payable on direct insurance business	(5, 12)	7,744,906		6,995,078
II. Accounts payable on reinsurance business	(5)	3,240,971		2,799,566
III. Notes and debentures	(13)	1,231,271		1,317,351
IV. Amounts owed to banks	(13)	1,503,255		1,392,524
V. Miscellaneous liabilities	(5, 13)	1,386,381		1,392,320
			15,106,784	13,896,839
H. Deferred items	(14)		182,500	201,988
Total liabilities			235,786,333	227,234,269

Consolidated profit and loss account for the business year 1998

Items	Notes	TDM	Previous year TDM
I. Technical account for reinsurance and property-casualty insurance			
1. Earned premiums for own account	(15)	28,425,217	25,733,280
2. Interest income on premium funds for own account		1,200,467	1,162,078
3. Other underwriting income for own account	(16)	23,761	18,773
4. Claims incurred for own account	(17)	19,703,736	16,950,492
5. Change in other underwriting provisions for own account	(18)	–1,090,437	–1,479,395
6. Expenditure for premium refunds for own account		29,032	43,156
7. Operating expenses for own account	(19, 20)	8,955,279	8,362,208
8. Other underwriting expenditure for own account	(21)	68,980	69,423
9. Subtotal	(22)	**–198,019**	**9,457**
10. Change in the claims equalization provision and similar provisions		–771,916	–1,281,844
11. Underwriting result for own account in reinsurance and property-casualty insurance		**–969,935**	**–1,272,387**
II. Technical account for life and health insurance			
1. Earned premiums for own account	(15)	17,545,304	14,751,585
2. Premiums from the gross provision for policyholders' dividends		2,046,487	1,682,983
3. Allocated investment return transferred from the non-technical account		10,069,071	8,035,474
4. Unrealized gains on investments		20,717	22,845
5. Other underwriting income for own account	(16)	63,694	65,444
6. Claims incurred for own account	(17)	12,296,160	10,311,539
7. Change in other underwriting provisions for own account	(18)	–7,963,990	–6,528,339
8. Expenditure for policyholders' dividends for own account		4,888,276	4,035,151
9. Operating expenses for own account	(19, 20)	2,871,376	2,369,957
10. Unrealized losses on investments		4,601	1,663
11. Other underwriting expenditure for own account	(21)	830,644	725,521
12. Underwriting result for own account in life and health insurance	(22)	**890,226**	**586,161**

		Notes	TDM	Previous year TDM
III. Non-technical account				
1. Underwriting result for own account a) Reinsurance and property-casualty insurance b) Life and health insurance		–969,935 890,226		–1,272,387 586,161
			–79,709	–686,226
2. Investment income	(23)	17,102,187		14,928,286
3. Investment expenditure	(24)	1,948,876		1,676,082
		15,153,311		13,252,204
4. Allocated investment return transferred to the technical account for reinsurance and property-casualty insurance		1,454,883		1,348,893
4a. Allocated investment return transferred to the technical account for life and health insurance		10,069,071		8,035,474
			3,629,357	3,867,837
5. Other income			520,597	474,495
6. Other expenditure	(25)		1,418,748	1,452,927
7. Operating result			**2,651,497**	**2,203,179**
8. Taxes on profit and income		1,424,962		986,620
9. Other taxes		29,770		67,857
			1,454,732	1,054,477
10. Profit for the year	(26)		**1,196,765**	**1,148,702**

Consolidated cash flow statement for the business year 1998

	TDM	Previous year TDM
I. Cash flows from operating activities		
Profit for the year	1,196,765	1,148,702
Writedowns on investments	927,177	575,754
Gains and losses on the disposal of investments	–3,429,572	–2,082,069
Change in net underwriting provisions	11,734,178	13,962,518
Change in other assets and liabilities	–634,434	–788,772
Other adjustments (in particular for exchange gains/losses on investments)	1,084,349	–1,588,786
Cash flows from operating activities	10,878,463	11,227,347
II. Cash flows from investing activities		
Changes in cash as a result of the acquisition/sale of consolidated subsidiaries	–531,187	180,018
Inflows from maturities and sale of investments	50,932,241	54,644,178
Outflows for the acquisition of investments	–63,997,403	–66,521,919
Cash flows from investing activities	–13,596,349	–11,697,723
III. Cash flows from financing activities		
Inflows from capital measures	2,556,642	492,588
Changes in cash as a result of other financing activities (net)	114,328	–31,201
Dividends paid	–209,092	–151,070
Cash flows from financing activities	2,461,878	310,317
Cash flow for the business year (I + II + III)	**–256,008**	**–160,059**
Effect of exchange rate changes on cash	–4,038	36,244
Cash flow from the formation of the ERGO Insurance Group	–	479,885
Cash at the beginning of the business year	1,393,149	1,037,079
Cash at the end of the business year	1,133,103	1,393,149
Additional information:		
Income taxes paid (net)	770,195	1,053,549
Interest paid	120,760	170,394

Further information on the consolidated cash flow statement may be found in the notes on the accounts under (27).

Notes on the consolidated accounts

The business year 1998 covers the parent company's underwriting business for the calendar year 1998 and the result of its investments plus all other income and expenditure for the period from 1st July 1998 to 31st December 1998; in the case of the consolidated subsidiaries it generally covers the calendar year 1998. Owing to the change in New Re's accounting practice, this business year includes its underwriting income and expenditure for 1997 and 1998.

The 1998 consolidated accounts were prepared in accordance with the provisions of the German Commercial Code and the German statutory order on insurance companies' accounting.

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

Notes on consolidation

Consolidated companies, associated companies

In addition to the Munich Reinsurance Company as the parent company, all the subsidiaries operating as reinsurers or direct insurers have been consolidated, plus all our significant holding and investment companies. A list of the consolidated companies and other important participations can be found on page 108 ff.

The group of consolidated companies did not change significantly in the year under review. The increase in their number is mainly due to the formation of 33 limited partnerships in connection with spinning off long-term shareholdings.

Torino Ri, which was valued at equity in the previous year, has been included in the consolidated balance sheet for the first time, following the acquisition of the remaining 80% of its share capital in July 1998; its income and expenditure will be consolidated as from 1999.

The income and expenditure of the VICTORIA Group has been included for a full year for the first time (previous year on a pro rata basis).

Also among the direct insurers, the Previasa Group and Magdeburger Hellas have been consolidated for the first time.

Fully consolidated subsidiaries	Germany	Other countries	Total
30th June 1998	38	85	123
Additions	37	21	58
Reductions	2	6	8
31st December 1998	73	100	173
Companies valued at equity			
30th June 1998	2	6	8
Additions	0	2	2
Reductions	0	1	1
31st December 1998	2	7	9
Non-consolidated affiliates and other associated companies			
30th June 1998	74	48	122
Additions	30	11	41
Reductions	6	7	13
31st December 1998	98	52	150
Total			
30th June 1998	114	139	253
Additions	67	34	101
Reductions	8	14	22
31st December 1998	173	159	332

We have not consolidated those companies in which we have a majority of the voting rights but which are not significant individually or together for assessing the Group's assets, liabilities, financial position and results. In the year under review this involved 140 (112) companies. Together they account for less than 1% of the premium income, result and balance sheet total of the Group.

Participations in non-affiliated companies on whose business and financial policy the parent company or any other company consolidated in the Group accounts exercises a significant influence are treated as associated companies and valued at equity in the accounts. 10 (10) associated companies are not significant for the Group's assets, liabilities, financial position and results and are carried at cost under the item "participations".

Consolidation methods

As regards the consolidation of investment in subsidiaries, the book value method is generally 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 cannot be allocated to individual assets or liabilities items, they are capitalized as goodwill or offset against the revenue reserves.

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

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

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

Accounting and valuation methods

Basic principle

The assets and liabilities shown in the consolidated accounts are included and valued uniformly according to the regulations applicable to the annual accounts of the parent company. The accounting and valuation methods applied in the previous year have been retained.

Intangible assets

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

Other intangible assets are valued at the acquisition cost less straight-line depreciations. The useful economic life assumed for software is 3 years and for insurance portfolios and name rights 15 years.

Investments

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

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

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

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

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

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

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

Receivables

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

Other assets

Inventories are valued at acquisition cost. Office furniture and equipment is valued at the acquisition cost less admissible depreciations; their useful economic life ranges from 3 to 20 years. The purchase price of assets classifying as low-value goods is fully written off in the year of acquisition.

Shareholders' funds

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

Underwriting funds and provisions

Underwriting funds and provisions of the parent company and the German subsidiaries are calculated in accordance with the requirements of German commercial law. Underwriting funds and provisions of the foreign subsidiaries are set up in accordance with the respective legal regulations of their countries. We generally include these funds and provisions unaltered in the consolidated accounts. In fact, in the case of every subsidiary the calculation of underwriting funds and provisions is based on methods which are comparable with those of the parent company. No discounting is generally applied.

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

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

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

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

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

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

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

Other provisions

The provisions for employees' pensions are calculated according to the entry age normal method on the basis of the actuarial interest rate of 6% provided for under German tax law. The implications of Prof. Dr. Klaus Heubeck's 1998 updated mortality tables have been taken into account.

The other provisions are posted in accordance with the probable requirements. Provisions that do not contain an interest portion are not discounted.

Liabilities

Liabilities are stated at the amount repayable.

Deferred taxes

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

Currency translation

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

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

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

	31.12.1998 DM	31.12.1997 DM
Australian dollar	1.02495	1.17
Canadian dollar	1.077	1.24
Dutch guilder	0.88752	0.89
French franc	0.29816	0.30
Italian lira	0.00101	0.001
Pound sterling	2.798	2.98
Rand	0.28484	0.37
Swiss franc	1.222	1.23
US dollar	1.673	1.79
Yen	0.01451	0.014
Euro	1.95583	–

Notes on the consolidated balance sheet – assets

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

	Book values 30.6.1998 TDM	Additions TDM
(1) Intangible assets		
Goodwill	3,936,475	537,679
Other intangible assets	191,651	73,260
	4,128,126	610,939
(2) Investments		
Real estate	10,994,110	911,124
Investments in affiliated companies and participations		
– Shares in affiliated companies	258,391	394,461
– Loans to affiliated companies	45,753	191,040
– Participations in associated companies	243,690	13,648
– Other participations	8,535,250	692,527
– Loans to participations	60,418	28,447
	9,143,502	1,320,123

	31.12.1998 TDM	Previous year TDM
Other investments		
– Shares, investment fund certificates and other variable-yield securities	59,858,922	48,419,760
– Bearer bonds and other fixed-interest securities	19,495,932	20,309,428
– Mortgage loans	12,622,933	13,823,732
– Other loans		
• Registered bonds	50,298,058	52,346,360
• Loans and promissory notes	27,847,885	30,040,623
• Loans and advance payments on insurance policies	1,148,597	1,207,866
• Miscellaneous	183,551	113,427
– Deposits with banks	1,347,806	1,362,949
– Miscellaneous investments	400,508	217,249
Total	173,204,192	167,841,394

Reallocations TDM	Disposals TDM	Appreciation TDM	Depreciation TDM	Book values 31.12.1998 TDM
–	257,300	–	277,109	3,939,745
–	19,139	–	39,312	206,460
–	276,439	–	316,421	4,146,205
–	783,368	24,362	321,199	10,825,029
31,053	194,288	–	474	489,143
–	5,522	–	–	231,271
–	111,509	–	–	145,829
–70,833	107,402	–	12,062	9,037,480
–	29,515	–	3	59,347
–39,780	448,236	–	12,539	9,963,070

	31.12.1998		Previous year	
	Current market value TDM	Book value TDM	Current market value TDM	Book value TDM
Real estate	17,096,847	10,825,029	17,291,341	10,994,110
Equity investments	143,648,300	69,531,374	131,408,848	57,457,091
Fixed-interest securities	21,207,352	19,495,932	21,986,102	20,309,428

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

The equity investments include the parent company's shareholdings in Allianz (25%) and Allianz Leben (40.6%); the current market values of these holdings on 31st December 1998 amounted to DM 38.0bn and DM 3.6bn respectively.

For a breakdown of the valuation reserves by Group section, see page 57.

The goodwill mainly results from the acquisition of American Re in November 1996. The additions in the business year result from the first-time consolidation of the Previasa Group and Torino Ri. As with the other items, changes in exchange rates are shown under the additions and disposals.

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

The book value of self-occupied real estate amounts to TDM 2,140,923 (2,395,057).

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

(3) Affiliated companies, participations, other shareholdings*

	% share of capital	Sharehold-ers' funds TDM**	Result for the year TDM**
Reinsurance			
Consolidated subsidiaries			
American Re Corporation, Princeton	93.0	4,773,216	378,148
American Re-Insurance Company, Princeton	93.0	5,890,635	434,701
Great Lakes Reinsurance (UK) PLC, London	100.0	203,745	21,992
Munich American Reassurance Company, Atlanta	100.0	344,539	15,126
Munich Reinsurance Company of Canada, Toronto	100.0	118,619	–689
Munich Reinsurance Company of Africa Limited, Johannesburg	100.0	67,374	7,262
Munich Mauritius Reinsurance Company Ltd., Port Louis	100.0	3,970	224
Munich Reinsurance Company of Australasia Limited, Sydney	100.0	113,914	–3,164
Münchener Rück Italia S.p.A., Milan	99.9	243,922	3,410
Torino Riassicurazioni S.p.A., Turin	100.0	148,633	18
New Reinsurance Company, Geneva	99.9	653,344	8,366
Associated companies			
Prévoyance Re S.A., Paris	34.0	29,108	–1,092

	% share of capital	Sharehold-ers' funds TDM**	Result for the year TDM**
Direct insurance			
Consolidated subsidiaries			
ERGO Versicherungsgruppe AG, Düsseldorf	56.4	2,748,901	193,095
VICTORIA Lebensversicherung Aktiengesellschaft, Düsseldorf	56.2	461,800	45,000
VICTORIA Versicherung Aktiengesellschaft, Düsseldorf	55.6	981,504	111,378
VICTORIA Krankenversicherung Aktiengesellschaft, Düsseldorf	56.3	105,110	9,860
VICTORIA MERIDIONAL Compañía Anónima de Seguros y Reaseguros, S. A., Madrid	54.4	25,297	2,957
VICTORIA-Seguros de Vida, S. A., Lisbon	55.6	33,804	1,368
VICTORIA-Seguros S. A., Lisbon	55.6	42,397	–1,912
VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna	41.5	41,853	1,479
Nieuwe Hollandse Lloyd Levensverzekeringmaatschappij N. V., Woerden	55.6	23,850	411
Nieuwe Hollandse Lloyd Schadeverzekeringmaatschappij N. V., Woerden	55.6	43,150	1,911
Hamburg-Mannheimer Versicherungs-Aktiengesellschaft, Hamburg	56.4	736,990	125,990
Hamburg-Mannheimer Sachversicherungs-AG, Hamburg	56.4	627,645	71,318
DKV Deutsche Krankenversicherung Aktiengesellschaft, Berlin/Cologne	56.5	1,012,283	129,300
dkv International S. A., Brussels	56.5	32,279	7,803
NVS Zorgverzekeringen N. V., Amsterdam	56.5	41,174	–1,949
D. A. S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich	55.7	401,611	42,484
D. A. S. Deutscher Automobil Schutz Versicherungs-Aktiengesellschaft, Munich***	55.7	72,080	0
DAS Legal Expenses Insurance Company Limited, Bristol	55.7	66,587	18,744
D. A. S. Nederlandse Rechtsbijstand Verzekering-maatschappij N. V., Amsterdam	35.0	47,733	6,358
Europäische Reiseversicherung Aktiengesellschaft, Munich	100.0	171,791	8,744
Europæisk Rejseforsikring A/S, Copenhagen	100.0	36,175	518
Karlsruher Lebensversicherung Aktiengesellschaft, Karlsruhe	54.0	243,563	28,836
Karlsruher Versicherung Aktiengesellschaft, Karlsruhe	53.0	105,704	12,451
Associated companies			
TELA Versicherung Aktiengesellschaft, Berlin/Munich	25.0	330,010	36,000
Union Versicherungs-AG, Vienna	18.8	59,503	4,533
VEREINSBANK VICTORIA Bauspar Aktiengesellschaft, Munich	16.8	33,469	2,691

	% share of capital	Sharehold-ers' funds TDM**	Result for the year TDM**
Other participations in insurance companies			
ALBINGIA Versicherungs-Aktiengesellschaft, Hamburg	10.0	420,637	36,313
Allianz Aktiengesellschaft, Munich	25.0	19,788,328	1,364,411
Allianz Lebensversicherungs-Aktiengesellschaft, Stuttgart	40.6	1,660,250	240,000
Bayerische Versicherungsbank Aktiengesellschaft, Munich	45.0	531,150	72,920
Frankfurter Versicherungs-Aktiengesellschaft, Frankfurt am Main	49.9	613,514	65,942
Generali Lloyd Aktiengesellschaft, Munich	12.2	250,531	11,243
Mecklenburgische Leben Versicherungs-Aktiengesellschaft, Hannover	25.0	4,600	840
Nürnberger Beteiligungs-Aktiengesellschaft, Nuremberg	7.5	685,364	31,310
ASR Verzekeringsgroep N.V., Rotterdam	10.7	2,736,224	254
De Amersfoortse Reinsurance Limited, Dublin	25.0	39,028	5,938
Golden Gate Reinsurance Company Limited, Hamilton	33.3	65,041	13,883
Hibernian Group plc, Dublin	10.9	572,921	114,144

Other shareholdings in listed companies

Over 5%
Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich
IKB Deutsche Industriebank AG, Düsseldorf/Berlin
Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg
MAN Aktiengesellschaft, Munich

Over 10%
WMF Württembergische Metallwarenfabrik Aktiengesellschaft, Geislingen/Steige

Over 25%
BHS tabletop AG, Selb
Forst Ebnath Aktiengesellschaft, Ebnath

* Some of these selected participations are held indirectly. They are calculated proportionally in each case.
** The amounts are taken from the individual companies' accounts. They have been translated using the exchange rates applicable on 31.12.1998.
*** Result for the year after profit-transfer.

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

(4) Amounts receivable on direct insurance business

	31.12.1998 TDM	Previous year TDM
From policyholders		
a) Due	507,555	562,122
b) Not yet due	560,405	683,851
	1,067,960	1,245,973
From intermediaries	452,370	465,272
Total	1,520,330	1,711,245

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

	Affiliated companies		Participations	
	31.12.1998 TDM	Previous year TDM	31.12.1998 TDM	Previous year TDM
Deposits retained on assumed reinsurance business	83	–	9,983,611	9,360,091
Amounts receivable on direct insurance business from intermediaries	431	348	1,727	1,189
Accounts receivable	45	36,494	41,721	19,708
Other receivables	42,806	42,142	79,432	35,783
Deposits retained on ceded business	–	–	4,008,706	–
Amounts payable on direct insurance business to intermediaries	679	11,441	3,134	3,351
Accounts payable	93	4,815	453,223	64,575
Miscellaneous liabilities	54,332	9,380	363,007	342,369

(6) Other assets

	31.12.1998 TDM	Previous year TDM
Tangible assets and inventories	454,817	439,302
Cash at bank in current accounts, cheques and cash in hand	1,133,103	1,393,149
Miscellaneous	637,115	576,974
Total	2,225,035	2,409,425

(7) Deferred items

	31.12.1998 TDM	Previous year TDM
Accrued interest and rent	2,950,072	3,406,065
Other deferred items	786,532	1,159,352
Total	3,736,604	4,565,417

For loans posted in the balance sheet at their nominal values, the difference between these nominal values and higher acquisition costs totals TDM 62,277 (87,030). “Other deferred items” contains an amount of TDM 623,423 (999,002) for anticipated tax relief in future business years, in accordance with Articles 274 para. 2 and 306 of the German Commercial Code.

Notes on the consolidated balance sheet – liabilities

(8) Shareholders’ funds

The Group’s shareholders’ funds developed as follows in the business year 1998:

	TDM
Group’s shareholders’ funds at beginning of year under review	9,961,888
Changes	
– Changes in exchange rates	–417,274
– Capital increases	2,144,850
– Changes in group of consolidated companies	–82,614
– Earned surplus	1,196,765
– Dividends	–209,092
– Offsetting of goodwill with no impact on the profit and loss account	–266,286
– Other	–65,829
Total changes	2,300,520
Group’s shareholders’ funds at end of year under review	12,262,408

Origin of Group’s shareholders’ funds:

	TDM
Amounts paid in by shareholders	6,329,809
Earned surplus	5,932,599
Total	12,262,408

The revenue reserves are made up as follows:

	31.12.1998 TDM	Previous year TDM
Reserves required by law	2,089	1,969
Other revenue reserves	4,199,696	4,065,064
Total	4,201,785	4,067,033

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

(9) Special reserve

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

(10) Underwriting funds and provisions	31.12.1998 Gross TDM	31.12.1998 Ceded TDM	31.12.1998 Net TDM	Previous year Gross TDM	Previous year Ceded TDM	Previous year Net TDM
Unearned premiums	7,717,148	706,241	7,010,907	7,770,095	652,729	7,117,366
Premium funds	131,328,452	7,617,392	123,711,060	128,846,046	7,469,069	121,376,977
Provision for outstanding claims	47,582,478	5,234,293	42,348,185	47,218,390	6,001,088	41,217,302
Provision for premium refunds and policyholders’ dividends	13,266,182	16,935	13,249,247	12,481,836	20,554	12,461,282
Claims equalization provision and similar provisions	7,744,215	–	7,744,215	6,956,409	–	6,956,409
Other	662,042	10,865	651,177	569,241	10,806	558,435
Total	208,300,517	13,585,726	194,714,791	203,842,017	14,154,246	189,687,771

Underwriting provisions for life insurance policies where the investment risk is borne by the policyholders	31.12.1998 Gross TDM	31.12.1998 Ceded TDM	31.12.1998 Net TDM	Previous year Gross TDM	Previous year Ceded TDM	Previous year Net TDM
Premium funds	288,198	13,264	274,934	205,616	8,810	196,806
Other underwriting provisions	1	0	1	874	68	806
Total	288,199	13,264	274,935	206,490	8,878	197,612

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

	Unearned premiums	Premium funds	Claims provision	Equalization provisions	Other provisions	Total	Reserves as % of net premiums[1]
Reinsurers	4,853	17,460	33,918	6,779	511	63,521	296
– Life	891	16,094	536	–	23	17,544	445
– Personal accident/ health	406	1,366	2,996	2	13	4,783	262
– Liability	607	–	13,047	1,253	–28	14,879	617
– Motor	645	–	7,758	635	19	9,057	251
– Marine/aviation	198	–	1,623	194	0	2,015	180
– Fire	873	–	3,832	2,998	309	8,012	239
– Engineering	600	–	2,253	489	27	3,369	178
– Other classes	633	–	1,873	1,208	148	3,862	146
Direct insurers	2,158	106,526	8,430	965	13,390	131,469	548
– Life	1,042	89,331	352	–	10,298	101,023	927
– Health	83	17,090	1,181	–	2,892	21,246	320
– Personal accident	57	10	1,100	6	87	1,260	98
– Motor	56	54	2,144	358	41	2,653	172
– Other classes	920	41	3,653	601	72	5,287	145
Total	7,011	123,986	42,348	7,744	13,901	194,990	429

[1] In this calculation the net premiums written by New Re are included for one business year (cf. page 99).

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

	31.12.1998 TDM	Previous year TDM
Claims equalization provision	5,813,891	5,273,977
Provisions for major risks	196,585	188,585
Provision for earthquake risks	1,733,739	1,493,847
Total	7,744,215	6,956,409

(11) Other provisions

	31.12.1998 TDM	Previous year TDM
Provisions for employees' pensions and similar commitments	1,273,409	1,239,079
Provisions for tax	1,649,927	1,377,733
Miscellaneous	1,793,355	1,912,098
Total	4,716,691	4,528,910

There are pension provisions of TDM 34,364 (26,596) for former members of the Board of Management or their surviving dependants.

(12) Amounts payable on direct insurance business

	31.12.1998 TDM	Previous year TDM
To policyholders	7,537,168	6,768,414
To intermediaries	207,738	226,664
Total	7,744,906	6,995,078

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

Liabilities with a remaining term of more than five years total TDM 1,222,938. Liabilities secured by mortgages amount to TDM 37,818.

The amount apportionable to liabilities from taxes is TDM 162,082 (169,720) and for social security TDM 49,498 (48,520).

(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 123,155 (142,981).

Notes on the consolidated profit and loss account

(15) Earned premiums for own account	Reinsurers, property-casualty insurers		Life and health insurers		Total	Total
	1998 TDM	Previous year TDM	1998 TDM	Previous year TDM	1998 TDM	Previous year TDM
Gross premiums written	31,857,439	29,101,516	17,933,305	15,420,734	49,790,744	44,522,250
Ceded premiums	3,387,326	3,403,563	393,589	641,632	3,780,915	4,045,195
Net premiums written	28,470,113	25,697,953	17,539,716	14,779,102	46,009,829	40,477,055
Change in unearned premiums						
– Gross amount	–124,842	298,343	–	–	–	–
– Ceded share	79,946	–263,016	–	–	–	–
– Net amount	–44,896	35,327	5,588	–27,517	–39,308	7,810
Net earned premiums	28,425,217	25,733,280	17,545,304	14,751,585	45,970,521	40,484,865

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

	1998 TDM	Previous year TDM
Assumed reinsurance business	25,156,832	25,032,555
Direct insurance business		
– Life	11,069,553	9,448,192
– Health	6,783,854	5,927,675
– Property-casualty	6,780,505	4,113,828
	24,633,912	19,489,695
Total	49,790,744	44,522,250

Origin of the direct insurance business:

	1998 TDM	Previous year TDM
Germany	22,341,102	18,261,075
Other EU and EEA states	2,161,083	1,212,663
Other countries	131,727	15,957
Total	24,633,912	19,489,695

(16) Other underwriting income for own account

The other underwriting income for own account includes reminder fees, moratorium interest and default interest.

(17) Claims incurred for own account

	Reinsurers, property-casualty insurers		Life and health insurers		Total	Total
	1998 TDM	Previous year TDM	1998 TDM	Previous year TDM	1998 TDM	Previous year TDM
Claims paid						
– Gross amount	19,809,251	17,451,044	12,750,307	10,681,578	32,559,558	28,132,622
– Ceded amount	2,055,206	2,243,952	470,374	460,222	2,525,580	2,704,174
– Net amount	17,754,045	15,207,092	12,279,933	10,221,356	30,033,978	25,428,448
Change in provision						
– Gross amount	1,770,901	553,334	376	99,057	1,771,277	652,391
– Ceded amount	–178,790	–1,190,066	–15,851	8,874	–194,641	–1,181,192
– Net amount	1,949,691	1,743,400	16,227	90,183	1,965,918	1,833,583
Total	19,703,736	16,950,492	12,296,160	10,311,539	31,999,896	27,262,031

(18) Change in other underwriting provisions for own account

	Reinsurers, property-casualty insurers		Life and health insurers		Total	Total
	1998 TDM	Previous year TDM	1998 TDM	Previous year TDM	1998 TDM	Previous year TDM
Premium funds						
– Gross amount	–	–	–7,873,718	–6,603,815	–	–
– Ceded amount	–	–	–68,145	78,711	–	–
– Net amount	–1,182,902	–1,605,532	–7,941,863	–6,525,104	–9,124,765	–8,130,636
Other underwriting provisions for own account	92,465	126,137	–22,127	–3,235	70,338	122,902
Total	–1,090,437	–1,479,395	–7,963,990	–6,528,339	–9,054,427	–8,007,734

(19) Operating expenses for own account

	1998 TDM	Previous year TDM
Reinsurers and property-casualty insurers:		
– Gross operating expenses	9,811,870	9,042,747
– Less commission received on ceded business	856,591	680,539
Total	8,955,279	8,362,208

	1998 TDM	Previous year TDM
Life and health insurers:		
– Acquisition expenses	2,330,039	1,981,782
– Management expenses	727,481	652,956
– Less commission received on ceded business	186,144	264,781
Total	2,871,376	2,369,957

(20) Personnel costs

Personnel costs totalled TDM 3,319,881 (2,896,136).

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 10,995 (13,523) and those of the Supervisory Board to TDM 956 (958). Total payments to former members of the Board of Management, including pension payments for their surviving dependants, amounted to TDM 2,342 (3,570), and those to former members of the Supervisory Board to TDM 55 (–).

(21) Other underwriting expenditure for own account

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

(22) Underwriting result by class of business

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

	Reinsurers		Direct insurers		Total	Total
	1998 TDM	Previous year TDM	1998 TDM	Previous year TDM	1998 TDM	Previous year TDM
– Life	131,955	–42,916	586,889	442,703	718,844	399,787
– Health	–[1]	–[1]	303,337	143,458	303,337	143,458
– Personal accident	–175,312	–108,099	177,863	143,682	2,551	35,583
– Liability	–411,112	–375,516	24,247	–13,085	–386,865	–388,601
– Motor	–205,425	–188,132	–28,823	–49,623	–234,248	–237,755
– Marine/aviation	–64,324	102,324	1,135	2,478	–63,189	104,802
– Fire	159,377	473,340	–3,512	4,573	155,865	477,913
– Engineering	–5,945	–1,025	9,617	2,452	3,672	1,427
– Other classes	166,760	95,924	25,480	–36,920	192,240	59,004
Total	–404,026	–44,100	1,096,233	639,718	692,207	595,618

[1] Shown for the reinsurers under personal accident.

(23) Investment income	Reinsurers, property-casualty insurers 1998 TDM	Life and health insurers 1998 TDM	Total 1998 TDM	Total Previous year TDM
Dividends from participations	474,069	214,932	689,001	879,920
Income from other investments				
– Rents from real estate	237,766	671,214	908,980	944,615
– Other	3,635,068	8,067,783	11,702,851	10,675,424
Income from write-ups	23,865	642	24,507	1,515
Realized gains on investments	1,541,289	2,040,250	3,581,539	2,240,438
Income from profit-transfer agreements	2,740	–	2,740	3,624
Income from the reduction of the special reserve	154,027	38,542	192,569	182,750
Total	6,068,824	11,033,363	17,102,187	14,928,286

This includes the following income from affiliated and associated companies:

	1998 TDM	Previous year TDM
Dividends		
– from affiliated companies	17,730	5,981
– from associated companies	12,504	15,244
Income from other investments		
– from affiliated companies	32,802	76,227

(24) Investment expenditure	Reinsurers, property-casualty insurers 1998 TDM	Life and health insurers 1998 TDM	Total 1998 TDM	Total Previous year TDM
Expenses for the management of investments, interest paid and other expenses for investments	240,193	347,883	588,076	596,787
Writedowns on investments	341,088	586,089	927,177	575,754
Realized losses on investments	141,668	10,299	151,967	158,369
Expenditure for the assumption of losses	1,077	–	1,077	3,708
Allocations to the special reserve	260,558	20,021	280,579	341,464
Total	984,584	964,292	1,948,876	1,676,082

Of the writedowns on investments, TDM 44,618 (22,979) comprised exceptional depreciations as per Article 253 para. 2 sentence 3 of the German Commercial Code.

In the business year reinstatements of value amounting to TDM 62,569 were not made for tax reasons, in accordance with the option open to us. The posting of the special reserve as per Article 6 b of the German Income Tax Act affected the result for the year by an amount of TDM 308,741. The effects of the reinstatements of value not made for tax reasons in previous years are not significant for the result for the year. Owing to the regulations of the German tax reform law of 24th March 1999, these amounts will generally have a positive effect on the result in the next few years.

(25) Other expenditure

Besides interest expenditure and exchange losses, the other expenditure mainly includes an amount of TDM 282,273 (269,680) for special allocations made to the provision for outstanding claims.

(26) Profit for the year

	1998 TDM	Previous year TDM
Profit for the year	1,196,765	1,148,702
Profit apportionable to minority interests	335,058	246,668
Loss apportionable to minority interests	15,221	9,144
Apportionable to Group	876,928	911,178

Other information

(27) Cash flow statement

The consolidated cash flow statement is prepared in accordance with the joint recommendation of the main expert committee of the Institute of German Certified Public Accountants (IDW) and the working group "Finanzierungsrechnung" of the Schmalenbach-Gesellschaft e.V. and with IAS 7: Cash Flow Statements. A distinction is made between cash flows from operating activities, investing activities and financing activities.

The cash position corresponds to the balance sheet item "Cash at bank in current accounts, cheques and cash in hand"; cash equivalents are not included. The aim of this narrow definition is to exclude valuation influences that have no impact on cash flow.

The cash outflows for the acquisition of consolidated companies derive mainly from the acquisition of Torino Ri, LifePlans Inc. and Previasa.

The inflows from capital measures result almost entirely from the parent company's rights issue of July 1998 and the calling-in of the unpaid amounts on the parent company's registered shares.

(28) Number of staff

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

	1998	Previous year
Reinsurance companies	4,381	4,307
Direct insurance companies	23,084	19,641
Total	27,465	23,948

(29) Other financial commitments

There are no other financial commitments of significance for the assessment of the Group's financial position. No contingent liabilities have been entered into for the benefit of Board members.

Munich, 27th May 1999

The Board of Management

04 Company accounts

as at 31st December 1998

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

Summary of the most important figures

Balance sheet – assets	1998 TDM	Previous year TDM
Investments	41,674,377	39,177,028
Deposits retained on assumed reinsurance business	28,856,130	27,133,320
Accounts receivable on reinsurance business	1,905,758	1,256,155
Other assets	1,927,378	1,112,359
Liability of shareholders for subscribed capital	–	409,799
Balance sheet total	74,363,643	69,088,661

Balance sheet – liabilities	1998 TDM	Previous year TDM
Shareholders' funds	6,500,942	4,199,792
– Subscribed capital	869,598	834,598
– Reserves	5,472,116	3,212,266
– Balance sheet profit	159,228	152,928
Reinsurance funds and provisions	57,163,292	55,533,243
Deposits retained on retroceded business	4,114,796	3,933,644
Accounts payable on reinsurance business	2,539,480	2,062,867
Other liabilities	4,045,133	3,359,115
Balance sheet total	74,363,643	69,088,661

Premium income	1998 TDM	Previous year TDM
Reinsurance premiums	19,463,708	19,446,900
– Life	4,935,961	4,711,335
– Personal accident/health	1,513,349	1,351,245
– Liability	1,592,345	1,492,093
– Motor	2,931,637	3,163,304
– Marine/aviation	1,188,396	1,100,640
– Fire	3,165,886	3,282,285
– Engineering	1,476,115	1,751,846
– Other classes	2,660,019	2,594,152

Results	1998 TDM	Previous year TDM
Reinsurance underwriting result	–57,561	192,721
– Life	198,860	39,924
– Personal accident/health	–68,751	–42,511
– Liability	–233,201	–118,945
– Motor	–235,001	–212,461
– Marine/aviation	–129,322	41,296
– Fire	205,765	346,077
– Engineering	–6,570	–3,394
– Other classes	210,659	142,735
Investment result	1,651,262	2,095,143
– Investment income	2,412,218	3,006,840
– Investment expenditure	760,956	911,697
Other income and expenditure	–86,506	–121,822
Unadjusted earnings	1,507,195	2,166,042
Special allocations to the provision for outstanding claims	–250,000	–250,000
Change in the claims equalization provision and the provisions for major risks and earthquake risks	–647,848	–1,199,319
– Claims equalization provision	–392,302	–932,027
– Provisions for major risks	–13,350	–4,981
– Provision for earthquake risks	–242,196	–262,311
Operating result	609,347	716,723
Tax	–300,119	–413,795
Profit for the year	309,228	302,928
Transfer to revenue reserves	150,000	150,000
Balance sheet profit at the disposal of the AGM	159,228	152,928

Balance sheet as at 31st December 1998

Assets	Notes	TDM	TDM	Previous year TDM
A. Liability of shareholders for uncalled capital			–	409,799
B. Intangible assets	(1)		58,899	59,841
C. Investments				
I. Real estate	(2)	1,976,336		1,989,547
II. Investments in affiliated companies and participations	(2)	17,005,636		15,230,012
III. Other investments	(2)	22,692,405		21,957,469
		41,674,377		39,177,028
IV. Deposits retained on assumed reinsurance business	(3)	28,856,130		27,133,320
			70,530,507	66,310,348
D. Receivables	(3)			
I. Accounts receivable on reinsurance business		1,905,758		1,256,155
II. Other receivables		1,117,274		477,162
			3,023,032	1,733,317
E. Other assets	(4)		62,065	116,788
F. Deferred taxes			489,189	247,890
G. Other deferred items	(5)		199,951	210,678
Total assets			74,363,643	69,088,661

Liabilities	Notes	TDM	TDM	Previous year TDM
A. Shareholders' funds	(6)			
I. Subscribed capital		869,598		834,598
II. Capital reserve		4,568,916		2,459,066
III. Revenue reserves		903,200		753,200
IV. Balance sheet profit		159,228		152,928
			6,500,942	4,199,792
B. Special reserve	(7)		449,582	318,422
C. Underwriting funds and provisions for own account	(8)			
I. Unearned premiums		3,181,410		3,316,077
II. Premium funds		22,985,740		22,493,039
III. Provision for outstanding claims		23,821,935		23,240,957
IV. Provision for premium refunds		36,160		33,199
V. Claims equalization provision and similar provisions		6,427,111		5,814,363
VI. Other underwriting provisions		710,936		635,608
			57,163,292	55,533,243
D. Other provisions	(9)		2,019,822	1,420,729
E. Deposits retained on retroceded business	(3)		4,114,796	3,933,644
F. Other liabilities	(3, 10)			
I. Accounts payable on reinsurance business		2,539,480		2,062,867
II. Amounts owed to banks		1,044,838		1,030,533
III. Miscellaneous liabilities		529,350		587,674
			4,113,668	3,681,074
G. Deferred items	(11)		1,541	1,757
Total liabilities			74,363,643	69,088,661

Profit and loss account for the short business year 1998

Items	Notes	TDM	Previous year TDM
I. Technical account			
1. Earned premiums for own account	(13)	17,175,896	17,507,289
2. Interest income on premium funds for own account		1,490,121	1,439,964
3. Other underwriting income for own account		851	3,270
4. Claims incurred for own account	(14)	11,976,018	11,432,701
5. Change in other underwriting provisions for own account	(15)	–1,424,139	–1,703,164
6. Expenditure for premium refunds for own account		15,557	20,540
7. Operating expenses for own account	(16, 17)	5,258,277	5,540,262
8. Other underwriting expenditure for own account		50,438	61,135
9. Subtotal		**–57,561**	**192,721**
10. Change in the claims equalization provision and similar provisions		–647,848	–1,199,319
11. Underwriting result for own account	(12)	**–705,409**	**–1,006,598**
II. Non-technical account			
1. Investment income	(18)	4,142,004	4,647,211
2. Investment expenditure	(17, 19)	760,956	911,697
		3,381,048	3,735,514
3. Interest income on premium funds and provisions		1,729,786	1,640,371
		1,651,262	2,095,143
4. Other income		197,882	177,149
5. Other expenditure	(20)	534,388	548,971
6. Operating result		**609,347**	**716,723**
7. Taxes on profit and income		307,671	406,244
8. Other taxes		–7,552	7,551
9. Profit for the year		**309,228**	**302,928**
10. Transfer to revenue reserves		150,000	150,000
11. Balance sheet profit		**159,228**	**152,928**

Notes on the accounts

The short business year 1998 covers the Munich Reinsurance Company's underwriting business for the calendar year 1998 and the result of its investments plus all other income and expenditure for the period from 1st July 1998 to 31st December 1998.

Accounting and valuation methods

Basic principle

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

Intangible assets

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

Investments

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

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

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

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

Receivables

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

Other assets

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

Deferred taxes

Deferred taxes result from temporary differences between financial statements and valuations prescribed for determining taxable income. They have been included on the assets side of the balance sheet particularly insofar as they are apportionable to provisions for anticipated losses from pending business, which are no longer deductible for tax purposes as from the business year 1996/97 owing to a change in German tax law.

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 in future years, 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, and provisions for profit commission.

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. The implications of Prof. Dr. Klaus Heubeck's 1998 updated mortality tables have been fully taken into account.

Liabilities

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

Currency translation

All business transactions are generally booked in the respective original currencies; assets, liabilities, income and expenditure are translated using the relevant exchange rates at the end of the calendar 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 30.6.1998 TDM	Additions TDM
(1) Intangible assets	59,841	2,759
(2) Investments		
Real estate	1,989,547	267,671
Investments in affiliated companies and participations		
– Shares in affiliated companies	9,461,294	8,484,117
– Loans to affiliated companies	13,256	1,359
– Participations	5,752,347	17,640
– Loans to participations	3,115	806
	15,230,012	8,503,922
Other investments		
– Shares, investment fund certificates and other variable-yield securities	13,753,036	4,981,407
– Bearer bonds and other fixed-interest securities	4,700,309	5,126,646
– Mortgage loans	34,171	1,355
– Other loans		
• Registered bonds	812,906	–
• Loans and promissory notes	2,295,658	476,546
– Deposits with banks	361,379	–
– Miscellaneous investments	10	–
	21,957,469	10,585,954
Total investments	39,177,028	19,357,547

The intangible assets consist of purchased insurance portfolios, name rights and software.

The book value of self-occupied real estate amounts to TDM 356,374 (363,515).

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	Appreciation TDM	Depreciation TDM	Book values 31.12.1998 TDM
–	–	–	3,701	58,899
–	23,817	23,814	280,879	1,976,336
–	1,596,276	–	307	16,348,828
–	5,322	–	–	9,293
–26,271	5,099,184	–	42	644,490
–	896	–	–	3,025
–26,271	6,701,678	–	349	17,005,636
26,271	3,952,766	–	62,272	14,745,676
–	5,045,390	–	3,808	4,777,757
–	4,501	–	–	31,025
–	244,741	–	–	568,165
–	472,385	–	–	2,299,819
–	91,426	–	–	269,953
–	–	–	–	10
26,271	9,811,209	–	66,080	22,692,405
0	16,536,704	23,814	347,308	41,674,377

Of our total investments (excluding deposits retained on assumed reinsurance business) with a book value of TDM 41,674,377 (39,177,028), an amount of TDM 3,478,608 (3,186,070) is deposited with ceding companies or foreign governments or in the custody of trustees nominated by us.

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

	31.12.1998		
	Current market value TDM	Book value TDM	Valuation reserves TDM
Real estate	4,579,849	1,976,336	2,603,513
Equity investments	96,118,698	31,738,994	64,379,704
Fixed-interest securities	5,195,629	4,777,757	417,872
Total			67,401,089

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

The equity investments include the Munich Reinsurance Company's shareholdings in Allianz (25%) and Allianz Leben (40.6%); the current market values of these holdings on 31st December 1998 amounted to DM 38.0bn and DM 3.6bn respectively.

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

	Affiliated companies		Participations	
	31.12.1998 TDM	Previous year TDM	31.12.1998 TDM	Previous year TDM
Deposits retained on assumed reinsurance business	8,315,918	7,570,395	9,925,453	9,308,604
Accounts receivable	340,831	270,034	39,121	14,092
Other receivables	159,379	121,164	29,779	5,285
Deposits retained on retroceded business	377,550	312,203	1,009,724	983,586
Accounts payable	97,992	210,561	452,532	56,594
Miscellaneous liabilities	17,808	18,243	339,075	328,110

(4) Other assets

	31.12.1998 TDM	Previous year TDM
Tangible assets and inventories	19,010	17,710
Cash at bank in current accounts, cheques and cash in hand	28,630	84,653
Miscellaneous	14,425	14,425
Total	62,065	116,788

(5) Deferred items

	31.12.1998 TDM	Previous year TDM
Accrued interest and rent	175,581	171,927
Other deferred items	24,370	38,751
Total	199,951	210,678

This item includes differences totalling TDM 446 (551) arising from the posting of loans in the balance sheet at nominal values.

Notes on the balance sheet – liabilities

(6) Shareholders' funds

In July 1998 the company's share capital of TDM 834,598 was increased by TDM 35,000 to TDM 869,598, utilizing part of the capital authorized for such purposes in Article 3 a of the Articles of Association; at the end of the business year the unpaid amounts on the registered shares, each with a par value of DM 10 partly paid up to DM 5, were called in.

At the balance sheet date the increased share capital comprised 3,000,000 bearer shares with a par value of DM 5 each and 85,459,840 (previously 81,959,840) registered shares with a par value of DM 10 each.

	Number	Par value TDM	Amount paid up TDM	Votes
Bearer	3,000,000	15,000	15,000	3,000,000
Registered	85,459,840	854,598	854,598	85,459,840
Total		869,598	869,598	88,459,840

The capital of TDM 250,000 authorized for capital increases by resolution of the AGM on 8th December 1995 was reduced to TDM 215,000 as a result of its utilization for the capital increase in the business year. By resolution of the AGM on 5th November 1998 the Board of Management is authorized to increase the company's share capital, with the consent of the Supervisory Board, in one or more stages at any time up to 5th November 2003 by issuing new shares for a nominal amount of up to TDM 50,000 against cash contribution and for a nominal amount of up to TDM 150,000 against non-cash contribution.

The contingent capital of TDM 30,000 created by resolution of the AGM on 3rd December 1993 has been reduced to TDM 8,752 as a result of its utilization through the exercise of the warrants issued in 1994. TDM 8,750 of this serves to safeguard the warrants issued in 1998. The exercise period for these warrants initially runs from 1st September 1998 to 3rd June 2002. Should the average price of the registered shares at the end of this period be lower than the then applicable warrant exercise price, the warrant conditions provide for the exercise period to be extended by a maximum of two years. Besides this, an additional contingent capital of TDM 30,000 was created by resolution of the AGM on 5th November 1998 to safeguard warrants that may be issued with new shares in future rights issues. A further contingent capital, also of TDM 30,000, serves to safeguard conversion rights and warrants in connection with an authorization to issue convertible bonds and bonds with warrants.

TDM 150,000 of the profit for the year 1998 has been transferred to the revenue reserves.

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

	Previous position TDM	Increase TDM	New position TDM
Subscribed capital	834,598	35,000	869,598
Capital reserve	2,459,066	2,109,850	4,568,916
Other revenue reserves	753,200	150,000	903,200
Balance sheet profit	152,928	6,300	159,228
Total	4,199,792	2,301,150	6,500,942

(7) Special reserve

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

(8) Underwriting funds and provisions	31.12.1998 Gross TDM	31.12.1998 Retro TDM	31.12.1998 Net TDM	Previous year Gross TDM	Previous year Retro TDM	Previous year Net TDM
Unearned premiums	3,575,662	394,252	3,181,410	3,692,023	375,946	3,316,077
Premium funds	27,237,835	4,252,095	22,985,740	26,178,887	3,685,848	22,493,039
Provision for outstanding claims	25,543,949	1,722,014	23,821,935	24,826,725	1,585,768	23,240,957
Provision for premium refunds	42,953	6,793	36,160	41,311	8,112	33,199
Claims equalization provision and similar provisions	6,427,111	–	6,427,111	5,814,363	–	5,814,363
Other	712,661	1,725	710,936	637,687	2,079	635,608
Total	63,540,171	6,376,879	57,163,292	61,190,996	5,657,753	55,533,243

The "other" underwriting provisions include provisions for anticipated losses totalling TDM 242,937 (316,363).

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

	Unearned premiums	Premium funds	Claims provision	Equalization provisions	Other provisions	Total	Reserves as % of net premiums
Life	827	20,909	376	–	19	22,131	530
Personal accident/health	143	2,077	909	–	42	3,171	228
Liability	219	–	10,072	1,162	43	11,496	804
Motor	235	–	6,047	554	63	6,899	262
Marine/aviation	157	–	1,266	158	2	1,583	161
Fire	504	–	1,723	2,922	391	5,540	191
Engineering	552	–	1,963	480	30	3,025	250
Other classes	544	–	1,466	1,151	157	3,318	135
Non-life combined	2,354	2,077	23,446	6,427	728	35,032	270
Total	3,181	22,986	23,822	6,427	747	57,163	333

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

	31.12.1998 TDM	Previous year TDM
Claims equalization provision	4,569,449	4,177,147
Provisions for major risks	158,425	145,075
– For nuclear facilities	78,781	71,337
– For pharmaceutical products liability	79,644	73,738
Provision for earthquake risks	1,699,237	1,492,141
Total	6,427,111	5,814,363

(9) Other provisions

	31.12.1998 TDM	Previous year TDM
Provisions for employees' pensions and similar commitments	318,873	277,253
Provisions for tax	1,314,842	692,120
Miscellaneous	386,107	451,356
Total	2,019,822	1,420,729

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 34,364 (26,596) for former members of the Board of Management or their surviving dependants.

The miscellaneous other provisions include, in particular, provisions of TDM 95,532 for currency risks and TDM 84,277 for management expenses not yet due at the balance sheet date.

(10) Amounts owed to banks, miscellaneous liabilities

The miscellaneous liabilities contain liabilities from taxes amounting to TDM 9,783 (9,641) and for social security amounting to TDM 4,383 (4,132). The total amount of the liabilities secured by mortgages is TDM 818 (808). The liabilities with a remaining term of more than five years total TDM 1,000,818.

(11) Deferred items

This item includes differences totalling TDM 957 (1,164) arising from the posting of loans in the balance at nominal values.

Notes on the profit and loss account

(12) Reinsurance underwriting result by class of business

See pages 140/141.

(13) Earned premiums for own account

	1998 TDM	Previous year TDM
Gross premiums written	19,463,708	19,446,900
Retrocession premiums	2,290,793	2,230,581
Net premiums written	17,172,915	17,216,319
Change in unearned premiums		
– Gross amount	–17,381	349,511
– Retroceded amount	20,362	–58,541
– Net amount	2,981	290,970
Net earned premiums	17,175,896	17,507,289

(14) Claims incurred for own account

	1998 TDM	Previous year TDM
Claims paid		
– Gross amount	12,595,703	14,031,557
– Retroceded amount	1,652,002	2,093,855
– Net amount	10,943,701	11,937,702
Change in provision		
– Gross amount	1,196,444	–1,155,730
– Retroceded amount	164,127	–650,729
– Net amount	1,032,317	–505,001
Total	11,976,018	11,432,701

(15) Change in other underwriting provisions for own account

	1998 TDM	Previous year TDM
Premium funds	–1,504,920	–1,809,253
Other underwriting provisions	80,781	106,089
Total	–1,424,139	–1,703,164

(12) Reinsurance underwriting result by class of business DM m	Life	Personal accident/ health	Liability	Motor	Marine/ aviation	Fire
Gross premiums written	4,936	1,513	1,592	2,932	1,189	3,166
Net premiums written	4,177	1,390	1,429	2,635	985	2,895
Net premiums earned	4,093	1,379	1,432	2,680	964	2,904
Interest on premium funds and provisions	1,332	152	1	5	–	–
Claims incurred						
– Payments	2,481	910	836	2,077	804	1,518
– Change in provision	3	99	430	267	41	261
	2,484	1,009	1,266	2,344	845	1,779
Operating expenses	1,381	450	398	602	249	912
Other income and expenditure	–1,361	–141	–2	26	1	–7
Underwriting result	199	–69	–233	–235	–129	206
Change in the claims equalization provisions	–	0	–345	–76	96	–271
Underwriting result after change in claims equalization provisions	199	–69	–578	–311	–33	–65
Ratios in % – business year						
Loss ratio		72.4	88.5	86.3	87.6	61.5
Expense ratio		32.6	27.8	22.5	25.8	31.4
Combined ratio		105.0	116.3	108.8	113.4	92.9
Ratios in % – previous year						
Loss ratio		68.6	75.5	84.3	72.5	52.1
Expense ratio		35.0	32.9	23.0	23.4	36.6
Combined ratio		103.6	108.4	107.3	95.9	88.7

Engineering	Other classes	Non-life combined	Total	Previous year non-life combined	Previous year total	DM m
1,476	2,660	14,528	19,464	14,735	19,447	Gross premiums written
1,209	2,453	12,996	17,173	13,258	17,216	Net premiums written
1,257	2,467	13,083	17,176	13,548	17,507	Net premiums earned
–	–	158	1,490	123	1,440	Interest on premium funds and provisions
						Claims incurred
866	1,452	8,463	10,944	9,672	11,938	– Payments
1	–70	1,029	1,032	–513	–505	– Change in provision
867	1,382	9,492	11,976	9,159	11,433	
428	838	3,877	5,258	4,298	5,540	Operating expenses
31	–36	–128	–1,489	–61	–1,781	Other income and expenditure
–7	211	–256	–57	153	193	Underwriting result
16	–68	–648	–648	–1,199	–1,199	Change in the claims equalization provisions
9	143	–904	–705	–1,046	–1,006	Underwriting result after change in claims equalization provisions
						Ratios in % – business year
66.5	57.5	72.3				Loss ratio
34.1	34.0	29.6				Expense ratio
100.6	91.5	101.9				Combined ratio
						Ratios in % – previous year
65.7	59.0	67.1				Loss ratio
34.5	35.2	31.7				Expense ratio
100.2	94.2	98.8				Combined ratio

(16) Operating expenses for own account

	1998 TDM	Previous year TDM
Gross operating expenses	5,802,202	5,993,703
Less commission received on retroceded business	543,925	453,441
Total	5,258,277	5,540,262

(17) Personnel costs

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

	1998 TDM	Previous year TDM
Wages and salaries	150,760	271,858
Social insurance contributions and voluntary assistance	39,273	66,998
Expenses for employees' pensions	45,731	34,270
Total	235,764	373,126

(18) Investment income

	1998 TDM	Previous year TDM
Dividends from participations	377,763	469,217
Income from other investments:		
– Rents from real estate	144,774	218,241
– Income from other investments	2,382,929	2,888,430
Income from write-ups	23,814	–
Realized gains on investments	1,063,697	891,809
Income from profit-transfer agreements	446	907
Income from the reduction of the special reserve	148,581	178,607
Total	4,142,004	4,647,211

This includes the following income from affiliated companies:

	1998 TDM	Previous year TDM
Dividends from participations	153,073	124,083
Income from other investments	533,544	504,458

The write-ups were made mainly to reverse writedowns of previous years that were not recognized for tax purposes.

(19) Investment expenditure

	1998 TDM	Previous year TDM
Expenses for the management of investments, interest paid and other expenses for investments	128,791	212,165
Writedowns on investments	347,308	361,168
Realized losses on investments	4,039	22,483
Expenditure for the assumption of losses	1,077	3,708
Allocations to the special reserve	279,741	312,173
Total	760,956	911,697

Of the writedowns on investments, TDM 349 (8,566) comprised exceptional depreciations as per Article 253 para. 2 sentence 3 of the German Commercial Code.

Special writedowns of TDM 211,533 (189,578) were made for tax purposes as per Article 6 b of the German Income Tax Act. In the business year reinstatements of value amounting to TDM 39,863 were not made for tax reasons, in accordance with the option open to us.

Writedowns for tax purposes and the posting of the special reserve as per Article 6 b of the German Income Tax Act affected the Munich Reinsurance Company's result for the year by an amount of TDM 491,274 (501,751). The reinstatements of value not made for tax reasons amount to TDM 186,820. Owing to the regulations of the German tax reform law of 24th March 1999, this amount will generally have a positive effect on the result in the next few years.

(20) Other expenditure

	1998 TDM	Previous year TDM
Special allocations to the provisions for outstanding claims (liability business)	250,000	250,000
Miscellaneous	284,388	298,971
Total	534,388	548,971

Other information

(21) Boards of the company

The members of the Supervisory Board and the Board of Management are listed on pages 8, 12 and 13 of this report.

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 10,374 (12,930). Payments to retired members of the Board of Management or their surviving dependants amount to TDM 2,304 (3,570).

Also taking into account the proposal for the distribution of the profit, the total emoluments of the members of the Supervisory Board amount to TDM 944 (934). This sum includes emoluments of TDM 816 (808) dependent on the dividend paid to the shareholders.

The Board members did not receive any advances or loans in the year under review; no contingent liabilities were entered into for their benefit.

(22) Other seats held by Board members[1]

Supervisory Board	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Ulrich Hartmann	Deutsche Lufthansa AG Hochtief AG IKB Deutsche Industriebank AG RAG AG Degussa-Hüls AG * PreussenElektra AG * Stinnes AG * VEBA OEL AG * Viterra AG *	Henkel KGaA VEBA Telecom GmbH *
Dr. jur. Henning Schulte-Noelle	BASF AG Dresdner Bank AG Linde AG MAN AG Mannesmann AG Siemens AG Thyssen Krupp AG VEBA AG Allianz Lebensversicherungs-AG * Allianz Versicherungs-AG *	Assurances Générales de France S.A., Paris * ELVIA Versicherungen, Zurich * Fireman's Fund Insurance Company, Novato * Riunione Adriatica di Sicurtà S.p.A., Milan *
Dr. rer. pol. Wolfgang Röller	Bayerische Motoren Werke AG Heidelberger Zement AG	Henkel KGaA

[1] Position: 7th June 1999.
* Own group company within the meaning of Article 18 of the German Stock Companies Act.

Supervisory Board	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Dr. jur. Rolf-E. Breuer	Deutsche Börse AG Deutsche Lufthansa AG Siemens AG VEBA AG	Compagnie de Saint-Gobain S.A., Paris Landwirtschaftliche Rentenbank
Dr.-Ing. E.h. Eberhard v. Kuenheim	DELTON AG für Beteiligungen	–
Dr. techn. h.c. Dipl.-Ing. ETH Ferdinand Piëch	Dr.-Ing. h.c. F. Porsche AG	Porsche Holding Ges. mbH, Salzburg
Dr. jur. Albrecht Schmidt	Allianz AG Lufthansa Commercial Holding GmbH Siemens AG VIAG AG Bayerische Handelsbank AG * Nürnberger Hypothekenbank AG * Süddeutsche Bodencreditbank AG * Vereins- und Westbank AG *	ADIG Allgemeine Deutsche Investment-Gesellschaft mbH
Dr.-Ing. Dieter Soltmann	Bankhaus Maffei & Co. KGaA Bayerische Motoren Werke AG Deutsche Postbank AG Löwenbräu AG Meggle GmbH Münchener Tierpark Hellabrunn AG	–
Dr. phil. Ron Sommer (from 5th November 1998)	DeTeMobil Deutsche Telekom MobilNet GmbH *	France Telecom S.A., Paris Sprint Corporation, Kansas City
Professor Dr. jur. Dr.-Ing. E.h. Dieter Spethmann (until 5th November 1998)	Benecke-Kaliko AG	KELSO & CO., New York

Board of Management	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Dr. jur. Hans-Jürgen Schinzler Chairman	Dresdner Bank AG ERGO Versicherungsgruppe AG Hoechst AG MAN AG MR Beteiligungen AG * MRE Beteiligungen AG *	Allianz of America Inc., Delaware Dresdner Kleinwort Benson North America Inc., New York American Re Corporation, Princeton *

* Own group company within the meaning of Article 18 of the German Stock Companies Act.

Board of Management	**Seats held on supervisory boards of other German companies**	**Membership of comparable bodies of German and foreign business enterprises**
Dr. jur. Wolf Otto Bauer	Karlsruher Versicherung AG	–
Clement Booth (from 1st January 1999)	–	RINET S.C., Brussels Munich Reinsurance Company of Africa Ltd., Johannesburg *
Dieter Göbel	TELA Versicherung AG	Münchener Rück Italia S.p.A., Milan * New Reinsurance Company, Geneva *
Dr. jur. Heiner Hasford	D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG ERGO Versicherungsgruppe AG Europäische Reiseversicherung AG BHS tabletop AG MERCUR Assistance AG Holding MAN Nutzfahrzeuge AG VICTORIA Lebensversicherung AG VICTORIA Versicherung AG WMF Württembergische Metallwarenfabrik AG MR Beteiligungen AG * MRE Beteiligungen AG *	–
Dr. jur. Claus Helbig	AUDI AG Deutsche Asset Management Investmentgesellschaft mbH DKV Deutsche Krankenversicherung AG Hamburg-Mannheimer Sachversicherungs-AG Hamburg-Mannheimer Versicherungs-AG Hermes Kreditversicherungs-AG MR Beteiligungen AG * MRE Beteiligungen AG *	Claas KGaA Karlsruher Rendite Beratungsgesellschaft für Vermögensanlagen mbH Munich London Investment Management Ltd., London American Re Corporation, Princeton *
Stefan Heyd	Allianz Versicherungs-AG Bayerische Versicherungsbank AG Frankfurter Versicherungs-AG Kraft Versicherungs-AG	–
Christian Kluge	Karlsruher Lebensversicherung AG	–

* Own group company within the meaning of Article 18 of the German Stock Companies Act.

Board of Management	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Dr. jur. Fedor Nierhaus (until 30th June 1999)	–	Saudi National Insurance Company E.C., Jedda Munich Reinsurance Company of Africa Ltd., Johannesburg *
Dr. phil. Detlef Schneidawind	Generali Lloyd AG Karlsruher Lebensversicherung AG Mecklenburgische Leben Versicherungs-AG	–
Dr. jur. Hans-Wilmar von Stockhausen	Allgemeine Kreditversicherung AG Alte Leipziger Europa Beteiligungs-gesellschaft AG Münchener Hagelversicherung AG	Prévoyance Re S.A., Paris Münchener Rück Italia S.p.A., Milan * Munich Reinsurance Company of Africa Ltd., Johannesburg * New Reinsurance Company, Geneva *
Karl Wittmann	–	American Re Corporation, Princeton * Munich American Reassurance Company, Atlanta * Munich Reinsurance Company of Austral-asia Ltd., Sydney * Munich Reinsurance Company of Canada, Toronto *

* Own group company within the meaning of Article 18 of the German Stock Companies Act.

(23) Number of staff

The number of staff employed by the company in Munich and at its offices abroad in the business year 1998 averaged 2,132 (2,027).

(24) Contingent liabilities, other financial commitments

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

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

Munich, 25th May 1999

The Board of Management

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

Proposal for appropriation of profit

The balance sheet profit at the disposal of the Annual General Meeting amounts to DM 159,227,712.

We propose that the balance sheet profit be distributed as a dividend of DM 1.80 on each bearer and registered share.

Munich, 25th May 1999

The Board of Management

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

05

Auditor's report

The auditor's opinion is worded as follows:

We have audited the accounting records and financial statements of the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, its consolidated financial statements and its report on the position of the company and group for the short business year ended 31st December 1998. The company's Board of Management is responsible for preparing these documents in accordance with the provisions of German commercial and insurance supervisory law and the supplementary provisions of the company's bylaws. Our responsibility is to express an opinion, based on our audit, on the company's financial statements, its consolidated financial statements and its report on the position of the company and group.

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

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

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

Munich, 31st May 1999
Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

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

Business development of the Munich Re Group in DM m

Consolidated balance sheet	30.6.1995	30.6.1996	30.6.1997	30.6.1998	31.12.1998
Investments (including deposits retained on assumed reinsurance)	111,008	120,279	148,288	208,845	217,143
Reinsurers	48,398	52,937	61,803	71,091	75,222
Direct insurers	62,610	67,342	86,485	137,754	141,921
Shareholders' funds	4,442	5,378	6,604	9,962	12,262
Claims equalization provisions	2,614	3,736	4,816	6,956	7,744
Underwriting funds and provisions (without equalization provisions)	97,548	104,047	130,643	182,929	187,246
Life	68,570	73,632	78,886	117,959	118,567
Non-life	28,978	30,415	51,757	64,970	68,679

Consolidated profit and loss account	1994/95	1995/96	1996/97	1997/98	1998
Gross premiums written	28,974	28,989	32,181	44,522	49,791
Life	10,898	11,177	11,538	13,691	15,599
Non-life	18,076	17,812	20,643	30,831	34,192
Net premiums written	25,937	26,232	28,934	40,477	46,010
Life	10,038	10,326	10,579	12,711	14,851
Non-life	15,899	15,906	18,355	27,766	31,159
Net earned premiums	25,802	26,220	28,665	40,485	45,971
Underwriting result	–100	573	776	596	692
Life	329	489	404	400	719
Non-life	–429	84	372	196	–27
Investment result	7,322	7,935	9,362	13,252	15,153
Thereof included in underwriting result	5,313	5,685	7,104	9,384	11,524
Unadjusted earnings	1,764	2,586	2,629	3,755	3,706
Special allocations to the provision for outstanding claims	–250	–500	–200	–270	–282
Change in claims equalization provisions	–788	–952	–1,216	–1,282	–772
Operating result	726	1,134	1,213	2,203	2,652
Tax	–401	–539	–514	–1,054	–1,455
Profit for the year	325	595	699	1,149	1,197

Business development of the Munich Reinsurance Company in DM m

Balance sheet	**30.6.1995**	**30.6.1996**	**30.6.1997**	**30.6.1998**	**31.12.1998**
Investments (including deposits retained on assumed reinsurance)	49,376	54,263	61,061	66,310	70,531
Shareholders' funds	2,605	3,351	3,535	4,200	6,501
Claims equalization provisions	2,357	3,327	4,555	5,814	6,427
Underwriting funds and provisions (without equalization provisions)	41,937	44,532	47,090	49,719	50,736
Life	17,559	18,908	20,187	21,850	22,131
Non-life	24,378	25,624	26,903	27,869	28,605

Profit and loss account	**1994/95**	**1995/96**	**1996/97**	**1997/98**	**1998**
Gross premiums written	18,258	18,014	18,541	19,447	19,464
Life	3,974	4,069	4,398	4,712	4,936
Non-life	14,284	13,945	14,143	14,735	14,528
Net premiums written	16,178	16,186	16,154	17,216	17,173
Life	3,563	3,595	3,748	3,958	4,177
Non-life	12,615	12,591	12,406	13,258	12,996
Net earned premiums	16,089	16,283	16,088	17,507	17,176
Underwriting result	–318	132	345	193	–57
Life	98	114	71	40	199
Non-life	–416	18	274	153	–256
Investment result	2,804	3,163	3,350	3,736	3,381
Thereof included in underwriting result	1,134	1,350	1,584	1,640	1,730
Unadjusted earnings	1,360	1,957	2,011	2,166	1,507
Special allocations to the provision for outstanding claims	–250	–500	–200	–250	–250
Change in claims equalization provisions	–798	–982	–1,201	–1,199	–648
Operating result	312	475	610	717	609
Tax	–150	–242	–329	–414	–300
Profit for the year	162	233	281	303	309
Dividend per share in DM	1.35	1.60	1.70	1.80	1.80

Munich Re worldwide – Reinsurance

Germany
Munich Reinsurance Company

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

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

Brazil
Münchener do Brasil Serviços Técnicos Ltda.

Canada
Munich Reinsurance Company of Canada (MROC)

Munich Reinsurance Company
Canada Branch (Life)

China
Munich Reinsurance Company
Hong Kong Branch

Munich Reinsurance Company
Representative Offices

Colombia
Münchener de Colombia S.A.
Corredores de Reaseguros

Egypt
Munich Reinsurance Company
Contact Office

France
Munich Ré France Services

Greece
Muenchener Rueck Hellas Services S.A.

India
Consultant for India to
Munich Reinsurance Company

Israel
Munich Reinsurance Company
Liaison Office

Italy
Münchener Rück Italia S.p.A.

Japan
Munich Re Japan Services K.K.

Korea
Munich Reinsurance Company
Liaison Office

Malaysia
Münchener Rückversicherungs-Gesellschaft
Malaysia Branch

Mexico
Muenchener de México, S.A.

Pakistan
Resident Correspondent

Philippines
Munich Management Pte. Ltd.
Munich Re Representative Office

Poland
Munich Re Polska Services Sp. z o.o.

Russia
Münchener Rückversicherungs-Gesellschaft
Liaison Office

Singapore
Münchener Rückversicherungs-Gesellschaft
Singapore Branch

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

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

Switzerland
New Reinsurance Company
with office in Singapore

Taiwan
Munich Reinsurance Company
Liaison Office

Turkey
Münih Re Reasürans Aracılık ve Danışma
Servisleri Limited Şirketi

UK
Great Lakes Reinsurance (UK) PLC

Munich Reinsurance Company
Main Representation Office

Munich Reinsurance Company
United Kingdom General Branch

Munich Reinsurance Company
United Kingdom Life Branch

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

Munich American Reassurance Company (MARC-Life)

Munich-American RiskPartners Inc. with offices in Germany and the UK

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

You can find the addresses of our subsidiaries and offices throughout the world, including the names of persons to contact there, in our annual Portrait, which we will be pleased to send you on request.

Munich Re worldwide – Direct insurance

ERGO

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

Karlsruher

Karlsruher Leben Karlsruher Versicherung Karlsruher Rechtsschutz	and other subsidiaries in Germany

Europäische

Europäische Reiseversicherung	Subsidiaries in various European countries

Position: 20th April 1999

Important dates

Annual General Meeting 1999	22nd July 1999
Half-year report 1999	28th September 1999
Balance sheet meeting of Supervisory Board	29th May 2000
Balance sheet press conference	30th May 2000
Annual General Meeting 2000	19th July 2000

Further information is obtainable from our Press Division.

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Münchener Rückversicherungs-Gesellschaft
Aktiengesellschaft in München

Königinstrasse 107 · D-80802 München
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E-mail: info@munichre.com

Besides this English translation of the official German original (also available from the company), a shortened version of our annual report is obtainable in French and Spanish. In addition, our web site on the Internet (http://www.munichre.com) contains a complete edition of the annual report with figures in euros.

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

Important figures in euros

Münchener Rück
Munich Re Group

Summary of the most important figures

Balance sheet – assets	Reinsurers 1998 T€	Direct insurers 1998 T€	Total 1998 T€	Total Previous year T€
Investments	26,892,757	72,439,431	99,332,188	96,216,859
Deposits retained on assumed business	11,567,564	123,855	11,691,419	10,564,034
Accounts receivable on reinsurance business	2,153,491	48,700	2,202,191	1,781,830
Amounts receivable on direct insurance business	–	777,332	777,332	874,946
Other assets	3,432,757	3,119,751	6,552,508	6,745,368
Balance sheet total			120,555,638	116,183,037

Balance sheet – liabilities	Reinsurers 1998 T€	Direct insurers 1998 T€	Total 1998 T€	Total Previous year T€
Shareholders' funds			6,269,670	5,093,432
Underwriting funds and provisions	32,477,707	67,218,956	99,696,663	97,086,855
Deposits retained on ceded business	2,388,023	1,636,273	4,024,296	4,187,188
Accounts payable on reinsurance business	1,605,582	51,500	1,657,082	1,431,395
Amounts payable on direct insurance business	–	3,959,908	3,959,908	3,576,527
Other provisions	1,153,940	1,257,666	2,411,606	2,315,595
Other liabilities	1,745,979	790,434	2,536,413	2,492,045
Balance sheet total			120,555,638	116,183,037

Premium income	Reinsurers 1998 T€	Direct insurers 1998 T€	Total 1998 T€	Total Previous year T€
Gross premiums	12,776,553	12,681,050	25,457,603	22,763,865
– Life	2,290,191	5,685,442	7,975,633	7,000,380
– Health	–[1]	3,483,711	3,483,711	3,040,098
– Property-casualty	10,486,362	3,511,897	13,998,259	12,723,387
Net premiums	11,247,636	12,276,816	23,524,452	20,695,590
– Life	2,019,948	5,573,456	7,593,404	6,499,288
– Health	–[1]	3,394,458	3,394,458	2,861,485
– Property-casualty	9,227,688	3,308,902	12,536,590	11,334,817

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

Results	Reinsurers 1998 T€	Direct insurers 1998 T€	Total 1998 T€	Total Previous year T€
Underwriting result of reinsurers and property-casualty insurers	–206,575	105,329	–101,246	4,835
– Net premiums	11,247,636	3,308,902	14,556,538	13,139,155
– Interest income on premium funds	605,684	8,105	613,789	594,161
– Claims incurred	8,042,739	2,031,621	10,074,360	8,666,649
– Operating expenses	3,425,222	1,153,540	4,578,762	4,275,529
– Other underwriting income and expenditure	–591,934	–26,517	–618,451	–786,303
Underwriting result of life and health insurers	–	455,165	455,165	299,699
– Net premiums	–	8,967,914	8,967,914	7,556,435
– Investment result	–	5,148,234	5,148,234	4,108,473
– Underwriting income and expenditure	–	–9,693,536	–9,693,536	–8,090,329
– Operating expenses	–	1,468,111	1,468,111	1,211,740
– Allocation to provisions for policyholders' dividends	–	2,499,336	2,499,336	2,063,140
Underwriting result	–206,575	560,494	353,919	304,534
Investment result	2,140,132	5,607,633	7,747,765	6,775,745
Thereof included in underwriting result	735,058	5,157,046	5,892,104	4,798,151
Other income and expenditure	–135,325	–179,568	–314,893	–362,379
Unadjusted earnings	1,063,174	831,513	1,894,687	1,919,749
Special allocations to the provision for outstanding claims	–144,324	–	–144,324	–137,885
Change in the claims equalization provision and the provisions for major risks and earthquake risks	–353,620	–41,054	–394,674	–655,396
Operating result	565,230	790,459	1,355,689	1,126,468
Tax			–743,793	–539,146
Profit for the year			611,896	587,322

Consolidated balance sheet as at 31st December 1998

Assets	Notes	T€	T€	Previous year T€
A. Liability of shareholders for uncalled capital			–	209,527
B. Intangible assets	(1)		2,119,921	2,110,677
C. Investments				
I. Real estate	(2)	5,534,750		5,621,199
II. Investments in affiliated companies and participations	(2, 3)	5,094,037		4,674,999
III. Other investments	(2)	88,557,897		85,815,942
		99,186,684		96,112,140
IV. Deposits retained on assumed reinsurance business	(5)	11,691,419		10,564,034
			110,878,103	106,676,174
D. Investments for the benefit of life insurance policyholders who bear the investment risk			145,505	104,719
E. Receivables	(4, 5)			
I. Amounts receivable on direct insurance business		777,332		874,946
II. Accounts receivable on reinsurance business		2,202,191		1,781,830
III. Other receivables		1,384,449		858,984
			4,363,972	3,515,760
F. Other assets	(6)		1,137,642	1,231,919
G. Deferred items	(7)		1,910,495	2,334,261
Total assets			120,555,638	116,183,037

Liabilities	Notes	T€	T€	Previous year T€
A. Shareholders' funds	(8)			
I. Subscribed capital		444,618		426,723
II. Capital reserve		2,336,050		1,257,300
III. Revenue reserves		2,148,339		2,079,441
IV. Balance sheet profit		81,412		78,191
V. Minority interests		1,259,251		1,251,777
			6,269,670	5,093,432
B. Special reserve	(9)		336,116	291,351
C. Underwriting funds and provisions for own account	(10)			
I. Unearned premiums		3,584,620		3,639,052
II. Premium funds		63,252,460		62,059,063
III. Provision for outstanding claims		21,652,283		21,074,072
IV. Provision for premium refunds and policyholders' dividends		6,774,232		6,371,352
V. Claims equalization provision and similar provisions		3,959,554		3,556,755
VI. Other underwriting provisions		332,942		285,523
			99,556,091	96,985,817
D. Underwriting provisions for life insurance policies where the investment risk is borne by the policyholders	(10)		140,572	101,038
E. Other provisions	(11)		2,411,606	2,315,595
F. Deposits retained on ceded business	(5)		4,024,296	4,187,188
G. Other liabilities				
I. Amounts payable on direct insurance business	(5, 12)	3,959,908		3,576,527
II. Accounts payable on reinsurance business	(5)	1,657,082		1,431,395
III. Notes and debentures	(13)	629,539		673,551
IV. Amounts owed to banks	(13)	768,602		711,986
V. Miscellaneous liabilities	(5, 13)	708,845		711,882
			7,723,976	7,105,341
H. Deferred items	(14)		93,311	103,275
Total liabilities			120,555,638	116,183,037

Consolidated profit and loss account for the business year 1998

Items	Notes	T€	Previous year T€
I. Technical account for reinsurance and property-casualty insurance			
1. Earned premiums for own account	(15)	14,533,583	13,157,217
2. Interest income on premium funds for own account		613,789	594,161
3. Other underwriting income for own account	(16)	12,149	9,598
4. Claims incurred for own account	(17)	10,074,360	8,666,649
5. Change in other underwriting provisions for own account	(18)	–557,532	–756,403
6. Expenditure for premium refunds for own account		14,844	22,065
7. Operating expenses for own account	(19, 20)	4,578,762	4,275,529
8. Other underwriting expenditure for own account	(21)	35,269	35,495
9. Subtotal	(22)	**–101,246**	**4,835**
10. Change in the claims equalization provision and similar provisions		–394,674	–655,396
11. Underwriting result for own account in reinsurance and property-casualty insurance		**–495,920**	**–650,561**
II. Technical account for life and health insurance			
1. Earned premiums for own account	(15)	8,970,772	7,542,366
2. Premiums from the gross provision for policyholders' dividends		1,046,352	860,495
3. Allocated investment return transferred from the non-technical account		5,148,234	4,108,473
4. Unrealized gains on investments		10,592	11,680
5. Other underwriting income for own account	(16)	32,566	33,461
6. Claims incurred for own account	(17)	6,286,927	5,272,206
7. Change in other underwriting provisions for own account	(18)	–4,071,923	–3,337,887
8. Expenditure for policyholders' dividends for own account		2,499,336	2,063,140
9. Operating expenses for own account	(19, 20)	1,468,111	1,211,740
10. Unrealized losses on investments		2,352	850
11. Other underwriting expenditure for own account	(21)	424,702	370,953
12. Underwriting result for own account in life and health insurance	(22)	**455,165**	**299,699**

	Notes	T€	T€	Previous year T€
III. Non-technical account				
1. Underwriting result for own account				
a) Reinsurance and property-casualty insurance		–495,920		–650,561
b) Life and health insurance		455,165		299,699
			–40,755	–350,862
2. Investment income	(23)	8,744,209		7,632,712
3. Investment expenditure	(24)	996,444		856,967
		7,747,765		6,775,745
4. Allocated investment return transferred to the technical account for reinsurance and property-casualty insurance		743,870		689,678
4a. Allocated investment return transferred to the technical account for life and health insurance		5,148,234		4,108,473
			1,855,661	1,977,594
5. Other income			266,177	242,606
6. Other expenditure	(25)		725,394	742,870
7. Operating result			**1,355,689**	**1,126,468**
8. Taxes on profit and income		728,572		504,451
9. Other taxes		15,221		34,695
			743,793	539,146
10. Profit for the year	(26)		**611,896**	**587,322**

Consolidated cash flow statement for the business year 1998

	T€	Previous year T€
I. Cash flows from operating activities		
Profit for the year	611,896	587,322
Writedowns on investments	474,058	294,378
Gains and losses on the disposal of investments	–1,753,512	–1,064,545
Change in net underwriting provisions	5,999,590	7,138,922
Change in other assets and liabilities	–324,381	–403,293
Other adjustments (in particular for exchange gains/losses on investments)	554,419	–812,333
Cash flows from operating activities	5,562,070	5,740,451
II. Cash flows from investing activities		
Changes in cash as a result of the acquisition/sale of consolidated subsidiaries	–271,592	92,042
Inflows from maturities and sale of investments	26,041,241	27,939,124
Outflows for the acquisition of investments	–32,721,352	–34,012,117
Cash flows from investing activities	–6,951,703	–5,980,951
III. Cash flows from financing activities		
Inflows from capital measures	1,307,190	251,857
Changes in cash as a result of other financing activities (net)	58,455	–15,953
Dividends paid	–106,907	–77,241
Cash flows from financing activities	1,258,738	158,663
Cash flow for the business year (I + II + III)	**–130,895**	**–81,837**
Effect of exchange rate changes on cash	–2,065	18,531
Cash flow from the formation of the ERGO Insurance Group	–	245,361
Cash at the beginning of the business year	712,306	530,250
Cash at the end of the business year	579,346	712,306
Additional information:		
Income taxes paid (net)	393,794	538,671
Interest paid	61,744	87,121

Further information on the consolidated cash flow statement may be found in the notes on the accounts under (27).

Summary of the most important figures

Balance sheet – assets	1998 T€	Previous year T€
Investments	21,307,771	20,030,896
Deposits retained on assumed reinsurance business	14,753,905	13,873,046
Accounts receivable on reinsurance business	974,399	642,262
Other assets	985,452	568,740
Liability of shareholders for subscribed capital	0	209,527
Balance sheet total	38,021,527	35,324,471

Balance sheet – liabilities	1998 T€	Previous year T€
Shareholders' funds	3,323,879	2,147,320
– Subscribed capital	444,618	426,723
– Reserves	2,797,849	1,642,406
– Balance sheet profit	81,412	78,191
Reinsurance funds and provisions	29,227,127	28,393,696
Deposits retained on retroceded business	2,103,862	2,011,240
Accounts payable on reinsurance business	1,298,416	1,054,727
Other liabilities	2,068,243	1,717,488
Balance sheet total	38,021,527	35,324,471

Premium income	1998 T€	Previous year T€
Reinsurance premiums	9,951,636	9,943,042
– Life	2,523,717	2,408,867
– Personal accident/health	773,763	690,881
– Liability	814,153	762,895
– Motor	1,498,922	1,617,371
– Marine/aviation	607,617	562,748
– Fire	1,618,692	1,678,206
– Engineering	754,726	895,705
– Other classes	1,360,046	1,326,369

Results	1998 T€	Previous year T€
Reinsurance underwriting result	–29,430	98,537
– Life	101,676	20,413
– Personal accident/health	–35,152	–21,735
– Liability	–119,234	–60,816
– Motor	–120,154	–108,629
– Marine/aviation	–66,121	21,114
– Fire	105,206	176,946
– Engineering	–3,359	–1,735
– Other classes	107,708	72,979
Investment result	844,277	1,071,230
– Investment income	1,233,347	1,537,373
– Investment expenditure	389,070	466,143
Other income and expenditure	–44,230	–62,287
Unadjusted earnings	770,617	1,107,480
Special allocations to the provision for outstanding claims	–127,823	–127,823
Change in the claims equalization provision and the provisions for major risks and earthquake risks	–331,240	–613,202
– Claims equalization provision	–200,581	–476,538
– Provisions for major risks	–6,826	–2,547
– Provision for earthquake risks	–123,833	–134,117
Operating result	311,554	366,455
Tax	–153,448	–211,570
Profit for the year	158,106	154,885
Transfer to revenue reserves	76,694	76,694
Balance sheet profit at the disposal of the AGM	81,412	78,191

Balance sheet as at 31st December 1998

Assets	Notes	T€	T€	Previous year T€
A. Liability of shareholders for uncalled capital			0	209,527
B. Intangible assets	(1)		30,115	30,596
C. Investments				
I. Real estate	(2)	1,010,485		1,017,239
II. Investments in affiliated companies and participations	(2)	8,694,844		7,786,981
III. Other investments	(2)	11,602,442		11,226,676
		21,307,771		20,030,896
IV. Deposits retained on assumed reinsurance business	(3)	14,753,905		13,873,046
			36,061,676	33,903,942
D. Receivables	(3)			
I. Accounts receivable on reinsurance business		974,399		642,262
II. Other receivables		571,253		243,969
			1,545,652	886,231
E. Other assets	(4)		31,733	59,713
F. Deferred taxes			250,118	126,744
G. Other deferred items	(5)		102,233	107,718
Total assets			38,021,527	35,324,471

Liabilities	Notes	T€	T€	Previous year T€
A. Shareholders' funds	(6)			
I. Subscribed capital		444,618		426,723
II. Capital reserve		2,336,050		1,257,301
III. Revenue reserves		461,799		385,105
IV. Balance sheet profit		81,412		78,191
			3,323,879	2,147,320
B. Special reserve	(7)		229,867	162,807
C. Underwriting funds and provisions for own account	(8)			
I. Unearned premiums		1,626,629		1,695,483
II. Premium funds		11,752,422		11,500,508
III. Provision for outstanding claims		12,179,962		11,882,913
IV. Provision for premium refunds		18,488		16,974
V. Claims equalization provision and similar provisions		3,286,130		2,972,837
VI. Other underwriting provisions		363,496		324,981
			29,227,127	28,393,696
D. Other provisions	(9)		1,032,719	726,407
E. Deposits retained on retroceded business	(3)		2,103,862	2,011,240
F. Other liabilities	(3, 10)			
I. Accounts payable on reinsurance business		1,298,416		1,054,727
II. Amounts owed to banks		534,217		526,903
III. Miscellaneous liabilities		270,652		300,473
			2,103,285	1,882,103
G. Deferred items	(11)		788	898
Total liabilities			38,021,527	35,324,471

Profit and loss account for the short business year 1998

Items	Notes	T€	Previous year T€
I. Technical account			
1. Earned premiums for own account	(13)	8,781,896	8,951,335
2. Interest income on premium funds for own account		761,887	736,242
3. Other underwriting income for own account		435	1,672
4. Claims incurred for own account	(14)	6,123,241	5,845,447
5. Change in other underwriting provisions for own account	(15)	–728,151	–870,814
6. Expenditure for premium refunds for own account		7,954	10,502
7. Operating expenses for own account	(16, 17)	2,688,514	2,832,691
8. Other underwriting expenditure for own account		25,788	31,258
9. Subtotal		**–29,430**	**98,537**
10. Change in the claims equalization provision and similar provisions		–331,240	–613,202
11. Underwriting result for own account	(12)	**–360,670**	**–514,665**
II. Non-technical account			
1. Investment income	(18)	2,117,773	2,376,081
2. Investment expenditure	(17, 19)	389,070	466,143
		1,728,703	1,909,938
3. Interest income on premium funds and provisions		884,426	838,708
		844,277	1,071,230
4. Other income		101,175	90,575
5. Other expenditure	(20)	273,228	280,685
6. Operating result		**311,554**	**366,455**
7. Taxes on profit and income		157,309	207,709
8. Other taxes		–3,861	3,861
9. Profit for the year		**158,106**	**154,885**
10. Transfer to revenue reserves		76,694	76,694
11. Balance sheet profit		**81,412**	**78,191**

Business development of the Munich Re Group in €m

Consolidated balance sheet	**30.6.1995**	**30.6.1996**	**30.6.1997**	**30.6.1998**	**31.12.1998**
Investments (including deposits retained on assumed reinsurance)	56,758	61,498	75,818	106,781	111,024
Reinsurers	24,746	27,066	31,599	36,348	38,460
Direct insurers	32,012	34,432	44,219	70,433	72,564
Shareholders' funds	2,271	2,750	3,377	5,093	6,270
Claims equalization provisions	1,337	1,910	2,462	3,557	3,960
Underwriting funds and provisions (without equalization provisions)	49,875	53,198	66,797	93,530	95,737
Life	35,059	37,647	40,334	60,311	60,622
Non-life	14,816	15,551	26,463	33,219	35,115

Consolidated profit and loss account	**1994/95**	**1995/96**	**1996/97**	**1997/98**	**1998**
Gross premiums written	14,814	14,822	16,454	22,764	25,458
Life	5,572	5,715	5,899	7,000	7,976
Non-life	9,242	9,107	10,555	15,764	17,482
Net premiums written	13,261	13,412	14,794	20,696	23,524
Life	5,132	5,279	5,409	6,499	7,593
Non-life	8,129	8,133	9,385	14,197	15,931
Net earned premiums	13,192	13,406	14,656	20,700	23,505
Underwriting result	–51	293	397	305	354
Life	168	250	207	205	368
Non-life	–219	43	190	100	–14
Investment result	3,744	4,057	4,787	6,776	7,748
Thereof included in underwriting result	2,716	2,907	3,632	4,798	5,892
Unadjusted earnings	902	1,322	1,344	1,920	1,895
Special allocations to the provisions for outstanding claims	–128	–255	–102	–138	–144
Change in claims equalization provisions	–403	–487	–622	–656	–395
Operating result	371	580	620	1,126	1,356
Tax	–205	–276	–263	–539	–744
Profit for the year	166	304	357	587	612

Business development of the Munich Reinsurance Company in €m

Balance sheet	**30.6.1995**	**30.6.1996**	**30.6.1997**	**30.6.1998**	**31.12.1998**
Investments (including deposits retained on assumed reinsurance)	25,246	27,744	31,220	33,904	36,062
Shareholders' funds	1,332	1,713	1,807	2,147	3,324
Claims equalization provisions	1,205	1,701	2,329	2,973	3,286
Underwriting funds and provisions (without equalization provisions)	21,442	22,769	24,077	25,421	25,941
Life	8,978	9,668	10,322	11,172	11,315
Non-life	12,464	13,101	13,755	14,249	14,626

Profit and loss account	**1994/95**	**1995/96**	**1996/97**	**1997/98**	**1998**
Gross premiums written	9,335	9,210	9,480	9,943	9,952
Life	2,032	2,080	2,249	2,409	2,524
Non-life	7,303	7,130	7,231	7,534	7,428
Net premiums written	8,272	8,276	8,259	8,802	8,780
Life	1,822	1,838	1,916	2,024	2,135
Non-life	6,450	6,438	6,343	6,778	6,645
Net earned premiums	8,226	8,325	8,226	8,951	8,782
Underwriting result	–163	67	176	99	–29
Life	50	58	36	21	102
Non-life	–213	9	140	78	–131
Investment result	1,434	1,617	1,713	1,910	1,729
Thereof included in underwriting result	580	690	810	839	884
Unadjusted earnings	695	1,001	1,028	1,107	771
Special allocations to the provisions for outstanding claims	–127	–256	–102	–128	–128
Change in claims equalization provisions	–408	–502	–614	–613	–331
Operating result	160	243	312	366	312
Tax	–77	–124	–168	–211	–154
Profit for the year	83	119	144	155	158
Dividend per share in €	0.69	0.82	0.87	0.92	0.92