Munich Re Group
Annual Report 2001

Will the world ever be the same again?
How do insurers cope with events like 11th September?
How are insurers and reinsurers dealing with terrorism risks?
How do you see the state of aviation one year on from 11th September?
What are potentially the most vulnerable points of our information networks?
Haven't the international agreements on climate protection come much too late?
How can Munich Re's clients benefit from the Centre of Competence for Life Sciences?
What risks has genetic engineering produced in agriculture?
Is environmental awareness still "in"?
Does a reinsurer need a high market capitalization?
How does Munich Re safeguard its financial strength?
What resources are decisive for securing market leadership?
Will health insurance become a privilege of the better-off?
Has Munich Re's share price always been near its fair value?
How prepared was Munich Re for 11th September?
What makes Munich Re a preferred partner in risk?
Has the restructuring of Munich Re's operations been successful?
How is the market environment developing in primary insurance
and what are the implications for Munich Re?
Has MEAG passed the test?
How do insurers perform the double act of taking on risks and getting a return?
Do we need a new system of accounting?

How much risk can the world take?

Münchener Rück
Munich Re Group

!

This Munich Re annual report differs in appearance from any of its predecessors, with a cover full of questions. Most of them are not fundamentally new, but they have acquired a new urgency after 11th September 2001. The list culminates in one central issue: How much risk can the world take?

This question reflects the general vulnerability of our systems as manifested in many fields of risk – genetic engineering, communications technology, the effects of globalization, to name but a few. Munich Re is directly in touch with these risk worlds. As leading risk carriers, we see it as our task to find answers to the questions that have been raised. Consequently, in the magazine part of the annual report, such issues are dealt with in question-and-answer format by Munich Re specialists, who also offer perspectives on the future.

The Munich Re Group – value-oriented and with strong growth

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

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

Reinsurance, primary insurance and asset management complement each other in our Group in an optimum way.

Reinsurance: Since 1880 Munich Re has embodied competence in handling risks to an extent virtually unparalleled worldwide. 5,000 insurance companies in around 150 countries rely on our expertise and financial strength. We assume a part of their risk and find solutions for the whole spectrum of risk management.

Primary insurance: Our primary insurers – ERGO, Karlsruher and Europäische Reiseversicherung – offer the highest degree of security and service to their more than 27 million clients. Having a strong footing in primary insurance, especially personal lines business, is an important part of our strategy. Given current demographic trends, there is great potential for growth in insurances of the person in particular.

Asset management: MEAG, established in 1999, offers its investment products and its services to institutional investors – primarily other insurance companies – and to private clients. We are developing MEAG into one of the top asset management companies.

Calendar. The reader will be accompanied through this annual report by references to the year 2001 in the form of "margin notes". The pictures are snapshots of a year which, though overshadowed by the event of 11th September, was in other ways a completely normal risk year. **1st January 2001**

Lights out. The two largest US energy providers are insolvent, and California's power supply breaks down. The crisis is blamed on the liberalization of the US electricity market. **17th January 2001**

The earth trembles. An earthquake of magnitude 7.7 triggers thousands of landslides in El Salvador, burying hundreds of people. Altogether, there are 845 fatalities. **3rd January 2001**

Munich Re Group 2001

Key figures (IAS)

		2001 €	Prev. year €	Change in %
Gross premiums written	bn	**36.1**	31.1	16.1
Result before amortization of goodwill	m	**–415**	2,615	–115.9
Tax	m	**–1,040**	399	–360.7
Minority interests in earnings	m	**145**	321	–54.8
Profit for the year	m	**250**	1,750	–85.7
Investments	bn	**162.0**	159.4	1.6
Shareholders' equity	bn	**19.4**	23.6	–18.0
Net underwriting provisions	bn	**138.6**	131.5	5.4
Staff at 31st December		**38,317**	36,481	5.0

Our shares

		2001 €	Prev. year €	Change in %
Earnings per share		**1.41**	9.89	–85.7
Dividend per share		**1.25**	1.25	–
Amount distributed	m	**221**	221	–
Share price at 31st December		**305.00**	380.00	–19.7
Munich Re's market capitalization at 31st December	bn	**54.0**	67.2	–19.8

A. M. Best, Fitch, Moody's and Standard & Poor's have each awarded the Munich Re Group their top rating.

Melissa. A new version of the computer worm that caused damage of US$ 1.1bn back in 1999 spreads like wildfire over the Internet. It paralyses many thousands of computers, networks and e-mail systems, in some cases putting them out of action for days.
18th January 2001

Catastrophe. A severe earthquake of magnitude 7.7 claims the lives of at least 14,000 people in the State of Gujarat, India, and damages more than one million buildings. The economic loss amounts to US$ 4.5bn.
26th January 2001

Munich Re Group
Report for the 122nd year of business
1st January 2001 to 31st December 2001

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In the magazine we look at questions raised by the year 2001.

To our shareholders

Dear Shareholders,
The claims burdens for the Munich Re Group from the terrorist attack of 11th September 2001 amounted to the biggest single loss in Munich Re's 122-year history. As the atrocity also led to price slumps on the capital markets, we were severely tested in the investment sector as well. On the day in question, Munich Re shares lost almost one third of their value, although after the announcement of our first loss estimate they quickly recovered to their former level. This reflects the confidence that you, ladies and gentlemen, showed in Munich Re, which we greatly appreciate.

Despite the drastic reduction in our profit, we still propose paying a dividend of €1.25 per share for the business year 2001 – in other words, maintaining last year's substantial dividend increase. We see this as a signal for the current year: all the indicators at present point to a successful business year 2002, in which we can resume the trend set by the very good Group result for 2000.

Our **reinsurance** result was shaped by three factors which are typical of our business but which have rarely accumulated so massively:

- The **risk of change** had a dramatic impact on insurers and reinsurers in the year under review. A terrorist attack with such catastrophic consequences for many classes of insurance simultaneously was inconceivable prior to 11th September. And where policyholders, insurers and reinsurers do not perceive a risk, it follows that this cannot be reflected in prices and conditions. Our logical conclusion has been to adopt a new model for classifying and evaluating terrorism risks, which we have been implementing since October. Another manifestation of the risk of change was the need to substantially strengthen reserves for long-tail claims in our US business.
- The second factor that affected us much more strongly last year than in the long-term average was the **risk of random fluctuations.** Claims experience in the year under review was characterized by an exceptional accumulation of large and very large losses.
- The third factor was the negative effects of 11th September on the **capital markets**, which brought us considerable losses in the investment sector.

The events of 11th September accelerated the return to reason in the insurance markets and really brought home to cedants the need for reinsurance with top security.

For 2002 we have terminated a substantial volume of loss-producing reinsurance treaties, which underscores our determination to carry on working for a return to appropriate prices in reinsurance. We have not reached our goal yet. In the treaty renewals for 2003 we need further adjustments in prices and conditions to reflect both the actual risk situation and the financial costs we have to reckon with in future.

We continue to see the focus of our **primary insurance** operations as being in personal lines business. In this sector particularly, we aim to go on increasing the share of ERGO's premium income from foreign business, which rose to 19% in 2001. Of course, this does not rule out our seizing opportunities in Germany to expand and augment our business as well. Thus in March this year we concluded a strategic partnership between ERGO and KarstadtQuelle AG, which opens up further very promising avenues for us in primary insurance and other financial services. As part of this partnership, ERGO acquired Quelle Versicherungen Holding, which is the third-largest German direct insurer. This gives us an additional distribution channel: the direct selling of insurance products and financial services.

Given the persistent weakness of the capital markets, 2001 was not a good year for **asset management** and the sale of investment fund products. MEAG's business with private and institutional clients was also adversely affected.

We are adhering to our objective of growth in all fields of our business, coupled with sustained optimization of profitability. Despite the setbacks we suffered in 2001, we are convinced that we are on the right track. Insurance and reinsurance are growth markets, and there is no sign of an end to the growth: risks are continuing to increase worldwide, and with them the need for cover and security.

In 2002 we intend to take full advantage of the many different opportunities for strategic cooperation between the Munich Re Group and the HVB Group. Together we are forging a European financial alliance that offers its clients a broad range of financial services.

Another word on Munich Re shares: in 2001 they performed in line with the DAX. We are not satisfied with this, of course, given that – on the basis of nearly all longer performance review periods – the price of our shares has constantly risen more strongly than the index.

My colleagues and I had set ourselves ambitious objectives for the past year, and we are naturally disappointed with the poor result. This was certainly not due to a lack of dedication on the part of our staff: in this year of major change and quite exceptional challenges, their efforts on behalf of your company merit special recognition. In the future, too, with their commitment and their skills, they will do their part to make sure that you as shareholders continue to get the best out of your Munich Re shares.

Yours sincerely,

H. J. Schinzler

Board of Management
(from left to right)

Dr. Hans-Wilmar von Stockhausen
(until 30th June 2002)
Europe 1
together with Christian Kluge
Europe 2 and Latin America
together with
Dr. Nikolaus von Bomhard

Dr. Nikolaus von Bomhard
Europe 2 and Latin America
together with
Dr. Hans-Wilmar von Stockhausen

Christian Kluge
Europe 1 together with
Dr. Hans-Wilmar von Stockhausen
Corporate Communications

Dr. Heiner Hasford
Finance
General Services
Company Structure and Organization

Karl Wittmann
Asia, Australasia, Africa

Dr. Detlef Schneidawind
Life and Health
Human Resources

Stefan Heyd
Corporate Underwriting/
Global Clients
together with Dr. Wolf Otto Bauer

Clement Booth
Special and Financial Risks
Investor Relations
Strategic Planning

Dr. Wolf Otto Bauer
(until 30th June 2002)
Corporate Underwriting/
Global Clients
together with Stefan Heyd

Dr. Hans-Jürgen Schinzler
(Chairman of the Board of Management)
Executive Offices
Press
Internal Auditing

Dr. Jörg Schneider
Accounting
Controlling
Taxes
Information Technology

John Phelan
(from 1st April 2002)
North America

Division of responsibilities as from 1st April 2002.

Report of the Supervisory Board

Ladies and gentlemen,
The terrorist attack of 11th September gave rise to extremely high losses in the business year 2001, deeply impacting Munich Re's results. However, thanks to its solid financial foundations, the company was able to close with a positive result for the year and even to consolidate and extend its position in the insurance and reinsurance markets.

Meetings of the Supervisory Board
At four meetings in the business year 2001, the Supervisory Board obtained detailed information from the Board of Management on the situation in the most important insurance and reinsurance markets, the development of business, and the position of the company and its main affiliates. The Board of Management's reports on business experience, future planning, questions of risk management and significant individual measures were all discussed intensively. 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.

The Board of Management kept us briefed on the restructuring measures implemented on 1st July 2001, which will further enhance Munich Re's efficiency and competitiveness. We were also regularly informed by the Board about the Holocaust issue and the state of considerations with regard to corporate governance.

The second half-year was dominated by the effects of the terrorist attack on 11th September. The Board of Management put us clearly and fully in the picture about this loss, by far the biggest in Munich Re's history. We consequently examined, among other things, the new risk management concept for limiting terrorism coverage which the Board of Management presented to us in detail. Furthermore, we discussed at length the Board of Management's decision to give Munich Re subsidiary American Re a capital injection of over US$ 1bn.

The members of the Supervisory Board were also notified without delay in between the meetings about all transactions that were of fundamental significance for the further development of the Group, in particular
- the restructuring of Munich Re's shareholdings in the insurance and banking sectors, decided on in the first half of the year;
- the combined public purchase and exchange offer to ERGO shareholders;
- the cooperation between the HVB Group and the Munich Re Group.

The Annual General Meeting on 18th July 2001 adopted a number of amendments to the Articles of Association. In preparation for this, the Supervisory Board discussed in particular the authorization to increase the company's share capital in order to issue employee shares and the authorization to buy back shares.

Supervisory Board committees
The Standing Committee met four times in 2001. Its work included matters for which the Supervisory Board's approval was required under the internal rules of procedure. The Board of Management Committee also met three times in order to deal with personnel matters involving members of the Board of Management. No meeting of the Conference Committee was required.

Annual financial statements

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the following documents and gave them an unqualified auditor's opinion: the Munich Reinsurance Company's bookkeeping, its company financial statements and the consolidated financial statements as at 31st December 2001, plus the management reports for the company and the Group. The auditor's reports were promptly given to all the members of the Supervisory Board. After a detailed discussion between the Chairman of the Supervisory Board and the auditor, there was also extensive consideration of the company financial statements and the consolidated financial statements, the management reports and the auditor's reports at the meeting of the Supervisory Board on 23rd May 2002, at which the auditor was present.

The Supervisory Board checked the company financial statements, the consolidated financial statements, the management reports and the proposal of the Board of Management for appropriation of the balance sheet profit. This examination did not result in any adverse findings.

At the balance sheet meeting of the Supervisory Board, we approved and adopted the annual financial statements drawn up by the Board of Management. We agree to the Board of Management's proposal for the appropriation of the balance sheet profit, which provides for an unchanged dividend of €1.25 per share.

Corporate governance

The Supervisory Board welcomes the German Code of Corporate Governance adopted in February 2002, which sets out standards of good and responsible corporate management and control. Munich Re already meets many of these standards. We will be looking at the Code's other recommendations with the Board of Management shortly.

Personalia

With effect from 1st April 2002 we appointed Mr. John Phelan (55) a member of the Board of Management. Mr. Phelan joined Munich Reinsurance Company of Canada (MROC) in 1973, where he became President and Director in 1986. Since 9th March 2002 he has been President, Chief Executive Officer and Chairman of the Board of American Re Corporation (ARC).

There has also been a change on the Supervisory Board. One of the shareholders' representatives, Dr. Ferdinand Piëch, left the Board on 16th April 2002. As his successor with effect from 17th April 2002, the Registry Court has appointed Dr. Bernd Pischetsrieder; this appointment is scheduled to be ratified by the AGM on 17th July. We thank Dr. Piëch for the valuable contribution he made during his time as member of our Supervisory Board.

The great dedication shown by the members of the Board of Management and the staff of the individual Group companies was again a significant factor in the Munich Re Group's performance in the year under review. The Supervisory Board wishes to thank them for their hard work and commitment on behalf of the company.

Munich, 23rd May 2002

For the Supervisory Board

Ulrich Hartmann
Chairman

Members of the Supervisory Board

CHAIRMAN
Ulrich Hartmann
Chairman of the Board of Management of E.ON AG

DEPUTY CHAIRMAN
Herbert Bach
Employee of the Munich Reinsurance Company

DEPUTY CHAIRMAN
Dr. jur. Henning Schulte-Noelle
Chairman of the Board of Management of Allianz AG

Hans-Georg Appel
Employee of the Munich Reinsurance Company

Klaus Peter Biebrach
Employee of the Munich Reinsurance Company

Dr. jur. Rolf-E. Breuer
Spokesman of the Board of Management of Deutsche Bank AG

Peter Burgmayr
Employee of the Munich Reinsurance Company

Rudolf Ficker
Former Member of the Board of Management of the Munich Reinsurance Company

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

Gertraud Köppen
Employee of the Munich Reinsurance Company

Dr. techn. h.c. Dipl.-Ing. ETH Ferdinand Piëch (until 16th April 2002)
Chairman of the Supervisory Board of Volkswagen AG

Dr. jur. Dr.-Ing. E. h. Heinrich von Pierer
President and Chief Executive Officer of Siemens AG

Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder (from 17th April 2002)
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. phil. Ron Sommer
Chairman of the Board of Management of Deutsche Telekom AG

Wolfgang Stögbauer
Employee of the Munich Reinsurance Company

Josef Süßl
Employee of the Munich Reinsurance Company

Dr. rer. pol. Alfons Titzrath
Former Member of the Board of Management of Dresdner Bank AG

Judy Võ
Employee of the Munich Reinsurance Company

Ludwig Wegmann
Employee of the Munich Reinsurance Company

For seats held on other supervisory boards and comparable bodies see page 165 f.

HAS MUNICH RE'S SHARE PRICE ALWAYS BEEN NEAR ITS FAIR VALUE?

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Certainly not. Experience has shown that the maxim "to err is human" applies on the capital markets as well.

A classic example is what happened to Munich Re's share price on 11th and 12th September and in the days afterwards. Directly following the World Trade Center tragedy, we were flooded with telephone calls asking for estimates of our share of the loss. Like the others involved, we were not able to give an answer so soon. What occurred next might be termed "negative fantasy": speculation led to our share price of €285 going through the floor. At 12.30 hrs on 12th September it reached a low of €207, wiping off over €14bn or nearly one third of Munich Re's market value – all within the space of less than 24 hours.

What we needed to do was convince analysts and investors that even such a mega-catastrophe could not reduce Munich Re's value by anything like that amount. On 12th September, at 15.00 hrs, we announced our initial estimate of Munich Re's total claims burden, and this brought the turnaround. We were the first to quantify the losses and thus helped to provide a yardstick for an appropriate assessment of the event on the market. The negative speculation was gradually replaced by a reverse trend towards fair value. Despite this, our Investor Relations team remained on 24-hour call. By the end of September the share price had recovered to its old level.

Clement Booth, Member of the Board of Management

Munich Re shares

The stock market year 2001 – crisis, crash and catharsis
Business headlines in the past year were largely dominated by profit warnings. Blue chips experienced some substantial falls in share prices. The New Market was particularly badly affected, with the NEMAX 50 suffering an erosion of around 60%. Shares of many media and IT firms are now only penny stocks.

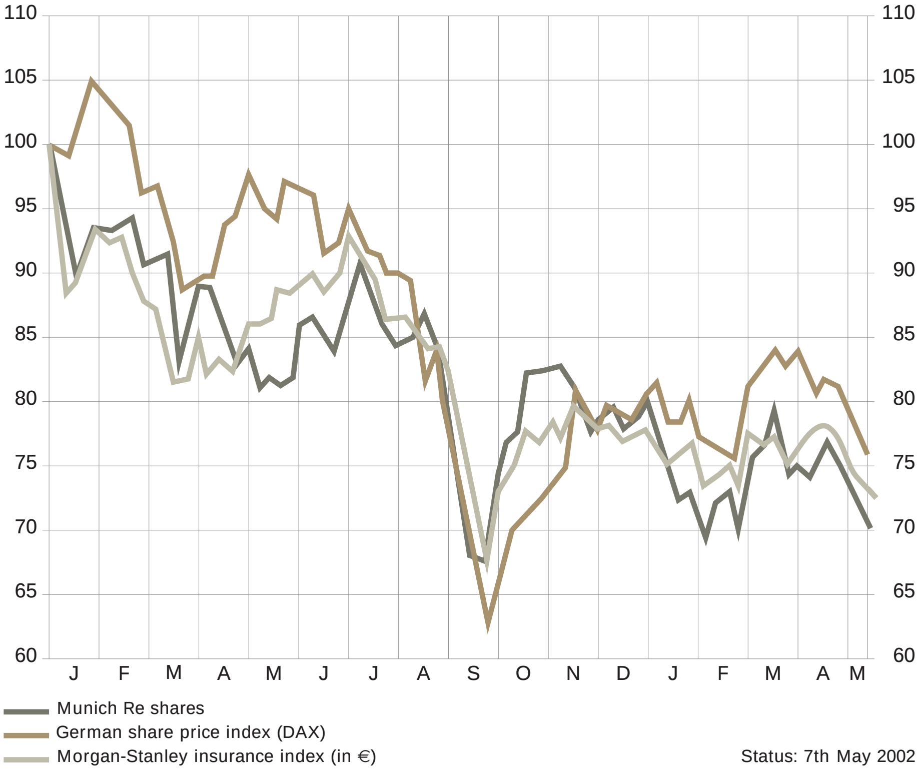
In this generally crisis-ridden environment, 11th September provided a dramatic watershed: the attack on the World Trade Center unnerved the financial markets worldwide and led to a crash within a few hours. The DAX plummeted by 11%. In the following days it fell further and reached its year low of 3,787 on 21st September.

Human genome. The sequencing of the human genome is largely complete. Two competing teams – one international and financed with public money, the other a US firm – present the genetic blueprint for human beings.
15th and 16th February 2001

In the fourth quarter, share prices recovered and largely made up for what they had lost in the September crash. The autumn rally brought some stocks a plus of up to 50%. The DAX closed the year at 5,160 points, nearly 20% lower than at year-end 2000.

Munich Re shares volatile
The performance of Munich Re shares largely matched the development of the most important share price indices in 2001. Our shares began the new year at €379.00.

Share performance
1st January 2001 = 100



Proceeding from this level, they followed the general downtrend until around the middle of March. There was then a short recovery phase up to the beginning of April. At first the share price was unable to profit from the announcement of the disentangling of shareholdings with Allianz and the restructuring of the remaining portfolio.

From May to July ERGO shareholders were able to exchange their stock for Munich Re shares at a ratio of 2:1 and a cash payment of €9 per ERGO share. This offer met with a very positive response and the transaction proved a success. Munich Re's stake in ERGO rose from 62.9% to 91.7%, and our share price increased substantially. However, from July onwards it again followed the generally accelerating downtrend on the stock markets.

The atrocity of 11th September triggered the absolute low point in the performance of our shares in 2001. However, our policy of intensive communication with the financial markets in the immediate aftermath contributed significantly to stabilizing the market situation. The transparency, speed and credibility of the information we provided was rewarded, and succeeded in countering negative speculation.

Steel merger. Arbed, Aceralia and Usinor merge to become NewCo, the world's largest steel group, with headquarters in Luxembourg.
19th February 2001

In the days that followed, the situation gradually returned to normal, and from 21st September onwards our share price outperformed the DAX and other insurance stocks again. It closed the year at €305.00, giving us a market capitalization of €54.0bn.

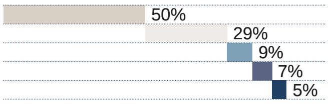
Key figures for our shares		2001	Prev. year
Number of shares at 31st December	m	176.9	176.9
Year high	€	385.00	391.00
Year low	€	232.00	237.00
Year-end closing price	€	305.00	380.00
Annual performance	%	–19.7	50.9
Market capitalization at 31st December	€bn	54.0	67.2
Average daily turnover in Xetra trading	'000	724	462
Price/earnings ratio at 31st December		216.3	38.4
Earnings per share	€	1.41	9.89
Dividend per share	€	1.25	1.25
Tax credit per share (for German shareholders)*	€	–	0.54
Dividend yield at 31st December	%	0.4	0.3
Overall dividend amount	€m	221	221

* Owing to a change in corporation tax law, this credit now no longer applies.

Reuters	MUVGn
Bloomberg	MUV2
WKN	843 002
ISIN	DE 000 843 002 6

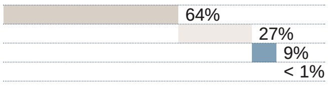
Munich Re shares are no-par-value registered shares. They are traded on all the German stock exchanges and are also included in Xetra computer trading. Additional data and news are provided on our website (www.munichre.com). Besides this, of course, information can be obtained from the daily papers or from specialist providers of financial market data.

Investor groups



- Banks
- Insurance companies
- Investment companies
- Other institutional investors
- Private individuals

Regional distribution



- Germany
- Rest of Europe
- North America
- Other regions

Index weighting in %
Status: 7th May 2002

DAX 30	6.96
Euro STOXX 50	1.56
FTSE4Good Global 100	0.36
FTSE EURO TOP 100	0.61
MSCI	1.60
S&P Europe 350	0.52
STOXX 50	0.91

Shareholder profile

Munich Re's most important shareholder continues to be Allianz, with a stake of 24.8%, followed by HypoVereinsbank with 13.3% and Deutsche Bank with 5.5%. Our free float amounts to 56.4%. Around half the increase in the number of Munich Re shareholders to the current total of almost 100,000 is attributable to the share exchange with which we increased our shareholding in the ERGO Insurance Group.

Dividend development

Even after such turbulent events as those that hit us in the 2001, we continue to pursue a policy of continuity with regard to dividends. We again propose to pay our shareholders a dividend of €1.25 per share for the year under review. The overall amount distributed will thus total €221m.

Investor relations

The continual expansion of our investor relations activities proved its worth in the year under review, particularly in the critical period following 11th September. Our policy of actively informing analysts and fund managers with full and prompt reports helped to curb the speculative downslide in our share price.

We also attach importance to being represented at important national and international conferences of the insurance industry and to systematically expanding bilateral contacts.

At our last AGM the attendance rate amounted to 65.6% of the share capital, a figure which clearly reflects the interest of the public and the quality of the event. This attendance substantially exceeded the average attendance rate of DAX companies as a whole.

Performance of a specimen portfolio

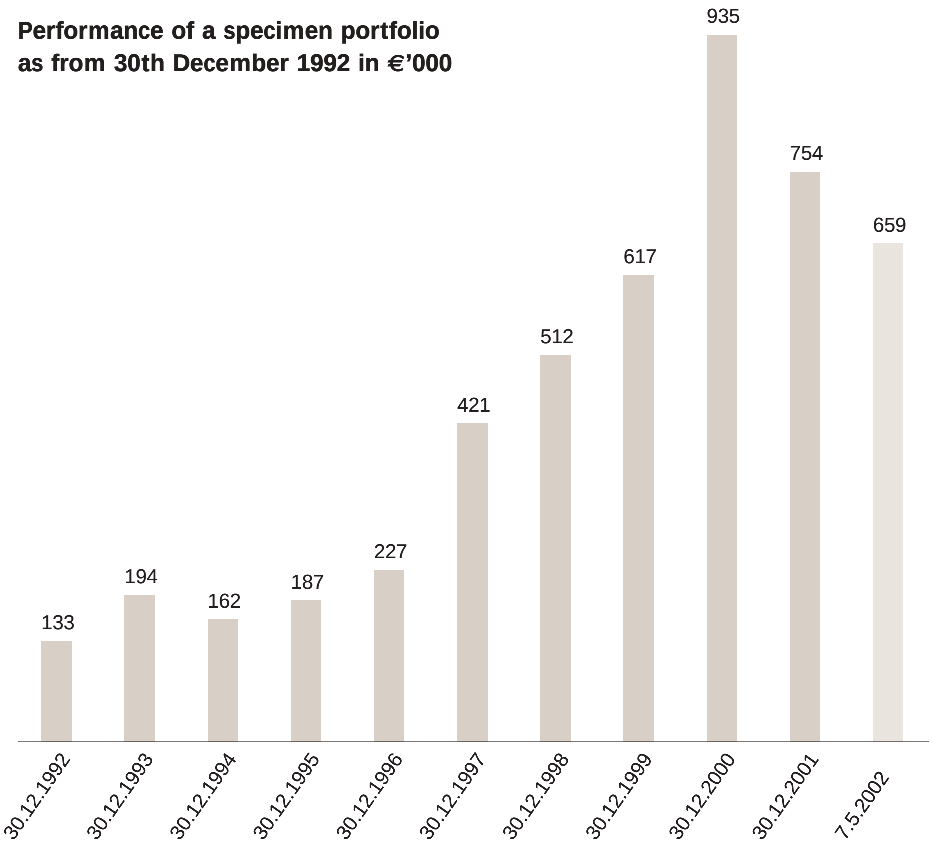
Munich Re shares represent an attractive investment with a well-above-average return for the long-term investor. In the ten-year period from 1992 to 2001 the share price rose on average by 19.8% annually, compared with growth of only 12.6% in the DAX. Our shares continue to be among the winners within the insurance sector as well. This is shown by a comparison with the Morgan Stanley insurance index, whose average annual increase in the same period was 14.2%.

At the end of 1992, with the share price at DM 2,600 (= €1,329.36), a portfolio of 100 Munich Re registered shares with a par value of DM 100 (= €51.13) required a total investment of €132,936 (excluding transaction costs). After the two stock splits in August 1997 and January 1999, this investment today amounts to a portfolio of 2,000 no-par-value 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 16 warrants to the portfolio.

On the basis of a price of €266.50 per share and €50.60 per warrant on 7th May 2002, the value of the portfolio amounts to €659,065, equivalent to an increase of 396%. According to the internal rate of return method, this works out at an average annual return of 18.7%.

Performance of a specimen portfolio as from 30th December 1992 in €'000



Status: 7th May 2002

Other capital market instruments

Other securities issued by the Munich Re Group are the Munich Re warrants 98/02, exchangeable bonds on Allianz shares and two natural catastrophe bonds.

Reuters	DE 843 009
Bloomberg	MUVA
WKN	843 009
ISIN	DE 000 843 009 1

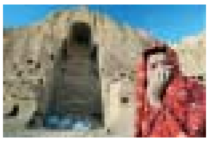
– During the exercise period, bearers of the warrants are entitled to subscribe for one Munich Re registered share for every two warrants held, at a strike price of €163.61. In the year 2001 the warrants decreased in value by 34.7% to €70.50. Of the original 3,500,000 warrants, a total of 68,218 had been exercised up to 7th May 2002.

  The exercise period will expire on 3rd June 2002. As the current share price is well above the strike price, we expect virtually all the warrants to be exercised.

Reuters	DE 011 153 968 =
Bloomberg	MUNRE
WKN	245 254
ISIN	DE 000 245 254 7

- The exchangeable bonds were issued in May 2000 with an annual coupon payment of 1% on the face value. Investors are entitled to convert each of their exchangeable bonds into Allianz shares, so that the investment represents a combination of bond and call option. The bonds' volume totals €1.15bn or around 1% of Allianz's share capital. At the end of the year they stood at 98.32%. Their term ends on 8th June 2005 with a redemption rate of approximately 108.6%.

- For institutional investors we also placed two natural catastrophe bonds with a total value of US$ 300m in December 2000; their three-year term began on 1st January 2001 and ends on 31st December 2003.



Global cultural inheritance. The radical Islamic Taliban blow up the world-famous Buddha statues in Afghanistan, which date back to the 4th and 6th centuries. **1st March 2001**

Earthquake. The inhabitants of Seattle experience the worst quake for 50 years, with a magnitude of 6.8. It causes insured losses of US$ 300m and economic losses of US$ 2bn.
28th February 2001

11TH SEPTEMBER WAS A SHOCK. HOW PREPARED WAS MUNICH RE FOR IT?

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The destruction of the World Trade Center in New York brought great suffering to many people and had direct political consequences that are still with us. The insurance industry was hit extremely hard by this event in two respects:

Not only was there the unprecedented extent of material damage caused by a terrorist attack across all classes of insurance, but the industry was also painfully confronted with the far-reaching influence of this loss event on the development of the global economy, including stock prices. Even though we at Munich Re had not imagined a terrorist act of these dimensions, our other extreme scenarios had included loss events that would have a knock-on effect on the financial markets. This meant we were adequately prepared for the loss in terms of capital resources. In other words, we had made assumptions which – despite 11th September and its exceptional losses – ultimately proved sufficient, even though the impact on our financial statements cannot be denied.

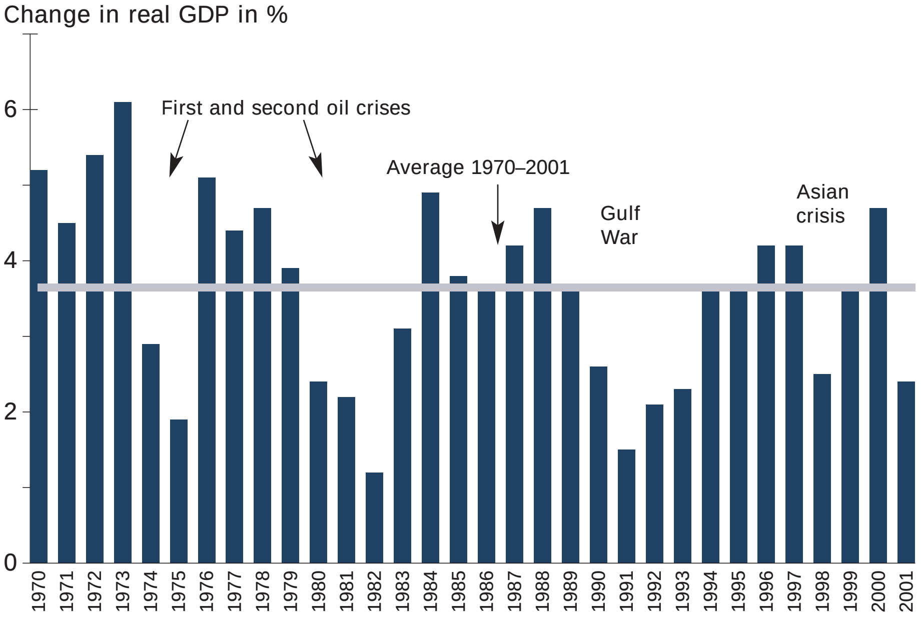
Dr. Nikolaus von Bomhard, Member of the Board of Management

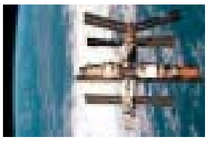
Economic parameters

General economic development in 2001

After the record year 2000, the global economy experienced a sharp slowdown in 2001. The events of 11th September further impaired the already weak state of the global economy and dashed emerging hopes of an early recovery. The attacks on New York and Washington, and their consequences, led to falls in macroeconomic growth rates worldwide. In major industrialized countries these amounted to around 0.5 percentage points of real GDP. The net result was a decline in global economic growth to 2.5% – the lowest figure since 1993. After growth of 12.4% in 2000, the volume of world trade fell by 0.2% in the year under review.

2001: Marked slowdown in the global economy





Mascot. Mir, Russia's 140-tonne space icon, is committed to a watery grave in the South Pacific after nearly 90,000 orbits. The eventuality of Mir crashing and causing damage was insured for a sum of US$ 200m. **23rd March 2001**

The **US,** which had been the starting point of the global downturn, slipped into a recession in March 2001. After reaching 4.1% on average in the year 2000, growth in its real GDP was very restrained in 2001, amounting to only 1.2%. Business investment and industrial production in particular dropped sharply, whereas consumer spending held up relatively well, despite rising unemployment and falling stock markets. Then, in the fourth quarter, a recovery set in with unexpectedly strong growth.

This improvement was promoted and supported by monetary and fiscal measures. The US Federal Reserve, for its part, had lowered the intended Fed funds rate a total of eleven times since January 2001. The rate currently stands at 1.75%. Further substantial tax cuts and spending increases are imminent.

In **Euroland** and **Switzerland** there was also a marked slowdown in economic growth, with rates decreasing to 1.5% and 1.3% respectively. Growth in Germany lagged even further behind at 0.6%, and unemployment reached a record 4.29 million in February 2002.

Measured over the year as a whole, the inflation rate in Euroland amounted to 2.6%. Following an increase in energy prices, it temporarily touched 3.4% in May. However, its subsequent reduction enabled the European Central Bank to lower interest rates by 125 basis points.

In contrast to the situation in Euroland, economic growth in the UK remained robust in 2001 thanks to strong domestic demand. Real GDP rose by 2.2%.

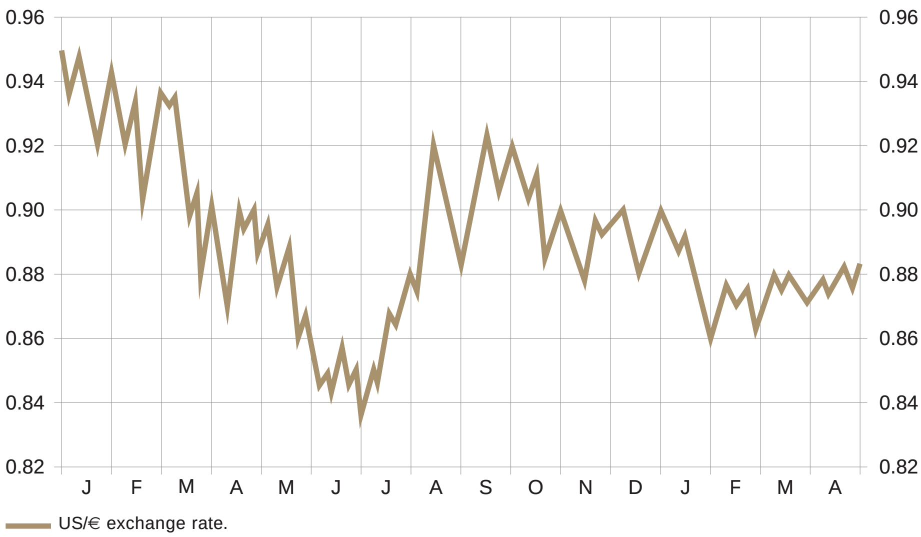
Japan is currently experiencing its fourth recession in 11 years. In 2001 real GDP fell by 0.4%. On top of this, there are signs that the economy is again in deflationary waters.

Given the economic slowdown in the large industrialized countries, **emerging markets** suffered particularly from worsening sales prospects for their exports.

Attention deficiency hyper-activity disorder. The drug Ritalin, manufactured by Novartis, is prescribed for children suffering from ADHD. Claimants file billion-dollar suits for damages, which are provi-sionally dismissed by the courts owing to lack of clarity in the symptoms. **14th March 2001**

Foreign exchange markets
The euro was unable to benefit from the weakness of the US economy in the past year and fluctuated between 0.84 and 0.95 against the US dollar. At the turn of the year the European single currency was being traded at 0.88.

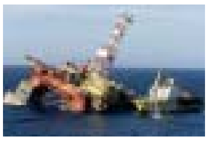
As economic prospects became significantly gloomier, the Japanese yen fell considerably in value against both the US dollar and the euro in the second half of 2001.



Stock markets
In this difficult economic environment the stock markets experienced the severest bear market since 1974. Only in the phases of massive interest rate cuts by the Federal Reserve at the beginning of 2001 and during the April-May period were stocks able to resist the negative impact of repeated profit warn-ings. Rattled investor confidence, coupled with the terrorist attack in the US, led to a final shakeout on 21st September. The subsequent year-end rally was impressive, but could only make up for around half of the preceding slide.

Bond markets
Three factors enabled investors in bonds to achieve extraordinary returns for much of the year: low inflation rates, the reduction of interest rates by central banks, and the flight to fixed-interest investments triggered by falling stock markets. Nevertheless, market development in the area of short terms and corporate bonds was extremely volatile. Owing to the sometimes aggressive monetary policy of the central banks, yield curves steepened considerably, while in the year-end comparison long-term yields remained more or less constant at just under 5%.

Development of the insurance industry
The longer-term trend of disproportionate growth in insurances of the person continued in most countries in 2001. Business experience in property-casualty insurance, on the other hand, was affected by the unsatisfactory economic situation in the major insurance markets. The hesitant growth in new business was nevertheless partially compensated for by the global trend towards higher rates in both primary insurance and reinsurance. Especially in the reinsurance market, the reduced scope for cushioning underwriting losses with investment income, combined with the higher claims costs, led to a sharp rise in prices and an improvement in technical conditions. Cedant demand for reinsurance cover from companies with top ratings rose disproportionately after 11th September.



Rig goes down. Despite massive rescue efforts, the world's largest mobile oil platform sinks off the coast of Brazil. 1.5 million litres of oil flow into the sea. The total loss is estimated at just over US$ 500m. Munich Re has a share of around 5% in the risk.
20th March 2001

General economic outlook for 2002

It is extremely difficult at this juncture to make predictions about the near future. A crucial uncertainty factor is how the geopolitical environment will evolve.

Since the turn of the year there have been mounting signs of global economic improvement: initial data from the real economy in the US and an increasing number of early indicators in both Euroland and the US pointed to the beginnings of an economic upswing. The extent to which this upswing gathers momentum in the US and the global economy depends largely on the elasticity of private demand. There is still the risk of an economic setback if the private sector does not react as hoped to the monetary and fiscal incentives or if unfavourable capital market developments curb the upswing. The investment climate could be substantially worsened, for example, by doubts about the credibility of published balance sheets in the wake of spectacular cases of insolvency.

Given the country's considerable domestic problems, economic growth in Japan is likely to remain below expectations. Among emerging markets, the Asian economies should show the biggest recovery.

Outlook for capital markets
We expect the US to be the key driver in the international capital markets again in 2002. High liquidity injections by the central banks and the US's expansive fiscal policy have created a positive environment for stock markets. However, a lasting recovery in stock prices presupposes a corresponding rise in company profits, i.e. a revival in the real economy.

We are proceeding on the assumption that inflation will remain at a low level worldwide, rising towards the end of the year in tandem with the business cycle. Yields on the bond markets will tend to increase if the economy improves. Further reductions in interest rates by central banks are unlikely in this environment.

Prices on the commodity markets will probably stabilize in the next few months and then gradually rise, as soon as the real economy picks up again.

If there is a sustained upward trend in stock prices and the mood lifts on the corporate bond market, more capital is likely to flow into the US again. The value of the US dollar against the euro is therefore likely to stay within the range of the last two years, despite the overvaluation of the US currency.

Angra II and III. Insurance of two nuclear power plants (built by Siemens Power Generating Group) in the State of Rio de Janeiro. Block II goes into operation after a 24-year construction phase with long interruptions, but without any significant technical problems. **26th March 2001**

Outlook for the insurance industry
Our assumption is that the insurance industry will follow the trends of macroeconomic development in the current year. In reinsurance we expect rates to increase further and the hard market phase to continue over several renewals.

WHAT MAKES MUNICH RE A PREFERRED PARTNER IN RISK?

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There was a time, and not so very long ago, when business between insurers and reinsurers was largely determined by personal relationships: contacts in the industry were cultivated at the dinner table or the opera, over a round of golf, or by sending handwritten letters and congratulations on personal achievements. Tempi passati. It is true that personal relationships are still an important factor today in reinsurance. But hard-headed consideration of the commercial benefits increasingly plays the central role. The better each party's requirements are met, the better the partnership.

A preferred partner in risk is therefore the partner whom you trust more than others to find tailor-made quality solutions for your own, often complex problems. Munich Re's frequently cited financial strength is certainly an important "opportunistic" aspect in this process. But the decisive qualitative difference is the risk carrier's knowledge potential. It is the combination of experience, expertise, innovation and the productive transfer of this through dialogue that makes a suitable risk partner into a preferred partner in risk.

The fruitful and creative transfer of knowledge will therefore continue to be a key element of Munich Re's partnerships with clients. And we can still always play golf afterwards.

Christian Kluge, Member of the Board of Management

Management report

The business year 2001

Allianz. Allianz's acquisition of Dresdner Bank creates the world's fourth-largest financial group. **1st April 2001**

The overdue adjustment of prices and conditions in reinsurance, which had begun in the 2001 renewals, accelerated after the attack on the World Trade Center on 11th September.

We achieved our growth targets in primary insurance and reinsurance last year. But as a result of the terrorist attack and other major losses, our claims costs climbed to a record level, so that despite the improved terms of trade our Group profit showed a massive decline.

Growth

Group premium income rose by 16.1% (13.5%) in the past year to €36.1bn (31.1bn). Growth thus exceeded even our high expectations.

We earned 57% (54%) of our premium income from REINSURANCE, where premiums written were up 21.1% (19.2%) to €22.2bn (18.3bn). Adjusted to eliminate the effects of changes in exchange rates and acquisitions, premium growth still amounted to a notable 17.9% (11.5%). Munich Re's capacity and security were more in demand than ever.

We again grew most strongly in life and health reinsurance, where we recorded a plus of 25.5% (25.6%). In property-casualty reinsurance, premium climbed by 19.6% (17.2%).

Growth in Munich Re's PRIMARY INSURANCE business was also very satisfactory. Premium revenue advanced by 9.0% (6.8%) to €15.7bn (14.4bn), 5.4 percentage points being due to consolidation effects (mainly the first full consolidation of Bayerische Vita, Italy, in the ERGO Insurance Group). Life and health insurance grew by 7.9% (5.0%), and property-casualty insurance by 11.7% (11.4%). Expansion of business in the rest of Europe continues to be one of our main strategic goals: in the year 2001 the amount of non-German business written in primary insurance rose to €3.0bn (1.8bn).

Result

The Group result deteriorated markedly in 2001: we were left with a profit of only €250m (1,750m), despite positive one-off effects of €830m (320m) from the German tax reform and from the valuation of our shares in Allianz on a less deferred basis. The main reason for this disappointing result was the extraordinarily heavy claims burden for large and very large losses. We paid or reserved a total of €4.7bn for such losses last year, €3.4bn (2.2bn net) for 11th September alone.

THE ORGANIZATIONAL RESTRUCTURING OF MUNICH RE WAS EXTENSIVE.
HAS IT BEEN SUCCESSFUL?

!

Munich Re's organizational restructuring in 2001 was indeed extensive. Virtually all the staff employed in our reinsurance business were affected more or less directly by the measures. It is therefore all the more pleasing to report that Munich Re's new structure has been well received by clients and staff alike. Helpful in this respect was the smooth and rapid implementation – backed by full and prompt communication, which kept everyone informed and prevented uncertainties arising.

The new structure was launched on schedule on 1st July 2001, giving us sufficient "warm-up" time before the year-end treaty renewals for 2002. Not least owing to the terrorist attack of 11th September, these renewals took place under much more difficult conditions than usual. The new structure was given a "baptism of fire" which we had not anticipated, but even in this crisis situation it proved its effectiveness.

Our staff also have new perspectives in terms of greater authority to make decisions and take action. Quick decision-making processes in particular are one of the strengths of the new structure, and this virtue has been confirmed by our clients.

In the meantime cross-divisional cooperation has started to work well, too. Its main objectives are quality assurance in underwriting and the continuing development of our professional know-how.

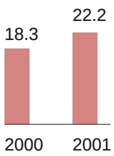
Following the positive report to date, our task for 2002 will be to consolidate the new structure and fine-tune it where necessary.

Stefan Heyd, Member of the Board of Management

Reinsurance

Overview

Gross premiums in €bn



The new structure safeguards and enhances our ability to meet the requirements of our changing business environment. Since 1st July 2001 the previous matrix organization, with its units responsible for business lines and products on the one hand and for markets and clients on the other, has been replaced by seven new operative divisions:

- **Life and Health**
- **Europe 1**
- **Europe 2 and Latin America**
- **Asia, Australasia, Africa**
- **North America**
- **Corporate Underwriting/Global Clients**
- **Special and Financial Risks**

Our 2001 management report follows the pattern of the new structure. This means that the premium volumes of the regional divisions and divisional units are not comparable with those published in the previous year. Substantial blocks of premium, for example, are now written by the division Corporate Underwriting/Global Clients, which is responsible for our reinsurance business with globally operating insurance groups. The comparative figures given for the previous year are pro forma figures.

Symposium. Munich Re Group engineering underwriters from Asia, Australasia, London, Princeton and Munich meet in Hong Kong.
23rd April 2001

Reinsurance		2001	Prev. year
Gross premiums written	€bn	22.2	18.3
Loss ratio non-life	%	104.5	85.0
Expense ratio non-life	%	30.6	30.3
Combined ratio non-life	%	135.1	115.3
Result before amortization of goodwill	€m	–687	1,525
Investments	€bn	71.0	64.9
Net underwriting provisions	€bn	50.8	43.9

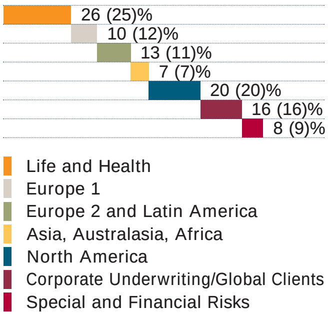
For the reporting on individual fields of business, the following principle applies: figures that derive from business within a segment are eliminated, whereas figures that derive from business with companies from other segments (e.g. intra-Group reinsurance cessions from primary insurers to reinsurers)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

Reporting by division

Summary
In the year under review we were able to increase our premium in life and health business by 25.5% (25.6%). As in the previous year, growth was driven solely by our non-German business. The result was satisfactory.

In property-casualty business our premium income grew by 19.6% (17.2%); the combined ratio totalled 135.1% (115.3%). Losses from natural catastrophes accounted for 1.5 (2.0) percentage points, and the terrorist attack of 11th September for 15.4 percentage points.

Gross premiums by division



Gross premiums by division	2001 €m	Prev. year €m	Change in %
Life and Health	5,900	4,701	25.5
Europe 1	2,151	2,152	–0.1
Europe 2 and Latin America	2,883	2,085	38.3
Asia, Australasia, Africa	1,487	1,351	10.1
North America	4,373	3,618	20.9
Corporate Underwriting/Global Clients	3,615	2,845	27.1
Special and Financial Risks	1,787	1,573	13.6
Total	22,196	18,325	21.1

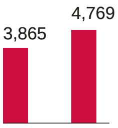
We paid and reserved an amount of €2.2bn net for the losses in New York and Washington. On top of this devastating loss event, we had to cope with a large number of other major losses in the year under review. We also had to again strengthen provisions for losses from previous business years.

In the renewals of reinsurance treaties for the current business year we succeeded in achieving substantial adjustments of prices and conditions in important markets. We profited to an above-average degree from the fact that primary insurers are attaching even more importance to the quality and security of their reinsurers. Furthermore, there was a shrinkage of the reinsurance capacity on offer in many markets after the occurrences of 11th September, which created additional business opportunities for us. We terminated business to a significant extent where we were unable to achieve essential objectives. All in all for 2002, we expect further premium growth and a much more satisfactory result.

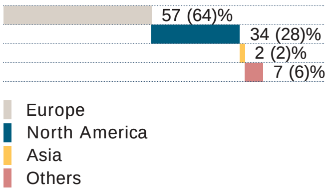
Life and health

Since the reorganization of our internal operations, life and health reinsurance have been combined in one division, in line with the structure adopted by many of our clients.

Gross premiums in €m



Gross premiums by region



Life

In the year under review we again considerably expanded our premium income, achieving an increase of 23.4% (22.1%). As in the previous year, growth mainly derived from non-German markets.

The significant trends we have experienced for life insurance in recent years have continued: stable spending power among clients, demographic changes and the cutting-back of social security systems. These have been accompanied by new business potentials in emerging markets. We have improved our competitiveness in important markets and for 2002 expect further strong growth in premium income and another satisfactory result.

Europe

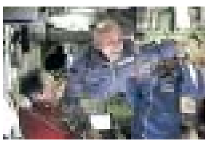
Premium income in our German business remained at about the same level as in 2001. The issue that dominated the German market was the reform of the pension system, which involves partially replacing the state pension with privately funded provision and also strengthening company pensions. We support our business partners on the one hand by helping them develop suitable products for this reform; on the other hand we devise specially tailored reinsurance concepts to protect them against biometric risks (longevity and disability).

Our premium showed growth in the UK in 2001, and we are pushing strongly ahead with the expansion of our portfolio in France. Our business in Central, Eastern and Southern Europe also developed pleasingly. We see clear growth impulses for further new business in both insurance and reinsurance.

North America

We again recorded above-average growth in the US and Canada in 2001. In the US life reinsurance market, where we are represented by our subsidiary Munich American Reassurance Company (MARC), we achieved premium growth of more than 80%. This large increase resulted partly from the acquisition of CNA Financial Corporation's life reinsurance business at the end of 2000, and partly from strong organic growth. The acquisition of CNA firmly establishes us among the five biggest life reinsurers in the US. We expect growth rates in life reinsurance to continue surpassing those in primary insurance.

In Canada, Munich Reinsurance Company Canada Branch (Life) again performed well. Its premium volume, which showed an appreciable increase, reflects in particular the growing trend among our clients to use reinsurance as an instrument of capital and risk management. Future business prospects continue to look rosy.



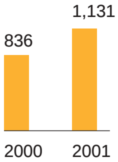
Space tourism. Dennis Tito fulfils a lifelong dream with a flight ticket for US$ 20m. He returns safely after six days in space. **30th April 2001**

Asia
The Asian life insurance markets are only gradually recovering from the crises of the last few years. Japanese companies are still struggling with the problems of shrinking investment income and the high interest-rate guarantees given under past policies. In some Asian markets we have not fully succeeded in recapturing the high growth rates of earlier years.

New markets like China and India promise good business opportunities. The Chinese insurance market opened further at the end of 2001 as a result of the accession of the People's Republic to the World Trade Organization (WTO). In India the ending of the state monopoly in insurance and the liberalization of the market offer opportunities that we are seeking to develop through the office we opened in Mumbai last year.

Health

Gross premiums in €m



	2000	2001
Loss ratio	70.8	82.5
Expense ratio	31.1	31.4
Combined ratio	101.9	113.9

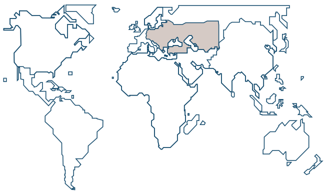
In health reinsurance, our premium income again grew strongly, producing an increase of 35.3% (44.6%). We also saw the first fruits of our involvement in China, where we are partnering DKV's strategic cooperation with a local insurer. This led to an appreciable increase in our shares of business. In Latin America and in the Middle East we also strengthened our market position, even though we had to terminate some loss-producing accounts.

In most markets we were able to improve our results. Our overall result declined, however, because a major product field in our North American business did not progress as well as first appeared likely.

In our view, health insurance continues to offer very substantial growth potential. Throughout the world, state systems of healthcare are experiencing financial strains which make liberalization and privatization of social security systems a realistic proposition, at least in the medium term. Reinsurance will also benefit from the increase in demand in established insurance markets with large premium volumes, albeit not to the same extent as primary insurance. On top of this, we see above-average growth prospects now in the markets of Latin America, the Middle East and Asia. We are working hard to add innovative managed care solutions to the range of services we provide in the areas of claims and risk management, risk selection and product development.

For 2002 we expect reduced growth, due to the termination of business in our US portfolio. Our systematic remedial measures should, however, lead to an improvement in the result.

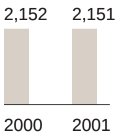
Europe 1



In our division EUROPE 1 we handle property-casualty reinsurance from Germany, the other Central European counties, Eastern Europe, Greece and Turkey.

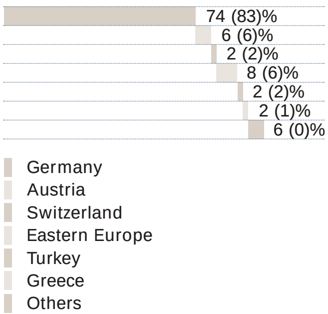
The division's premium income stagnated in 2001. This was mainly due to the development of our portfolio in Germany and to our quality-driven underwriting policy. In most countries, business continued to suffer from inadequate prices and conditions. Claims experience was mainly characterized by many large individual losses. The underwriting result deteriorated compared with the previous year.

Gross premiums in €m



	2000	2001
Loss ratio	60.7	75.5
Expense ratio	31.4	31.2
Combined ratio	92.1	106.7

Gross premiums by region



Germany continues to be by far the biggest market handled by the division. Premium volume in the German primary insurance market for property-casualty business rose by around 2.9% (1.2%) to approximately €50bn in 2001, having shrunk continually from 1995 to 1999. Remedial measures in motor insurance made visible progress, and there were the first signs of premium increases in industrial property insurance as well. However, in our view the rates that are now being charged in primary insurance still fall short of the required technical levels.

The premiums of €1,596m (1,776m) earned in Germany accounted for 74.2% (82.5%) of the division's premium volume. Compared with the previous year, premium income fell by 10.1%. Especially in motor insurance, reductions in cessions and restructuring measures involving proportional reinsurance treaties with large premium volumes have had a negative effect on the development of our premium. The casualty lines of business still make up more than half of our German business, however. Our result showed a marked deterioration. Claims costs from major liability claims and fire losses outweighed the distinct improvements in results made possible by remedial efforts in both insurance and reinsurance.

In **Austria** our premium volume increased by only 1.6% to €129m (127m) as a consequence of our selective underwriting policy. The result was still unsatisfactory.

Premium income from business in **Switzerland** written by the division Europe 1 rose by 11.9% to €53m (47m). In comparison with 2000, which was hit by natural catastrophe losses, we also managed to substantially improve the result.

In the 24 countries of **Eastern Central Europe** and **Eastern Europe,** the candidates for membership of the EU, especially Poland, are of prime importance for us. Our premium volume totalled €169m (124m). All in all, our result was not yet satisfactory.

In the treaty renewals for 2002 we terminated some long-standing treaty relationships in individual cases where it proved impossible to find a mutually acceptable basis for further cooperation. This will lead to falling premium income in some countries in the current year. We expect our Europe 1 division to produce premium growth of 3–5% in 2002 and a considerably better result.

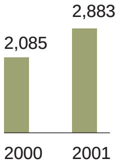
Europe 2 and Latin America

Our division EUROPE 2 AND LATIN AMERICA is responsible for clients from Northern, Western and Southern Europe, and from Latin America, in property-casualty reinsurance.

Premium volume showed an increase of 38.3% in 2001. The result was affected by several large individual losses.

The division's largest market is the **UK**, where premium income again grew, driven both by both new business and by rising rates. The negative result is attributable to the terrorist attack in the US and to major individual losses. We were able to strengthen our top position in property-casualty reinsurance.

Gross premiums in €m



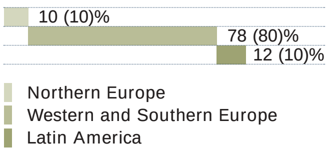
	2000	2001
Loss ratio	96.4	86.4
Expense ratio	29.2	28.9
Combined ratio	125.6	115.3

In **Northern Europe** we also retained our position as market leader. The result remained negative, however, not least because of the poor claims experience in motor business.

Contrary to our expectations, the underwriting result in the **Netherlands** stayed in the red. The switch from proportional to non-proportional reinsurance programmes is increasingly affecting the development of our premium.

In **France** we also recorded a deficit, owing to major losses and unsatisfactory original rates. The explosion at a chemicals factory in Toulouse, which caused considerable damage in the surrounding area, gave rise to high claims costs for this division as well as other units. Altogether it resulted in a burden of more than €100m for the Munich Re Group.

Gross premiums by region



Our subsidiary in **Italy**, Münchener Rück Italia (MRI), maintained its leading market position. Its technical result in non-life business was unsatisfactory, however.

Münchener Rück Italia*		**2001**	**Prev. year**
Gross premiums	€m	588	613
– Life and health	€m	171	177
– Property-casualty	€m	417	436
Net premiums	€m	316	305
– Life and health	€m	107	107
– Property-casualty	€m	209	198
Loss ratio non-life	%	82.8	86.2
Expense ratio non-life	%	30.9	26.4
Combined ratio non-life	%	113.7	112.6
Profit for the year	€m	18.2	4.2
Investments	€m	1,252	1,124

* Financial statements in accordance with IAS.

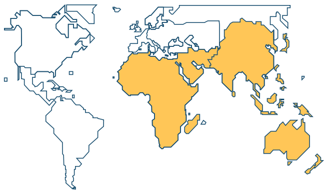
In **Spain** and **Portugal** the result also remained below our expectations. This was mainly due to claims experience in property business.

The economic situation in some countries of **Latin America** deteriorated in 2001, in several cases dramatically. Our business proved stable in this difficult environment. There was a further delay in the opening of the Brazilian market. Despite the occurrence of some large losses and natural catastrophes – the earthquake in El Salvador, for example – we again recorded good results.

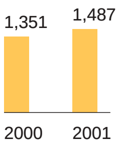
Treaty renewals for 2002 in the division Europe 2 and Latin America were also characterized by a change in the market climate in favour of reinsurers. We were able to strengthen our position in the individual markets, to take a big step towards achieving the requisite prices and conditions, and to grow our premium. All in all, we expect to record a satisfactory result.

Cancer therapy. A new cancer drug, licensed by the FDA in the US, comes onto the market. Gleevec is the first drug directly targeted at the molecular cause of cancer – seen as a milestone by the journal “Science”.
10th May 2001

Asia, Australasia, Africa

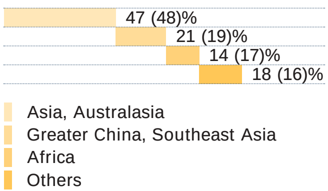


Gross premiums in €m



	2000	2001
Loss ratio	67.3	83.1
Expense ratio	31.8	29.4
Combined ratio	99.1	112.5

Gross premiums by region



Our division ASIA, AUSTRALASIA, AFRICA covers three continents and the Pacific Islands: an area that practically girdles the earth, with a large number of very different insurance and reinsurance markets.

In the year under review we increased our premium income from this area by 10.1%, achieving most of the growth in Japan and Australia.

Despite the extremely difficult economic environment, **Japan** remains the world's second-largest non-life insurance market. With premium income of €298m (271m) and a 20.0% share of the premium volume, this country is the division's biggest market. Structural change in the Japanese insurance industry persists, with mergers and cooperation agreements still the order of the day. We were able to expand our business relations with the main Japanese insurance groups and to maintain our market leadership in the non-life sector.

In **Korea**, which continues to offer good prospects for reinsurers, our premium again grew at an above-average rate, rising by more than 50% to €80m (53m), and the result was pleasing. We have taken systematic advantage of the progressive opening of the market to further consolidate our leading market position.

Foreign reinsurers in **India** are still subject to restrictions on market access. Our business opportunities were therefore limited.

In **Australia** and **New Zealand** we are represented mainly by our subsidiary Munich Reinsurance Company of Australasia (MRA).

Munich Reinsurance Company of Australasia (MRA)		2001	Prev. year
Gross premiums	A$ m	678	460
– Life	A$ m	94	62
– Property-casualty	A$ m	584	398
Net premiums	A$ m	185	145
– Life	A$ m	58	40
– Property-casualty	A$ m	127	105
Loss ratio non-life	%	87.4	64.0
Expense ratio non-life	%	29.4	27.8
Combined ratio non-life	%	116.8	91.8
Profit for the year	A$ m	5.0	16.5
Investments	A$ m	751	635

€1 = A$ 1.73170 (1.58884).

The consolidation process in the insurance industry is continuing in both countries. Although there was another fall in the number of potential reinsurance clients in Australia and New Zealand, MRA was able to again considerably expand its premium volume. By contrast, the result was below expectations, owing to an increased number of large losses.

Our business in the very promising growth markets of **Greater China** continued to develop satisfactorily. We again successfully defended our top position in an extremely competitive market environment, and have a secure basis for expanding our portfolio long term.

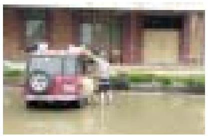
Premium rose by 20.7% to €216m (179m). However, the overall result across all lines of business was impacted by Typhoon Nari, which hit Taiwan in autumn 2001.

The economic environment in **Southeast Asia** is extremely difficult. We nevertheless halted the decline in our premium income in the business year 2001 and, with a good overall technical result, broadened the basis for sustained growth.

In **Africa** the business written by our subsidiary Munich Reinsurance Company of Africa (MRoA) stems mainly from the South African market. Developments there, and the fact that we largely withdrew from the Zimbabwean market, meant that our premium income fell by 11.0% to €203m (228m). There were no major claims costs from natural catastrophes. The result, which had already been very good in the previous year, showed a further notable improvement.

Munich Reinsurance Company of Africa (Group)		**2001**	**Prev. year**
Gross premiums	Rm	1,708	1,738
– Life and health	Rm	368	448
– Property-casualty	Rm	1,340	1,290
Net premiums	Rm	685	761
– Life and health	Rm	252	332
– Property-casualty	Rm	433	429
Loss ratio non-life	%	74.3	72.2
Expense ratio non-life	%	29.4	27.8
Combined ratio non-life	%	106.1	103.4
Profit for the year	Rm	109.4	66.4
Investments	Rm	2,951	2,222

€1 = R7.69710 (6.39340).



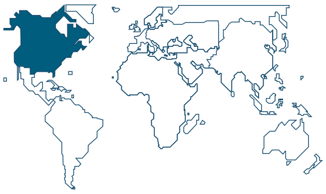
Allison rages. Tropical storm Allison gives rise to record insured flood losses of US$ 3.5bn in the US. Over 100,000 vehicles and thousands of buildings are affected. The overall loss totals US$ 6bn.
5th June 2001

A long-standing feature of the insurance and reinsurance markets in the **Near and Middle East** is overheated competition. Despite positive underwriting results overall, we did not manage to achieve the requisite risk premium levels in the markets.

Israel is the largest market in the Near and Middle East. Notwithstanding the tense political situation, we expanded our premium volume by 20.7% to €204m (169m). The intense competition – especially in property and liability business – meant that the result was unsatisfactory.

As a whole, we are optimistic about current-year business development in the division Asia, Australasia, Africa. We are satisfied with the results we achieved in the treaty renewals for 2002. We were able to implement some significant improvements in areas where prices and conditions were previously inadequate. Our remedial efforts may lead to a fall in business volume in some markets, but this will not cloud the overall picture. We take into account in our underwriting policy that many countries in the region are exposed to natural catastrophes; in so doing, we seek to earn the profits in catastrophe-free years that are urgently necessary for covering very large losses. Altogether, we expect further growth in 2002 and a good result.

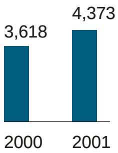
North America



The division NORTH AMERICA is responsible for our subsidiaries American Reinsurance Company and the Munich Re Canada Group.

The division's premium income grew markedly in the business year 2001, rising by 20.8%. Although we terminated some business, the losses in premium were more than offset by new business and improvements in rates. The result was much worse than in the previous year, owing primarily to the losses of 11th September.

Gross premiums in €m



	2000	2001
Loss ratio	91.4	125.2
Expense ratio	30.7	31.6
Combined ratio	122.1	156.8

Gross premiums by region

In the **US**, American Re experienced its most difficult year to date. This was mainly due to the following circumstances:

As one of the leading reinsurers in the US non-life market, American Re had to cope with extremely high claims costs of €1.2bn gross from the atrocity of 11th September. Besides this, provisions for losses from previous years had to be substantially strengthened again. This was a consequence – also faced by other market players at both insurance and reinsurance level – of the completely inadequate prices and conditions that had been a feature of the American property-casualty market in recent years.

Compared with the dramatic impact of these developments, losses from natural catastrophes were relatively low, albeit higher than the average for the last few years. They included the tropical storm Allison, which cost American Re nearly €56m.

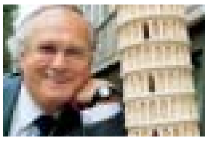
All this was exacerbated by the significant fall in interest rates and the downtrend on the stock markets, which caused the investment result to decline, preventing it from compensating for underwriting losses to the same extent as in previous years.

American Re		**2001**	**Prev. year**
Gross premiums	US$ m	4,335	3,671
– Health	US$ m	510	342
– Property-casualty	US$ m	3,825	3,329
Net premiums	US$ m	3,326	3,240
– Health	US$ m	498	330
– Property-casualty	US$ m	2,828	2,910
Loss ratio non-life	%	113.6	86.8
Expense ratio non-life	%	33.7	30.6
Combined ratio non-life	%	147.3	117.4
Result for the year	US$ m	–858	–64.4
Investments	US$ m	10,155	7,894

€1 = US$ 0.89545 (0.92400).

For the current year we expect the hardening of the US non-life market to continue. Besides notable rate increases averaging 35% in treaty business and 38% in facultative business, American Re was able to achieve a further objective in the renewals as at 1st January 2002: an appreciable reduction in commission paid to clients. This at last marks the return to more risk-adequate conditions.

American Re is realigning itself structurally and in terms of the business it writes in the Munich Re Group, concentrating on its core business in the US. In a first step, Munich Re will take over American Re's international business segment, i.e. business outside the US. Besides this, American Re will work together more closely with specialists in Munich in the fields of healthcare, ocean marine and aviation.



Operation successful. Experts succeed in reducing the 4.5-metre tilt of the 800-year-old Tower of Pisa by 44 cm. **16th June 2001**

Munich Reinsurance Company of Canada (MROC) maintained its position as market leader in **Canada**.

Its gross premium volume was up 37.3% on the previous year. The result for the year was again positive.

Munich Reinsurance Company of Canada		**2001**	**Prev. year**
Gross premiums	Can$ m	328	255
– Property-casualty	Can$ m	328	255
Net premiums	Can$ m	89	95
– Property-casualty	Can$ m	89	95
Loss ratio property-casualty	%	87.7	79.2
Expense ratio property-casualty	%	29.9	27.9
Combined ratio property-casualty	%	117.6	107.1
Profit for the year	Can$ m	3.8	11.8
Investments	Can$ m	404	356

€1 = Can$ 1.38644 (1.37123).

We are proceeding on the assumption that, despite the keen competition, our business in Canada will continue to grow in 2002 and register the usual good result, always provided we are not badly hit by catastrophe losses.

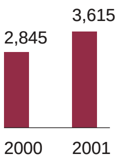
Altogether, we expect the current business year to produce rising premium income in our North American business and – given unexceptional claims experience – an improved result.

Corporate Underwriting/Global Clients

This division, which writes 22.2% of our property-casualty business, handles accounts with major international insurance groups (hence “Global Clients”). It also writes business worldwide in selected special classes and markets. Parallel to this, it performs the function of corporate underwriting for the reinsurance group in non-life business, which includes the following:

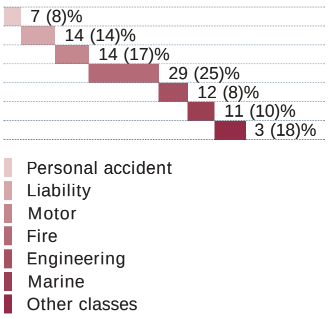
- Fundamental questions of underwriting policy and quality assurance
- Development of products and services
- Claims management
- Integration of actuarial methods in our business processes
- Calculation of provisions for IBNR (incurred but not reported) losses

Gross premiums in €m



	2000	2001
Loss ratio	93.0	130.3
Expense ratio	29.6	30.1
Combined ratio	122.6	160.4

Gross premiums by class of business



Premium income written by the division rose by 27.1% in the year under review, with growth in virtually all client segments. The underwriting result deteriorated markedly compared with the previous year, mainly because of the WTC loss. But even excluding these claims, the result was not satisfactory – a consequence of the inadequate rating level in many markets.

The adjustments in terms of trade that have meanwhile been achieved, combined with our acquisition of new business, will have a positive effect in the business year 2002. We therefore anticipate pleasing growth in premium and a distinct improvement in the result. Nevertheless, risk-commensurate prices and conditions have not yet been implemented everywhere, so that there will be a need for further remedial measures in the 2003 renewals.

Global clients
We succeeded in consolidating and even extending our position in business with our global clients. In the first three quarters of 2001 it looked as if we were on course to improve the underwriting result compared with the previous year, but hopes of this were dashed by the heavy claims burden from the WTC catastrophe and other large losses. The substantial underwriting loss reflects the global operations of our clients, who largely participate in the same major risks throughout the world, and also stems from the fact that individual portfolios are highly exposed.

In the renewal negotiations we took extensive measures to improve the quality of the overall portfolio. At the same we realized every opportunity to broaden cooperation with our global clients.

Lloyd’s/US business
Here we succeeded in considerably increasing our premium income through the selective expansion of attractive business. The underwriting losses in this business segment (especially in property and marine) were also chiefly due to the WTC loss. However, this exceptional loss event accelerated the trend on the insurance and reinsurance markets towards substantial rate increases and improvements in conditions.

Agricultural risks

In the agricultural classes of business we recorded growth in premium volume and a very good underwriting result in the year 2001. The decisive factor here was the positive performance of government-sponsored crop insurance in the US, which is easily the biggest market for us in agriculture, accounting for 85% of our premium. The remainder comes mainly from Germany, Portugal and Australia. We see good prospects for growth in agricultural reinsurance, which our team of specialists are consistently seeking to exploit.

For 2002 we expect to increase premium income by around 30%, mainly from additional business potential in the US; the result should again improve.

Workers' compensation

In the year under review we were able to further reduce the losses deriving from business in force in markets where remedial measures have now been implemented. As social security systems are reformed and privatized, we hope to use our specialist knowledge to acquire substantial volumes of business, with corresponding earnings capacity in the medium term. We have built up an internationally recognized centre of competence for this purpose.

Customized portfolio solutions

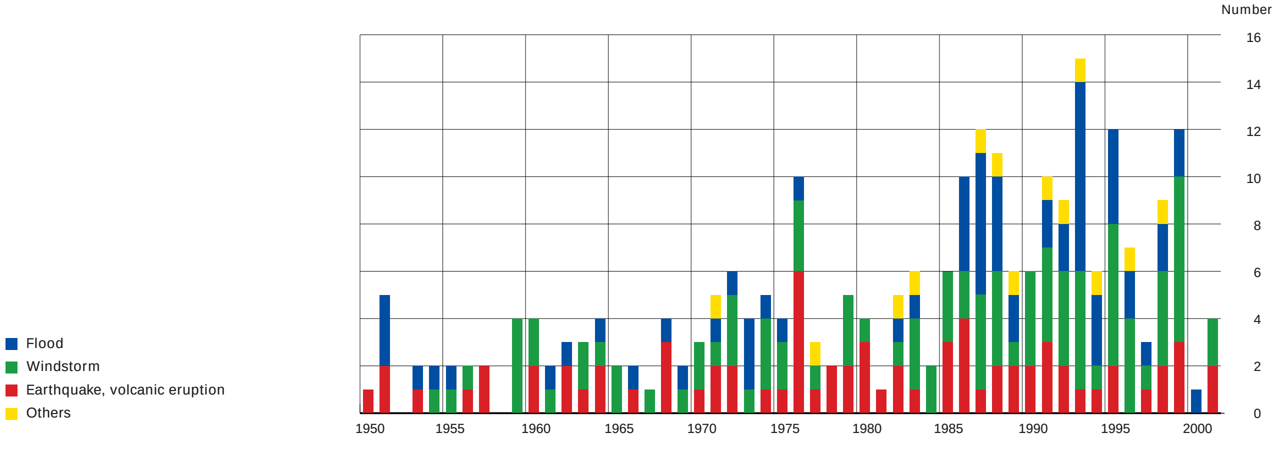
In this highly specialized segment we offer our clients tailor-made financing solutions for the run-off of loss portfolios. We continue to see attractive prospects in this area long term. The business usually involves large individual transactions for which single premiums are paid.

Geo Risks Research

Topping-out ceremony. Members of Munich Re celebrate the company's restructuring with a big party. **19th July 2001**

The Geo Risks Research Department deals with occurrences in the field of natural hazards, especially the marked increase in catastrophe losses; it analyses their causes (e.g. concentration of values, climate-changing factors) and evaluates the results for our underwriting. Its wide range of services is greatly valued by our clients, who make frequent use of them. In addition, the department has close contacts with scientific institutions and the media. These contacts are used to put the insurance industry's point of view in public discussion of issues related to natural hazard risks.

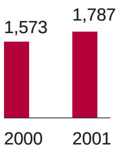
Major natural catastrophes



Special and Financial Risks

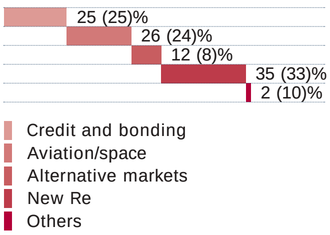
This division develops innovative fields of business and products, establishes new distribution channels, works to win new client segments, and underwrites the special lines of credit, aviation and space reinsurance. It is also responsible for planning and placing the retrocession of the whole reinsurance group, with the exception of American Re.

Gross premiums in €m



	2000	2001
Loss ratio	105.6	109.3
Expense ratio	28.5	31.6
Combined ratio	134.1	140.9

Breakdown of gross premiums



Rate increases in aviation business and the alternative markets segment ensured that premium income rose by 13.6% in the year under review. The clearly negative result is primarily attributable to the terrorist attack of 11th September, but it also reflects the state of the global economy and the ensuing company failures, which had a knock-on effect on credit insurance in particular. Results were also hit by the high loss ratio in space reinsurance, where the risk of random fluctuations made itself felt.

For 2002 we expect our premium volume to show strong growth again in all business segments, thanks to the remedial progress made in insurance and reinsurance. We are also planning a further expansion of our business in the alternative markets segment. As far as the result is concerned, we expect a distinct improvement. We laid the foundations for this in the last round of renewals, with a selective underwriting policy and further adjustments in prices and conditions.

Credit and bonding
The sluggishness of the overall economy has led to a rising number of insolvencies since the second quarter of 2001. These have included headline-hitting failures like Hornitex, APP/AFP, Enron and Kmart. The results of our credit reinsurance in the year under review were correspondingly negative.

For the rest of 2002 it is predicted that there will be a discernible recovery in the world economy. This will only be reflected in the results of credit insurance with a certain time lag, however. It also remains to be seen when the remedial measures of the primary insurance market, initiated as from mid-2001, will bear fruit and to what extent. In the last renewals we were able to improve reinsurance conditions across the board, in some case significantly. Premium growth in the current business year will be in the single-digit percentage range.

Aviation and space
The premium volume of our divisional unit for this business grew markedly by 21.0%. Growth derived mainly from rate increases in aviation insurance, while premium income in space insurance declined.

The negative result is attributable for the most part to the WTC loss, but also to remaining deficits in original rates. In the light of the massive claims burden, it proved possible to implement long-overdue increases in the premium level in the last quarter of 2001. For 2002 we therefore look forward to strong growth again and – given average claims incidence – a pleasing result.

Alternative markets
The clients in this business segment, which we service with our unit Munich-American RiskPartners (MARP), are primarily large industrial corporations. We number among the market leaders with our products in some sectors here and succeeded in considerably expanding our business in the period under review. This will continue in 2002, when we will be concentrating primarily on the European market. The results of the year under review were impacted by the WTC loss and were thus very negative. As the price level has since risen perceptibly, we are reckoning with a positive result for 2002.

The unsatisfactory result posted again by our subsidiary New Re in Geneva, whose business focuses on Europe, was due to three main factors: run-off losses from earlier underwriting years accompanied by the need to strengthen reserves, especially in motor and liability reinsurance; the negative experience of fire business; and claims costs from the WTC loss.

New Reinsurance Company		2001	Prev. year
Gross premiums	Sfr m	1,238	974
– Life and health	Sfr m	209	95
– Property-casualty	Sfr m	1,029	879
Net premiums	Sfr m	835	702
– Life and health	Sfr m	112	63
– Property-casualty	Sfr m	723	639
Loss ratio non-life	%	78.8	88.5
Expense ratio non-life	%	27.4	28.6
Combined ratio non-life	%	106.2	117.1
Result for the year	Sfr m	–52.2	–17.8
Investments	Sfr m	2,628	2,433

€1 = Sfr 1.51050 (1.55780).

Following the progress already made on the prices and conditions front in the treaty renewal negotiations for 2001, further improvements were achieved for 2002. As the restructuring of New Re's entire portfolio has now been concluded and facultative underwriting terminated, we expect a satisfactory result for the current year. Premium income should be around the same level as last year.

Alternative Risk Solutions/Retrocession
This divisional unit bundles Munich Re's activities in the development and marketing of non-traditional risk-financing and capital-market solutions. We support our clients with holistic risk management, offering a full spectrum of covers and services ranging from conventional reinsurance cover to structured reinsurances. Especially in the wake of 11th September, there has been a pronounced increase in the demand for financially structured risk cover.

CodeRed, a sophisticated malicious computer program, attacks systems connected to the Internet. Countless IT specialists attempt to keep the damage to a minimum and stop it spreading. Damage is estimated at US$ 2.62bn.
19th July 2001

The retrocession capacity available on the world market became scarce in 2001. For this reason, and because there has been an above-average accumulation of major loss events in the last few years, we had to accept price rises for all our own retrocession covers. In small special lines of business, for which retrocession cover was not available at reasonable terms and conditions, we systematically reduced our previous covers.

Innovative Business Solutions
This section supports the divisional units in developing innovative business models and is a centre of competence for Munich Re's e-business strategy. Its work is currently focusing on knowledge management and the use of web-based customer relationship management to expand and enhance our business relations.

HOW IS THE MARKET ENVIRONMENT DEVELOPING IN PRIMARY INSURANCE AND WHAT ARE THE IMPLICATIONS FOR MUNICH RE?

!

Our primary insurance business is clearly focused on insurances of the person. In this segment, the market environment in most European countries is characterized by the weakness of state security systems in the face of demographic trends. This situation continues to result in a high demand for private provision. In such an environment, the growth potential for our Group's life, health and personal accident insurers is substantial. We are utilizing these opportunities by systematically expanding our various distribution channels and developing appropriate products. A current example is the "Riester pension" in Germany, where we have been able to translate our strengths in product design and distribution into a substantial increase in market share.

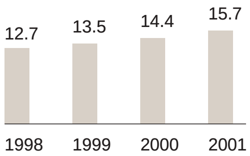
But it is not only provision for old age that presents us with great challenges – developments in healthcare are also opening up new avenues. Here, though, the environment is still being shaped more strongly by individual state regulation. Our answer in this case is to offer financeable solutions through the expansion of consistent healthcare management.

The concept of "financeability" immediately raises the issue of capital market trends: the recent volatility in the markets has naturally made life more difficult for us. But even this can be turned into an opportunity. We have been able to keep the investment results of our companies relatively stable. That gives us a good platform.

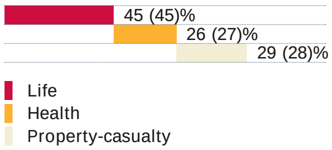
Dr. Detlef Schneidawind, Member of the Board of Management

Primary insurance

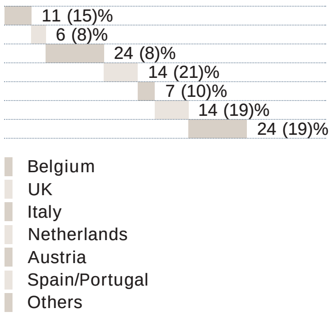
Gross premiums in €bn



Gross premiums by class of business



Gross premiums from abroad by country



Compromise. Following a compromise proposal and a negotiation marathon, the Kyoto Protocol is saved. At the Bonn climate summit the community of nations adopts an international agreement on climate protection for the first time.
23rd July 2001

The primary insurers in our Group write all forms of life and health insurance and nearly all lines of property-casualty insurance. Our Group includes ERGO, Karlsruher and Europäische Reiseversicherung.

Our premiums from primary insurance in 2001 were up 9.0% (6.8%) to €15.7bn (€14.4bn), representing 43% (46%) of Group premium income.

Primary insurance		2001	Prev. year
Gross premiums	€bn	15.7	14.4
Loss ratio property-casualty	%	64.9	60.6
Expense ratio property-casualty	%	36.5	36.6
Combined ratio property-casualty	%	101.4	97.2
Result before amortization of goodwill	€m	555	1,342
Investments	€bn	103.6	102.9
Net underwriting provisions	€bn	87.4	87.3

The result before tax, amortization of goodwill and minority interests in earnings deteriorated by 58.6% (+41.6%) to €555m (1,342m).

Minority interests exist mainly in the ERGO Insurance Group, in which Munich Re held a stake of 87.5% (62.9%) at 31st December 2001; since 15th January 2002 this has been increased to 91.7%.

Life and health

71% (72%) of our premium income in primary insurance derives from life and health business, where we recorded premium growth of 7.9% (5.0%) in the year under review.

The Munich Re Group ranks among the top three German life insurers. We succeeded in improving our new business production by 5.9% in 2001 to €1.5bn. The life insurers in the Group already began successfully exploiting sales opportunities presented by the German pension reform, with its introduction of a state-subsidized private component ("Riester pension").

Our premiums in life insurance climbed by 9.9% (4.1%) to €7.1bn (6.5bn), with foreign subsidiaries accounting for €1.1bn (0.4bn). Expenses for claims and benefits fell by 9.3% (+17.2%). Operating expenses amounted to €640m, and the expense ratio to 10.3%

In health insurance the Group was able to further extend its leading position in Germany and Europe. We again wrote a pleasing amount of new business and recorded premium growth of 4.6% (6.7%) to €4.0bn (3.8bn), of which €0.6bn (0.5bn) came from abroad. Pressure on costs continued to be high.

Property-casualty

Our growth in this sector was again strong, the Group expanding both within Germany and in the rest of Europe. Thus our premium income rose altogether by 11.7% (11.4%) to €4.6bn (4.1bn), to which the foreign subsidiaries contributed €1.3bn (0.9bn). Expenses for claims and benefits showed a further increase, but the combined ratio was still satisfactory.

Reporting by subgroup

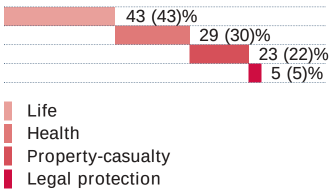
In reporting on our primary insurance operations, we will follow the structure of our subgroups, in each case referring to our subsidiaries' individual or consolidated financial statements for the year.

By far the most important market of our primary insurers is Germany, where they earned around 80% (87%) of their premium income. Their foreign premium income of €3.0bn (1.8bn) derived mainly from five markets; in order of volume these are Italy, the Netherlands, Spain/Portugal, Belgium and Austria.

ERGO Insurance Group

ERGO Insurance Group is the second-largest primary insurance group in the German market. It was created in 1997 by merging VICTORIA, Hamburg-Mannheimer, DKV and D. A. S. The main emphasis of ERGO's business, accounting for approximately 90% of its premium income, is on personal lines insurance, especially insurances of the person. Another important segment of its business is insurance for small and medium-sized firms, whilst programmes for company pension insurance are also increasing in significance. In health insurance and legal protection insurance, ERGO is the market leader in Europe through DKV and D. A. S. respectively

Gross premiums by class of business



ERGO Insurance Group*		2001	Prev. year
Gross premiums	€bn	13.9	12.7
Net premiums	€bn	12.0	11.1
Profit for the year	€m	655	804
Investments	€bn	89.3	88.8

* Consolidated financial statements in accordance with IAS.

ERGO's premium income rose by 9.9% (6.2%) in 2001. This growth was primarily due to life insurance and property-casualty business. The companies Bayerische Vita in Italy and ERGO Hestia in Poland, which were acquired in the second half of 2000, contributed substantially to the dynamic premium growth. Both companies have been consolidated for the first time for a full year in our financial statements for 2001.

The result before amortization of goodwill fell by 64.1% (+39.3%) to €0.4bn (1.2bn). ERGO's profit for the year amounted to €655m (804m), or 18.5% less than in the excellent business year 2000. As a result of tax rate changes, a number of deferred tax items had to be reversed, resulting in net income of €325m (246m).

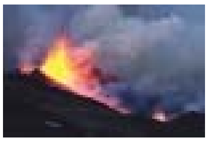
Impacted by the weak stock markets, ERGO's investments grew by only 0.5% (4.4%) to €89.3bn (88.8bn). The profit on investments decreased by 29.7% (+36.8%) to €5.1bn (7.2bn) – a consequence of the difficult situation on the capital markets, which led to fewer capital gains being realized in the course of the year than originally planned.

The ERGO Group's shareholders' equity amounted to €6.0bn (6.3bn) at the end of the year under review. This decrease of 5.7% (+22.7%) is due to the fall in the value of investments resulting from the adverse stock market situation.

At the end of 2001 the ERGO Group employed 28,558 (27,489) staff. This increase reflects the continuing expansion of its business. The number of full-time agents rose substantially by 8.6% to 25,938 (23,882).

As part of the strategic partnership with the HVB Group, plans were unveiled for an intensive expansion of our cooperation, which will be realized in the current business year. The sales forces of the ERGO Insurance Group are already offering their clients HypoVereinsbank products. Conversely, HypoVereinsbank is offering its banking clients the life, health and property-casualty insurance products of the ERGO insurers nationwide and exclusively. The collaboration between Bank Austria and ERGO in Austria will be intensified. Expansion of the cooperation in Poland, one of the most important growth markets for financial services in Europe, is also planned.

In the first half-year 2002 the ERGO Insurance Group acquired 100% of the shares in QVH Beteiligungs GmbH, which owns Quelle Versicherungen. ERGO has thus, in line with its multi-channel strategy, added a further string to its bow. At the same time the acquisition is a significant component of the new strategic partnership between ERGO and KarstadtQuelle: each partner holds 50% in the joint venture KarstadtQuelle Financial Services GmbH (KQFS). KQFS is a marketing and sales company which offers a comprehensive range of insurance and banking products plus other financial services. This cooperation gives the ERGO Insurance Group access to the enormous potential presented by 19 million customers of KarstadtQuelle. Despite these moves, we have not lost sight of our aim to expand above all in markets outside Germany.



Sensation tourism. The eruption of Etna attracts swarms of tourists to the region of Catania, where a state of emergency has been declared. Ultimately, the lava only causes damage to the lift that took visitors up the volcano. **26th July 2001**

ERGO: life insurance

ERGO wrote premium income of €6.0bn (5.4bn) in life insurance, a healthy plus of 12.0% (5.3%). New business premium in Germany was up by a 15.3% (–23.1%) to €1,097m (951m), as ERGO increased its market share in this sector. ERGO is the third-largest life insurer in Germany. Its two major life insurance companies successfully launched products in the promising pension reform market: “FörderRente” in the case of VICTORIA and “Kaiser-Rente” in the case of Hamburg-Mannheimer. Their sales forces already succeeded in issuing over 300,000 such “Riester” policies in the year 2001.

An amount of €4.3bn (4.0bn) was paid out to policyholders in maturity benefits or annuity payments. The reinvestment rate, i.e. the portion of these benefits reinvested in other ERGO products such as investment funds, again reached the high level of the previous year, namely 19%.

ERGO: health insurance

With premium growth of 4.6% (6.7%) to €4.0bn (3.8bn), ERGO further consolidated its market leadership in Germany and Europe. In the year under review the ERGO health insurers continued their long-standing policy of using surpluses to mitigate necessary premium increases, thus substantially enhancing their competitiveness.

New business in Germany grew by a pleasing 8.9% (4.2%). In comprehensive health insurance, ERGO’s core business in this sector, we were able to record a total of 78,359 new insureds.

Costs in healthcare are continuing to escalate. The question of how they can be curbed is also a key issue for private health insurers. ERGO’s health insurers are therefore looking to play an increasingly active role in the healthcare management of their insureds, which includes expanding their relevant capabilities and services.

ERGO: property-casualty insurance, legal protection insurance
ERGO's property-casualty and legal protection insurers succeeded in growing their premium income by 12.7% (7.4%) to €4.0bn (3.5bn).

Growth benefited from the foreign property-casualty subsidiaries that were acquired in the year 2000 and were consolidated in full for the first time in the year under review. In Germany, premium grew at above the average market rate to €2.6bn (2.5bn), with motor insurance developing especially well. At 98.2% (94.9%), the combined ratio of ERGO's property-casualty business continues to be outstanding, owing mainly to two factors: the strict underwriting guidelines used and the favourable structure of the ERGO Group's portfolio in property-casualty insurance.

In legal protection insurance, ERGO was able to reinforce its position as European market leader.

Karlsruher Insurance Group
The Karlsruher Insurance Group consists of five companies that operate in life insurance and in all classes of property-casualty business. It mainly offers personal lines insurance and products for small and medium-sized firms.

Karlsruher's distribution structure is based on a main sales organization present throughout Germany, collaboration with brokers, and a distribution network of partners. Life insurance is also sold through the branches of cooperative banks, mainly in Southern Germany. Sales via brokers are growing in importance.

The number of staff employed by the Karlsruher Group at the end of 2001 totalled 4,152 (3,900), of whom 1,777 (1,612) were desk staff and 2,375 (2,288) field staff.

Karlsruher*		2001	Prev. year
Gross premiums	€bn	1.3	1.3
Net premiums	€bn	1.2	1.1
Profit for the year	€m	–18	16
Investments	€bn	12.2	12.2

* Consolidated financial statements in accordance with IAS.

The Karlsruher Group's result for the year deteriorated, partly because of the difficult capital market situation and partly because the lower returns expected from the capital markets necessitated an adjustment in the calculation bases for actuarial reserves, burdening the result.

In view of rising costs and the marked fall in interest rates, the Karlsruher Group is making efforts to increase its profitability. In so doing, it is pursuing two objectives: enhanced operational processes – particularly through the use of Internet-based technologies – and improved client service.

Karlsruher Lebensversicherung AG's new business developed much better than the market average in 2001. Premiums from new business rose by 23.5% (–32.9%), whereas the life market as a whole achieved growth of only 15.9%. Gross premiums written remained constant at €1.1bn. For 2002 we expect life insurance premium to be boosted by pension insurance sales. In the course of the year Karlsruher Lebensversicherungs AG will also be able to offer its clients company pension fund products, and intends to step up its sales of "Riester" pension contracts.

As in the previous years, Karlsruher Versicherung AG was able to achieve premium growth clearly in excess of the market average. In primary insurance business its gross premiums rose by 11.2% (9.7%) to €216m (194m). Altogether, there was growth of 18.0% (12.0%) to €242m (205m). The company's combined ratio amounted to 104.4% (103.4%), with investments made in its distribution structure having an effect on costs.

Europäische Reiseversicherung

Owing to the 11th September atrocities, 2001 was the travel industry's most difficult year for decades. Bookings for business trips and holidays fell by as much as 30% in the fourth quarter. After pleasing growth of 16.3% in net premiums in the first nine months of 2001 compared with the same period in the previous year, growth for the year as a whole totalled 7.9% (1.0%). Only Europäische's Spanish and Czech companies were able to maintain the positive level achieved prior to 11th September. At the same time, the Europäische Group felt the effects of a substantial rise in claims under policies for travel cancellation expenses.

As a number of small and medium-sized travel operators lack sufficient reserves to tide them over in the current situation, consolidation in the European tourist industry will intensify. The Europäische Group has taken account of this trend. It operates under a uniform logo in all the main European countries through its international network of subsidiaries and participating interests. In addition to proven sales channels, it is continuing to make successful use of innovative distribution channels such as the Internet.

Europäische Reiseversicherung*		2001	Prev. year
Gross premiums	€m	309	301
Net premiums	€m	272	252
Profit for the year	€m	–16	8.5
Investments	€m	159	178

* Consolidated financial statements in accordance with IAS.

A total of 653 (656) staff were employed by the Europäische Group in 2001.

HAS MEAG PASSED THE TEST?

!

Yes, MEAG has successfully passed the test even under the most difficult market conditions!

Measured against the respective benchmarks, our equity and bond investments achieved an above-average performance. This was certainly helped by the great flexibility of MEAG's investment process, which enables portfolio managers to react swiftly to sharp swings on the markets.

The majority of MEAG's products also considerably outperformed their peer group in the area of mutual funds. In the case of equity and umbrella funds, private investors took advantage of the low prices to increase their investments. And with bond and money-market funds, our bold investment strategy with longer durations definitely proved positive – especially given the difficulty in predicting economic trends.

The quality of MEAG's asset management has been endorsed by two awards from Standard & Poor's: its European bond fund MEAG EuroRent achieved first place in the five-year performance class. And MEAG took an excellent third place among a total of 56 investment companies in its category.

Dr. Heiner Hasford, Member of the Board of Management

Asset management

Downturn on the stock markets

The stock markets got off to a very hesitant start in 2001 and reached their first low in March. After a brief recovery phase, the downturn continued in the summer. The crucial date for the stock markets, as in so many other areas, was 11th September, with sharp drops of more than 15% in the main indices. The stock markets recovered surprisingly quickly after the atrocities, all the important indices having returned to or even climbed above their beginning-of-September level by mid-November. However, over the year as a whole, the markets suffered a clear downward trend: thus the Euro STOXX 50, the benchmark for our European equity funds, lost a good 20% of its value in this period.

Lipobay. The cholesterol-reducing drug gives its name to a new long-tail risk. Six million patients have been treated with Lipobay since it came onto the market. Over 50 deaths are linked to the drug. Suits for damages are pending. **9th August 2001**

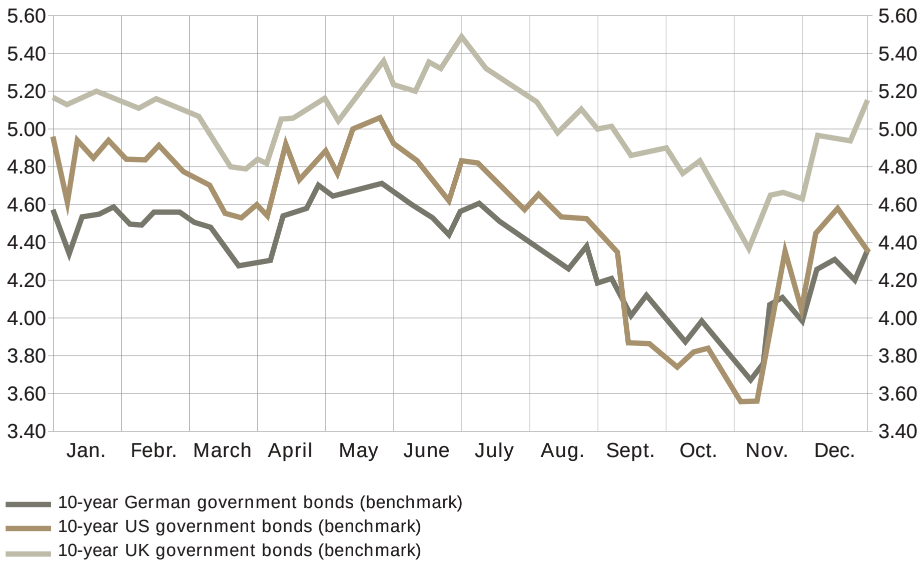
Nevertheless, we consider stocks and real assets to be an important investment class in the medium to long term, and have structured our asset allocation accordingly. All in all, we further diversified our equity portfolio internationally in 2001, making shifts away from Euroland towards the US, Asia and the UK. The globally low interest rates and the liquidity in the markets will continue to support the stock markets in the immediate future, especially as the generally less attractive bond markets do not offer an interesting alternative.

Performance of important share price indices in 2001

Volatile bond markets

The international bond markets have proved extremely volatile over the past months. Numerous reductions in interest rates by the leading central banks in the course of the year led to a marked interest-rate spread between short-term and long-term investments; yields on long-term papers were subject to smaller fluctuations but remained at more or less the same level over the year as a whole.

Yield trend in Germany, the US and the UK



Our bond portfolio appreciated considerably in value last year. Overall, we have diversified the portfolio both regionally and in terms of categories. Internationally, our main shifts were from Euroland to Scandinavia and Eastern Europe. In the individual categories, we continued to move away from government bonds towards other types of fixed-income instruments, such as liquid corporate bonds and asset/mortgage-backed securities.

Strict management of the currency risk
We have always endeavoured to match our expected liabilities with assets in the same currencies. Although the insurance claims resulting from September's terrorist attack will for the most part not become payable for some time, we have already made arrangements for the availability of the necessary funds in US dollars. While most of the dollars required were purchased directly or via foreign exchange forwards, we have defined strict risk parameters for coverage of the remaining requirements.

MEAG proves itself
Despite the extremely difficult capital market situation, our asset management company MEAG MUNICH ERGO AssetManagement GmbH performed well. Altogether, MEAG has a total of €136bn under management, the bulk of which are investments for the Munich Re Group. But MEAG also offers mutual funds and segregated managed funds for third parties. With a volume of €2.4bn invested for third parties in 2001, MEAG was able to expand this segment by a good 4%: a satisfactory result in a bad year on the capital markets.

Sustainability
Issues like environmental protection and sustainable development are important to us in the financial sector as well. Step by step, with an established team of experts from Munich Re, ERGO and MEAG, we are working towards the objectives we have set ourselves in the Munich Re Group's environmental programme. A considerable portion of our assets is already invested in stocks that are best-in-class in terms of such sustainability.

Solidity of financial principles

Investment mix	2001 €m	%	Prev. year €m	%	Change in %
Real estate	9,044	5.6	8,405	5.3	7.6
Investments in affiliated and associated enterprises	12,558	7.8	13,538	8.5	–7.2
Mortgage loans and other loans	11,182	6.9	9,150	5.7	22.2
Shares and investment fund certificates	33,516	20.7	36,580	22.9	–8.4
Other securities	79,127	48.8	77,621	48.7	1.9
Deposits retained on assumed reinsurance business and other investments	15,901	9.8	13,533	8.5	17.5
	161,328	99.6	158,827	99.6	1.6
Investments for unit-linked life insurance	666	0.4	581	0.4	14.6
Total	161,994	100.0	159,408	100.0	1.6

Results of the different types of investment	2001 €m	Prev. year €m	Change in %
Real estate	551	558	–1.3
Investments in affiliated enterprises	–19	1	<–100
Investments in associated enterprises	1,809	1,056	71.3
Mortgage loans and other loans	542	385	40.8
Other securities	7,366	9,905	–25.6
Other investments	746	680	9.7
Expenses for the management of investments and other expenses	575	419	37.2
Total	10,420	12,166	–14.4

Regular income from investments totalled €9,654m (8,652m) in the year under review. Net realized gains amounted to €1,765m (4,072m).

The table below shows the valuation reserves not recognized in the balance sheet.

	Valuation reserves	Fair value	Carrying amount	Valuation reserves	Fair value	Carrying amount
All figures in €m	31.12.2001	31.12.2001	31.12.2001	Prev. year	Prev. year	Prev. year
Unrecognized valuation reserves						
Real estate	2,080	11,124	9,044	2,103	10,508	8,405
Associated enter-prises	14,293	26,548	12,255	19,777	33,004	13,227
Other securities	31	1,011	980	27	1,213	1,186
Total	16,404	38,683	22,279	21,907	44,725	22,818

The year 2001 saw a big reduction market-wide in the investment income that had been available to compensate for or improve underwriting results in the recent past. It is true that in the case of fixed-interest securities there were price increases due to the fall in interest rates, but lower yields will have an adverse effect on regular income in the next few years. In the case of equities there were few opportunities for profit-taking.

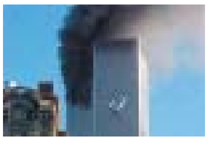
In a year like 2001, the need for well-functioning risk management and experienced asset-liability management becomes particularly apparent. We see the outcome as an endorsement of our investment policy, which continues to be geared to high quality and liquidity even in times of crisis.

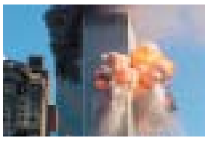
Prospects for 2002

Premium income and result for 2002
In the current business year we expect to record consolidated premium income of €39bn (36bn). As far as the Group result is concerned, we want to resume the positive trend of the previous years, taking as our benchmark the very good 2000 Group result.

Whether we achieve our target depends not only on how the capital markets perform but also, to a significant extent, on the claims costs from natural catastrophes and other major losses. Our function as a reinsurer consists primarily of mitigating random fluctuations in the results of our clients. In individual cases, we assume high liabilities, which makes our results here correspondingly volatile. The year 2001 made this amply clear.

Renewal of reinsurance treaties for 2002
In the negotiations for the renewal of reinsurance treaties, which were largely at the turn of the year, we reached important intermediate goals. Especially in highly exposed non-proportional business and cover for large individual risks, we succeeded in getting marked price adjustments and improvements in conditions. However, there is still a substantial need for further premium increases in the renewals for the coming risk periods.





New York,
11th September 2001.

In the past months our main aim has been to improve our portfolio in terms of quality – additional growth was not a prime concern. Of the reinsurance treaties up for renewal at 1st January, Munich Re terminated almost one fifth – measured in terms of premium volume – because appropriate improvements in prices and conditions were not possible; on the other hand, we were able to achieve appreciably better terms of trade for the business we did renew and to acquire attractive new business.

For this reason, and because we are assuming coverage of a particularly large block of business that will initially be limited to one year, our premium income for 2002 will show another strong increase: we anticipate growth of 11.0% (21.1%) and a substantially reduced combined ratio.

The foundations have thus been laid for healthy growth in 2002 and a satisfactory result again in reinsurance.

Primary insurers still on growth course
Over 80% of our primary insurance business comes from Germany.

Around three-quarters of the premium income in the German insurance market derives from personal lines business. The trend with regard to personal incomes and consumer expenditure points to a stable demand for private insurance. The increase in premium income in the German market should largely be driven by growth in life and health insurance.

For our Group's primary insurance business, we expect premium growth of nearly 5% in 2002. Our primary insurers are unlikely to contribute as much to the consolidated result as in 2001, when they benefited from large one-off tax effects.

Capital markets

With a view to the situation on the capital markets in 2002 and generally in the next few years, we must reckon with regular income from investments being lower than in the past. Information on our assumptions and expectations can be obtained from Section 04 (Economic Parameters) on pages 16 to 21.

Changes in shareholdings

In January we successfully completed the shareholding transactions announced in April 2001: the Munich Re Group now holds 25.7% of the share capital and 26.4% of the voting rights in HypoVereinsbank AG and 91.7% of ERGO AG. In return, we have sold our shares in Allianz Lebensversicherungs-AG and Dresdner Bank AG to Allianz AG and reduced our stake in the voting capital of Allianz AG to around 21%. The other measures envisaged in April 2000 are scheduled to be realized as planned in the middle of this year: Munich Re will sell its shares in Bayerische Versicherungsbank AG and Frankfurter Versicherungs-AG to Allianz AG and will increase its stake in Karlsruher Lebensversicherungs AG to 90.1%. The result for the year 2002 will be significantly influenced by the high book profits deriving from this complex reorganization of our shareholdings with Allianz.

Attack. A new form of computer worm, Nimda, exploits known but unremedied weaknesses in computers to cause substantial damage. Estimated outage losses: US$ 635m.
19th September 2001

HOW DO INSURERS PERFORM THE DOUBLE ACT OF TAKING ON RISKS AND GETTING A RETURN?

!

Handling risks is our business. Carefully evaluating them is therefore a core part of our value-based management.

From the measurement of risks by our experts we derive the risk capital required, which is the main basis for our business units' result targets. This thinking is embedded in our Group-wide risk management, with which we limit our overall risks, balance our portfolio and control our business. Our objective is the maximum return on the capital invested. We are continually refining our risk management tools and taking into account new, often seemingly abstruse scenarios.

On 11th September our systems passed the test. But we were also shown the limits of our imagination and thus of our models. Even the most refined risk management methods cannot replace strategic vision, entrepreneurial intuition and above all a healthy dose of prudence.

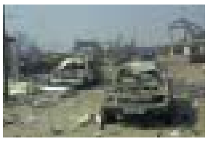
Jörg Schneider, Member of the Board of Management

Risk report

Whilst 11th September surprised and shocked us, it did not catch us completely unprepared. Of course, we did not consider it probable or even possible that a relatively small group of fanatics could cause such human suffering and material damage within the space of only a few minutes. Such a catastrophe has inevitably focused the attention of the insurance industry on the risk potential of further such atrocities aimed at wreaking the maximum possible devastation.

As a professional reinsurer with 120 years of experience, we are essentially prepared both organizationally and financially for dealing with catastrophe losses even on this scale. Professional risk management is a key element of our operations. Hence we regularly examine what claims burdens we are able and willing to carry, base our underwriting policy and retrocessions on major loss scenarios, and take account of all this in our liquidity planning.

Organization and functions of risk monitoring and control



Explosion. Fertilizer plant in Toulouse. 21st September 2001

Risk management in the Munich Re Group is organized both centrally and on a decentralized basis. Shorter response times and the growing complexity of our business have made it increasingly necessary to delegate competencies and responsibilities to decentralized units. This also applies to risk management, although we continue to plan and coordinate our activities centrally.

The **risk managers** in the Munich Re Group are responsible for the situation in their respective units. It is their job to check and continually monitor whether the risk policy measures taken are sufficient to effectively reduce the risk potential. Where necessary, they initiate further measures.

The remit of **central risk controlling** includes on the one hand the conceptual development and maintenance of the risk management system. This means above all defining standards for the identification and analysis of risks and laying down reporting requirements.

On the other hand, its duties involve reporting regularly to the management on how the overall risk situation of the Munich Re Group is developing. Where necessary, it proposes measures to limit or reduce critical risk potentials.

The role of **internal auditing** at the individual Group companies is to examine independently whether the monitoring measures that have been implemented are effective and complete.

Types of risk

Risks may basically arise in all operational areas, functions and processes. Assessing the risk situation of the Munich Re Group therefore requires a holistic approach. We classify the risks as follows:
– Underwriting risks
– Risks from defaults on receivables from underwriting business
– Investment risks
– Operational risks

Underwriting risks are

A the **premium/claims risk** in property-casualty business, i.e. the risk of having to pay, from premiums fixed in advance, claims and benefits whose scope is uncertain at the time the premium is fixed (risk of random fluctuations and risk of change);

B the **premium/benefits risk** in life and health insurance, i.e. the risk of having to pay, from a premium that may be fixed for many years at a constant level, benefits which can be affected by intervening trends as regards when they become due and also in terms of their scope (risk of change);

C the **interest-guarantee risk** in lines of insurance with guaranteed interest payments;

D the **reserving risk** in the assessment of the underwriting provisions required.

Risks from defaults on receivables from underwriting business may arise

A in **primary insurance** in relation to reinsurers, policyholders and insurance agents;

B and in **reinsurance** in relation to retrocessionaires, cedants and brokers.

Investment risks comprise

A **market price risks,** which involve potential losses in the value of invested capital as a result of changes in market prices, i.e. due to fluctuations in interest rates, share prices or exchange rates;

B **credit risks,** which result from deleterious changes in the creditworthiness of issuers or counterparties;

C **liquidity risks,** which can jeopardize the fulfilment of payment obligations through delays in cash inflows and outflows.

Operational risks manifest themselves in operational systems or processes either

A as **operating** risks attributable to human or technical failure or to external factors; or

B as **legal** risks arising from contractual agreements or the general legal environment.

Monitoring and controlling risks

For effective control, the appropriate package of measures has to be allocated to each of the above risk categories. To make the risks quantifiable and thus calculable, all risks from our technical and non-technical business are modelled using methods based on probability theory, incorporated in an internal risk model.

Underwriting risks

Traditionally we are strongly represented in Germany and Europe, but we attach great importance to diversifying our business relations internationally. This enables us to extend the geographical spread of the risks we assume and to achieve a better balance in our insurance and reinsurance portfolios.

In our view, closely gearing our operations to the principles of value-based management is an essential element of responsible risk prevention. In both insurance and reinsurance we want to make capital available only at conditions that promise an appropriate return. The difficult market conditions and ruinous competition in **property-casualty (re)insurance** in recent years have led to rates being far too low. This has been reflected in unacceptable combined ratios, also in our case. In the meantime, there appears to have been a return to commercial reason with more appropriate terms of trade.

Combined ratios	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Including natural catastrophes	114.3	106.5	103.5	99.6	98.3	100.0	105.7	118.9	115.3	135.1*
Excluding natural catastrophes	109.7	104.9	101.3	98.7	98.2	99.1	101.7	108.2	113.3	133.6*

* Thereof WTC: 15.4%.

In **life and health (re)insurance** we are systematically continuing the expansion of our business. In so doing, we are not only investing in what are two growth markets but also creating a balance to the more volatile classes of reinsurance business, whose results correlate to only a small extent with those of life and health insurance.

Underwriting guidelines and limits
We have clearly regulated responsibility and accountability for the whole process of concluding insurance and reinsurance contracts. Underwriting guidelines and limits stipulate who may accept what risks and up to what amounts. These limits are regularly adjusted to current requirements. The sales staff of our primary insurance companies are given binding guidelines for the acceptance of business, and compliance with these is continually monitored.

Accumulation budgets

Providing cover for losses from natural catastrophes is part of the core business of reinsurance. Particularly in property lines, we assume what are in some cases very large liabilities in reinsuring earthquake, windstorm and flood losses. Given the accumulation character of this business, a single loss event can have a substantial impact on the result situation of individual units or even the whole Group.

It is therefore essential in terms of risk management that the natural hazard liabilities underwritten are controlled and limited on a coordinated basis throughout the Group. This is why we introduced accumulation budgets more than ten years ago. By means of these budgets, the Board of Management stipulates annually the maximum liability to be assumed by the Munich Re Group and the individual Group units for such events per loss-accumulation zone.

The accumulation budgets are based on scenarios per loss zone, each with defined occurrence probabilities and supplemented by worst-case considerations. These scenarios are constantly monitored and validated by comparison with the relevant findings of scientific institutes and other professional organizations.

Risk accumulations outside the area of natural hazards are analysed in a similar manner – a task to which we have been devoting particularly close attention since the events of 11th September. For accumulations whose occurrence probability cannot be determined statistically and for which no scenarios can be derived from past experience, the maximum amount of the capital that may be exposed is decided on annually by the Board of Management. This budgeting enables us firstly to protect our portfolio against uncontrollable geographical and concentration accumulations, such as those that may result from terrorist attacks. Secondly, it enables us to make available to our clients at a fair price that amount of capacity which may be responsibly provided on the basis of technical criteria. Such an approach requires that we limit our liabilities in the form of contractually agreed loss limits, event limits or annual aggregate limits. Further risk management measures are geared to ensuring efficient accumulation control.

Retrocession

All companies in the Munich Re Group have appropriate intra-Group and external reinsurance cover, or retrocession cover in the case of the reinsurers. Of particular significance for our reinsurance business is **accumulation excess-of-loss cover.** To protect ourselves specifically against claims burdens from major natural catastrophe events, we buy various covers on the retrocession markets, each with outstanding security.

In December 2000 we also placed two catastrophe bonds on the capital market with a total volume of US$ 300m and a term of three years. This refinancing possibility provides our Group with relief cover for precisely defined extreme events (earthquakes in Los Angeles and San Francisco, hurricanes in Florida and New York, and windstorms in Europe).

Provisions
Provisions for unknown liabilities arising from our commitments are calculated for life and health insurance and for property-casualty business using prudent actuarial methods. For information on the run-off of these provisions, please see the notes to the consolidated financial statements, page 136 f.

Risks from defaults on receivables from underwriting business

Of all our receivables on underwriting business at the balance sheet date, 5.6% were outstanding for more than 90 days. The average default rate of the last three years amounts to 2.4%.

As far as our own retrocessions and reinsurance are concerned, we reduce the risk of defaults on receivables by selecting our retrocessionaires and reinsurers on the basis of particularly strict criteria. 85.9% of the accounts receivable on business that we have ceded are vis-à-vis companies that have been awarded at least AA by Standard & Poor's or a comparable rating by one of the other internationally recognized rating agencies (Moody's or A. M. Best).

The high standards we apply to our retrocessionaires also showed their importance after the terrorist attack of 11th September. 70.3% of our retrocessions were placed with companies with a rating of at least AA from Standard & Poor's or comparable rating. The defaults that we know of are below 1%, and we do not expect there to be any increase in this figure.

Investment risks

Big tub. With a length of 294.13 metres, the Norwegian Star is the largest cruise ship ever built in Germany. Only at high tide, for a period of two and a half hours, is the River Ems deep enough to move the giant vessel from the shipyard in Papenburg to the port of Emden. **2nd October 2001**

In the investment sector, we consistently follow a number of principles: we only make investments from which we can expect an appropriate return, and we always ensure that they offer a high degree of security. Also important for us is sufficient liquidity at all times and a targeted diversification in terms of region and type of investment. Our shareholding in Allianz AG, with a market value of €17.0bn, represents easily our largest individual investment item and might be considered a substantial concentration risk. Such an assessment is relativized, however, when the volume of the investment is compared to the size of the Munich Re Group's investment portfolio as a whole; in view of its strategic importance, we consider the retention of this shareholding to be justified.

Mandates and investment guidelines
The companies entrusted with asset management, in particular MEAG, are given uniformly based mandates by the insurance and reinsurance companies in the Munich Re Group. In detailed investment guidelines we specify precise criteria for management of the assets, enabling us to limit risks and check precisely whether instructions have been followed. Investment committees monitor adherence to these mandates and report directly to top management.

In the asset management units of the Munich Re Group, in line with requirements of banking supervision, we pursue a policy of clear functional separation between portfolio management, trading and risk controlling, right up to top management level.

Market price risks

For our fixed-interest securities, which make up the major part of our investments available for sale and held to maturity, we perform regular duration analyses. We use this procedure to counter the risks posed by changes in interest rates for the coverage of our obligations from insurance and reinsurance business, and where necessary we hedge interest-sensitive portfolios.

We only run currency risks to a small extent, as we observe a strict policy of currency matching. This means that for all important currency liabilities in our underwriting business we establish appropriate matching items in our assets.

Possible market price risks in our investments are measured using the value-at-risk approach. This approach is employed in our strategic investment planning to model the optimum investment portfolio according to our risk preference. Using scenario analyses (“stress tests”), we also simulate unexpected market fluctuations and devise strategies for countering them swiftly in practice. Here we apply the following assumptions:

– for our equity holdings, index fluctuations of +/–10% or +/–20%;
– for our investments in fixed-interest securities, a change in the respective interest rate curve of +/–100 or +/–200 basis points;
– and for our cash positions, a change in the exchange rate vis-à-vis the euro of +/–10%.

At the balance sheet date the scenarios described give rise to the following changes in market value:

Change in share prices	Change in market value of investments sensitive to share prices
Increase of 20%	+€14.687bn
Increase of 10%	+€7.350bn
Fall of 10%	–€7.311bn
Fall of 20%	–€14.581bn
Market values at 31.12.2001	€78.083bn

Change in interest rates	Change in market value of investments sensitive to interest rates
Increase of 200 BP*	–€7.196bn
Increase of 100 BP	–€3.815bn
Fall of 100 BP	+€3.902bn
Fall of 200 BP	+€8.084bn
Market values at 31.12.2001	€87.955bn

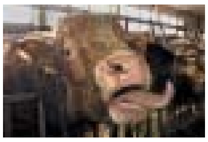
Change in exchange rates	Change in market value of investments sensitive to exchange rates
Increase of 10%	+€3.037bn
Fall of 10%	–€3.036bn
Market values at 31.12.2001	€33.071bn

* Basis points.

We use derivative financial instruments for three principal reasons: hedging parts of the portfolio, optimizing earnings, and implementing planned purchases and sales. Our Group companies act as end-users of derivatives; there is little trading in these instruments with a view to profit-making. Particular care is paid to limiting risks, choosing top-quality business partners and strictly monitoring adherence to instructions. Whilst producing a positive overall result, derivatives did not have a significant effect on the investment profit; the volumes involved are shown on page 129 f.

Credit risks
Of central importance for credit risks in the portfolio management of fixed-interest securities is the credit assessment of the individual investment. The main factor here is the quality of the issuer, as primarily reflected – for investments of the Munich Re Group – in the gradings of international rating agencies: 90% of our investments in fixed-interest securities have a rating of A or better, and 81% have a rating of AA or better (according to Standard & Poor's rating classification). The majority of fixed-interest securities in our portfolio have been issued by governments or banks with excellent ratings, e.g. German government bonds, US Treasuries, and mortgage-backed bonds.

Also significant for assessing credit risks in the portfolio as a whole are investment volume, collateralization and the default probability assigned to the individual issuers. These criteria are taken into account in our Group-wide system for limiting credit risks. The system considers the issuer's individual rating, its capitalization as a basis for covering the liability, the collaterization, and our internally defined willingness to incur risk.



Fears. Scarcely has the much-reported BSE crisis of the nineties subsided in Britain, than a new wave of alarm is triggered by the discovery of prion-damaged brains in cattle in other European countries. Firm evidence of whether BSE could lead to a new variant of the highly dangerous Creutzfeldt-Jakob disease among humans is still lacking. **October 2001**

On top of this, we actively control the exposure of our largest credit risks. This involves monitoring effects on other investments and liabilities from credit reinsurance business. In addition, we prevent risk concentrations in individual portfolios by means of further diversification measures.

Liquidity risks
The liquidity risks of companies in the Munich Re Group are controlled on a decentralized basis by the individual insurers and reinsurers. For major loss scenarios, detailed liquidity planning ensures that Munich Re and its Group companies are able to make the necessary payments at all times. This planning concept, which has been in place for many years, has proved its worth after large natural catastrophes, and most recently in connection with the WTC loss as well.

Operational risks

Operational risks are hazards posed by technical or human failure, by natural impairments of a company's operations or other adverse developments in its external environment. These include events resulting in claims for damages from third parties, or criminal acts like sabotage or misappropriation. Such risks, which may be connected with any activity at the company, can only be minimized through a wide range of targeted risk management measures. Beyond this, a central objective is to sensitize employees to possible risks and to establish an appropriate risk culture.

Security in the IT sector
The globally oriented development strategy of the Munich Re Group requires an increasingly dense networking of its business units worldwide. The consequence of this is a growing dependency on electronic communications technology. At the same time, information and data are exposed to various risks as regards confidentiality, availability and integrity.

In order to manage these risks better and to restrict them as far as possible, we have made information security a centrally controlled function in both our insurance and reinsurance business. An internationally operating unit – supported by a centre of competence – draws up security regulations and also monitors compliance with these rules. The conception and implementation of the protective measures are based on risk analyses conducted by our experts. We place emphasis not only on the protection of our own data; of equal importance to us is the security of the information entrusted to us by our clients. Thanks to the precautions we had taken, we were barely affected by the global and sometimes spectacular computer virus attacks that occurred in 2001, some of which assumed threatening dimensions. Isolated “infections” were unable to inflict any significant damage on our global networks.

Cancer research. The Nobel Prize for Medicine is awarded to Leland H. Hartwell, R. Timothy Hunt und Sir Paul M. Nurse for their discoveries in connection with regulation of the cell cycle. These fundamental findings apply to all organisms from yeast to humans, and have a great influence on all aspects of cell growth. In the long term they may give rise to new possibilities in cancer therapy. **8th October 2001**

Our security regulations embrace not only the technical design of hardware and software systems but also functional security structures and organizational measures, e.g. access controls and training requirements for staff.

Corporate integrity
It goes without saying that in business transactions we respect the laws and regulations of each country and use only fair and legal means of competition.

All companies in our Group have binding standards of corporate integrity governing conduct within the companies themselves, their business transactions and other relationships with external parties. These standards also serve to prevent conflicts of interest for staff.

Insider rules
Even the suspicion of an infringement of insider laws can have a highly detrimental effect on a company’s reputation and standing, particularly in the financial sector. At the parent company and all the main subsidiaries a compliance officer ensures that insider information is handled in conformity with the law. This officer is also responsible for monitoring adherence to insider regulations.

Legal risks
The subject of Holocaust claims continues to be a public issue. After the establishment of the foundation “Remembrance, Responsibility and Future” the class actions brought in the US against Munich Re and VICTORIA Leben in 1997 and 1998 were dismissed. However, despite the promise of full and lasting relief from legal action before US courts, a new class action involving VICTORIA has been pending since October 2001. Furthermore, as a result of special Holocaust legislation, Munich Re and its American subsidiaries continue to be subject to far-reaching reporting requirements and administrative action by insurance regulatory bodies in various US states. In several cases we have had to appeal against such measures in the courts. Despite successes at various instances, a final decision in California, for example, is still pending.

Outlook

Markets, products, structures and operations are subject to processes of change at ever shorter intervals. This means that the risk situation is continually changing, one of the potential hazards being that opportunities may not be recognized or exploited in time.

Of particular significance in this respect are strategic risks, which result chiefly from management decisions on the further development of the Group and its business units. In order to help ensure the effectiveness of our activities, we have set out our corporate objectives in so-called balanced scorecards. In the context of value-based management, this step enables us to better implement the concrete measures required by strategic decisions, to monitor their implementation and to take countermeasures at an early stage in the event of any deviations from the intended goals.

Salvage. After more than a year, the Kursk is raised from a depth of 108 metres. The Russian North Fleet's most modern submarine had sunk to the bottom of the Barents Sea, probably after a torpedo had exploded. All the crew perished. **9th October 2001**

Summary of the risk position

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.

Corporate governance

"Corporate governance" stands for a form of company management that employs effective and transparent structures of direction and control. Its aim is to strengthen the confidence of shareholders, investors, employees and the public in the running of the company.

The debate surrounding this issue in Germany goes back several years. This February a committee appointed by the Federal Government published the German Code of Corporate Governance. It contains recommendations for the conduct of supervisory boards and boards of management of listed companies and formulates standards of good corporate management and control. Its aim is to standardize current methods and practices and to make transparent the corporate governance rules already applicable by law in Germany. Munich Re welcomes the adoption of the Code, which will make an important contribution to strengthening the confidence of investors – especially those abroad – in the management of German companies.

Encouragement. The winners of the 2001 Nobel Peace Price are Kofi Annan and the United Nations, who speak of a "vote of confidence in our common future". **12th October 2001**

Munich Re already fulfils a number of these recommendations, and in fact has done so for some time. Our Supervisory Board has always appointed committees of its members for preparing certain decisions. The Chairman of the Supervisory Board keeps in regular contact with the Chairman of the Board of Management between official meetings to confer on issues of corporate strategy, business development and risk management. The Board of Management's remuneration has for some years now consisted of fixed and variable components, plus elements that constitute long-term incentives. Our consolidated financial statements and interim reports to shareholders are prepared in accordance with internationally recognized accounting principles. Since the last AGM in 2001 shareholders have had the option of voting via a company proxy. In the current business year, for the first time, they will be able to follow the AGM on the Internet and, where necessary, change the instructions they have given to their proxy directly before a vote.

The Code's recommendations and proposals, including their adjustment to the special features of our company and line of business, will be implemented at Munich Re in close collaboration between Board of Management and Supervisory Board. Decisions on further initiatives will be taken once the German parliament has passed the German Transparency and Public Disclosure Act, which will lay down further regulations on the subject of corporate governance.

How much risk can the world take?

Answers to the year 2001

Münchener Rück
Munich Re Group

01 _ 11TH SEPTEMBER

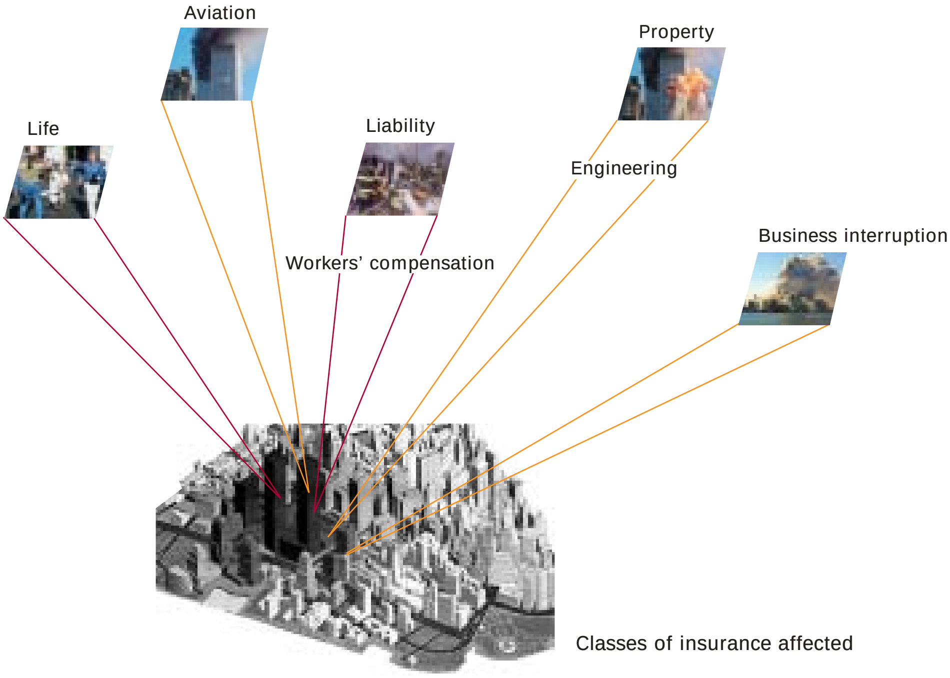
"THE WORLD WILL NEVER BE THE SAME AGAIN." HAS THIS PROVED TRUE AFTER 11TH SEPTEMBER?

Nicholas Roenneberg
Claims Management and Consulting

This much-quoted headline certainly captured the mood of most people in the days following 11th September. But it also exemplifies the short-term nature of such statements. For today – not even one year later – we find the world almost exactly the same as it always was: with its customary mixture of crises and attempted solutions, of progress and setbacks.

__ The losses of 11th September posed a particularly big challenge to Munich Re's claims management. It was necessary to quantify claims of unprecedented size and complexity as quickly as possible in nearly all classes of business, to organize the handling of these claims in terms of personnel, and to ensure that our clients' payment requests were dealt with swiftly and responsibly.

So in a way this is renewed proof that the long-term impact of singular major losses and catastrophes is often greatly exaggerated in the immediate aftermath. Yet we must differentiate with regard to 11th September: New York will indeed be scarred by this catastrophe for many years to come, and the political consequences are still very much with us.

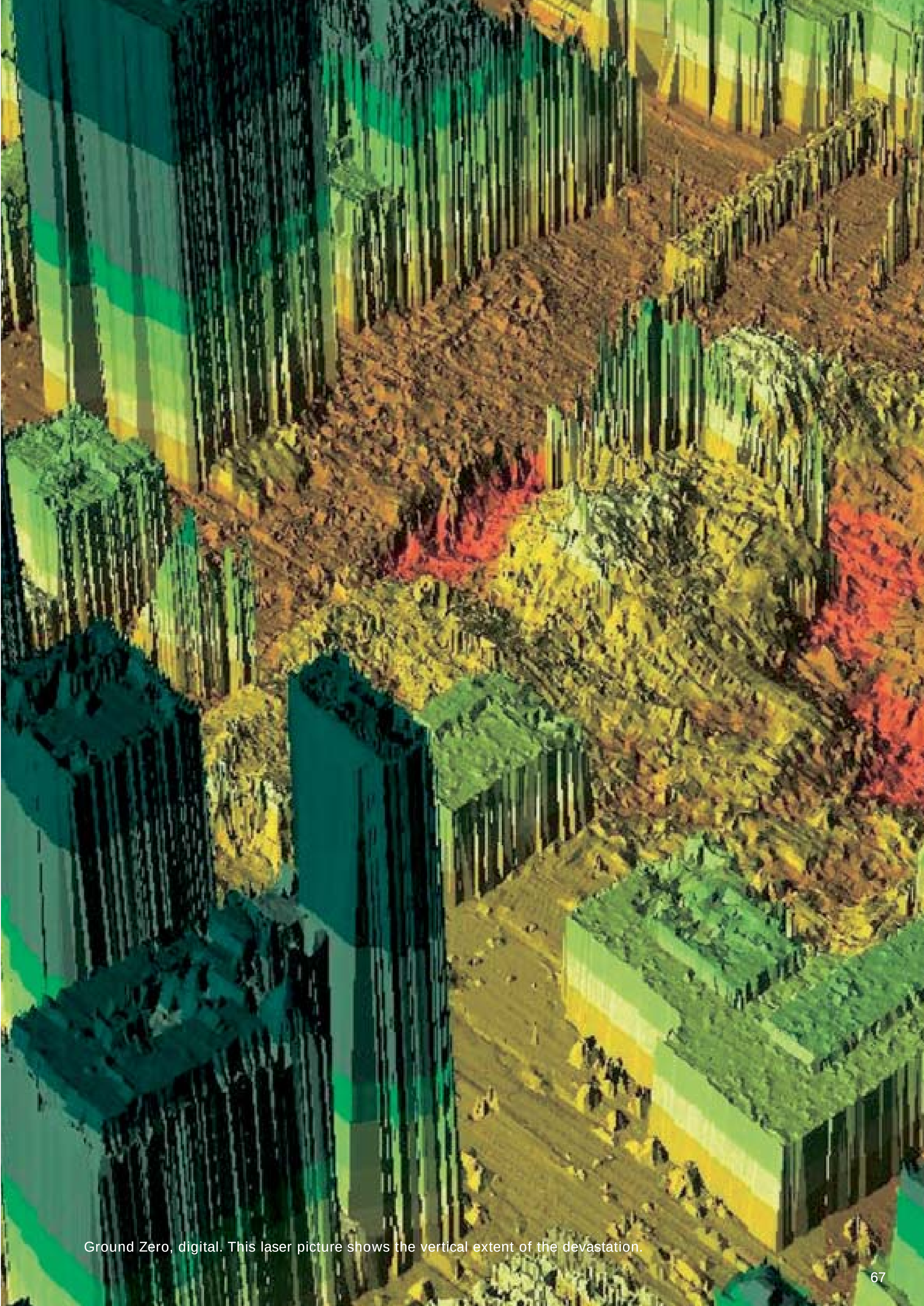


Classes of insurance affected

Besides the huge challenge posed by the settlement of claims in New York, the insurance industry is faced with the question of its future strategy with regard to covering terrorism risks. In particular, it has to consider what is insurable and what is not. Here we are in the middle of an opinion-forming process on the issue of whether protection against terrorism is primarily the task of the state.

Models for government liability have been developed by countries that have a history of bitter experience with terrorism. The UK, France and Spain have created pool solutions with government participation to cover terrorism risks. Germany has decided to follow suit, at least provisionally. In other countries, like the US, the debate is still going on.

Claims management for the losses of 11th September was one of the greatest challenges in Munich Re's history.



Ground Zero, digital. This laser picture shows the vertical extent of the devastation.

02 _ MAJOR LOSSES

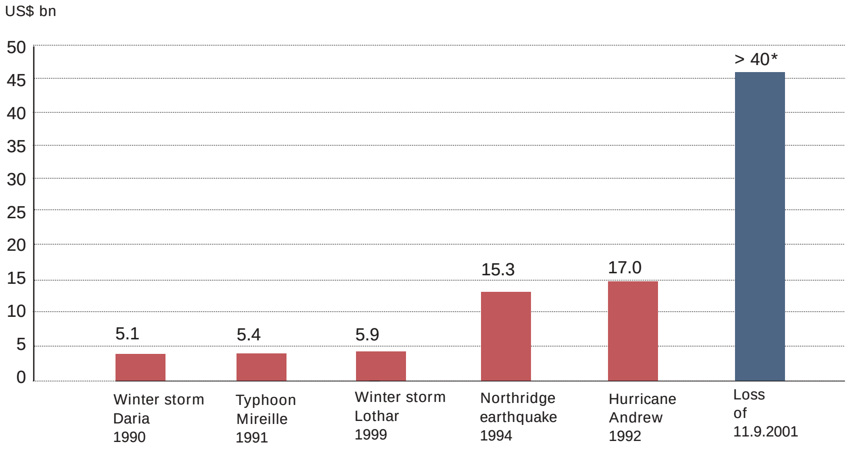
HOW DO INSURERS COPE WITH EVENTS LIKE 11TH SEPTEMBER?

Dr. Thomas Mack
Corporate Actuarial Functions

The art of the insurer consists in fixing premiums at the right level so that in the course of time premiums and claims will roughly balance. In this task, the insurer can draw on extensive claims statistics. To make sure that major loss events do not disturb the balance, the insurance industry – especially with the help of reinsurance – has developed proven mechanisms for distributing the costs of these losses over several years (what are termed “return periods”). But the success of this approach presupposes that the major losses which occur are of a dimension that insurers have reckoned with.

Nothing of the kind applied with regard to 11th September. Nor did the premium calculations of the insurers affected include other events of such magnitude. Even the most expensive losses caused by earthquakes or cyclones had never reached the size of the 11th September disaster. This meant that insurers initially had to pay this loss with money set aside for other losses and other classes of business.

The loss of 11th September 2001 in comparison (insured losses in US$)**
Status: 8th April 2002



* Estimate
(Source: rating agencies, brokers, investment bankers)

** Original loss, not adjusted for inflation

Since these reserves continue to be required for this other business, it is necessary – also for reasons of "premium fairness" – for the balance between premiums and claims to be restored as quickly as possible.

In other words, the money used to settle claims like those from 11th September has to be included – in small portions – in the calculation of the premiums of all those risks which in principle could be affected by such an event. The extent and duration of the premium increases depend on how likely or unlikely a repeat of 11th September is.

Simple though it may sound: insurers can cope with events like 11th September provided that the community of insureds is prepared to pay the higher premiums needed to cover the increased claims costs.

03 _ INSURABILITY

HOW ARE INSURERS AND REINSURERS DEALING WITH TERRORISM RISKS?

Alex Wettemann
Property

There has always been agreement in the insurance industry that it is beyond the financial means of insurers to pay for the destructive consequences of war, so that these losses have been excluded in nearly all insurance products. By contrast, customary policies have contained no such exclusion for terrorism.

All this changed on 11th September. Insurers worldwide suddenly became aware that terrorist attacks could pose a serious threat to their claims-paying ability. On the one hand, insurers ran the risk of being badly hit by a very large loss because they did not usually include terrorism scenarios when assuming liabilities. On the other hand, insurers had to reckon with an unforeseeable number of policies being affected by a terrorist attack. The World Trade Center and its vicinity, where the offices of several hundred firms were located, is a classic example of this.

From the underwriting point of view this risk can only be countered by a strict limitation of insurance cover in highly exposed lines of business. Such limitation may go as far as complete exclusion, as with the war risk. In addition, insurers must aim for even more transparency in

MAN-MADE DISASTERS

__ Reinsurers are specialists not only in the field of natural catastrophes but also in the area of man-made disasters. Here a distinction can be made between technological risks, political risks and risks arising from the interaction of technology and nature. A further differentiation can be made between short-term and long-term risks: industrial accidents like Bhopal and the hundred-year history of asbestos and its consequences; 11th September 2001 and the globally increasing claims for damages in connection with historical injustices; man-made aspects in connection with earthquakes or floods and the long-term processes of climate change or the pollution of soil and water.

their portfolios of accepted risks, so that they can identify in time where, or in what conceivable scenario, they are threatened with very high liabilities. Finally, an appropriate price must be calculated for the coverage of the terrorism risk, insofar as it is still insured.

This does not solve the problem, of course, especially as the situation becomes less and less satisfactory for clients the more effectively insurers exempt themselves from liability for terrorism. The call for joint market solutions supported by the state has therefore come as no surprise.

Not least in the interests of our shareholders, we have a duty to pursue a very restrictive underwriting policy here. Where we do reinsure the terrorism risk, we have narrowly limited the coverage in property and aviation third party business, for example. In property reinsurance we have also stipulated a right of termination with a period of notice of 14 days. This right is absolutely essential, given that assumptions about occurrence probability – like those made for natural hazards – are not possible with regard to terrorist attacks.

Complexity is a hallmark of our times. We have to live with it.

And as a result, our civilization is becoming increasingly vulnerable.

04 _ AVIATION

HOW DO YOU SEE THE STATE OF AVIATION ONE YEAR ON FROM 11TH SEPTEMBER?

Hartmut Hesse
Aviation and Space

There have always been slumps in the development of global aviation, ensuing from political or economic crises. If looked at from the long-term perspective, however, statistics show that there has been a fairly steady upward trend. Periods with low growth or short-term setbacks have always been compensated for in the subsequent period. Thus average annual growth since 1980 – measured in terms of passenger kilometres – has amounted to around 6.25%. Everything points to the fact that the industry's ability to emerge reinvigorated from slumps will also manifest itself in the present situation. For the coming 20 years we expect average annual growth in the order of 5%, although it should be said that this global perspective masks regional differences and some countervailing trends.

The worldwide crisis in aviation – triggered by the attacks on the WTC and the Pentagon – has accelerated the process of consolidation in the industry. Only financially strong and professionally managed companies of sufficient size, with viable business strategies and healthy cost structures, will survive the current crisis. As stated, this process has begun, though it is questionable whether it will be concluded by September 2002.

05 _ NETWORKING

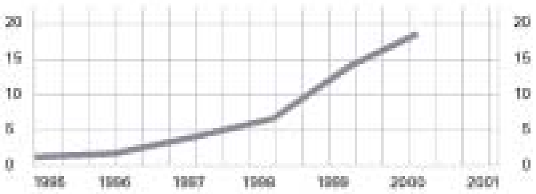
WHAT ARE POTENTIALLY THE MOST VULNERABLE POINTS OF OUR INFORMATION NETWORKS?

Michael Lardschneider
Information Security Officer

In information technology, it is just the same as in other areas: “state of the art” means state of the art with regard to risks and misuse as well. Sabotage and espionage constitute special risks in view of the tempting amounts of data that are to be found criss-crossing the world. But even tiny programming errors can lead to catastrophes, and minimal tolerance exceedances can make robots and control systems go haywire.

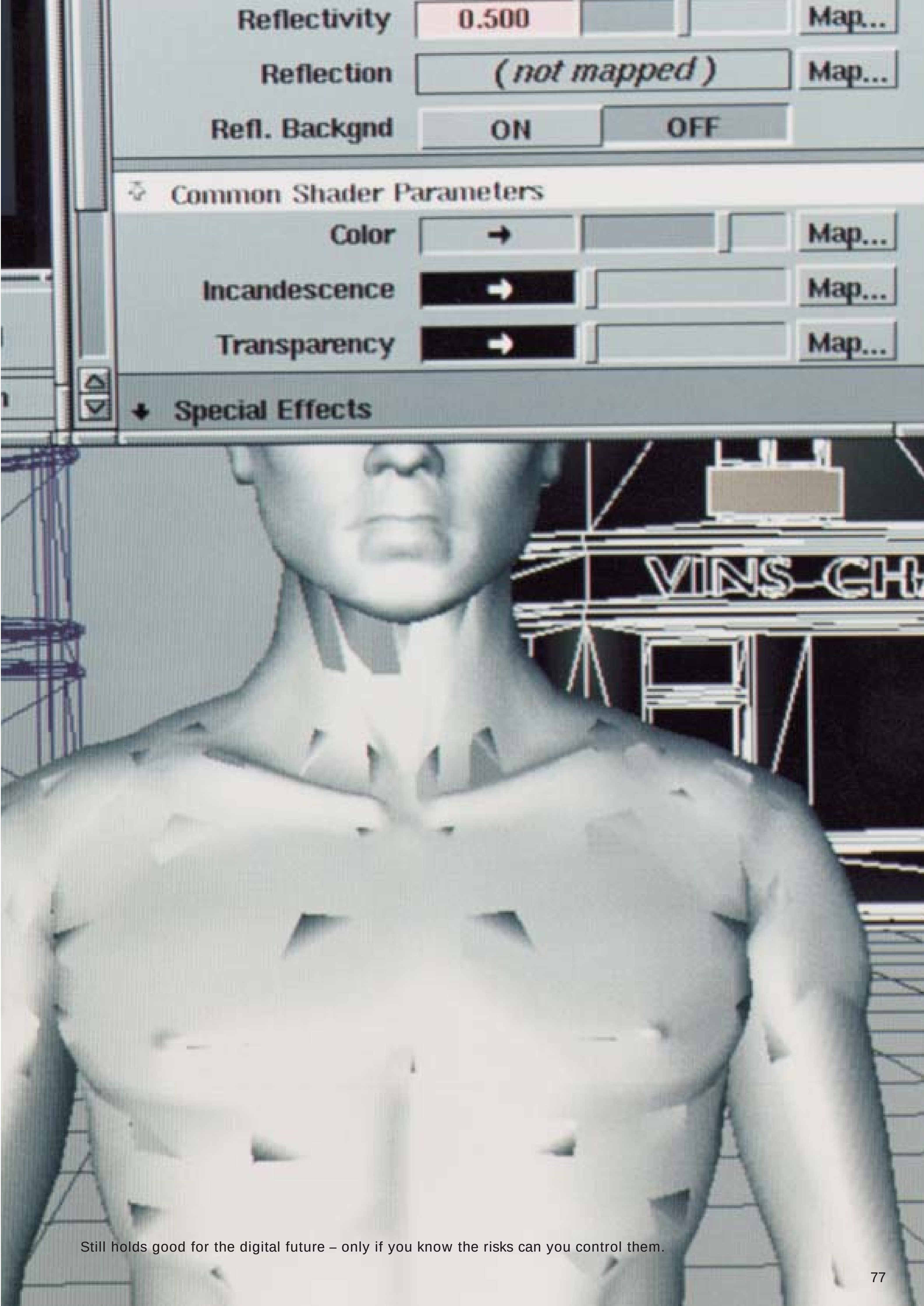
The accumulation of incidents and their consequences highlight the limits of the technology and put the focus back on people, not only as perpetrators but also as initiators of solutions. Risk awareness and the pursuit of quality – in this case security – acquire new importance. Only if you know the risks can you control them. This old adage still holds good today and will continue to apply in the world of tomorrow.

ECONOMIC LOSSES CAUSED BY COMPUTER VIRUSES
The numbers for 2001 are far from complete. It must be assumed that the economic losses caused by viruses worldwide will total around US$ 22bn.



Source: www.computereconomics.com, January 2002.

Optimum technical facilities are a must. But people are the key.



Still holds good for the digital future – only if you know the risks can you control them.

06 _ NATURAL CATASTROPHES

HAVEN'T THE INTERNATIONAL AGREEMENTS ON CLIMATE PROTECTION COME MUCH TOO LATE?

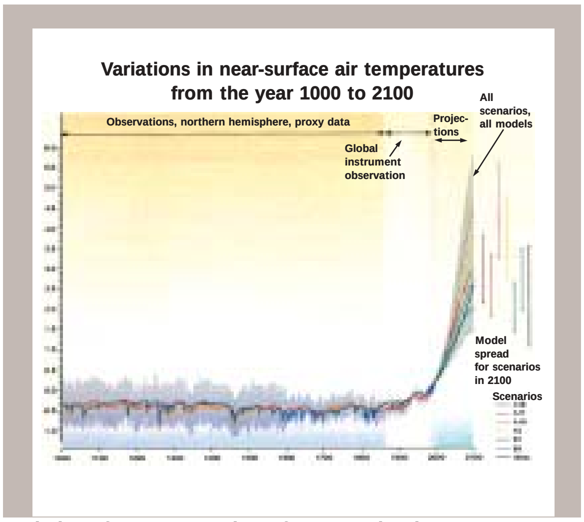
Dr. Gerhard Berz
GeoRisks Research

To put it bluntly: the climate will not notice the Kyoto Protocol, even if it is implemented in full.

For in order to limit the increase in global temperature to a just-about tolerable 1.5 to 2°C, greenhouse gas emissions would have to be reduced by at least 50%. Compared to that, the 5% or so agreed on in Kyoto is little more than the proverbial "drop in the ocean".

__ According to Munich Re's global statistics, insurers' claims costs from natural catastrophes – adjusted for inflation – show a clear increase since the 1960s. This is mainly due to weather catastrophes, e.g. storms and floods, which are today responsible for an average 85% of the insured catastrophe losses. Along with the many other causes, such as urbanization, settlement in high-risk zones and the increasing vulnerability of modern industrial societies, climate change and other environmental factors are having a growing impact.

Nevertheless it is definitely an important step in the right direction, because it is the first one. Further, bigger steps must and will follow, if only because the emissions are directly connected with the irreversible plundering of our fossil energy reserves; and these will become more valuable (and expensive) the more the realization dawns that they will be exhausted within a few generations. Moreover, nature will make us painfully aware that increasing changes in the climate will result in more and



Deviation of temperature in °C from 1990 levels

VARIATIONS IN NEAR-SURFACE AIR TEMPERATURES FROM THE YEAR 1000 TO 2100

__ In the past millennium, global temperature mostly showed little change, but for around the last 150 years they have been gradually rising more and more steeply. By the end of this century they will probably be around 1.5 to 6°C higher than the mean temperature of the last few decades. This would mean a “super” warm age, the like of which man has never experienced before.

more weather catastrophes of ever greater severity. With its global loss statistics, the insurance industry provides an important early-warning system, which is taken seriously by environmentalists, scientists and politicians alike.

Munich Re has been successfully endeavouring for years to inform its clients and the public about the growing risks of climate change and for its own part to contribute actively to protecting the climate.

Melting polar caps send icy warnings of a not-too-distant “super” warm age.

Geo Risks Research – Munich Re experts with state-of-the-art technology.

07 _ LIFE SCIENCES

HOW CAN MUNICH RE'S CLIENTS BENEFIT FROM THE CENTRE OF COMPETENCE FOR LIFE SCIENCES?

Dr. Achim Regenauer
Centre of Competence for Life Sciences

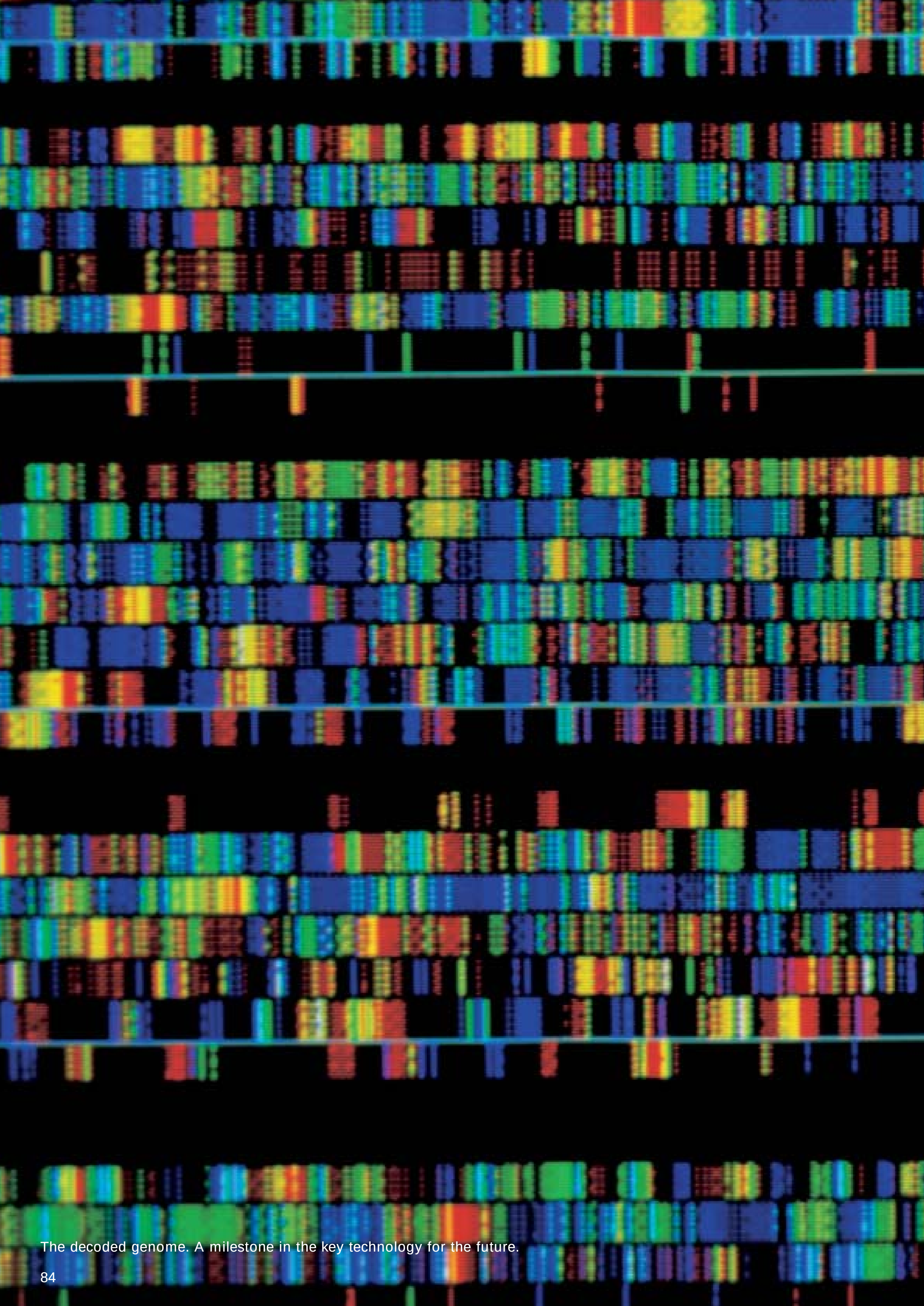
"We concern ourselves with today's great challenges – population growth, reducing resources, environmental pollution, climate change. From our knowledge of risk, we are competent to adopt positions on issues affecting society. We think and act globally." This is what it says in Munich Re's guiding principles. The establishment of a Centre of Competence for Life Sciences is a further illustration of how we put our guiding principles into practice.

This latest centre of competence at Munich Re focuses on genetic engineering, which is impacting key areas of our society to a growing extent and with increasing rapidity. Forecasters are predicting that this branch of science will have a major influence on the economy, medicine and society in the 21st century. But like every development and every advance, genetic engineering also harbours new risks. One of the most obvious and topical is the lack of a clear picture regarding scientific progress and its repercussions. Coping with the explosive growth of knowledge in genetic engineering (a doubling approximately every two years) requires special expertise. Our Centre of Competence registers significant advances in research, critically examines them, and evaluates their relevance for business. The Centre's priorities in this

Our latest publication on this topic will be appearing at the end of 2002.

work are the practical use of the knowledge in the insurance sectors concerned and sensitization of these sectors to the new risk potentials that may emerge.

The areas of society and insurance that will be affected by the development of genetic engineering are numerous. They range from agriculture to the broad fields of medicine and legislation. They involve life and health insurance as well as environmental and product liability. Given the many different challenges, solutions to the problems connected with genetic engineering can only be arrived at in an ongoing dialogue between users, risk carriers and insureds. With its Centre of Competence for Biosciences, Munich Re seeks to make a significant contribution to this process, to the benefit of all concerned. Our new 150-page publication provides information on the current state of genetic engineering, its fields of application, the sectors of insurance affected, statements by Munich Re on the claims exposure from genetic engineering in different insurance sectors, and the future implications for insurance. Compact yet extensive, and very useful: www.munichre.com.



The decoded genome. A milestone in the key technology for the future.

With its experts in life sciences, Munich Re is facing the challenges presented by the rapid advances in genetic engineering.

08 _ GENETIC ENGINEERING

WHAT RISKS HAS GENETIC ENGINEERING PRODUCED IN AGRICULTURE?

Karl Murr
Agricultural Risk

In Germany, the cultivation of genetically modified crops is prohibited except for test purposes. Does this mean that the risks for agriculture have therefore been banished? Let us take an example – maize. Here it is possible that genetically modified varieties and normal varieties could become mixed in the production of seed stock. This would lead to the existence of crops whose origin the farmer could not definitely vouch for: a tricky situation, given that the thresholds for contamination with genetically modified maize are lower than those for species purity under the German Plant Species Protection Act.

The consequences would be even more serious if the cultivation of modified varieties were permitted. Wind-borne pollination would inevitably result in the contamination of crops in neighbouring fields. It would then be impossible for farmers operating according to the revised EU directive for organic production to meet the 0% tolerance threshold. As far as the insurance of agricultural products against natural hazards is concerned, there will also be a need to examine what changes are necessary in the case of genetically modified crops. For example, a higher drought tolerance says nothing about sensitivity to other hazards. The jury is thus still out on the question of genetically modified crops and insurability.

09 _ ENVIRONMENT

IS ENVIRONMENTAL AWARENESS STILL “IN”?

Walter Roos
Casualty/Marine

Stefan Hackl
Casualty/Marine

It is true: compared with the pioneering days of the Green movement, the subject of the environment is not the headline-hitter it used to be. Perhaps this is partly because awareness for the environment, and the dangers to which it is exposed, has become firmly established and no longer needs to be “stirred up”. At any rate, industrial facilities, waste incineration plants and power stations discharge far fewer pollutants into the water, soil and air than in the seventies, when dark plumes of smoke and foaming waters made it clear to everyone that things could not go on like that.

In view of the self-evident way in which environmental awareness is practised today, it can thus be seen as a good sign that environmental issues are no longer discussed in public with such intensity as before. But this is not to say that specialists are neglecting these issues – safety experts, for example, are taking increasing account of potential environmental damage in worst-case scenarios.

For further information, please see Munich Re’s environmental magazine “Perspectives” at www.munichre.com.

The answer lies in the soil. Agricultural specialists inspecting crops during a training programme.

Agriculture is one of the favoured areas for genetic engineering. The risks are unclear.

10 _ MARKET VALUE

DOES A REINSURER NEED A HIGH MARKET CAPITALIZATION?

Peter Meybom
Financial Management & Consulting

Market capitalization is an expression of earnings power, financial strength and reputation in the market. All those involved with the company, the so-called “stakeholders”, have a vital interest in it.

Particularly for our clients, therefore, the initial question may be answered with a counter-question: Would I like to be insured with a financial services provider and risk carrier with a weak market capitalization? Certainly not!

Whether policyholder or primary insurer, each client expects us to have the financial strength to cover the risks we have assumed at all times. And the market valuation of our shares is the reflection of this potential.

INVESTING IN MUNICH RE SHARES PAYS!

A comparison of DAX stocks since 1982

__ A long-term investment in Munich Re shares promises an attractive return: over the last 20 years our shares have been the number one among the current DAX stocks. With a total return of nearly 23% p.a. they not only beat the financial stocks in the index but out-performed stocks from other branches as well.

- Munich Re
- Banking group
- Automobile manufacturer
- Producer of electrical and electronic goods
- DAX 30

The state and society are also stakeholders with an interest in healthy companies like Munich Re – partly as a source of tax revenue and partly for their social commitment, reflected in sponsoring, donations and the support of public projects.

Likewise, the employees of the Munich Re Group benefit from a high market capitalization. Earnings power and an excellent reputation mean safe jobs and secure salaries long term.

Last but not least, the special interest of our shareholders and investors in Munich Re is reflected in the best performance among all DAX stocks in the last 20 years.

A notable performance: Munich Re's asset and financial management consulting service.

Munich Re's investment strategy has proved itself, even in the face of markets slumps.

11 _ INVESTMENT STRATEGY

HOW DOES MUNICH RE SAFEGUARD ITS FINANCIAL STRENGTH?

Cornelia Ormoneit
Financial Management & Consulting

Financially strong companies like Munich Re are no strangers to recommendations for greater risk-taking in their investment policy. Usually we politely ignore these and continue to bank on a sensible, earnings-oriented but risk-commensurate approach. In so doing, we give due attention to the security and profitability of our investments and ensure that they harmonize with the liabilities we assume on the underwriting side.

Currency risks, for example, are something we avoid because we do not expect them to produce additional earnings for us. Through the simulation of major loss scenarios, we ensure that sufficient liquidity will be available in the event of large catastrophes, even if the capital markets are affected by these.

How important this financial strength is for reinsurers was illustrated in the days after 11th September: whilst many companies were forced to sell stocks at extremely low prices, we – as capitally strong, long-term

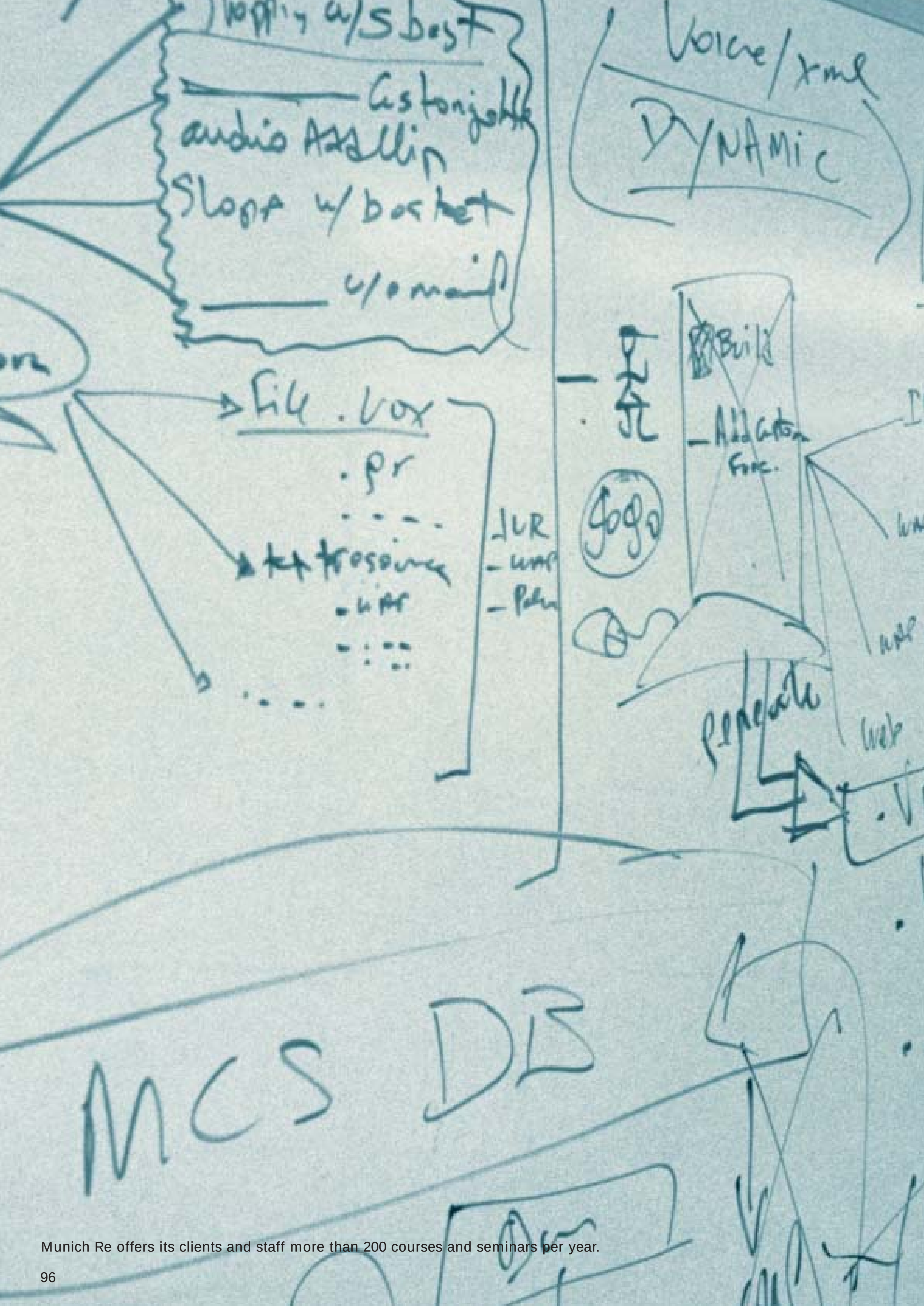
ONLY A HOLISTIC APPROACH LEADS TO SUCCESS WITH INVESTMENTS

Growing expectations on the part of policyholders and shareholders, combined with a globally low yield level and increasingly volatile capital markets, provide big challenges for the asset management of insurance companies. Of great importance for the long-term success of a company's investment strategy is strategic asset allocation, i.e. the appropriate allocation of investments between individual asset classes. It follows that the optimization of this process should have a high priority for insurers.

Professional asset management is also increasingly becoming a key competitive and performance factor for insurers. The interaction of asset and liability management is essential for the optimum management of an insurance company's balance sheet. To achieve sustained optimization of the investment result, the individual processes of asset management therefore need to be closely linked. We consequently offer our clients comprehensive "one-stop" service: our advice on strategic asset allocation, risk management and asset-liability management is combined with the offer of professional investment management by MEAG MUNICH ERGO AssetManagement GmbH.

investors – were able to exploit opportunities to enter the market and to selectively expand positions. The markets have since risen by almost 30%. The fact that we were able to profit from these developments is due both to our strict risk management and to our liquidity planning, which is based on a projection of our future cash flows adjusted daily.

With our asset and financial management service, we also support clients in the sustained optimization of their investment results. Here, too, the strategy we are pursuing is proving successful.



Munich Re offers its clients and staff more than 200 courses and seminars per year.

And there is no better form of knowledge transfer than dialogue.

12 _ STAFF

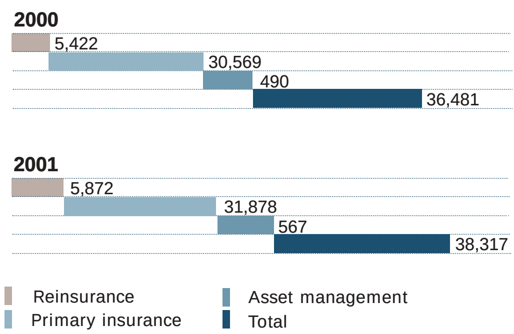
WHAT RESOURCES ARE DECISIVE FOR SECURING MARKET LEADERSHIP?

Annemarie Loichen
Management Development/Training

Financial services are an abstract product. They often involve complicated and complex tasks, as in reinsurance. Munich Re's clients expect superior quality in all questions relating to risk. These expectations must be met by our staff, with their knowledge, their skills, their initiative and their personalities. They are therefore our Group's most crucial and valuable resource. This is reflected in the intensity of Munich Re's efforts to ensure that its staff have the requisite qualifications, in the broadest sense of the word.

Such investments in human resources are the best investments in the future – they are a key element in securing Munich Re's market and opinion leadership.

Growth in the number of staff



13 _ SOCIAL SECURITY

WILL HEALTH INSURANCE BECOME A PRIVILEGE OF THE BETTER-OFF?

Dr. Wolfgang Strassl
Health

“Yes”, is certainly a common answer and, looking at the US with over 40 million citizens lacking health insurance, it is not a totally unjustified fear. Demographic ageing, medical progress, an increase in chronic illnesses – a number of reasons can be given for the internationally rising expenditure in healthcare.

To ensure that the financial consequences of medical care do not prove ruinous for individuals, health insurance distributes the costs incurred by sick persons between all insureds and thus makes broad access to the healthcare system possible.

How access is to be safeguarded for all – whether health insurance should be subsidized as soon as premiums exceed a certain percentage of income, for example – is largely for the politicians to decide. Health insurers, for their part, can curb the rise in costs through cost management, acting in the interests of patients. To sum up: an intelligent interplay of the insurance market and a state cost-distribution system could secure access to the healthcare system for all.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DO WE NEED A NEW SYSTEM OF ACCOUNTING?

!

Management, shareholders, analysts and supervisors need data that are relevant, accurate and up to date. It is very much in a company’s own interests to make its reporting as transparent and speedy as possible. In rapidly changing markets, only those players have a good chance of survival who know where they stand and how their business is shaping.

Accounting and valuation rules have yet to be standardized worldwide. This makes it more difficult to compare the financial statements of international groups of companies. We therefore urgently need globally accepted accounting standards that are

- **compulsory for consolidated and company financial statements;**
- **binding in all countries and for all companies, regardless of their size and legal form;**
- **recognized by major stock exchanges and supervisory authorities.**

Under the aegis of the International Accounting Standards Board, work on such standards is moving forward. Munich Re supports this promising initiative. Not only because of Enron, the principle of prudence should continue to be accorded the importance it deserves, especially in the insurance industry.

Dr. Jörg Schneider, Member of the Board of Management

Consolidated financial statements

Consolidated balance sheet as at 31st December 2001

ASSETS	Notes	€m	€m	€m	Prev. year €m	Change €m	Change %
A. Intangible assets							
I. Goodwill	(1)		4,419		2,625	1,794	68.3
II. Other intangible assets	(2)		1,103		843	260	30.8
				5,522	3,468	2,054	59.2
B. Investments							
I. Real estate	(3)		9,044		8,405	639	7.6
II. Investments in affiliated enterprises and associated enterprises	(4)		12,558		13,538	–980	–7.2
III. Loans	(5)		11,182		9,150	2,032	22.2
IV. Other securities							
1. Held to maturity	(6)	980			1,186	–206	–17.4
2. Available for sale	(7)	111,251			112,756	–1,505	–1.3
3. Held for trading	(8)	412			259	153	59.1
			112,643		114,201	–1,558	–1.4
V. Other investments							
1. Deposits retained on assumed reinsurance	(11)	12,800			12,010	790	6.6
2. Miscellaneous	(9)	3,101			1,523	1,578	>100
			15,901		13,533	2,368	17.5
				161,328	158,827	2,501	1.6
C. Investments for the benefit of life insurance policyholders who bear the investment risk				666	581	85	14.6
D. Ceded share of underwriting provisions	(17–20)			11,994	10,166	1,828	18.0
E. Receivables	(10, 11)			9,713	9,145	568	6.2
F. Cash with banks, cheques and cash in hand				1,866	2,273	–407	–17.9
G. Deferred acquisition costs	(12)			7,286	6,361	925	14.5
H. Deferred tax assets	(13)			2,320	1,925	395	20.5
I. Other assets	(14)			1,359	821	538	65.5
Total assets				202,054	193,567	8,487	4.4

EQUITY AND LIABILITIES	Notes	€m	€m	Prev. year €m	Change	
					€m	%
A. Shareholders' equity	(15)					
I. Issued capital and capital reserve		3,167		3,165	2	0.1
II. Revenue reserves		11,522		9,174	2,348	25.6
III. Other reserves		4,418		9,513	–5,095	–53.6
IV. Consolidated profit		250		1,750	–1,500	–85.7
			19,357	23,602	–4,245	–18.0
B. Minority interests	(16)		990	2,354	–1,364	–57.9
C. Gross underwriting provisions						
I. Unearned premiums	(17)	5,812		5,376	436	8.1
II. Provision for future policy benefits	(18)	89,016		82,944	6,072	7.3
III. Provision for outstanding claims	(19)	39,511		31,248	8,263	26.4
IV. Other underwriting provisions	(20)	15,642		21,541	–5,899	–27.4
			149,981	141,109	8,872	6.3
D. Gross underwriting provisions for life insurance policies where the investment risk is borne by the policyholders			655	583	72	12.3
E. Other accrued liabilities	(21)		2,730	3,061	–331	–10.8
F. Liabilities						
I. Notes and debentures	(22)	2,474		1,793	681	38.0
II. Other liabilities	(23)	22,187		16,237	5,950	36.6
			24,661	18,030	6,631	36.8
G. Deferred tax liabilities	(13)		3,541	4,780	–1,239	–25.9
H. Other deferred items	(24)		139	48	91	189.6
Total equity and liabilities			202,054	193,567	8,487	4.4

Consolidated income statement for the business year 2001

ITEMS	Notes	€m	Prev. year €m	Change €m	Change %
1. Gross premiums written	(25)	36,123	31,113	5,010	16.1
2. Net earned premiums	(25)	31,680	28,129	3,551	12.6
3. Investment result	(26)	10,420	12,166	–1,746	–14.4
4. Other income	(27)	892	501	391	78.0
Total income (2–4)		42,992	40,796	2,196	5.4
5. Net expenses for claims and benefits	(28)	34,162	29,770	4,392	14.8
6. Net operating expenses	(29)	7,758	7,340	418	5.7
7. Other expenses	(30)	1,487	1,071	416	38.8
Total expenses (5–7)		43,407	38,181	5,226	13.7
8. Result before amortization of goodwill		**–415**	**2,615**	**–3,030**	**–115.9**
9. Amortization of goodwill	(1)	230	145	85	58.6
10. Operating result before tax		–645	2,470	–3,115	–126.1
11. Tax	(31)	–1,040	399	–1,439	–360.7
12. Minority interests in earnings	(16)	145	321	–176	–54.8
13. Profit for the year		**250**	**1,750**	**–1,500**	**–85.7**
	Notes	**€**	**Prev. year €**	**€**	**%**
Earnings per share	(41)	1.41	9.89	–8.48	–85.7
Earnings per share, diluted	(41)	1.41	9.84	–8.43	–85.7

Consolidated cash flow statement for the business year 2001

	€m	Prev. year €m
Profit for the year, including minority interests in earnings	**395**	**2,071**
Net change in underwriting provisions	11,733	7,673
Change in deferred acquisition costs	–917	–372
Change in deposits retained and accounts receivable and payable	697	517
Change in other receivables and liabilities	509	–480
Gains and losses on the disposal of investments	–1,765	–4,072
Change in securities held for trading	–161	–72
Change in other balance sheet items	–1,205	–487
Other income/expenses without impact on cash flow	–600	–414
I. Cash flows from operating activities	**8,686**	**4,364**
Change from the acquisition and sale of consolidated enterprises	–196	–910
Change from the acquisition, sale and maturities of other investments	–9,998	–2,542
Change from the acquisition and sale of investments for unit-linked life insurance	–109	–172
Other	–450	–467
II. Cash flows from investing activities	**–10,753**	**–4,091**
Inflows from increases in capital	2	4
Dividend payments	–259	–197
Change from other financing activities	1,924	1,711
III. Cash flows from financing activities	**1,667**	**1,518**
Cash flows for the business year (I + II + III)	**–400**	**1,791**
Effect of exchange rate changes on cash	–7	–5
Cash at the beginning of the business year	2,273	487
Cash at the end of the business year	1,866	2,273
Additional information		
Tax on earnings (net)	91	444
Interest paid	212	215

Our reporting on the Group cash flow is based on IAS 7 and the principles of German Accounting Standard No. 2 (DRS 2) issued by the German Standards Board (DSR) for the presentation of cash flow statements.

This has been supplemented by the requirements of DRS 2-20, which applies specifically to insurance companies.

In deviation from the previous year, only net cash flows are shown. We have adjusted the previous year’s figures accordingly.

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

Segment reporting

ASSETS	Reinsurance			
	Life and health		Property-casualty	
	31.12.2001 €m	Prev. year €m	31.12.2001 €m	Prev. year €m
A. Intangible assets	233	264	2,098	2,182
B. Investments				
I. Real estate	989	808	1,260	1,206
II. Investments in affiliated enterprises and associated enterprises	6,583	4,759	7,181	6,059
III. Loans	77	158	61	165
IV. Other securities				
1. Held to maturity	–	–	–	–
2. Available for sale	12,384	11,459	23,786	22,859
3. Held for trading	48	31	166	137
	12,432	11,490	23,952	22,996
V. Other investments	8,199	7,100	10,227	10,146
	28,280	24,315	42,681	40,572
C. Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–
D. Ceded share of underwriting provisions	2,308	3,090	7,070	4,268
E. Other segment assets	3,977	2,832	7,987	7,113
Total segment assets	**34,798**	**30,501**	**59,836**	**54,135**

The Munich Re Group's segment reporting is based on IAS 14 and the principles of German Accounting Standard No. 3 (DRS 3) issued by the German Standards Board (DSR). This has been supplemented by the requirements of DRS 3-20, which applies specifically to insurance companies.

In accordance with the recommendations of the DSR, we have made the primary segmentation between the fields of business reinsurance, primary insurance (each broken down into life and health and property-casualty) and asset management.

The individual fields of business are shown after consolidation of internal transactions within the individual field of business but before consolidation across segments.

In contrast to the previous year, goodwill has been allocated to the segment of the respective subsidiary.

			Primary insurance	Asset management		Consolidation			Total
	Life and health		Property-casualty						
31.12.2001 €m	Prev. year €m	31.12.2001 €m	Prev. year €m	31.12.2001 €m	Prev. year €m	31.12.2001 €m	Prev. year €m	31.12.2001 €m	Prev. year €m
2,072	419	1,095	461	25	10	–1	132	5,522	3,468
6,039	5,608	724	743	–	–	32	40	9,044	8,405
2,585	2,933	2,869	2,254	97	78	–6,757	–2,545	12,558	13,538
12,016	9,918	494	294	481	282	–1,947	–1,667	11,182	9,150
935	1,153	45	33	–	–	–	–	980	1,186
68,824	72,188	6,242	6,241	15	9	–	–	111,251	112,756
123	47	62	31	13	13	–	–	412	259
69,882	73,388	6,349	6,305	28	22	–	–	112,643	114,201
1,597	615	392	248	336	9	–4,850	–4,585	15,901	13,533
92,119	92,462	10,828	9,844	942	391	–13,522	–8,757	161,328	158,827
666	581	–	–	–	–	–	–	666	581
7,393	6,872	1,550	1,319	–	–	–6,327	–5,383	11,994	10,166
9,452	9,207	2,670	2,318	156	116	–1,698	–1,061	22,544	20,525
111,702	**109,541**	**16,143**	**13,942**	**1,123**	**517**	**–21,548**	**–15,069**	**202,054**	**193,567**

Segment reporting

EQUITY AND LIABILITIES	Reinsurance			
	Life and health		Property-casualty	
	31.12.2001 €m	Prev. year €m	31.12.2001 €m	Prev. year €m
A. Gross underwriting provisions				
I. Unearned premiums	125	68	4,793	3,844
II. Provision for future policy benefits	17,300	17,834	738	694
III. Provision for outstanding claims	2,765	1,874	32,695	25,490
IV. Other underwriting provisions	48	90	1,671	1,348
	20,238	19,866	39,897	31,376
B. Gross underwriting provisions for life insurance policies where the investment risk is borne by the policyholders	–	–	–	–
C. Other accrued liabilities	316	392	795	1,134
D. Other segment liabilities	4,364	2,688	12,180	8,538
Total segment liabilities	**24,918**	**22,946**	**52,872**	**41,048**

Primary insurance				Asset management		Consolidation		Total	
Life and health		Property-casualty							
31.12.2001 €m	Prev. year €m	31.12.2001 €m	Prev. year €m	31.12.2001 €m	Prev. year €m	31.12.2001 €m	Prev. year €m	31.12.2001 €m	Prev. year €m
82	768	975	881	–	–	–163	–185	5,812	5,376
75,790	68,916	65	39	–	–	–4,877	–4,539	89,016	82,944
1,228	1,065	4,096	3,620	–	–	–1,273	–801	39,511	31,248
13,331	19,517	125	113	–	–	467	473	15,642	21,541
90,431	90,266	5,261	4,653	–	–	–5,846	–5,052	149,981	141,109
647	579	–	–	–	–	8	4	655	583
585	538	1,004	983	48	29	–18	–15	2,730	3,061
15,145	14,599	4,280	3,501	798	428	–8,426	–6,896	28,341	22,858
106,808	**105,982**	**10,545**	**9,137**	**846**	**457**	**–14,282**	**–11,959**	**181,707**	**167,611**
							Shareholders' equity*	**20,347**	**25,956**
							Total equity and liabilities	**202,054**	**193,567**

* Group shareholders' equity and minority interests.

Segment reporting

INCOME STATEMENT	Reinsurance			
	Life and health		Property-casualty	
	2001 €m	Prev. year €m	2001 €m	Prev. year €m
1. Gross premiums written	5,900	4,701	16,296	13,624
Thereof:				
– From insurance transactions with other segments	855	820	919	806
– From insurance transactions with external third parties	5,045	3,881	15,377	12,818
2. Net earned premiums	5,376	4,260	13,172	11,717
3. Investment result	2,394	1,684	3,074	2,801
Thereof:				
– Income from associated enterprises	738	404	813	515
4. Other income	135	44	339	150
Total income (2–4)	7,905	5,988	16,585	14,668
5. Net expenses for claims and benefits	5,033	3,643	14,009	10,069
6. Net operating expenses	1,340	1,336	4,020	3,547
7. Other expenses	192	105	583	431
Total expenses (5–7)	6,565	5,084	18,612	14,047
8. Result before amortization of goodwill	**1,340**	**904**	**–2,027**	**621**
9. Amortization of goodwill	3	2	134	130
10. Operating result before tax	1,337	902	–2,161	491
11. Tax	185	43	–962	13
12. Minority interests in earnings	1	2	4	14
13. Profit for the year	**1,151**	**857**	**–1,203**	**464**

Within the framework of a corporate- and trade-tax consolidation agreement, the ERGO Insurance Group concluded profit-transfer agreements with nearly all of its German insurance companies and the ERGO Trust GmbH in the business year 2001. In our segment reporting, expenditure incurred as a result of profit transfer is deemed appropriation of net income. The segments are thus adjusted to eliminate these expenses, the elimination being carried out in the consolidation column.

Primary insurance				Asset management		Consolidation		Total	
Life and health		Property-casualty							
2001 €m	Prev. year €m	2001 €m	Prev. year €m	2001 €m	Prev. year €m	2001 €m	Prev. year €m	2001 €m	Prev. year €m
11,122	10,304	4,593	4,110	–	–	–1,788	–1,626	36,123	31,113
14	–	–	–	–	–	–1,788	–1,626	–	–
11,108	10,304	4,593	4,110	–	–	–	–	36,123	31,113
9,910	9,226	3,238	2,926	–	–	–16	–	31,680	28,129
4,886	7,339	612	881	50	22	–596	–561	10,420	12,166
172	89	61	28	25	15	–	–	1,809	1,051
627	707	552	520	187	122	–948	–1,042	892	501
15,423	17,272	4,402	4,327	237	144	–1,560	–1,603	42,992	40,796
12,978	14,287	2,102	1,776	–	–	40	–5	34,162	29,770
1,187	1,347	1,182	1,070	–	–	29	40	7,758	7,340
982	1,116	839	661	183	125	–1,292	–1,367	1,487	1,071
15,147	16,750	4,123	3,507	183	125	–1,223	–1,332	43,407	38,181
276	**522**	**279**	**820**	**54**	**19**	**–337**	**–271**	**–415**	**2,615**
45	1	47	6	1	–	–	6	230	145
231	521	232	814	53	19	–337	–277	–645	2,470
–253	70	–21	265	11	6	–	2	–1,040	399
75	170	101	206	5	4	–41	–75	145	321
409	**281**	**152**	**343**	**37**	**9**	**–296**	**–204**	**250**	**1,750**

Segment reporting

INVESTMENTS	Reinsurers		Primary insurers		Asset management		Total	
	31.12.2001 €m	Prev. year €m	31.12.2001 €m	Prev. year €m	31.12.2001 €m	Prev. year €m	31.12.2001 €m	Prev. year €m
Europe	39,486	40,557	97,169	98,577	405	33	137,060	139,167
North America	19,378	16,357	2,199	1,094	64	246	21,641	17,697
Asia and Australasia	1,589	1,375	435	426	3	–	2,027	1,801
Africa, Near and Middle East	487	480	78	49	–	–	565	529
Latin America	621	187	72	27	8	–	701	214
Total	61,561	58,956	99,953	100,173	480	279	161,994	159,408

Secondary segmentation is based on the geographical origin of our investments and gross premiums written.

GROSS PREMIUMS WRITTEN*	Reinsurers		Primary insurers		Total	
	2001 €m	Prev. year €m	2001 €m	Prev. year €m	2001 €m	Prev. year €m
Europe						
Germany	3,767	3,840	12,573	12,274	16,340	16,114
France	379	301	38	30	417	331
UK	3,571	2,057	192	150	3,763	2,207
Italy	653	697	764	159	1,417	856
Netherlands	383	341	436	396	819	737
Others	1,903	1,588	1,473	1,244	3,376	2,832
	10,656	8,824	15,476	14,253	26,132	23,077
North America						
USA	5,865	4,676	146	107	6,011	4,783
Canada	950	811	2	2	952	813
	6,815	5,487	148	109	6,963	5,596
Asia and Australasia						
Japan	395	361	2	2	397	363
Australia	394	346	2	5	396	351
Taiwan	176	155	1	1	177	156
Others	486	362	23	13	509	375
	1,451	1,224	28	21	1,479	1,245
Africa, Near and Middle East						
South Africa	160	200	35	17	195	217
Israel	363	285	–	1	363	286
Others	235	222	7	5	242	227
	758	707	42	23	800	730
Latin America						
Mexico	299	164	1	–	300	164
Colombia	60	39	1	–	61	39
Others	383	254	5	8	388	262
	742	457	7	8	749	465
Total	20,422	16,699	15,701	14,414	36,123	31,113

* After elimination of intra-Group reinsurance across segments.
Presentation of the figures in the management report differs from this (cf. note on page 25).

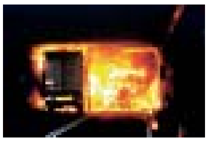
Notes to the consolidated financial statements

Application of International Accounting Standards (IAS)

Munich Re's consolidated financial statements have been prepared in accordance with the standards of the International Accounting Standards Board (IASB) as "exempting" consolidated financial statements in line with Section 292a of the German Commercial Code. The financial statements comply with the EU directives to which we are subject and are equivalent to financial statements prepared in accordance with the German Commercial Code in terms of their informative value.

IAS currently do not contain any standards governing the accounting and valuation of transactions specific to the insurance industry; the relevant items are therefore accounted for and valued in accordance with US GAAP (Generally Accepted Accounting Principles for the United States).

The consolidated financial statements have been prepared in accordance with International Accounting Standards adopted up to and including 31st December 2001 whose application was obligatory for the business year. In addition, we have observed the standards adopted by the DRSC (German Accounting Standards Committee) up to our balance sheet date.



Closed. The Swiss Gotthard Tunnel is used by around 18,700 vehicles daily. A fire breaks out after a collision between two lorries. Eleven people die. The tunnel is closed and only reopened for cars two months later. **24th October 2001**

Main differences between IAS and German Commercial Code

Exemption from consolidated accounting pursuant to commercial law, in accordance with Section 292a of the German Commercial Code, requires a description of the main differences between IAS and German Commercial Code accounting, valuation and consolidation methods.

Shareholders' equity is substantially higher under IAS than under German Commercial Code accounting because large portions of the investment portfolio are valued at market; results fluctuate more strongly than under German Commercial Code accounting, because there are no claims equalization provisions to provide a "smoothing" effect. The most important differences between IAS and the German Commercial Code as regards the Munich Re Group are as follows:

- Under IAS, goodwill is amortized over a maximum period of 20 years with impact on earnings; in German Commercial Code accounting, there is the option to offset goodwill against the revenue reserves without impacting earnings.

- A large portion of the investments are valued at market under IAS; under the German Commercial Code they are valued at the lower of cost or market.

- The group of associated enterprises valued at equity is considerably larger in IAS financial statements, because it is no longer relevant whether a significant influence is actually exercised or not. The consolidated profit includes a corresponding portion of the net profit of the enterprises concerned rather than only the dividend distributions.

- As is internationally customary, the ceded share of underwriting provisions is shown on the assets side of the balance sheet.

- The provisions for future policy benefits are higher because, unlike in German Commercial Code accounting, there is no zillmerization, but capitalization of the acquisition costs.

- The provision for premium refunds is markedly higher than under the German Commercial Code because it also includes the deferred entitlements of policyholders in life and health insurance from the accumulated result differences between IAS and German Commercial Code and their share of unrealized gains and losses in the investments available for sale.

- The provision for outstanding claims is lower under IAS, because the actuarial calculations on the basis of partial portfolios generally result in a smaller requirement than the individual valuation of all claims based on the prudence concept, which the German Commercial Code prescribes.

- Claims equalization provisions as under the German Commercial Code do not constitute liabilities to third parties and are thus not admissible under IAS; they therefore have to be reversed.

- Pension provisions that are valued in accordance with IAS are higher, because this calculation must also take into account the expected increase in wages and salaries, as well as pension entitlements and current pension payments.

- Premiums tend to be lower under IAS. In the case of products which are mainly of an investment character (e.g. financing treaties, unit-linked life insurance) only that portion of the premium used to cover the risk insured and associated costs is treated as premium income. In IAS financial statements there are no “premiums from the provision for policyholders’ dividends”.

- Writedowns on investments are lower than under German Commercial Code accounting, because they may only be recognized if the diminution in value is likely to be permanent.

Previous year’s figures

We have calculated the previous year’s figures on the same basis as the figures for the business year 2001.

Consolidation

Consolidated group
In accordance with IAS 27, the consolidated financial statements include the Munich Reinsurance Company (the parent company) and all the enterprises in which Munich Re owns, directly or indirectly, the majority of the voting shares or over which it has the factual ability to exercise control (subsidiaries). The only exceptions are subsidiaries which are determined as being not material for assessing the Group’s financial position; insurance and reinsurance companies are consolidated regardless of their size. An overview of the group of consolidated companies and other important shareholdings is provided in Section 08 (pages 162–164).

Consolidated subsidiaries*	**Germany**	**Other countries**	**Total**
31.12.2000	93	143	236
Additions	15	19	34
Reductions	37	7	44
31.12.2001	71	155	226

* Excluding special funds

In the business year the Munich Re Group acquired a further 24.65% of the ERGO Insurance Group at a price of €3,363m. In addition, ERGO Insurance Group acquired shares in insurance companies mainly in Eastern Europe for a total price of €83.2m. Apart from this, there were no significant changes in the group of consolidated companies.

The effects of the additionally acquired shares in ERGO AG on the consolidated financial statements may be seen from the following overview:

	Effects on the consolidated financial statements 2001					
	Date of first consolidation	Profit for the year	Goodwill[1]	Amortization of goodwill	Fair value of acquired life insurance portfolios	Amortized fair value of acquired life insurance portfolios
ERGO AG	1.7.2001	126	1,687	42	321	3

[1] At the date of first consolidation.

The changes among our non-consolidated subsidiaries in the business year were as follows:

Non-consolidated subsidiaries	**Germany**	**Other countries**	**Total**
31.12.2000	111	80	191
Additions	58	7	65
Reductions	44	9	53
31.12.2001	125	78	203

The aggregate shareholders' equity of the non-consolidated subsidiaries amounted to less than 0.7% (0.9%) of the Group's shareholders' equity at 31st December 2001, and their aggregate annual result to 0.1% (0.2%) of the consolidated profit for the year. The enterprises involved are mainly service and management companies.

Consolidation principles

The balance sheet date of the consolidated companies is generally 31st December. Some of the special funds have other balance sheet dates. These funds are consolidated on the basis of interim accounts as at 31st December.

We generally consolidate subsidiaries as soon as the Group holds the majority of the voting shares or has the factual ability to exercise control. In order to determine the equity capital at the time of acquisition, we include the assets and liabilities of the subsidiary according to uniform Group accounting and valuation methods. The equity capital apportionable to the Group is netted against the acquisition costs of the shares (purchase accounting). Any residual amount is capitalized as goodwill and amortized on a straight-line basis.

The profits earned by the subsidiaries after their first consolidation are included in the Group's revenue reserves unless they are apportionable to minority interests.

Minority interests are shown separately in the balance sheet and the income statement. They represent the amounts apportionable to other shareholders outside the Group from the shareholders' equity and profits for the year of the subsidiaries concerned.

Amounts relating to intra-Group transactions (receivables and liabilities, expenses and income between consolidated companies) are eliminated unless they are determined as being not material.

Revival. The Concorde takes off again after its long suspension from service following the crash near Paris in July 2000. Scheduled flights resume in mid-November.
7th November 2001

Associated enterprises
In accordance with IAS 28, associated enterprises are all enterprises which are not subsidiaries and in which Group companies hold between 20% and 50% of the voting rights – regardless of whether a significant influence is actually exercised on the financial and operating decisions of the enterprise.

Enterprises valued at equity	Germany	Other countries	Total
31.12.2000	32	34	66
Additions	2	7	9
Reductions	2	3	5
31.12.2001	32	38	70

Other associated enterprises	Germany	Other countries	Total
31.12.2000	31	20	51
Additions	10	14	24
Reductions	15	10	25
31.12.2001	26	24	50

Accounting and valuation

The annual financial statements of the consolidated subsidiaries are subject to uniform accounting and valuation principles. Valuations used in the financial statements of non-significant associated companies are maintained.

The application of the accounting, valuation and disclosure methods follows the principle that a method once chosen should be applied consistently. Effects of any changes in accounting and valuation methods are generally recognized in the income statement.

Assets

A Intangible assets

Goodwill resulting from the first-time consolidation of subsidiaries is amortized on a straight-line basis over its useful life – up to 20 years (IAS 22).

Other intangible assets mainly comprise purchased and internally generated software, and purchased insurance portfolios. The valuation basis is the original cost less straight-line depreciation. The useful life assumed for software is three to five years and for insurance portfolios up to 15 years.

In addition, **other intangible assets** include the fair values of acquired life insurance portfolios (PVFP: present value of future profits). These are amortized in accordance with the realization of the profits underlying the PVFP calculation.

B Investments

Real estate is carried at cost. Maintenance expenses and repairs are recognized as an expense. Subsequent expenditure that increases the value of real estate is capitalized if it extends the useful life. The capitalized costs of buildings are amortized over 100 years at most, in accordance with their useful lives. If the recoverable amount of land and buildings falls below its carrying amount and the diminution in value is likely to be permanent, the carrying amount is reduced to the recoverable amount. Any impairment loss is recognized as an investment expense in the income statement, and any increases in value as investment income.

Investments in affiliated enterprises that we do not consolidate because they are not material are carried at their fair values. If the shares are listed on a stock exchange, we use the share prices at the balance sheet date; for other shares, the fair value is the net asset value based on the German Association of Financial Analysts (DVFA) method or – in the case of new acquisitions – the acquisition cost.

Investments in associated enterprises are valued by the equity method at the Group's proportionate share of their net assets; as a rule, the most recent individual or consolidated financial statements of the associated enterprise are used for this. The earnings of an associated enterprise apportionable to the Group are included in the investment result. Investments in associated enterprises that are determined as being not material for assessing the Group's financial position are valued at acquisition cost.

Loans are stated at amortized cost. Writedowns for impairments are made in cases where the repayment of a loan can no longer be expected.

Fixed-interest securities held to maturity are – like loans – stated at amortized cost. The main investments shown here are registered bonds and promissory notes.

Securities available for sale are stated at market value. Unrealized gains or losses are not included in the income statement; rather, after deduction of deferred taxes and the amounts apportionable to policyholders by the life and health insurers on realization, they are reflected in shareholders' equity. This item also includes registered bonds and promissory notes.

Securities held for trading comprise all fixed-interest and non-fixed-interest securities that we have acquired for trading purposes to earn short-term profits from price changes and differences; in addition, they include all derivative financial instruments that we have not acquired for hedging purposes. Securities held for trading are stated at the market value at the balance sheet date; all unrealized gains or losses from this valuation are included in the investment result.

Writedowns are made on all securities that are not investments held for trading if they suffer an impairment in value that is not temporary. These writedowns are recognized in the income statement.

Deposits retained on assumed reinsurance are claims which the reinsurers have on their clients for cash deposits that have been retained under the terms of reinsurance agreements; they are accounted for at face value.

Other investments are also stated at face value.

C Investments for the benefit of life insurance policyholders who bear the investment risk

These are mainly investments for policyholders under unit-linked life insurances. They are accounted for at market value; unrealized gains and losses are matched by corresponding changes in the underwriting provisions (equity and liabilities item D).

D Ceded share of underwriting provisions

The share of underwriting provisions for business ceded by us is determined from the gross underwriting provisions in accordance with the terms of the reinsurance agreements; cf. the notes to the corresponding liabilities items.

E Receivables

Receivables on primary insurance business, accounts receivable on reinsurance and other receivables are stated at face value; adjustments of value are made where necessary.

F Cash with banks, cheques and cash in hand

Cash and cheques are shown at their face value.

G Deferred acquisition costs

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance policies.

In life reinsurance, the deferred acquisition costs are capitalized and amortized over the term of the policies either proportionally to the premium income (FAS 60) or proportionally to the expected profits (FAS 97). In other reinsurance and in property-casualty insurance, the deferred acquisition costs are amortized on a straight-line basis over the average term of the policies, from one to five years.

In life insurance, the deferred acquisition costs are also capitalized and amortized over the terms of the policies; the amount of amortization depends on the gross margins of the respective products calculated for the relevant year of the policy term.

Superstars. American and British stars give a gala benefit concert at Madison Square Garden to honour the heroes of New York.
21st November 2001

The acquisition costs in health insurance are amortized proportionally to the premium income over the total average policy term. The amortization amount is determined on the basis of the assumptions used for calculating the provision for future policy benefits.

H Deferred tax assets
Under IAS 12, deferred tax assets must be accounted for in cases where asset items have to be valued lower, or liabilities items higher, in the consolidated balance sheet than in the tax balance sheet of the Group company concerned and these differences are temporary. We take into account the tax rates of the countries concerned and the company's respective tax situation; in some cases, for purposes of simplification, we use uniform tax rates for individual circumstances or subsidiaries.

Where unrealized losses on securities available for sale are reflected in shareholders' equity (see above), the resulting deferred tax assets are recorded but excluded from earnings.

At each balance sheet date we review the carrying amount of the deferred tax assets. If it is no longer probable that the deferred tax asset will be realized in the future, the carrying amount is reduced.

I Other assets
Other assets are stated at cost less any writedowns that are required.

Equity and liabilities

A Shareholders' equity
The item **issued capital and capital reserve** contains the amounts that the shareholders of the parent company have paid in on shares. Under **revenue reserves**, we show the profits which consolidated companies have earned and retained since becoming a member of the Munich Re Group, and income and expenses resulting from consolidation measures. Unrealized gains and losses resulting from the market valuation of investments are included in the **other reserves.**

In accordance with SIC 16, **own shares** held by Munich Re at the balance sheet date have been deducted directly from shareholders' equity.

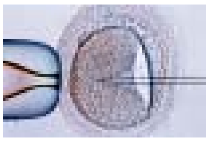
B Minority interests
This item contains the shares of third parties in the shareholders' equity of subsidiaries that are not wholly owned directly or indirectly by the parent company.

C Gross underwriting provisions

The underwriting provisions are shown gross in our balance sheet, i.e. without deduction of the share apportionable to business ceded by us; cf. the explanatory remarks on the relevant assets item. The ceded share is calculated and accounted for on the basis of the individual reinsurance agreements.

Unearned premiums are accrued premiums already written for future risk periods. For primary insurance, these premiums are calculated separately for each insurance policy pro rata temporis; for reinsurance, nominal percentages are used in some cases where the data for a calculation pro rata temporis is not available.

The **provision for future policy benefits** covers the anticipated future benefits payable to policyholders in life, health and personal accident insurance and also the ageing reserves in health insurance.



Cloned. US researchers succeed in growing human embryos, intended as a source of embryonic stem cells. **26th November 2001**

Provisions for future policy benefits are generally calculated using actuarial methods from the present value of the future benefits payable to policyholders and from the present value of the premiums still to be paid by the policyholders; the calculation is based in particular on assumptions relating to mortality, morbidity and interest rate development.

If policyholders participate in aggregate divisible surplus in the same proportion as their policies are considered to have contributed to this surplus (“contribution principle”), the provision for future policy benefits is calculated with reference to the contractually agreed calculation bases (FAS 120); as these are prudent assumptions, surpluses regularly accrue, which are for the most part distributed to policyholders. The acquisition costs are capitalized and amortized over the terms of the policies (on the basis of the estimated surpluses).

Offspring. Japan celebrates the birth of a daughter to the heirs to the throne. Although this has not provided them with a male heir, it could secure the continuation of the Japanese imperial dynasty. **1st December 2001**

If policyholders participate in surplus, but not by way of the contribution principle, or they are promised fixed benefits without participation in surplus, then safety loadings are included in the calculation of the provision for future policy benefits that are based on the circumstances at the conclusion of the policy (FAS 60). Here, too, the acquisition costs are capitalized and amortized over the terms of the policies (on the basis of the premium income).

In the case of life insurance policies where policyholders bear the investment risk themselves (e.g. unit-linked life insurance), the provision for future policy benefits reflects the market values of the relevant investments (FAS 97); this provision is shown separately (item D).

If policyholders can vary their premium payments within certain contractually specified limits (universal life), the amount included in the provision for future policy benefits corresponds to the premiums paid plus the interest credited thereon (FAS 97).

The **provision for outstanding claims** covers payment obligations arising from insurance and reinsurance contracts where the size of the claim or the date of the payment is still uncertain. Such provisions are posted for claims that have been reported, for claims incurred but not yet reported, and for internal and external claims adjustment expenses. Provisions for outstanding claims are based on estimates; the actual payments may be higher or lower.

Enron. The US energy trading corporation files voluntary petitions for Chapter 11 reorganization, which could lead to the biggest case of insolvency in US history. To the dismay of banks and other creditors, instances of catastrophic negligence and fraud come to light worldwide, such as financial manipulations through non-disclosure of billion-dollar liabilities in the balance sheet. **15th December 2001**

This applies particularly in reinsurance, where a considerable time may elapse between the occurrence of an insured loss, its reporting by the primary insurer and payment of the reinsurer's share. The amounts posted are the realistically estimated future amounts to be paid; they are calculated on the basis of past experience and assumptions about future developments (e.g. social, economic or technological parameters) and partly using actuarial methods. The future payment obligations are generally not discounted; exceptions are some actuarially calculated provisions for annuities in motor, personal accident and liability insurance.

Other underwriting provisions include the provisions for premium refunds.

Provisions for premium refunds are made for obligations involving bonuses and rebates in life and health insurance that are not yet payable at the balance sheet date; the amount posted is based on supervisory or contractual regulations. The item "other underwriting provisions" also includes amounts apportionable to policyholders from the accumulated valuation differences between IAS and German Commercial Code (provision for deferred premium refunds).

Provisions for anticipated losses are posted if the future premiums and proportional investment income in a portfolio will probably not be sufficient to cover the expected claims and costs.

D Gross underwriting provisions for life insurance policies where the investment risk is borne by the policyholders

Please see the remarks on assets item C and on the provisions for future policy benefits.

E Other accrued liabilities

These primarily include **provisions for post-employment benefits**. The companies in the Munich Re Group generally give commitments to their employees in the form of defined contribution plans or defined benefit plans. The type and amount of the pension obligations are determined by the conditions of the respective pension plan. In general, they are based on the length of service and salary of the staff member.

Under defined contribution plans the company pays fixed contributions to an insurer or a pension fund. This fully covers the company's obligations.

Under defined benefit plans the staff member is promised a particular level of retirement benefit either by the company or by a pension fund. The company's contributions needed to finance this are not fixed in advance.

Pension obligations are valued in accordance with IAS 19 (Employee Benefits) using the projected unit credit method and based on actuarial studies. The valuation includes not only the pension entitlements and current pensions known on the balance sheet date but also their expected future development. The interest rate at which the pension obligations are discounted is based on the yields for long-term high-quality bonds (e.g. government bonds).

Euro. Twelve European countries, including Germany, say goodbye to their national currencies. From 1st January 2002 they are replaced by euro coins and notes. **31st December 2001**

Welcome to the club! The global population has increased by another 78 million people this year. By 2025 it is expected to number some eight billion. **31st December 2001**

The consolidated companies used the following actuarial assumptions (weighted average values) for calculating their pension obligations:

All figures in %	31.12.2001	Prev. year
Discount rate	6.2	6.5
Expected rate of return on funds assets	9.9	9.8
Future increases in entitlement/salary	4.1	4.0
Future pension increases	2.3	2.4

Actuarial gains or losses from pension obligations and plan assets result from the deviation of actual risk experience from estimated risk experience. They are recognized by means of the corridor method laid down in IAS 19. According to this, actuarial gains or losses are recognized in the income statement if they exceed 10% of the present value of the vested benefits at the beginning of the business year.

Provisions for taxes are posted – without discounting – in accordance with the probable tax payments for the year under review or previous years.

Other provisions are posted in the amount of the probable requirement; such amounts are not discounted.

F Liabilities

The liabilities shown under this item – notes and debentures, accounts payable, deposits retained on ceded business and other liabilities – are stated at the settlement value.

G Deferred tax liabilities

Under IAS 12, deferred tax liabilities must be accounted for if asset items have to be valued higher, or liabilities items lower, in the consolidated balance sheet than in the tax balance sheet of the reporting company and if this difference is temporary; cf. the remarks on the corresponding assets item.

Foreign currency translation

Munich Re's reporting currency is the euro. The balance sheets of foreign subsidiaries that do not report in euros are translated using the year-end exchange rates, and their income statements using the annual average exchange rates; any translation differences arising in the process are reflected in shareholders' equity and excluded from earnings.

Group companies that write a significant portion of their business in foreign currency generally safeguard themselves against exchange losses by attempting to match assets and liabilities in the same currency. Where exchange gains or losses occur nevertheless in the translation of the balance sheet currencies of the consolidated companies, they are accounted for under "other income" and "other expenses" respectively.

Prospects. Europe's largest satellite, Envisat, will orbit the earth once every 100 minutes from the beginning of 2002. It is expected to help provide more precise forecasts on climate development, volcanic eruptions and earthquakes.
31st December 2001

The following table shows the exchange rates of the most important currencies for our business (exchange rate for €1 in each case):

	Balance sheet		Income statement	
	31.12.2001	Prev. year	2001	Prev. year
Australian dollar	1.73040	1.68970	1.73170	1.58884
Canadian dollar	1.40800	1.41020	1.38644	1.37123
Pound sterling	0.60880	0.62850	0.62171	0.60936
Rand	10.55960	7.10710	7.69710	6.39340
Swiss franc	1.48030	1.52140	1.51050	1.55780
US dollar	0.88180	0.93890	0.89545	0.92400
Yen	115.6920	107.217	108.7110	99.5370

Notes to the consolidated balance sheet – assets

(1) Goodwill

All figures in €m	2001	2000
Gross amount capitalized at 31.12. previous year	3,105	2,477
Accumulated amortization at 31.12. previous year	480	335
Carrying amount at 31.12. previous year	2,625	2,142
Translation differences	157	138
Carrying amount at 1.1. business year	2,782	2,280
Additions	1,880	501
Disposals	13	11
Amortization	230	145
Carrying amount at 31.12. business year	4,419	2,625
Accumulated amortization at 31.12. business year	710	480
Gross amount capitalized at 31.12. business year	5,129	3,105

The goodwill results mainly from the acquisition of American Re in November 1996 and from the acquisition of the additional shares in the ERGO Insurance Group in 2001.

(2) Other intangible assets

All figures in €m	Software	Purchased insurance portfolios	Other	2001	2000
Gross amount capitalized at 31.12. previous year	311	695	138	1,144	476
Accumulated depreciation at 31.12. previous year	197	38	66	301	207
Carrying amount at 31.12. previous year	114	657	72	843	269
Translation differences	–	16	1	17	1
Carrying amount at 1.1. business year	114	673	73	860	270
Changes in the consolidated group	1	–	–	1	267
Additions	132	321	51	504	437
Disposals	10	–	12	22	28
Depreciation – Amortization	57	35	33	125	102
– Writedowns for impairments	–	–	–	–	1
Other movements	–	–115	–	–115	–
Carrying amount at 31.12. business year	180	844	79	1,103	843
Accumulated depreciation at 31.12. business year	242	73	91	406	301
Gross amount capitalized at 31.12. business year	422	917	170	1,509	1,144

The figures shown under purchased insurance portfolios mainly comprise the actuarial value of the life insurance portfolios consolidated as a result of the acquisition of Bayerische Vita and CNA Financial Corporation’s life reinsurance business, totalling around €350m; the “other movements” result mainly from the application of the purchase accounting method to the CNA portfolio. The addition amounting to €321m derives from the acquisition of additional shares in the ERGO Insurance Group in July 2001.

The remaining other intangible assets include rights equivalent to real property amounting to €5m (5m).

Depreciation of software is apportioned in the income statement between the investment result, expenses for claims and benefits, and operating expenses. Amortization of purchased insurance portfolios is shown under “other expenses”.

Assets pledged as security for liabilities and restrictions on title under “other intangible assets” amount to €1m (0m).

(3) Real estate

All figures in €m	2001	2000
Gross amount capitalized at 31.12. previous year	9,583	7,995
Accumulated depreciation at 31.12. previous year	1,178	1,094
Carrying amount at 31.12. previous year	8,405	6,901
Translation differences	17	7
Carrying amount at 1.1. business year	8,422	6,908
Changes in consolidated group	40	121
Additions	1,016	1,533
Disposals	245	70
Write-ups	5	7
Depreciation – Amortization	87	75
– Writedowns for impairments	107	19
Carrying amount at 31.12. business year	9,044	8,405
Accumulated depreciation at 31.12. business year	1,361	1,178
Gross amount capitalized at 31.12. business year	10,405	9,583

Land and buildings used by Group companies for their own activities are valued at €1,955m (1,808m).

Proteomics. Most processes of life are carried out by complexes of several proteins, which form the proteome. Heidelberg scientists achieve a breakthrough in proteome research after analysing the interaction pattern of 589 proteins. **10th January 2002**

The additions in the business year include €346m from the application of the purchase accounting method to the additional shares acquired in the ERGO Insurance Group.

Real estate pledged as security and other restrictions on title amount to €214m (193m). The expenses for investments under construction total €36m (66m) at the balance sheet date. Commitments to acquire real estate amount to €367m (141m).

The fair value of real estate at the balance sheet date totals €11,124m (10,508m). The fair value is generally the capitalized earnings value; new buildings and freshly purchased real estate are valued at cost.

(4) Investments in affiliated enterprises and associated enterprises

All figures in €m	31.12.2001	Prev. year
Affiliated enterprises	303	311
Associated enterprises	12,255	13,227
Total	12,558	13,538

The fair value of investments in associated enterprises, which are mostly valued at equity, amounts to €26,548m (33,004m) at the balance sheet date.

An overview of our most important shareholdings can be found in Section 08 (pages 162–164).

(5) Loans

All figures in €m	Carrying amounts 31.12.2001	Prev. year
Mortgage loans	6,643	6,659
Loans and advance payments on insurance policies	637	607
Other loans	3,902	1,884
Total	11,182	9,150

In the business year the market values of the loans generally corresponded to the carrying amounts. The "other loans" include loans to affiliated enterprises totalling €44m (199m) and loans to associated enterprises totalling €675m (483m).

Contractual period to maturity

All figures in €m	Carrying amounts 31.12.2001	Prev. year
Up to one year	706	943
Over one year and up to 5 years	2,951	3,541
Over 5 years and up to 10 years	4,583	4,080
Over 10 years	2,942	586
Total	11,182	9,150

(6) Other securities, held to maturity

Issuers

	Carrying amounts		Market values	
All figures in €m	31.12.2001	Prev. year	31.12.2001	Prev. year
Government bonds – Germany	162	–	168	–
– Rest of EU	15	15	15	15
– Others	2	–	2	–
Corporate bonds	693	801	718	823
Others	108	370	108	375
Total	980	1,186	1,011	1,213

Contractual period to maturity

	Carrying amounts		Market values	
All figures in €m	31.12.2001	Prev. year	31.12.2001	Prev. year
Up to one year	94	205	127	206
Over one year and up to 5 years	554	498	550	518
Over 5 years and up to 10 years	291	395	293	406
More than 10 years	41	88	41	83
Total	980	1,186	1,011	1,213

Rating on market-value basis

All figures in €m	31.12.2001
AAA	22
AA	154
A	408
BBB and lower	0
No rating	427
Total	1,011

The rating categories are based on the gradings of the leading international rating agencies.

(7) Other securities, available for sale

All figures in €m	Carrying amounts 31.12.2001	Carrying amounts Prev. year	Unrealized gains/losses 31.12.2001	Unrealized gains/losses Prev. year	Amortized cost 31.12.2001	Amortized cost Prev. year
Fixed-interest securities						
– Government bonds						
– Germany	5,174	5,168	41	79	5,133	5,089
– Rest of EU	9,367	9,279	69	121	9,298	9,158
– USA	2,255	3,430	42	55	2,213	3,375
– Others	3,313	2,849	92	97	3,221	2,752
– Corporate bonds	33,564	38,473	649	909	32,915	37,564
– Others	23,761	12,850	529	342	23,232	12,508
	77,434	72,049	1,422	1,603	76,012	70,446
Non-fixed-interest securities						
– Shares	31,045	34,326	2,095	10,787	28,950	23,539
– Investment funds						
– Equity funds	1,288	1,304	81	270	1,207	1,034
– Bond funds	710	600	14	32	696	568
– Real estate funds	317	285	–8	–13	325	298
– Others	457	4,192	9	326	448	3,866
	33,817	40,707	2,191	11,402	31,626	29,305
Total	111,251	112,756	3,613	13,005	107,638	99,751

Valuation at market value results in valuation reserves of €3,613m (13,005m) in comparison with amortized costs. After deduction of provisions for deferred premium refunds, deferred taxes and minority interests, we have allocated unrealized gains and losses of €1,756m (4,979m) to shareholders' equity.

Disposal proceeds in the business year were as follows:

All figures in €m	2001	Prev. year
Fixed-interest securities	33,073	23,811
Non-fixed-interest securities		
– Listed	14,303	15,627
– Non-listed	905	1,295
Total	48,281	40,733

Realized gains and losses

All figures in €m	2001	Prev. year
Gains on disposal	4,258	6,274
– Fixed-interest securities	796	327
– Non-fixed-interest securities	3,462	5,947
Losses on disposal	2,301	2,037
– Fixed-interest securities	228	363
– Non-fixed-interest securities	2,073	1,674
Total	1,957	4,237

Contractual period to maturity of fixed-interest securities

All figures in €m	Carrying amounts 31.12.2001	Carrying amounts Prev. year	Amortized cost 31.12.2001	Amortized cost Prev. year
Up to one year	5,457	6,155	5,404	6,152
Over one year and up to 5 years	35,737	32,712	35,223	31,722
Over 5 years and up to 10 years	25,558	25,416	24,891	24,970
Over 10 years	10,682	7,766	10,494	7,602
Total	77,434	72,049	76,012	70,446

Rating of fixed-interest securities on market-value basis

All figures in €m	31.12.2001	Prev. year
AAA	45,478	47,684
AA	17,792	14,178
A	6,736	5,400
BBB	2,523	627
Lower	255	160
No rating	4,650	4,000
Total	77,434	72,049

(8) Other securities, held for trading

The securities held for trading include fixed-interest securities totalling €155m (137m) and non-fixed-interest securities and derivatives totalling €257m (122m).

Derivative financial instruments

Derivative financial instruments (derivatives) are financial instruments whose market value is derived from one or more underlying assets.

A distinction is made between "over-the-counter" (OTC) products and standardized transactions concluded on the stock exchange.

Derivatives are used at the individual Group companies within the framework of individual supervisory regulations and additional company directives. They are used to optimize investment earnings, with the main focus being on hedging investment portfolios against unfavourable market developments.

The risk of default is practically non-existent in the case of products traded on the stock exchange. Over-the-counter products, on the other hand, harbour a theoretical risk in the amount of the replacement costs. Therefore, in the Munich Re Group, only top-quality counterparties are selected for such transactions.

Altogether, the volume of the transactions concluded in the period under review and of the open positions at the balance sheet date was negligible in relation to the balance sheet total. The fair value of open positions at 31st December 2001 totalled €675m (497m), i.e. less than 1% (1%) of the balance sheet total. The fair value of items used for hedging purposes amounted to €458m and the fair value of trading items to €217m.

The fair values shown in the following table are either listed prices or values at the balance sheet date determined using mathematical models.

All figures in €m	Open positions – Period to maturity: Up to 3 months	3–6 months	6–12 months	1–5 years	Over 5 years	Total
OTC products	Fair values					
Cross-currency transactions						
– Forwards	70	–	–	–	–	70
– Swaps	147	–10	–	–12	–	125
Interest-rate transactions						
– Swaps	–	–	–	4	–2	2
Equity/index transactions						
– Options	–	60	–	–	–	60
– Other	285	–	–	8	–	293
	502	50	–	–	–2	550
Exchange traded						
Cross-currency transactions						
– Futures	2	–	–	–	–	2
Equity/index transactions						
– Futures	29	–	–	–	–	29
– Options	3	26	8	6	–	43
– Other	0	–	–	4	47	51
	34	26	8	10	47	125
Total	536	76	8	10	45	675

The following table shows the notional principal amounts, broken down by product type and period to maturity:

All figures in €m	Open positions – Period to maturity: Up to 3 months	3–6 months	6–12 months	1–5 years	Over 5 years	Total
OTC products	Nominal values					
Cross-currency transactions						
– Forwards	278	–	–	–	–	278
– Swaps	144	31	–	31	–	206
Interest-rate transactions						
– Swaps	–	–	–	1,452	368	1,820
Equity/index transactions						
– Options	–	335	–	–	–	335
– Other	128	–	–	–	–	128
	550	366	–	1,483	368	2,767
Exchange traded						
Cross-currency transactions						
– Futures	2	–	–	–	–	2
Equity/index transactions						
– Futures	28	–	–	–	–	28
– Options	242	286	1,309	283	–	2,120
– Other	40	–	–	215	1,689	1,944
	312	286	1,309	498	1,689	4,094
Total	862	652	1,309	1,981	2,057	6,861

The products used for hedging can be divided into cash flow hedges and fair value hedges.

Cash flow hedges are used to reduce the risk of fluctuations in future payments, e.g. those expected from planned transactions. The use of cash flow hedges within the Group is mainly concentrated on the management of interest-rate and currency risks. The fair value of these derivatives at the balance sheet date amounted to €464m.

The following table gives the periods to maturity of **cash flow hedges** at the balance sheet date:

All figures in €m	Up to 3 months	3–6 months	6–12 months	1–5 years	Over 5 years	Total
Notional principal amounts	310	31	–	1,669	1,989	3,999

Fair value hedges are used to reduce the market-price risk of current investments. Such fair value hedges are employed for the selected and efficient hedging of parts of the portfolio against interest-rate risks. The fair value of the derivatives used here amounted to –€6m at the balance sheet date.

(9) Miscellaneous other investments
This item includes deposits with banks totalling €2,685m (1,238m).

(10) Receivables

All figures in €m	31.12.2001	Prev. year
Amounts receivable on primary insurance business	939	765
– From policyholders	574	475
– From intermediaries	365	290
Accounts receivable on reinsurance business	4,923	4,761
Interest and rent	2,130	1,951
Other receivables	1,721	1,668
Total	9,713	9,145

Receivables with a remaining term of up to one year total €9,571m (8,877m); those with a remaining term of over one year total €142m (268m).

(11) Receivables and liabilities in respect of affiliated enterprises and participating interests

	Affiliated enterprises		Participating interests	
All figures in €m	31.12.2001	Prev. year	31.12.2001	Prev. year
Deposits retained on assumed reinsurance	–	–	5,883	5,467
Accounts receivable	–	–	307	350
Other receivables	31	122	28	35
Deposits retained on ceded business	–	45	1,044	989
Accounts payable	5	3	223	263
Other liabilities	57	119	191	187

(12) Deferred acquisition costs
We have used interest rates of between 3% and 8% for calculating the deferred acquisition costs.

The following table shows the development of the deferred acquisition costs in the business year.

All figures in €m	Reinsurance		Primary insurance		Total	Prev. year
	Life and health	Property-casualty	Life and health	Property-casualty		
Carrying amount at 31.12. previous year	980	945	4,011	425	6,361	5,989
Translation differences	23	29	–	–	52	168
Carrying amount at 1.1. business year	1,003	974	4,011	425	6,413	6,157
Newly deferred acquisition costs	802	836	1,776	154	3,568	1,985
Amortized acquisition costs	202	922	1,345	226	2,695	1,781
Carrying amount at 31.12. business year	1,603	888	4,442	353	7,286	6,361

The newly deferred acquisition costs for health in the primary insurance segment include €897m for the subsequent capitalization of waiting-period and selection profits; the provision for future policy benefits has been increased by the same amount.

Amortization of the acquisition costs in the life and health segment in primary insurance includes profit-neutral eliminations of €1,051m necessitated by valuation according to the purchase accounting method in connection with the increase of the shareholding in ERGO AG.

(13) Deferred tax
This involves the following items:

All figures in €m	31.12.2001		Prev. year	
	Assets	Liabilities	Assets	Liabilities
Losses carried forward	656	–	102	–
Investments	278	1,225	105	1,743
Underwriting provisions	826	535	1,516	1,086
Pension provisions	127	2	153	3
Others	433	1,778	49	1,948
Total	2,320	3,540	1,925	4,780

(14) Other assets
These mainly comprise property, plant and equipment and inventories totalling €342m (282m).

Notes to the consolidated balance sheet – equity and liabilities

(15) Shareholders' equity

The exercising of Munich Re 1998/2002 warrants in the course of the business year resulted in the issue of 5,921 new registered shares at an exercise price of €163.61 each. This increased the share capital to €452,991,982.08, and the company raised a total of €968,754.95 from the issue of the new shares.

By resolution of the Annual General Meeting on 19th July 2000, Munich Re was authorized to buy back shares amounting to a maximum of 10% of the share capital up to 19th January 2002. This authorization was cancelled by the Annual General Meeting on 18th July 2001 and replaced by a new one, authorizing the Board of Management to buy back shares amounting to a maximum of 10% of the share capital up to 18th January 2003.

On 31st December a total of 166,592 Munich Re shares with a calculated nominal value of €426,475.52 were held by Group companies. This represents 0.09% of the share capital. The shares were acquired for an average price of €319.77 per share via the stock exchange; the transaction value totalled €53,271,622.08. The shares are purely for safeguarding the stock appreciation rights granted to the Board of Management and top Munich Re executives since 2000.

The share capital as at 31st December 2001 is thus divided into 176,949,993 registered shares, each fully paid up and entitled to one vote.

The contingent capital is as follows:

All figures in €m	31.12.2001
To safeguard subscription rights from exercise of warrants 1998/2002	4.4
To safeguard subscription rights in rights issue from capital authorized for this purpose	15.4
To safeguard conversion rights or subscription rights from convertible bonds or bonds with warrants	15.4
Total	35.2

On 18th July 2001 the Annual General Meeting approved a further authorization to increase the company's share capital (Authorized Capital Increase IV) by up to €3.84m in order to issue employee shares.

The capital authorized for capital increases is thus as follows:

All figures in €m	31.12.2001
Authorized Capital Increase I (until 19th July 2005)	120.0
Authorized Capital Increase II (until 5th November 2003)	25.6
Authorized Capital Increase III (until 5th November 2003)	76.7
Authorized Capital Increase IV (until 18th July 2006)	3.8
Total	226.1

Changes in shareholders' equity

All figures in €m	Issued capital	Capital reserve	Revenue reserves	Other reserves	Consoli-dated profit	Total sharehold-ers' equity
Status at 31.12.1999	453	2,708	6,862	7,298	1,133	18,454
Translation differences	–	–	236	–5	–27	204
Capital increases	–	4	–	–	–	4
Allocation to revenue reserves	–	–	938	–	–938	–
Changes in the consolidated group	–	–	1,190	–1,152	–	38
Change resulting from valuation at equity	–	–	–	847	–	847
Unrealized gains and losses on other investments	–	–	–	2,528	–	2,528
Profit for the year	–	–	–	–	1,750	1,750
Dividends	–	–	–	–	–168	–168
Other changes	–	–	–52	–3	–	–55
Status at 31.12.2000	453	2,712	9,174	9,513	1,750	23,602
Translation differences	–	–	331	–8	–15	308
Capital increases	–	2	–	–	–	2
Allocation to revenue reserves	–	–	1,514	–	–1,514	–
Changes in the consolidated group	–	–	171	–	–	171
Change resulting from valuation at equity	–	–	425	–1,879	–	–1,454
Unrealized gains and losses on other investments	–	–	–	–3,208	–	–3,208
Profit for the year	–	–	–	–	250	250
Acquisition of own shares	–	–	–53	–	–	–53
Dividends	–	–	–	–	–221	–221
Other changes	–	–	–40	–	–	–40
Status at 31.12.2001	453	2,714	11,522	4,418	250	19,357

The "other reserves" include €2,310m (4,189m) unrealized gains and losses resulting from valuation at equity, and €2,108m (5,324m) unrealized gains and losses on other investments.

The unrealized gains and losses on other investments included in the "other reserves" changed as follows:

All figures in €m	2001	Prev. year
Unconsolidated affiliated enterprises	361	357
Securities available for sale – Fixed-interest	1,422	1,603
– Non-fixed-interest	2,191	11,402
Less: – Provision for deferred premium refunds	1,564	6,656
– Deferred taxes	231	752
– Minority interests	71	630
Total	2,108	5,324

(16) Minority interests

These are mainly minority interests in the ERGO Insurance Group.

All figures in €m	31.12.2001	Prev. year
Unrealized gains and losses	71	630
Consolidated profit	145	321
Other equity components	774	1,403
Total	990	2,354

The changes derive mainly from the increase in our shareholding in the ERGO Insurance Group.

(17) Unearned premiums

All figures in €m	31.12.2001	Prev. year
Gross	5,812	5,376
Ceded share	1,120	393
Net	4,692	4,983

The following table shows the distribution of net unearned premiums between the different Group segments:

All figures in €m*	31.12.2001	Prev. year
Reinsurers	3,671	3,415
– Life and health	82	32
– Property-casualty	3,589	3,383
Primary insurers	1,021	1,568
– Life and health	90	749
– Property-casualty	931	819
Total	4,692	4,983

* After elimination of intra-Group transactions across segments.

(18) Provision for future policy benefits

All figures in €m	31.12.2001	Prev. year
Gross	89,016	82,944
Ceded share	4,405	5,323
Net	84,611	77,621

The distribution of the net provision for future policy benefits between the different Group segments is as follows:

All figures in €m*	31.12.2001	Prev. year
Reinsurers	11,079	11,016
– Life and health	10,350	10,329
– Property-casualty	729	687
Primary insurers	73,532	66,605
– Life and health	73,468	66,567
– Property-casualty	64	38
Total	84,611	77,621

* After elimination of intra-Group transactions across segments.

In calculating the provision for future policy benefits, interest rates of between 3% and 8% have been used.

(19) Provision for outstanding claims

All figures in €m	31.12.2001	Prev. year
Gross	39,511	31,248
Ceded	6,381	4,434
Net	33,130	26,814

The following table shows the distribution of the net provision for outstanding claims between the different segments of the Group:

All figures in €m*	31.12.2001	Prev. year
Reinsurers	27,954	22,522
– Life and health	2,545	1,709
– Property-casualty	25,409	20,813
Primary insurers	5,176	4,292
– Life and health	1,229	1,033
– Property-casualty	3,947	3,259
Total	33,130	26,814

* After elimination of intra-Group transactions across segments.

The table on the following page shows the provisions for outstanding claims in property-casualty business for the primary insurers and reinsurers for the last ten years. This covers around 98% of the total claims provisions of the Group. What the table considers is not the run-off of the provisions for individual accident years, but the run-off of the provision posted at each balance sheet date, which contains the provisions for the respective current accident year and for all previous accident years. The figures for the years 1997 and earlier were determined on the basis of the relevant national accounting regulations; the figures for the years 1998 to the present have been based on International Accounting Standards.

The table illustrates how the estimate of the respective balance sheet provision has changed in the course of time – owing partly to payments made and partly to the re-estimate of the outstanding payments. The net run-off result reflects the difference between the current and original estimate. It is often materially affected by changes in exchange rates. The rise in the value of important foreign currencies for us (mainly the US dollar and the pound sterling) against the euro led to a significant increase in the provisions. On the other hand, there have been corresponding rises in the value of investments as a consequence of our consistent currency matching policy.

In addition, we have substantially strengthened the claims provisions of our US subsidiary American Re several times. Like our competitors, we were negatively surprised by the number and size of losses reported in 2001 for past years; we have therefore made additional provision for these.

Net claims provisions and their run-off in €m	**31.12. 1991**	**31.12. 1992**	**31.12. 1993**	**31.12. 1994**	**31.12. 1995**	**31.12. 1996**	**31.12. 1997**	**31.12. 1998**	**31.12. 1999**	**31.12. 2000**	**31.12. 2001**
Net provision for outstanding claims	12,421	13,306	15,139	15,649	16,714	17,888	19,465	19,285	22,584	23,854	29,220
Aggregate payments for the year concerned and previous years One year later	3,546	3,303	3,539	3,409	3,814	4,645	4,202	5,309	7,181	7,150	
Two years later	5,097	4,980	5,201	5,453	6,615	6,710	6,992	9,040	11,354		
Three years later	6,165	6,050	6,578	7,524	7,956	8,553	9,451	11,378			
Four years later	6,934	7,072	8,260	8,459	9,311	10,130	10,925				
Five years later	7,758	8,528	8,950	9,506	10,622	11,399					
Six years later	9,093	9,083	9,750	10,618	11,496						
Seven years later	9,540	9,754	10,715	11,376							
Eight years later	10,131	10,624	11,369								
Nine years later	10,916	11,215									
Ten years later	11,444										
Net provision for the year concerned and previous years, plus payments already made from the original provision	12,421	13,306	15,139	15,649	16,714	17,888	19,465	19,285	22,584	23,854	29,220
One year later	12,559	13,781	14,398	15,022	16,848	18,403	17,609	20,105	24,067	26,181	
Two years later	12,930	13,644	14,218	15,270	17,262	17,221	18,014	20,593	25,055		
Three years later	13,125	13,647	14,810	15,843	16,022	17,515	17,997	20,815			
Four years later	13,142	14,349	15,477	15,050	16,434	17,412	18,112				
Five years later	13,862	15,045	14,684	15,458	16,174	17,514					
Six years later	14,663	14,402	15,125	15,354	16,279						
Seven years later	13,119	14,824	15,131	15,536							
Eight years later	14,457	14,845	15,334								
Nine years later	14,591	15,074									
Ten years later	14,837										
Net run-off result of claims provisions	–2,416	–1,768	–195	113	435	374	1,353	–1,530	–2,471	–2,327	–
Thereof: currency translation differences	–347	–509	307	–378	–1,775	–1,955	–372	–1,748	–1,446	–352	–
Net run-off result excluding currency translation differences	–2,069	–1,259	–502	491	2,210	2,329	1,725	218	–1,025	–1,975	–

Provisions for asbestos and environmental claims

In the mid-eighties industrial insurers writing business worldwide found themselves being confronted with losses from policies taken out decades before. In particular, these included US asbestos-related claims under product liability policies. On top of this, there were costs for claims under old general liability policies which provided cover against environmental liability claims under US law. We made timely provision for our share of these losses, continually adjusting our reserves in line with the latest knowledge. The reduction in the reserves is attributable to two factors, among others: the commutation of a major account and a further stabilizing of the results of business written via the London market and since terminated. Altogether, at the present time we believe our provisions for these claims complexes to be adequate, although further loss burdens for the Group as a whole – particularly from asbestos-related claims – cannot be ruled out. The number of claimants and companies being claimed against is continuing to grow. This reflects to some extent the knowledge that has meanwhile been gained regarding causation in this risk sector; it constitutes a special form of the risk of change. Observers are reckoning with a further wave of lawsuits, and not only in the US. In view of the unpredictable nature of court decisions in the main markets affected, it is difficult to make reliable estimates of future development.

Provisions for asbestos and environmental claims:*

	1999		2000		2001	
in €m	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Asbestos	1,526,1	1,190.7	1,491.4	1,186.0	1,328.5	1,079.6
Environmental	953.5	859.1	945.7	863.7	803.1	745.3

* The previous years' figures have been adjusted to take account of currency translation differences.

(20) Other underwriting provisions

All figures in €m	31.12.2001 Gross	31.12.2001 Ceded	31.12.2001 Net	Prev. year Gross	Prev. year Ceded	Prev. year Net
Provision for premium refunds	13,818	72	13,746	20,087	6	20,081
Miscellaneous	1,824	16	1,808	1,454	10	1,444
Total	15,642	88	15,554	21,541	16	21,525

The net provision for premium refunds is distributed between the segments of the Group as follows:

All figures in €m	31.12.2001	Prev. year
Primary insurers – Life and health	13,699	20,036
– Property-casualty	47	45
Total	13,746	20,081

The provision for premium refunds showed the following development:

All figures in €m	2001	Prev. year
a) Amounts allocated on the basis of national regulations (gross) Status at 1.1. business year	5,979	5,014
Allocations/withdrawals	–738	965
Status at 31.12. business year	5,241	5,979
b) Deferred premium refunds (gross) Status at 1.1. business year	14,108	15,339
Change resulting from unrealized gains and losses on investments	–5,150	–2,060
Change resulting from revaluations	–381	829
Status at 31.12. business year	8,577	14,108
Total (gross)	13,818	20,087
Ceded share	72	6
Total (net)	13,746	20,081

A total of €980m (792m) was credited directly to life insurance policyholders in the business year.

The following table shows the distribution of the net other provisions between the segments of the Group:

All figures in €m*	31.12.2001	Prev. year
Reinsurers	1,716	1,369
– Life and health	71	38
– Property-casualty	1,645	1,331
Primary insurers	92	75
– Life and health	14	12
– Property-casualty	78	63
Total	1,808	1,444

* After elimination of intra-Group transactions across segments.

The miscellaneous provisions include in particular the unearned portions of premiums for the coverage of natural catastrophe risks.

(21) Other accrued liabilities

All figures in €m	31.12.2001	Prev. year
Provisions for post-employment benefits	1,059	1,005
Tax provisions	674	893
Other provisions	997	1,163
Total	2,730	3,061

Provisions for post-employment benefits
The companies in the Munich Re Group generally give pension commitments to their employees in the form of defined contribution plans or defined benefit plans. The type and amount of the pension obligations are determined by the conditions of the respective pension plan.

Defined contribution plans
Expenses for defined contribution plans in the year under review totalled €28m (39m).

Defined benefit plans
The financing status of the defined benefit plans is as follows:

All figures in €m	31.12.2001	Prev. year
Present value of unfunded obligations	937	857
Present value of funded obligations	322	282
Fair value of plan assets	–167	–173
Actuarial gains/losses not recognized	–33	44
Past service cost not yet recognized	–	–5
Net balance sheet liability	1,059	1,005

The provision for defined benefit plans changed as follows in the business year:

All figures in €m	2001	Prev. year
Status at 1.1	1,005	949
Translation differences	6	7
Expenses (see below)	116	87
Payments	–68	–38
Status at 31.12	1,059	1,005

The expenses booked in the year under review are made up as follows:

All figures in €m	2001	Prev. year
Current service cost	53	59
Interest cost	74	68
Expected return on plan assets	–15	–16
Net actuarial gains/losses recognized in year	–1	–20
Past service cost	7	–4
Gains/losses on curtailments and settlements	–	–3
Other	–2	3
Total	116	87

The expenses are shown in the income statement mainly under “operating expenses” and “expenses for claims and benefits”.

Tax provisions
Tax provisions comprise the provisions for income tax and other taxes of the individual companies, based on their respective national taxation. Deferred tax obligations are shown under deferred tax liabilities.

Other provisions

All figures in €m	Prev. year	Allo-cations	With-drawals	Reversal	Other changes	31.12.2001
Earned commission	119	94	47	39	5	132
Outstanding invoices	62	81	23	5	–	115
Early-retirement benefits/semi-retirement	55	44	17	12	–	70
Holiday and overtime pay	47	22	31	1	–	37
Bonuses	38	8	10	10	–	26
Anniversary benefits	60	46	31	13	–	62
Miscellaneous	782	343	174	400	4	555
Total	1,163	638	333	480	9	997

The miscellaneous other provisions comprise a large number of different items, including derivatives/trading (€159m), competitions for sales staff (€21m) and other remuneration for desk and field staff totalling €10m.

(22) Notes and debentures

All figures in €m	31.12.2001	Prev. year
American Re Capital, Delaware 8.5%, US$ 237.5m QUIPS 1995/2025* Rating: A+	269	253
American Re Corporation, Princeton 7.45%, US$ 500m Senior Notes 1996/2026 Rating: AA	565	531
ERGO International AG, Düsseldorf 2.25%, €345m Bonds Exchangeable into E.ON AG Shares 2001/2006 0.75%, €345m Bonds Exchangeable into Aventis AG Shares 2001/2006 Rating: AA+	581	–
Munich Reinsurance Company, Munich 1.0%, €1,150m Bonds Exchangeable into Allianz AG Shares 2000/2005 Rating: AAA	1,059	1,009
Total	2,474	1,793

* QUIPS redeemed in February 2002.

In September 2001 ERGO International AG issued two bonds, exchangeable into E.ON shares and Aventis shares respectively. The first may be exchanged into ordinary E.ON shares with an equivalent value of €75 per share; the yield to maturity is 2.25%. The second bond, with a yield to maturity of 0.75%, may be exchanged into ordinary Aventis AG shares with an equivalent value of €98.50 per share. If the bonds are not exchanged or redeemed beforehand, they will be redeemed on 14th September 2006 at 100% of the face value.

(23) Other liabilities

All figures in €m	31.12.2001	Prev. year
Deposits retained on ceded business	5,685	5,128
Accounts payable on primary insurance business	5,321	5,067
Accounts payable on reinsurance business	3,361	2,895
Amounts owed to banks	2,360	1,762
Miscellaneous liabilities	5,460	1,385
Total	22,187	16,237

€143m (232m) of the other liabilities is apportionable to tax liabilities, €27m (34m) to liabilities for social security, and €84m (98m) to liabilities for interest and rent.

The remaining terms of liabilities shown under this item are as follows:

All figures in €m	31.12.2001	Prev. year
Up to one year	18,936	14,278
Over one year and up to 5 years	1,995	1,069
Over 5 years and up to 10 years	315	265
Over 10 years	941	625
Total	22,187	16,237

(24) Other deferred items

This comprises miscellaneous deferred amounts.

Notes to the consolidated income statement

(25) Premiums

	Reinsurance				Primary insurance				Total	
	Life and health		Property-casualty		Life and health		Property-casualty			
All figures in €m*	**2001**	**Prev. year**	**2001**	**Prev. year**	**2001**	**Prev. year**	**2001**	**Prev. year**	**2001**	**Prev. year**
Gross premiums written	5,045	3,880	15,377	12,819	11,108	10,304	4,593	4,110	36,123	31,113
Ceded premiums	496	491	2,933	1,610	448	229	389	351	4,266	2,681
Net premiums written	4,549	3,389	12,444	11,209	10,660	10,075	4,204	3,759	31,857	28,432
Change in unearned premiums – Gross amount	–45	108	–887	–308	114	–31	–52	–52	–870	–283
– Ceded share	12	–55	711	24	–16	4	–14	7	693	–20
– Net amount	–33	53	–176	–284	98	–27	–66	–45	–177	–303
Net earned premiums	4,516	3,442	12,268	10,925	10,758	10,048	4,138	3,714	31,680	28,129

* After elimination of intra-Group transactions across segments.

In the case of life insurance products where the policyholders bear the investment risk (e.g. unit-linked life insurance), only those parts of the premiums used to cover the risks insured and associated costs are treated as premiums.

(26) Investment result

All figures in €m	**2001**	**Prev. year**
Real estate	551	558
Investments in affiliated enterprises	–19	1
Investments in associated enterprises	1,809	1,056
Mortgage loans and other loans	542	385
Other securities held to maturity	51	67
Other securities available for sale – Fixed-interest	5,048	4,434
– Non-fixed-interest	2,056	5,571
Other securities held for trading – Fixed-interest	72	8
– Non-fixed-interest	139	–175
Other investments	746	680
Expenses for the management of investments, other expenses	575	419
Total	10,420	12,166

The increase in investments in associated enterprises derives largely from the one-off effect of €550m in the at-equity valuation of our shares in Allianz on a less deferred basis.

	Reinsurance				Primary insurance				Asset management		Total	
	Life and health		Property-casualty		Life and health		Property-casualty					
All figures in €m*	**2001**	**Pr. yr.**	**2001**	**Pr. yr.**	**2001**	**Pr. yr.**	**2001**	**Pr. yr.**	**2001**	**Pr. yr.**	**2001**	**Pr. yr.**
Investment income												
Regular income	1,744	1,316	2,463	2,211	4,900	4,589	513	508	34	28	9,654	8,652
Income from write-ups	85	9	117	67	31	31	15	5	–	–	248	112
Gains on the disposal of investments	791	509	980	875	2,327	4,768	201	459	4	–	4,303	6,611
Other income	–	–	–	–	6	2	–	2	–	–	6	4
	2,620	1,834	3,560	3,153	7,264	9,390	729	974	38	28	14,211	15,379
Investment expenses												
Writedowns on investments	63	20	190	62	233	91	85	21	1	–	572	194
Losses on the disposal of investments	248	214	337	355	1,773	1,722	177	248	3	–	2,538	2,539
Management expenses, interest charges and other expenses	64	59	122	115	449	267	29	23	17	16	681	480
	375	293	649	532	2,455	2,080	291	292	21	16	3,791	3,213
Total	2,245	1,541	2,911	2,621	4,809	7,310	438	682	17	12	10,420	12,166

* After elimination of intra-Group transactions across segments.

(27) Other income

In addition to foreign currency exchange gains of €172m (118m), the other income mainly includes income from services rendered of €200m (123m), interest and similar income of €189m (54m), and income from the reversal/ reduction of miscellaneous provisions and adjustments of values for receivables.

(28) Net expenses for claims and benefits

	Reinsurance				Primary insurance				Total	
	Life and health		Property-casualty		Life and health		Property-casualty			
All figures in €m*	**2001**	**Pr. yr.**	**2001**	**Pr. yr.**	**2001**	**Pr. yr.**	**2001**	**Pr. yr.**	**2001**	**Pr. yr.**
Gross Claims expenses – Claims and benefits paid	2,988	1,598	10,066	10,040	8,738	8,222	2,758	2,390	24,550	22,250
– Change in provision for out-standing claims	667	717	6,260	483	123	86	385	219	7,435	1,505
Change in other underwriting provisions – Provision for future policy benefits	938	867	42	37	4,083	2,898	26	22	5,089	3,824
– Other	59	–	177	177	19	7	8	–3	263	181
Expenses for premium refunds	5	6	7	6	1,109	4,010	20	11	1,141	4,033
Total expenses for claims and benefits	**4,657**	**3,188**	**16,552**	**10,743**	**14,072**	**15,223**	**3,197**	**2,639**	**38,478**	**31,793**
Ceded share Claims expenses – Claims and benefits paid	315	214	1,186	1,137	76	194	363	202	1,940	1,747
– Change in provisions for out-standing claims	12	15	2,009	144	–22	3	99	49	2,098	211
Change in other underwriting provisions – Provision for future policy benefits	102	124	1	1	78	–107	–1	1	180	19
– Other	–	–	4	18	–2	5	–22	–2	–20	21
Expenses for premium refunds	–4	4	1	1	120	19	1	1	118	25
Total expenses for claims and benefits	**425**	**357**	**3,201**	**1,301**	**250**	**114**	**440**	**251**	**4,316**	**2,023**
Net Claims expenses – Claims and benefits paid	2,673	1,384	8,880	8,903	8,662	8,028	2,395	2,188	22,610	20,503
– Change in provisions for out-standing claims	655	702	4,251	339	145	83	286	170	5,337	1,294
Change in other underwriting provisions – Provision for future policy benefits	836	743	41	36	4,005	3,005	27	21	4,909	3,805
– Other	59	–	173	159	21	2	30	–1	283	160
Expenses for premium refunds	9	2	6	5	989	3,991	19	10	1,023	4,008
Total expenses for claims and benefits	**4,232**	**2,831**	**13,351**	**9,442**	**13,822**	**15,109**	**2,757**	**2,388**	**34,162**	**29,770**

* After elimination of intra-Group transactions across segments.

(29) Net operating expenses

All figures in €m*	Reinsurance				Primary insurance				Total	
	Life and health		Property-casualty		Life and health		Property-casualty			
	2001	Pr. yr.	2001	Pr. yr.	2001	Pr. yr.	2001	Pr. yr.	2001	Pr. yr.
Acquisition costs – Amounts paid	1,453	1,362	3,634	3,121	1,565	1,335	890	806	7,542	6,624
– Change in deferred acquisition costs (gross)	–297	–190	45	–93	–665	27	5	–14	–912	–270
	1,156	1,172	3,679	3,028	900	1,362	895	792	6,630	6,354
Management expenses	203	161	679	592	511	427	662	607	2,055	1,787
Thereof: amortization of PVFP	4	–	–	–	31	3	–	–	35	3
Gross operating expenses	1,359	1,333	4,358	3,620	1,411	1,789	1,557	1,399	8,685	8,141
Ceded share	95	304	611	318	144	115	77	64	927	801
Net operating expenses	1,264	1,029	3,747	3,302	1,267	1,674	1,480	1,335	7,758	7,340

* After elimination of intra-Group transactions across segments.

(30) Other expenses

In addition to foreign currency exchange losses of €139m (55m), the other expenses mainly include expenses for services rendered of €292m (193m), interest and similar expenses of €459m (348m), and writedowns of €335m (214m).

(31) Tax

This item shows the corporation tax and municipal trade earnings tax paid by the German companies (including solidarity surcharge), the comparable taxes on earnings paid by the foreign companies in the Group, and other tax. In accordance with IAS 12, the determination of the tax on earnings includes the calculation of deferred taxes.

The “other tax” amounts to €30m (20m).

Tax on earnings is made up as follows:

All figures in €m	2001	Prev. year
Current tax	**262**	**686**
Germany	55	612
Other countries	207	74
Deferred tax	**–1,332**	**–307**
Germany	–841	–292
Other countries	–491	–15
Tax on earnings	**–1,070**	**379**

The current and deferred tax mainly result from the following:

All figures in €m	2001	Prev. year
Current tax for business year	180	661
Current tax for other periods	82	25
Deferred tax resulting from the occurrence or reversal of temporary differences	–590	114
Deferred tax resulting from the occurrence or reversal of loss carry-forwards	–489	–5
Effects of changes in tax rates on deferred tax	–284	–423
Other	31	7
Tax on earnings	**–1,070**	**379**

The current tax is derived from the tax results of the business year, to which the local tax rates of the respective subsidiaries are applied. Deferred tax is also calculated using the respective local tax rates; changes in tax rates that have already been adopted by the government at the balance sheet date are taken into account.

The following table shows the reconciliation between the expected tax on earnings and the tax on earnings actually shown. The expected tax expenses are calculated by multiplying the operating result before tax on earnings (but after "other tax") by the Group tax rate. The Group tax rate is the expected average tax rate of the Group. For German Group companies, expected components of the Group tax rate are 26.4% corporation tax including solidarity surcharge, and a mixed trade-tax rate of 8.6% (13.6%).

All figures in €m	**2001**	**Prev. year**
Result before tax on earnings (after "other tax")	–675	2,450
Group tax rate in %	35.0	40.0
Derived tax on earnings	–236	980
Tax effect of tax rate differences between Group companies	–52	40
tax-free income	–744	–327
non-deductible expenses	271	90
changes in tax rates	–284	–423
municipal trade earnings tax	–25	–110
corporation tax reduction/increase from dividends	–37	–79
miscellaneous	37	208
Tax on earnings shown	**–1,070**	**379**

The effective tax burden is the ratio between the tax on earnings shown and the result before earnings tax (but after "other tax"). In the previous year the tax burden was 15%. In the current business year the ratio shows tax relief of 159%.

The tax-free income is made up of tax-free gains on the sales of shareholdings in joint-stock companies, tax-free dividend income and other tax-free income. The non-deductible expenses include non-deductible amortization of goodwill.

The item "changes in tax rates" contains income from the reversal of deferred taxes as a result of the necessary revaluation of various deferred tax items in connection with changes in tax regulations.

The item "municipal trade earnings tax" includes the differences between the trade-tax rate applied by the respective Group companies and the Group mixed trade-tax rate.

Other information

(32) Parent company

The parent company of the Munich Re Group is Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Reinsurance Company Joint-Stock Company in Munich). It is entered in the commercial register with the address Königinstrasse 107, 80802 München. In addition to its function as a reinsurer, the company also fulfils the function of holding company for the Group.

(33) Related enterprises

Munich Re has diverse and extensive relations with Allianz, one of the world's largest insurance and financial service groups.

Munich Re holds 24.9% of the voting capital of Allianz AG. Conversely, Allianz holds 24.9% of the voting capital of Munich Re. In addition, Allianz and Munich Re both have shareholdings in Frankfurter Versicherungs-AG, Bayerische Versicherungsbank AG, Allianz Lebensversicherungs-AG and Karlsruher Lebensversicherung AG.

Members of the Boards of Management of Munich Re and Allianz hold seats on the Supervisory Boards of the above-mentioned companies and, in individual instances, on the Boards of other companies in each other's Groups. Dr. jur. Henning Schulte-Noelle, Chairman of the Board of Management of Allianz AG, is Deputy Chairman of the Munich Reinsurance Company's Supervisory Board.

With regard to the restructuring of shareholdings between Munich Re and Allianz, reference is made to Note 41.

The relations between Munich Re and Allianz are also given documented form in a general agreement. This agreement deals in particular with the question of reciprocal shareholdings, with details of shareholdings in jointly held insurance companies (see above) and with general arrangements regarding reinsurance relations. The earliest possible date of termination is 31st December 2005.

The Munich Re Group assumes and cedes reinsurance and retrocessions from and to the Allianz Group under a large number of reinsurance and retrocession agreements. The following table shows Munich Re's premiums assumed from and ceded to Allianz as at 31st December:

All figures in €m	2001	Prev. year
Gross premiums assumed	2,630	2,550
Gross premiums ceded	870	900

In the year under review, Allianz's cessions to Munich Re amounted to 11.8% (13.9%) of our gross premiums in reinsurance or 7.3% (8.0%) of our overall consolidated premiums. Munich Re's cessions to Allianz amounted to 31.9% (42.2%) of our ceded premiums.

The reinsurance agreements between Munich Re and Allianz are concluded at market conditions.

Besides this, there are further contractual relations between Munich Re and Allianz in connection with the normal running of our business, such as the conclusion of insurance policies for own risks (e.g. buildings insurance policies).

(34) Personnel expenses
The following personnel expenses are included in the operating expenses, in the expenses for claims and benefits and in the investment result:

All figures in €m	2001	Prev. year
Wages and salaries	1,871	1,761
Social security contributions and employee assistance	375	310
Expenses for employees' pensions	161	159
Total	2,407	2,230

(35) Long-term incentive plans
As at 1st July 1999, 1st July 2000 and 1st July 2001 Munich Re launched long-term incentive plans. These plans, each with a term of seven years, provide for the members of the Board of Management and senior management in Munich and for the top executives in Munich Re's international organization to be granted a defined number of stock appreciation rights.

Each stock appreciation right entitles the holder to draw in cash the difference between the Munich Re share price at the time when the right is exercised and that applying at the start of the plan.

The stock appreciation rights may only be exercised after a two-year vesting period and then only if the share price is at least 20% higher than at the start of the plan. In addition, Munich Re shares must have outperformed the DAX 30 (Plan 1999) or the Euro STOXX 50 (Plan 2000 and Plan 2001) twice at the end of a three-month period during the term of the plan. The gross amount that may be obtained from the exercising of the stock appreciation rights is limited to an increase of 150% of the initial share price.

In the year under review a total of 115,420 (83,681) stock appreciation rights were granted, 42,664 (27,029) of these to members of the Board of Management. The expenses incurred for the stock appreciation rights have been determined on the basis of the change in Munich Re's share price.

In the year 2001 the provision set up in the previous years was reduced by €17.4m (previous year: increase of €15.5m). The reduction in the provision resulted partly from the fact that stock appreciation rights from the Long-Term Incentive Plan 1999 had been exercised and partly from the fall in Munich Re's share price.

	Incentive Plan 1999	Incentive Plan 2000	Incentive Plan 2001
Plan commencement	1.7.1999	1.7.2000	1.7.2001
Initial share price	€182.60	€319.34	€320.47
Number of rights on 31.12.1999	110,840	–	–
Additions	9,045	74,636	–
Number of rights on 31.12.2000	119,885	74,636	–
Additions	–	5,946	109,474
Exercised	34,240	–	–
Number of rights on 31.12.2001	85,645	80,582	109,474
Exercisable at year-end	85,645	–	–

(36) ERGO employee share-ownership programme
In the business year 2001 the companies of the ERGO Insurance Group acquired 59,139 Munich Re shares at an average price of €325.11 within the framework of their employee share-ownership programme. As part of this programme, staff of the ERGO Insurance Group in Germany were offered the chance to subscribe for up to two of the shares at a price of €171.28 (DM 335) each. In addition, senior executives of the ERGO Insurance Group could choose to received their performance-related remuneration in these shares at a price of €250 each. After the issue of 29,897 employee shares, the remainder were sold at the end of the year.

(37) Compensation and loans for Board members
The total emoluments of the Board of Management of the Munich Reinsurance Company for fulfilment of its duties in respect of the parent company and the subsidiaries totalled €11.1m (9.2m). Of this, €4.3m (4.5m) is apportionable to fixed components, €3.2m (4.7m) to variable components, and €3.6m to the exercise of stock appreciation rights under the Long-Term Incentive Plan 1999. Payments to retired members of the Board of Management or their surviving dependants amounted to €3.3m (2.9m).

Taking into account the proposal for the appropriation of the profit, the emoluments of Supervisory Board totalled €1.1m (1.1m). This sum includes €0.6m (0.6m) dependent on the dividend paid to shareholders.

A total of €32m (33m) was set aside for pension commitments towards retired members of the Board of Management or their surviving dependants.

The Board members did not receive any advances or loans in the year under review.

(38) Shares held by members of the Board of Management and the Supervisory Board
At year-end a total of 134 (204) Munich Re shares were held by members of the Board of Management, and 476 (522) by members of the Supervisory Board.

(39) Number of staff

The number of staff employed by the Group at year-end totalled 27,894 (27,283) in Germany and 10,423 (9,198) in other countries.

	31.12.2001	Prev. year
Reinsurance companies	5,872	5,422
Primary insurance companies	31,878	30,569
Asset management	567	490
Total	38,317	36,481

(40) Contingent liabilities, other financial commitments

Commitments under rental, work and service contracts amounted to €430m. In addition, there were obligations from leasing arrangements amounting to €185m. Of this, €50m was due not later than one year, €119m due later than one year and not later than five years, and €16m due later than five years. Investment obligations totalled €397m. These figures represent undiscounted nominal amounts.

Beyond this, there were contingent liabilities of €560m. These include liabilities under option agreements, not fully utilized credit lines of an affiliated company, a binding offer to acquire shares, and a commitment from a leasing transaction with real estate.

As part of the restructuring of shareholdings, there were commitments of €7,787m at the balance sheet to acquire shares in HypoVereinsbank and ERGO. The purchases were effected on 15th January 2002.

As members of the German Reinsurance Pharmapool, the German Nuclear Insurance Pool and the German Aviation Pool, several Group companies are committed – to the extent of their proportional shares – to assuming the payment obligations of other pool members if the latter are not able to meet these obligations.

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.

(41) Events after the balance sheet date

On 15th January 2002 the Munich Re Group sold its directly and indirectly held stakes in Dresdner Bank to Allianz and also made available around 4% of Allianz shares. Besides this, Munich Re sold its 40.6% interest in Allianz Life to the Allianz Group. In return, Munich Re acquired from the Allianz Group and the Dresdner Bank Group their shares in HypoVereinsbank, thus increasing the Munich Re Group's stake to 25.7%.

Munich Re has also completed its announced shareholding transaction in relation to the ERGO Insurance Group: it now holds 91.7% of ERGO Versicherungsgruppe AG.

The measures will result in a large tax-free gain on the disposal of investments in the business year 2002.

In March 2002 the ERGO Insurance Group acquired 100% of Quelle Versicherungs AG.

No other events have occurred since the balance sheet date which would have a material effect on the financial position of the Group as presented in the financial statements.

(42) Earnings per share

The earnings per share figure is calculated by dividing the consolidated net income for the year by the weighted average number of shares.

New shares created by the exercise of warrants are included pro rata temporis from the respective date of delivery. Shares acquired through share buy-backs are eliminated from the calculation pro rata temporis.

For the diluted earnings per share, the number of shares is increased by the weighted average of the potential number of shares that would have a diluting effect. Outstanding warrants are additionally included pro rata temporis up to the time they are exercised.

		2001	**Prev. year**
Profit for the year	€m	250	1,750
Result before amortization of goodwill	€m	–415	2,615
Number of shares at 1.1. business year		176,944,072	176,919,776
Increase in shares owing to exercise of warrants		5,921	24,296
Own shares		166,592	–
Weighted average number of shares	€	176,838,299	176,922,611
Earnings per share	€	1.41	9.89
Earnings per share before amortization of goodwill	€	–2.35	14.78

Average share price	€	319.08	323.85
Warrant exercise price	€	163.61	163.61
Diluted number of shares		177,678,482	177,787,055
Diluted earnings per share	€	1.41	9.84

Munich, 7th May 2002

The Board of Management

Auditor's report

The auditor's opinion is worded as follows:

We have audited the consolidated financial statements, consisting of the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements, prepared by the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München for the business year from 1st January 2001 to 31st December 2001. The preparation and the content of the consolidated financial statements are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the German Institute of Certified Accountants (IDW) as well as in accordance with the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with IAS.

Our audit, which also extends to the group management report for the business year from 1st January 2001 to 31st December 2001, has not led to any reservations. In our opinion, altogether the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and group management report for the business year from 1st January 2001 to 31st December 2001 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and group management report in accordance with German accounting law.

Munich, 13th May 2002

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Herbert Loy	Christine Peschel
Wirtschaftsprüfer	Wirtschaftsprüfer
(Certified public accountant)	(Certified public accountant)

Further information

Rating

For many years Munich Re has belonged to the select band of reinsurers awarded top ratings by the rating organizations – A. M. Best, Moody's, Standard & Poor's, and now Fitch as well (A. M. Best: A++; Fitch: AAA; Moody's: Aaa; S&P: AAA).

Our subsidiaries currently assessed also received excellent ratings.

	A. M. Best	S&P	Moody's
Reinsurance group			
American Re-Insurance Company	A++	AAA	Aaa
American Alternative Insurance Company	A++	AAA	
Princeton Excess and Surplus Line Insurance Company	A++		
Munich American Reassurance Company	A++	AAA	
Great Lakes Reinsurance (UK) PLC	A++	AAA	
Munich Reinsurance Company of Canada	A++	AAA	
Temple Insurance Company	A+		
Munich Reinsurance Company of Africa	A++		
Munich Reinsurance Company of Australasia	A++	AAA	
Münchener Rück Italia	A++	AAA	
New Reinsurance Company	A++	AAA	
Primary insurance group			
VICTORIA Lebensversicherung Aktiengesellschaft		AAA	Aa1
VICTORIA Versicherung Aktiengesellschaft		AAA	
Hamburg-Mannheimer Versicherungs-Aktien-Gesellschaft		AAA	Aa1
Hamburg-Mannheimer Sachversicherungs-AG		AAA	
DKV Deutsche Krankenversicherung Aktiengesellschaft		AAA	

ERGO Versicherungsgruppe AG has been graded as AA+ (counterparty credit risk); this is the best rating that can normally be achieved by a non-operative insurance holding company under Standard & Poor's rules.

Our Canadian subsidiary Temple Insurance Company was rated for the first time in the business year, being graded as A+ (Superior) by A. M. Best.

Both Victoria Lebensversicherung Aktiengesellschaft and Hamburg-Mannheimer Versicherungs-Aktien-Gesellschaft improved their Moody's ratings from Aa2 to Aa1 in the year under review.

Quarterly figures

		31.3.2001	30.6.2001	30.9.2001	31.12.2001
Balance sheet					
Investments	€m	163,611	165,634	158,347	161,994
Shareholders' equity	€m	24,981	24,794	19,604	19,357
Balance sheet total	€m	198,419	203,087	198,795	202,054
Net underwriting provisions	€m	133,367	135,738	133,199	138,642
Shares					
Share price	€	339.00	331.50	285.00	305.00
Munich Re's market capitalization	€bn	60.0	58.6	50.4	54.0
Other					
Combined ratio non-life reinsurance	%	112.1	110.3	133.9	135.1
Number of staff		37,062	37,440	38,147	38,317

in €m	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Total
1. Gross premiums written	8,914	8,141	8,771	10,297	36,123
2. Net earned premiums	7,614	7,496	7,715	8,855	31,680
3. Investment result	2,780	2,533	2,404	2,703	10,420
4. Other income	219	240	186	247	892
Total income (2–4)	10,613	10,269	10,305	11,805	42,992
5. Net expenses for claims and benefits	7,217	7,370	10,332	9,243	34,162
6. Net operating expenses	2,013	1,939	1,739	2,067	7,758
7. Other expenses	388	136	300	663	1,487
Total expenses (5–7)	9,618	9,445	12,371	11,973	43,407
8. Result before amortization of goodwill	**995**	**824**	**–2,066**	**–168**	**–415**
9. Amortization of goodwill	42	55	81	52	230
10. Operating result before tax	953	769	–2,147	–220	–645
11. Tax	132	210	–918	–464	–1,040
12. Minority interests in earnings	16	66	–16	79	145
13. Profit for the year	**805**	**493**	**–1,213**	**165**	**250**

in €	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Total
Earnings per share	4.55	2.79	–6.86	0.94	1.41
Earnings per share, diluted	4.53	2.77	–6.83	0.93	1.41

Multi-year overview*

		31.12.1998	31.12.1999	31.12.2000	31.12.2001
Balance sheet					
Investments	€m	136,142	150,927	159,408	161,994
Shareholders' equity	€m	16,164	18,454	23,602	19,357
Balance sheet total	€m	159,161	179,880	193,567	202,054
Net underwriting provisions	€m	110,831	123,473	131,526	138,642
Shares					
Dividend per share	€	0.92**	0.95	1.25	1.25
Amount distributed	€m	81	168	221	221
Share price	€	206.31**	251.80	380.00	305.00
Munich Re's market capitalization	€bn	36.1	44.5	67.2	54.0
Other					
Combined ratio non-life reinsurance	%	105.7	118.9	115.3	135.1
Number of staff		32,280	33,245	36,481	38,317

in €m	1998	1999	2000	2001
Gross premiums written	25,496	27,413	31,113	36,123
Net earned premiums	23,545	24,945	28,129	31,680
Investment result	8,467	9,525	12,166	10,420
Other income	307	747	501	892
Total income	**32,319**	**35,217**	**40,796**	**42,992**
Net expenses for claims and benefits	22,735	25,241	29,770	34,162
Net operating expenses	6,106	6,500	7,340	7,758
Other expenses	1,197	1,655	1,071	1,487
Total expenses	**30,038**	**33,396**	**38,181**	**43,407**
Result before amortization of goodwill	**2,281**	**1,821**	**2,615**	**–415**
Amortization of goodwill	110	120	145	230
Operating result before tax	**2,171**	**1,701**	**2,470**	**–645**
Tax	791	383	399	–1,040
Minority interests in earnings	180	185	321	145
Profit for the year	**1,200**	**1,133**	**1,750**	**250**

in €	1998	1999	2000	2001
Earnings per share	7.11**	6.45	9.89	1.41
Earnings per share, diluted	7.08**	6.44	9.84	1.41

* The first consolidated financial statements in accordance with IAS were prepared for the business year 1998.

** Taking into account the stock split in January 1999.

Classes of business

Reinsurance	1998	1999	2000	2001
Gross premiums written in €m				
Life	2,656	3,164	3,865	4,769
Health	355	578	836	1,131
Liability	1,526	1,650	1,934	2,402
Personal accident	1,000	1,140	1,043	1,213
Motor	2,484	2,570	3,335	3,448
Marine, aviation, space	815	846	1,158	1,398
Fire	2,788	2,890	3,363	4,481
Engineering	878	786	929	1,449
Other classes of business	1,644	1,744	1,862	1,905
Loss ratio in %				
Health	93.3	80.0	70.8	82.5
Liability	83.7	105.7	89.2	114.4
Personal accident	76.6	75.2	68.1	80.6
Motor	78.9	83.5	90.7	85.9
Marine, aviation, space	80.7	81.9	92.7	134.3
Fire	77.2	101.8	95.2	136.1
Engineering	67.1	72.0	74.5	103.3
Other classes of business	59.9	78.9	70.8	70.2
Expense ratio in %				
Health	26.4	24.9	31.1	31.4
Liability	31.7	30.7	31.8	33.1
Personal accident	33.8	29.9	30.8	32.1
Motor	26.8	24.4	24.5	25.2
Marine, aviation, space	24.3	27.4	27.4	30.0
Fire	28.8	34.0	31.4	29.4
Engineering	33.5	38.5	39.8	34.9
Other classes of business	33.8	35.1	33.7	36.2
Combined ratio in %				
Health	119.7	104.9	101.9	113.9
Liability	115.4	136.4	121.0	147.5
Personal accident	110.4	105.1	98.9	112.7
Motor	105.7	107.9	115.2	111.1
Marine, aviation, space	105.0	109.3	120.1	164.3
Fire	106.0	135.8	126.6	165.5
Engineering	100.6	110.5	114.3	138.2
Other classes of business	93.7	114.0	104.5	106.4

Primary insurance	1998	1999	2000	2001
Gross premiums written in €m				
Life	5,664	6,217	6,471	7,112
Health	3,484	3,593	3,834	4,010
Property-casualty	3,523	3,690	4,110	4,593
Combined ratio in %				
Property-casualty	96.5	96.4	97.2	101.4

Key figures

Group premium income

in €bn	2001	2000	1999	1998
Reinsurance	22.2	18.3	15.4	14.1
Primary insurance	15.7	14.4	13.5	12.7
Consolidation	–1.8	–1.6	–1.5	–1.3
Total	36.1	31.1	27.4	25.5

Premium growth

in %	2001	2000	1999
Reinsurance	21.1	19.2	8.6
Primary insurance	9.0	6.8	6.5
Total	16.1	13.5	7.5

Shares of reinsurance and primary insurance in Group premium income broken down by life and health and property-casualty business*

in %	2001	2000	1999	1998
Reinsurance	56.5	53.7	50.8	50.3
– Life and health	13.9	12.5	11.0	9.3
– Property-casualty	42.6	41.2	39.8	41.0
Primary insurance	43.5	46.3	49.2	49.7
– Life and health	30.8	33.1	35.8	35.9
– Property-casualty	12.7	13.2	13.4	13.8

* After elimination of intra-Group transactions across segments.

Share of non-German business

in %	2001	2000	1999	1998
Reinsurance	77.0	71.8	67.3	64.4
Primary insurance	19.9	13.0	10.1	9.8

Reinsurance: large and very large losses (gross)

in €m	2001	2000	1999
Large and very large losses	4,717	1,150	1,807
Thereof: losses from natural catastrophes	213	427	1,161

Investments*

in €bn	31.12.2001	31.12.2000	31.12.1999	31.12.1998
Investments	162.0	159.4	150.9	136.1
– Reinsurance	61.5	58.9	54.4	49.0
– Primary insurance	100.0	100.2	96.4	87.1
– Asset management	0.5	0.3	0.1	–

* After elimination of intra-Group transactions across segments.

Group shareholders' equity

in €bn	31.12.2001	31.12.2000	31.12.1999	31.12.1998
Group shareholders' equity	19.4	23.6	18.5	16.2
Valuation reserves not recognized in balance sheet, including those apportionable to minority interests and policyholders	16.4	21.9	19.2	19.0

Net underwriting provisions*

in €bn	31.12.2001	31.12.2000	31.12.1999	31.12.1998
Reinsurance	44.4	38.3	35.6	29.7
Primary insurance	94.2	93.2	87.9	81.1
Total	138.6	131.5	123.5	110.8

* After elimination of intra-Group transactions across segments.

Reserve ratios for property-casualty*

in %	31.12.2001	31.12.2000	31.12.1999	31.12.1998
Reinsurance	245.6	225.6	250.9	222.6
Primary insurance	113.9	113.1	102.8	102.3

* Before elimination of intra-Group transactions across segments.
Ratio of total net underwriting provisions to net written premiums.

Important addresses

Reinsurance

UK
Great Lakes Reinsurance (UK) PLC
Upper Ground Floor
1, Minster Court
Mincing Lane, London EC3R 7YH
Tel.: +44 20 7929 28 93
Fax: +44 20 7623 52 20
E-mail: info@greatlakes.co.uk

Italy
Münchener Rück Italia S.p.A.
Via Turati 16/18
20121 Milano
Tel.: +39 02 655 96-1
Fax: +39 02 657 02 46
http://www.munichre.it

Switzerland
New Reinsurance Company
Rue de l'Athénée 6–8
P.O. Box 35 04
1211 Genève 3
Tel.: +41 2 23 19 85 00
Fax: +41 2 23 10 53 32
E-mail: geneva@newre.com

Canada
Munich Reinsurance Company of Canada (MROC)
Munich Re Centre
390 Bay Street, 22nd Floor
Toronto, Ont., M5H 2Y2
Tel.: +1 416 366 9206
Fax: +1 416 366 4330
E-mail: MROC@MROC.com

USA
American Re-Insurance Company
555 College Road East
Princeton, NJ 08543-5241
Tel.: +1 609 243 4200
Fax: +1 609 243 4257
http://www.amre.com

USA
Munich American Reassurance Company
56 Perimeter Center East, N.E., Suite 500
Atlanta, GA 30346-2290
Tel.: +1 770 350 3200
Fax: +1 770 350 3300
http://www.marclife.com

Australia
Munich Reinsurance Company of Australasia Limited (MRA)
7th Floor, Munich Re House
143 Macquarie Street
Sydney NSW 2000
P.O. Box H35 Australia Square
Sydney NSW 1215
Tel.: +6 12 92 72 80 00
Fax: +6 12 92 51 25 16
E-mail: MRA@munichre.com

South Africa
Munich Reinsurance Company of Africa Limited (MRoA)
Munich Re Centre
47 Empire Road, Parktown
Johannesburg 2193, P.O. Box 6636
Johannesburg 2000
Tel.: +27 11 242-20 00
Fax: +27 11 242-22 00
E-mail: MRoA@MunichRe.com

You will find further addresses in our Portrait 2002.

Primary insurance

ERGO Versicherungsgruppe AG
Victoriaplatz 2
40198 Düsseldorf
Tel.: 02 11/49 37-0
Fax: 02 11/49 37-15 00
http://www.ergo.de

VICTORIA Versicherung AG

VICTORIA Lebensversicherung AG
Victoriaplatz 1 und 2
40198 Düsseldorf
Tel.: (00 49) 2 11/4 77-30 03
E-mail: info@victoria.de
http://www.victoria.de

Hamburg-Mannheimer Versicherungs-AG

Hamburg-Mannheimer Sachversicherungs-AG
Überseering 45
22297 Hamburg
Tel.: 0 40/63 76-0
Fax: 0 40/63 76-33 02
E-mail: PR@hamburg-mannheimer.de
http://www.hamburg-mannheimer.de

DKV
Deutsche Krankenversicherung AG
Aachener Strasse 300
50933 Köln
Address for letters: 50594 Köln
Tel.: 02 21/5 78-0
Fax: 02 21/5 78-36 94
E-mail: presse@dkv.com
http://www.dkv.com

D.A.S.
Deutscher Automobil Schutz
Allgemeine Rechtsschutzversicherungs-AG

D.A.S.
Deutscher Automobil Schutz
Versicherungs-AG
Thomas-Dehler-Str. 2
81737 München
Tel.: 0 89/62 75-01
Fax: 0 89/62 75-16 50
E-mail: info@das.de
http://www.das.de

Further addresses may be obtained from the 2001 annual report of ERGO Versicherungsgruppe AG.

Europäische Reiseversicherung AG
Vogelweidestrasse 5
81677 München
Tel.: 0 89/41 66-00
Fax: 0 89/41 66 18 55
E-mail: contact@erv.de
http://www.erv.de

Karlsruher Lebensversicherung Aktiengesellschaft
Friedrich-Scholl-Platz
76112 Karlsruhe
Tel.: 07 21/3 53-0
Fax: 07 21/3 53-26 99
http://www.karlsruher.de

Karlsruher Versicherung Aktiengesellschaft
Hermann-Veit-Strasse 6
76112 Karlsruhe
Tel.: 07 21/3 53-0
Fax: 07 21/3 53-26 99
http://www.karlsruher.de

Mercur Assistance AG Holding
Vogelweidestrasse 3
81677 München
Tel.: 0 89/4 18 64-0
Fax: 0 89/4 18 64-130
http://www.mercur-assistance.de

Asset management

Ergo Trust GmbH
Victoriaplatz 2
40198 Düsseldorf
Tel.: 02 11/49 37-22 80
Fax: 02 11/49 37-26 67
E-mail: ERGO.Trust@ergo.de

MEAG MUNICH ERGO
AssetManagement GmbH
Oskar-von-Miller-Ring 18
80333 München
Tel.: 0 89/24 89-0
Fax: 0 89/24 89-25 55
http://www.meag.com

Affiliated enterprises, participating interests and other shareholdings*

Reinsurance Consolidated subsidiaries	% of share capital	Share-holders' equity €'000**	Result for the year €'000**
American Re Corporation, Princeton	100.00	3,170,111	–963,258
Great Lakes Reinsurance (UK) PLC, London	100.00	121,912	3,415
Munich American Reassurance Company, Atlanta	100.00	981,927	10,082
Munich Reinsurance Company of Canada, Toronto	100.00	92,464	2,758
Munich Reinsurance Company of Africa Limited, Johannesburg	100.00	69,349	21,086
Munich Mauritius Reinsurance Company Ltd., Port Louis	100.00	5,726	2,407
Munich Reinsurance Company of Australasia Limited, Sydney	100.00	114,605	2,893
Münchener Rück Italia S. p. A., Milan	100.00	231,668	1,491
New Reinsurance Company, Geneva	100.00	303,913	–34,598
Temple Insurance Company, Toronto	100.00	80,288	4,814
Associated enterprises			
De Amersfoortse Reinsurance Limited, Dublin	25.00	26,189	3,106
Golden Gate Reinsurance N. V., Amsterdam	26.33	23,214	5,268
Inreon Limited, London	35.43	24,176	–20,862
Prévoyance Re, S. A., Paris	34.00	37,269	–1,414

Other shareholdings in listed companies

Over 5%

BHW Holding AG, Hamlin
Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg
Jenoptik AG, Jena
Österreichische Volksbanken, Vienna
MAN Aktiengesellschaft, Munich

Over 10%

Commerzbank AG, Frankfurt a. M.
Mediclin AG, Frankfurt a. M.
WMF Württembergische Metallwarenfabrik Aktiengesellschaft, Geislingen/Steige

Over 25%

BHS tabletop AG, Selb
Forst Ebnath Aktiengesellschaft, Ebnath

Primary insurance Consolidated subsidiaries	% of share capital	Share-holders' equity €'000**	Result for the year €'000**
ERGO Versicherungsgruppe AG, Düsseldorf****	91.74	1,785,134	257,139
VICTORIA Lebensversicherung Aktiengesellschaft, Düsseldorf***	91.74	228,445	0
VICTORIA Versicherung Aktiengesellschaft, Düsseldorf***	90.66	525,866	0
VICTORIA Krankenversicherung Aktiengesellschaft, Düsseldorf***	91.48	58,875	0
VICTORIA MERIDIONAL Compañía Anónima de Seguros y Reaseguros, S.A., Madrid	88.96	11,689	–3,747
VICTORIA-Seguros de Vida, S.A., Lisbon	90.66	15,583	198
VICTORIA-Seguros S.A., Lisbon	90.66	19,329	–689
VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna	67.66	25,165	996
Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf	91.74	19,077	36
Nieuwe Hollandse Lloyd Levensverzekeringmaatschappij N.V., Woerden	90.66	27,515	2,336
Nieuwe Hollandse Lloyd Schadeverzekeringmaatschappij N.V., Woerden	90.66	21,180	–1,114
VICTORIA General Insurance Company S.A., Saloniki	90.66	18,806	2,344
VICTORIA Life Insurance Company S.A., Saloniki	90.66	6,382	32
Hamburg-Mannheimer Versicherungs-Aktien-Gesellschaft, Hamburg***	91.74	400,648	0
Hamburg-Mannheimer Sachversicherungs-AG, Hamburg***	91.74	325,685	0
Hamburg-Mannheimer Rechtsschutzversicherungs-Aktien-Gesellschaft, Hamburg***	91.20	12,062	0
Hamburg-Mannheimer N.V., Brussels	91.73	11,246	172
DKV Deutsche Krankenversicherung Aktiengesellschaft, Berlin/Cologne***	91.74	529,639	0
DKV Luxembourg S.A., Luxembourg	91.74	8,275	190
DKV Belgium S.A., Brussels	91.74	20,058	1,753
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa	91.74	48,511	2,289
Previasa Vida, S.A. de Seguros y Reaseguros, Saragossa	91.74	12,808	2,173
DKV Nederland N.V., Amsterdam	91.74	66,876	–1,490
NVS Verzekeringen N.V., Amsterdam	91.74	47,522	173
NVS Zorgverzekeringen N.V., Amsterdam	91.74	19,798	–1,063
N.V. Verzekeringsmaatschappij Rijnmond, Rotterdam	91.74	18,884	–1,681
D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich	90.69	207,725	0
D.A.S. Deutscher Automobil Schutz Versicherungs-Aktiengesellschaft, Munich***	90.69	38,756	1,902
DAS Legal Expenses Insurance Company Limited, Bristol	90.69	57,612	7,708
D.A.S. Nederlandse Rechtsbijstand Verzekeringsmaatschappij N.V., Amsterdam	45.35	24,664	3,690
D.A.S. Österreichische Allgemeine Rechtsschutz-Versicherungs-AG, Vienna	90.69	19,865	2,389
ERGO International Aktiengesellschaft, Düsseldorf	91.70	1,286,101	–11,040
ERGO Elukindlustuse AS, Tallinn	92.21	1,119	3
ERGO Lietuva draudimo UAB, Vilnius	92.20	5,288	–556
ERGO Latvija Versicherung AG, Riga	92.16	5,319	–23
STU ERGO HESTIA S.A., Zoppot	82.82	194,284	6,776
STUnZ ERGO HESTIA S.A., Zoppot	91.46	9,464	–11,217
B.B.V. Italia Società per Azioni, Milan	91.70	86,631	–74,437
Bayerische Vida España S.A., Barcelona	46.77	11,417	204
Bayerische Vita S.p.A., Milan	64.19	105,689	16,937
Europäische Reiseversicherung Aktiengesellschaft, Munich	100.00	43,173	–2,087
Europæiske Rejseforsikring A/S, Copenhagen	100.00	2,566	67
Europeiska Försäkeringsaktiebolaget, Stockholm	100.00	545	0
Compagnie Européenne d'Assurances S.A., Neuilly	100.00	5,164	–1,587
Karlsruher Lebensversicherung Aktiengesellschaft, Karlsruhe	54.00	156,975	9,453
Karlsruher Rechtsschutzversicherung AG, Karlsruhe	53.05	7,501	427
Karlsruher Versicherung Aktiengesellschaft, Karlsruhe	53.05	56,331	1,976
The Princeton Excess and Surplus Lines Insurance Company, Princeton	100.00	30,568	736
Mercur Assistance Aktiengesellschaft Holding, Munich	90.00	4,940	–5,875

Associated enterprises	% of share capital	Share-holders' equity €'000**	Result for the year €'000**
Allianz Aktiengesellschaft, Munich	24.99	31,664,000	1,623,000
Bloemers Holding B.V., Rotterdam	22.73	16,841	–2,822
D.A.S. Difesa Automobilistica Sinistri, S.p.A. di Assicurazione, Verona	45.34	5,108	1,299
Orel-G-Holding AD, Sofia	29.67	15,516	63
Storebrand Helseforsikring AS, Oslo	45.87	7,209	–1,608
Union Versicherungs-Aktiengesellschaft, Vienna	30.58	46,163	6,191
Vereinsbank-Victoria Bauspar Aktiengesellschaft, Munich	27.42	69,933	6,550
Financial services, asset management **Consolidated subsidiaries**			
MEAG MUNICH ERGO AssetManagement GmbH, Munich	96.69	43,483	2,020
MEAG Securities Management GmbH, Munich	96.69	25	0
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Munich	96.69	14,165	0
MEAG MUNICH ERGO Real Estate Investment GmbH, Munich	96.69	5,500	0
MEAG Real Estate Management GmbH, Munich	96.69	1,023	0
ERGO Trust GmbH, Düsseldorf	91.74	21,763	0
Associated enterprises			
Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Munich****	25.67	25,110,000	967,000
FSB Fondsservice Bank GmbH, Unterföhring	48.35	5,179	–21
Other participations in insurance companies			
Allgemeine Kreditversicherung Aktiengesellschaft, Mainz	12.50	91,336	14,468
Credit Guarantee Insurance Corporation, Johannesburg	6.90	25,096	10,825
Jordan Insurance Company Ltd., Amman	7.97	18,029	3,212
Mannheimer AG Holding, Mannheim	10.00	204,875	20,096
Mecklenburgische Lebensversicherungs-Aktiengesellschaft, Hanover	12.50	8,513	316
Middle Sea Valetta Life Assurance Co. Ltd., Floriana	10.00	35,725	767
Nürnberger Beteiligungs-Aktiengesellschaft, Nuremberg	19.84	377,796	16,141

* Some of these selected participations are held indirectly.
They are calculated proportionally in each case.

** The amounts are taken from the individual companies' financial statements.
They have been translated using the exchange rates applicable on 31st December 2001.

*** Result for the year after profit transfer.

**** Shareholding at 15th January 2002.

The complete list of shareholdings required by Section 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.

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 (Chairman) RAG AG (Chairman) E.ON Energie AG* (Chairman) VEBA OEL AG* (Chairman)	Henkel KGaA ARCELOR, Luxembourg
Dr. jur. Henning Schulte-Noelle	BASF AG E.ON AG Linde AG Siemens AG Thyssen Krupp AG Allianz Dresdner Asset Management GmbH* (Chairman) Allianz Lebensversicherungs-AG* (Chairman) Allianz Versicherungs-AG* (Chairman) Dresdner Bank AG* (Chairman)	Assurances Générales de France S. A., Paris* Riunione Adriatica di Sicurtà S. p. A., Milan*
Dr. jur. Rolf-E. Breuer	Bertelsmann AG Deutsche Börse AG (Chairman) Deutsche Lufthansa AG E.ON AG Siemens AG	Compagnie de Saint-Gobain S. A., Paris Landwirtschaftliche Rentenbank
Prof. Dr. rer. nat. Henning Kagermann	DaimlerChrysler Services AG IDS Scheer AG Deutsche Bank AG	–
Dr. techn. h. c. Dipl.-Ing. ETH Ferdinand Piëch (until 16th April 2002)	Dr.-Ing. h. c F. Porsche AG	Porsche Holding GesmbH, Salzburg Porsche GesmbH, Salzburg

[1] Status: 7th May 2002.
* Own group company within the meaning of Section 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. Dr.-Ing. E. h. Heinrich v. Pierer	Bayer AG Hochtief AG Volkswagen AG	Siemens AG Austria, Vienna* (Chairman)
Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder (from 17th April 2002)	METRO AG Audi AG* (Chairman)	Tetra Laval Group, Pully Rolls-Royce and Bentley Motor Cars Ltd., Crewe* SEAT, S. A., Barcelona* (Chairman)
Dr. jur. Albrecht Schmidt	Allianz AG Bayerische Börse AG (Chairman) Siemens AG HVB Real Estate Bank* (Chairman) Vereins- und Westbank AG* (Chairman)	Bank Austria, Vienna* (Chairman)
Dr. phil. Ron Sommer	T-Mobile International AG* (Chairman) T-Online International AG* (Chairman)	–
Dr. rer. pol. Alfons Titzrath	Allianz AG Celanese AG Deutsche Lufthansa AG Dresdner Bank AG RWE AG	–

* Own group company within the meaning of Section 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. Hans-Jürgen Schinzler Chairman	Allianz Lebensversicherungs-AG Dresdner Bank AG ERGO Versicherungsgruppe AG (Chairman) MAN AG	Aventis S. A., Schiltigheim Dresdner Kleinwort Wasserstein Inc., New York
Dr. jur. Wolf Otto Bauer	Karlsruher Versicherung AG (Chairman)	–
Dr. jur. Nikolaus von Bomhard	Münchener und Magdeburger Hagelversicherung AG	–
Clement Booth	–	ACORD, Pearl River, New York Inreon Ltd., London Nova Risk Partners Ltd., Johannesburg New Reinsurance Company, Geneva*
Dr. jur. Heiner Hasford	D. A. S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG ERGO Versicherungsgruppe AG Europäische Reiseversicherung AG (Chairman) BHS tabletop AG MAN Nutzfahrzeuge AG Nürnberger Beteiligungs-AG VICTORIA Lebensversicherung AG VICTORIA Versicherung AG WMF Württembergische Metallwarenfabrik AG	Munich London Investment Management Ltd., London American Re Corporation, Wilmington, Delaware*

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Board of Management	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Stefan Heyd	Allianz Versicherungs-AG Bayerische Versicherungsbank AG Frankfurter Versicherungs-AG Kraft Versicherungs-AG	–
Christian Kluge	Karlsruher Lebensversicherung AG Mercur Assistance AG Holding (Chairman)	–
John Phelan (from 1st April 2002)	–	American Re Corporation, Wilmington, Delaware* (Chairman) Munich Reinsurance Company of Canada, Toronto*
Dr. phil. Detlef Schneidawind	DKV Deutsche Krankenversicherung AG Generali Lloyd AG Hamburg-Mannheimer Sachversicherungs-AG Hamburg-Mannheimer Versicherungs-AG Karlsruher Lebensversicherung AG (Chairman) Mecklenburgische Kranken Versicherungs-AG Mecklenburgische Leben Versicherungs-AG	Munich American Reassurance Company, Atlanta*
Dr. jur. Jörg Schneider	Forst Ebnath AG (Chairman) MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH	American Re Corporation, Wilmington, Delaware*
Dr. jur. Hans-Wilmar von Stockhausen	Allgemeine Kreditversicherung AG	Münchener Rück Italia S. p. A., Milan* New Reinsurance Company, Geneva*
Karl Wittmann	–	Jordan Ins. Co. p.l.c., Amman Saudi National Insurance Company E. C., Jeddah Munich Reinsurance Company of Africa Ltd., Johannesburg* Munich Reinsurance Company of Australasia Ltd., Sydney* Munich Reinsurance Company of Canada, Toronto*

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Glossary

A–D

Accumulation The situation where a significant number of risks insured or reinsured with the same company may be affected simultaneously by a loss event.

Affiliated enterprises In the consolidated financial statements of the Munich Reinsurance Company (parent company) all companies are deemed affiliated enterprises in which the Munich Reinsurance company holds the majority of the voting rights either directly or indirectly (subsidiary companies).

Assistance Range of services going beyond the traditional scope of insurance and cost reimbursement. The idea of assistance services is to help claimants quickly and unbureaucratically in the event of a loss occurrence, taking care of the necessary arrangements to remedy the situation.

Associated enterprises Enterprises on whose financial and operating decisions a significant (but not a controlling) influence can be exercised, regardless of whether this influence is actually exercised or not. A significant influence is presumed if the proportion of voting rights lies between 20% and 50%.

At amortized cost Under this accounting principle the difference between the acquisition cost and redemption value (of an investment) is added to or subtracted from the original cost figure over the period until maturity and credited or charged to income over the same period. Writedowns are made for impairment or uncollectability.

Cash flow statement Statement showing the origin and utilization of cash during the business year. It shows the change in liquid funds separately according to
- cash flows from operating activities,
- cash flows from investing activities,
- cash flows from financing activities.

Cedant Client of a reinsurance company.

Cession The reinsuring of risks by a primary insurer with a reinsurer.

Combined ratio The sum of the loss ratio and the expense ratio. The better the results of the underwriting business, the lower this ratio will be; ratios over 100% indicate loss-making business.

Consolidation Combining the items from the individual financial statements of the companies belonging to the Group into one consolidated financial statement, in which items involving intra-Group transactions are eliminated.

Contingent liabilities Possible obligations whose existence will be confirmed by the occurrence or non-occurrence of an uncertain future event and which are therefore not shown as liabilities in the balance sheet. They must, however, be included in the notes to the financial statements (example: guarantee obligations).

Deferred acquisition costs Costs incurred for the acquisition or the renewal of insurance policies (e.g. commission, cost of processing applications) are capitalized and amortized over the term of the contracts.

Deferred tax assets/liabilities Deferred taxes derive from temporary differences between accounting on the basis of International Accounting Standards (consolidated financial statements) and national tax law. If asset items are valued lower, or liabilities higher, than in the tax balance sheet of the Group company concerned, the resulting future tax relief must be recognized as a deferred tax asset. If the accounting differences between the consolidated financial statements will lead to future tax burdens, these must be recognized as deferred tax liabilities.

Deposits retained on assumed reinsurance and ceded business Deposits retained on assumed reinsurance are claims which reinsurers have on their cedants for cash deposits that have been retained by the cedants as a security to cover future reinsurance claims. The cedants show the retained funds as deposits withheld on ceded business.

Derivative financial instrument Financial instruments whose increase or fall in value is based on and determined by the change in the amount of an underlying value (a particular interest rate, security price, exchange rate, price index, etc.). The main derivatives are futures, forwards, swaps and options.

E–I

Earnings per share A ratio calculated by dividing the consolidated profit by the average number of shares issued. For calculating diluted earnings per share, the number of shares is adjusted by the effects of exercised or still to be exercised subscription rights.

E-business Abbreviation for electronic business. Umbrella term for business conducted via electronic media such as the Internet.

Equity method Investments in associated enterprises have to be valued in the consolidated financial statements using the equity method. The "at equity" value corresponds to the Group's proportionate share of the shareholders' equity of the enterprise concerned.

Expense ratio Ratio, in per cent, of operating expenses to earned premiums.

Facultative reinsurance The reinsurer assumes a share of selected individual risks. The primary insurer can offer an individual risk in reinsurance, which the reinsurer for its part can either accept or decline.

Fair value The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction. Where there is an active market, the fair value of an asset is its current market value.

Financial Accounting Standards (FAS) US accounting regulations that give detailed rulings on individual accounting questions and which must be complied with by listed companies that prepare accounts in accordance with US GAAP.

Forward rate agreement (FRA) Interest-rate forward contract traded over the counter, in which a current interest rate that appears favourable is secured for a date in the future. The parties to the contract will settle the contract on the basis of the difference between the market interest rate applicable on the due date and the agreed interest rate.

Futures Standardized contracts to trade a financial instrument on a money market, capital market, precious-metals market or currency market at a specific price and on a specific future date. Frequently, rather than actually delivering the underlying financial instrument on that date, the difference between closing market value and the exercise price is settled in cash.

Goodwill Any excess of the purchase price of a subsidiary over the acquirer's interest in the fair value of the net assets as at the acquisition date. Goodwill is amortized over its useful life.

Gross/net The terms gross and net mean before and after deduction of the portion attributable to business ceded in reinsurance. Instead of "net", the term "for own account" is sometimes used.

Hedging Protecting against undesirable developments in prices by means of special financial contracts, especially derivative financial instruments. Depending on the risk to be hedged, a distinction is made between two basic types: "fair value hedges" safeguard assets or liabilities against the risk of changes in value; "cash flow hedges" reduce the risk of fluctuations in future cash flows.

International Accounting Standards (IAS) Standards formulated by the IASB with the intention of achieving internationally comparable preparation and presentation of financial statements.

International Accounting Standards Board (IASB) An international body of 14 accounting experts responsible for issuing International Accounting Standards. The IASB's objective is to achieve uniformity in the accounting principles that are used by businesses and other organizations for financial reporting around the world

Investments for the benefit of life insurance policyholders who bear the investment risk This mainly involves investments for policyholders under unit-linked life insurances. It also includes investments under index-linked life insurance policies whose performance depends on share or currency indices.

L–P

Loss ratio Ratio, in per cent, of claims expenses to earned premiums.

Market value The amount obtainable for an asset in an active market.

Minority interests in shareholders' equity and earnings That part of the shareholders' equity and earnings of our subsidiaries that is apportionable to shareholders outside the Group.

Net → Gross/net

Net asset value Measurement of the fair value of companies. The starting point is the proportional equity capital of the company to be valued, plus the valuation reserves, any special reserves, claims equalization provisions and similar provisions. The net asset value after tax includes the deferred tax liabilities resulting from the adjustment of the equity capital.

Net expenses for claims and benefits These include the expenses for claims (claims payments and the change in the provision for outstanding claims), expenses for premium refunds and the change in the remaining underwriting provisions (provision for future policy benefits and other), in each case after deduction of the ceded share.

Non-proportional reinsurance Here the reinsurer assumes payment of the primary insurer's losses above a defined amount. The calculation of the reinsurance premium is based on claims experience with the type of business concerned.

Obligatory reinsurance Reinsurance that is binding for both parties. The primary insurer is obliged to cede all risks covered by a reinsurance agreement to the reinsurer and the reinsurer is obliged to accept these risks.

Operating expenses Commission, personnel costs and general expenses for the acquisition and ongoing administration of insurance contracts, less any commission reimbursed by reinsurers, including profit commission.

Operating result before tax Pre-tax operating profit/loss on the enterprise's ordinary activities. Any extraordinary income and expenses are not included in this result.

Options Derivative financial instruments where the holder is entitled – but not obliged – to buy (a call option) or sell (a put option) the underlying asset at a predetermined price within a certain period. The writer of the option is obliged to transfer or buy the asset and receives a premium for granting the option to the purchaser

OTC derivatives Derivative financial instruments which are not standardized and are traded not on an exchange but directly between two counterparties via over-the-counter (OTC) transactions.

Other securities held to maturity Fixed-interest securities which the company has the intention and ability to hold to maturity. They are valued at amortized cost.

Other securities held for trading Securities held for trading comprise temporarily held investments purchased with the intention of obtaining the highest possible return from short-term fluctuations in the market price. They are accounted for at their market value at the balance sheet date. Changes in market value are recognized in the income statement.

Other securities available for sale Securities that will neither be held to maturity nor are assignable to the "held for trading" category. These securities are accounted for at market value. Changes in value are reflected in shareholders' equity without impact on earnings.

Premiums Premiums written means all premium income that has become payable in the business year. The portion of this premium income that constitutes payment for insurance cover in the business year is referred to as earned premiums.

P–S

Primary insurers Insurance companies that assume risks in return for an insurance premium and have a direct contractual relationship with the holder of the insurance policy (private individual, firm or organization).

Proportional reinsurance In proportional reinsurance, the sum insured written by the primary insurer is divided proportionally between the primary insurer and the reinsurer, and the reinsurer is allocated a corresponding share of the premiums and claims.

Provision for future policy benefits Underwriting provision calculated using actuarial methods to cover future benefits to which policyholders are entitled, especially in life, health and personal accident insurance.

Provision for outstanding claims Provision for claims that have already been incurred at the balance sheet date but have either not yet been reported or not yet been fully settled.

Provision for premium refunds Provisions for premium refunds are made for obligations involving bonuses and rebates – especially in life and health insurance – which are not yet payable at the balance sheet date; the amount posted is based on supervisory or contractual regulations.

They also include the unrealized gains and losses from the accounting of certain investments at market value to the extent that policyholders would participate in these gains and losses on realization (provision for deferred premium refunds).

PVFP (present value of future profits) When insurance companies or individual insurance portfolios are acquired, the present value of the expected earnings from the business acquired is capitalized as “PVFP”. This intangible asset arises in particular when life or health insurance companies are acquired.

Rating Standardized assessment of the credit standing of debt instruments and companies by specialized independent rating agencies.

Renewals Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods. In such cases, the treaty conditions are usually adjusted in renewal negotiations each year, and the treaties renewed.

Reinsurers Insurance companies that assume the insurance risks of other insurance companies without themselves having any direct contractual relationship with the policyholder.

Retrocession Reinsurance of reinsurance business assumed from other insurance companies (a reinsurance of reinsurance). Retrocession enables the reinsurer to lay off part of its risk to other insurance companies.

Retrocessionaire Reinsurer that provides retrocession cover for other reinsurers (reinsurer of reinsurers).

Risk The possibility of negative budget variance inherent in any economic activity. In insurance, it is also understood to mean the possibility of a loss being caused by an insured peril. In addition, insured objects or persons are frequently referred to as risks.

Scorecard Instrument for strategy implementation which systematically links strategic objectives (financial and non-financial) with initiatives and action plans. Short-term milestones help in checking the achievement of the objectives.

Security Ability (and willingness) of a reinsurer to meet its financial obligations from reinsurance agreements in full and at all times. Security depends on such factors as earnings capacity, quality of investments, capitalization and liquidity.

Segment reporting Presentation of the items in the annual financial statements according to classes of business and regions.

Shareholder value Management concept which puts the value of a company and the increasing of this value for the shareholders at the centre of its business strategy.

S–V

Special funds Investment funds with a maximum of ten unit-holders that are not natural persons. As the fund owners pursue specific objectives with their investments, investment policy is geared to individual requirements.

Swap Agreement between two counterparties to exchange payment flows over a specified period in order to profit from relative cost benefits that one party enjoys on a particular financial market. In the case of an interest rate swap, payment obligations in the same currency but with different interest rate conditions (e.g. fixed/variable) are exchanged. In the case of currency swaps, the payment obligations exchanged are in different currencies.

Underwriting provisions Uncertain liabilities directly connected with insurance business. These provisions are made to ensure that obligations under insurance contracts can always be met.

Unearned premiums The portion of premium income in the business year that is attributable to periods after the balance sheet date is accounted for as unearned premiums in the underwriting provisions.

Unit-linked life insurance A type of life insurance with a savings component, where the benefits payable depend on the performance of the assets invested in a fund. The investment risk is borne by the policyholder.

US Generally Accepted Accounting Principles (US GAAP) The principles of US accounting that are stipulated as compulsory for listed companies in the US.

Value-based management The concept of value-based management is geared to increasing the value of a company on a long-term basis. Value is only created long term if a company regularly earns a profit that exceeds the costs of the equity capital invested.

Index of key terms

* Inside cover

Important dates

Annual General Meeting	17th July 2002
Dividend payment	18th July 2002
Interim report as at 30th June 2002	29th August 2002
Half-year press conference	29th August 2002
Interim report as at 30th September 2002	28th November 2002
Provisional figures for consolidated financial statements 2002	27th March 2003
Balance sheet meeting of Supervisory Board	28th April 2003
Balance sheet press conference	30th April 2003
Interim report as at 31st March 2003	2nd June 2003
Annual General Meeting	11th June 2003
Dividend payment	12th June 2003
Interim report as at 30th June 2003	28th August 2003
Half-year press conference	28th August 2003
Interim report as at 30th September 2003	1st December 2003

Besides this English translation of the official German original (also available from the company), a translation of our annual report is obtainable in Spanish. You will also find our annual reports and interim reports, along with further information about Munich Re, on the Internet (http://www.munichre.com).

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