Munich Reinsurance Company
Annual Report 2004

Münchener Rück
Munich Re Group

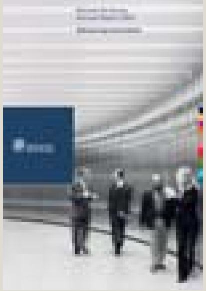
Munich Reinsurance Company

125 years
Advancing innovation

	2004 €m	2003 €m	2002 €m
Gross premiums written	**19,243**	21,748	21,857
Investments	**72,794**	70,893	57,955
Net underwriting provisions	**55,102**	52,099	46,091
Shareholders' equity	**11,866**	11,375	7,115
Profit for the year	**777**	511	2,606
Dividend	**457**	286	223
Dividend per share in €	**2.00**	1.25	1.25
Share price at 31 December in €	**90.45**	96.12	108.43*
Market capitalisation at 31 December	**20,766**	22,067	20,368

*Share price adjusted to take account of capital increase in November 2003.

Source: Datastream



Advancing innovation – This year's Munich Re Group Annual Report presents examples of initiatives and solutions developed by Munich Re staff in 2004. By deploying our skills in old and new fields with energy and ideas, we can grow profitably. The examples may also be found on our website at www.munichre.com

Munich Reinsurance Company
Report on the 125th year of business
1 January to 31 December 2004

Note: The abbreviation T€ used in this report stands for thousand euros.

01 Report of the Supervisory Board

Dr. Hans-Jürgen Schinzler
Chairman of the Supervisory Board

Ladies and gentlemen,
The Supervisory Board closely monitored Munich Re's business development in the year under review, giving detailed attention to the Company's situation. We performed the duties incumbent on us by law and under the Articles of Association, advising the Board of Management and continually assuring ourselves of the fit and proper management of the Company. The Board of Management informed us promptly, comprehensively and regularly about all important business transactions. We were involved in all decisions of fundamental significance. The Chairman of the Supervisory Board kept in regular contact with the Chairman of the Board of Management in between the official meetings and obtained ongoing information on the business position.

Focal points of the meetings

Five meetings of the Supervisory Board took place in the business year 2004. The Supervisory Board allocated more time overall for the individual meetings – acting on a suggestion resulting from the efficiency audit of its activities – and was thus able to devote itself even more extensively to the Company's business situation. Special topics were also dealt with in depth, including the significance of long-term global trends and the related challenges for Munich Re. The meetings were attended by all the members in virtually every case.

The Board of Management reported in detail at the meetings about the quarterly financial statements and on the outlook for the 2004 results. On the basis of these reports, the Supervisory Board regularly discussed, in particular, the development of results in the Munich Re Group's individual business segments. In addition, we debated at length the business policy and planning for 2005 and 2006, as well as the measures for securing and expanding profitability in primary insurance and reinsurance. We had the new Chairman of the Board of Management give us a detailed picture of the Company's strategy. In addition, the Supervisory Board carefully examined the Company's risk situation and risk management, as well as the changes in supervisory requirements for reinsurance. The Board of Management kept us abreast of developments at the main subsidiaries, especially American Re, and the two major IT projects in the primary insurance and reinsurance groups. Other subjects of discussion were the personnel report of the Board of Management and a comparison with competitors of the Munich Re Group. The Supervisory Board also considered such topical issues as the effects of the German Investor Protection Enhancement Act and developments in connection with the investigations of New York State Attorney General Spitzer in the USA. The Board of Management briefed us about the restructuring measures at ERGO, the capital measure involving VICTORIA Leben and Munich Re's assumption of unified control in respect of ERGO.

Between the meetings, we were informed by the Board of Management in writing about various business transactions and events, including the successful renewals in reinsurance, Munich Re's approach with regard to HypoVereinsbank's capital increase, the new management structure for the ERGO Insurance Group, the consequences of the hurricanes in the Caribbean and the USA, the typhoons in Asia, and the earthquake off Sumatra.

Committees of the Supervisory Board

The four committees of the Supervisory Board are each composed of shareholder and employee representatives. Their membership changed in the period under review and is shown separately on page 7. Except for the Audit Committee, they are chaired by the Chairman of the Supervisory Board.

The Personnel Committee met three times in the year under review. It dealt in particular with the compensation of the members of the Board of Management, and with the latter's acceptance of seats on supervisory, advisory and similar boards.

The Standing Committee, which also met three times, devoted itself mainly to topics of corporate governance. Among other things, it discussed how the efficiency of the Supervisory Board's work could be further improved and submitted proposals for this to the full Supervisory Board.

The Audit Committee met five times. It concerned itself extensively with the annual financial statements for Company and Group and the quarterly financial statements; the external auditors reported on their work. The committee also deliberated issues of corporate governance in accounting and risk management, the Internal Auditing Division's annual report, and the financial conglomerates directive. Apart from this, it made preparations for the appointment of the external auditor, which has to be decided on by the Supervisory Board as a whole, obtained the auditor's declaration of independence, and acquired detailed information on the type and scope of services not related to auditing. It appointed the auditor and specified the focal points of the audit.

The Conference Committee as per Section 27 para. 3 of the German Co-Determination Act did not need to be convened.

Regular detailed information about the work of the committees was provided at the meetings of the full Supervisory Board.

Annual financial statements

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the following documents and gave them an unqualified auditor's opinion: Munich Reinsurance Company's financial statements and consolidated financial statements as at 31 December 2004, 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. The Audit Committee examined the company and consolidated financial statements, the management reports and the auditor's reports in advance and discussed them in detail with the auditor at the Audit Committee meeting on 13 March 2005 in order to prepare for the resolution by the full Supervisory Board. The Audit Committee presented the results of its discussion to the full Supervisory Board the following day.

The Supervisory Board closely considered the company financial statements, the consolidated financial statements, the management reports and the proposal of the Board of Management for the appropriation of the balance sheet profit. On the basis of the Audit Committee's prior examination and our own examination, we approved the company and consolidated financial statements. At our balance sheet meeting on 14 March 2005, we 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 a dividend of €2.00 per share.

Corporate governance and declaration of compliance

Munich Re is committed to good corporate governance. The Supervisory Board therefore again examined the efficiency of its work in the year under review and decided on various changes to the rules of procedure for the Board of Management and Supervisory Board. On 9 December 2004, the Board of Management and the Supervisory Board published a declaration of compliance in accordance with Section 161 of the German Stock Companies Act and made it permanently accessible to shareholders on the Company's website.

Composition of the Supervisory Board

The term of office of the Supervisory Board expired at the end of the AGM on 26 May 2004. The AGM re-elected all the shareholders' representatives to the Supervisory Board.

Following the election for the employees' representatives, Klaus-Peter Biebrach, Peter Burgmayr, Gertraud Köppen, Dr. Klaus Schumann and Ludwig Wegmann ceased to be members. We wish to thank them all for their personal commitment and constructive work on the Supervisory Board. The new members elected were Holger Emmert, Dr. Rainer Janßen, Ingrid Müller, Dr. Jürgen Schimetschek and Kerstin Seefried; the other employees' representatives were re-elected.

At its constituent meeting following the AGM, the Supervisory Board elected Dr. Hans-Jürgen Schinzler as its new Chairman. Mr. Hartmann, who had been Chairman since December 1996, was no longer available for this office. We thank Mr. Hartmann very much for his dedicated and discerning work over many years and are glad that he will continue to serve Munich Re on this body.

The Supervisory Board wishes to thank the Board of Management and all staff for their hard work and commitment in the year under review, which played a decisive part in enabling the Munich Re Group in 2004 to record the best result in its history.

Munich, 14 March 2005

For the Supervisory Board

H. J. Schinzler

Dr. Hans-Jürgen Schinzler
Chairman

Supervisory Board

Chairman (until 26 May 2004)
Ulrich Hartmann
Chairman of the Supervisory Board of E.ON AG

Chairman (from 26 May 2004)
Dr. jur. Hans-Jürgen Schinzler (from 2 January 2004)
Former Chairman of the Board of Management of
Munich Reinsurance Company

Deputy Chairman
Herbert Bach
Employee of Munich Reinsurance Company

Hans-Georg Appel
Employee of Munich Reinsurance Company

Klaus Peter Biebrach (until 26 May 2004)
Employee of Munich Reinsurance Company

Peter Burgmayr (until 26 May 2004)
Employee of Munich Reinsurance Company

Holger Emmert (from 26 May 2004)
Employee of Munich Reinsurance Company

Dr. rer. nat. Rainer Janßen (from 26 May 2004)
Employee of Munich Reinsurance Company

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

Gertraud Köppen (until 26 May 2004)
Employee of Munich Reinsurance Company

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

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

Prof. Karel Van Miert
Professor at the University of Nyenrode

Ingrid Müller (from 26 May 2004)
Employee of Munich Reinsurance Company

Dr. jur. Dr.-Ing. E. h. Heinrich v. Pierer
Chairman of the Board of Management of Siemens AG
(until 27 January 2005)
Chairman of the Supervisory Board of Siemens AG
(from 27 January 2005)

Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder
Chairman of the Board of Management of Volkswagen AG

Dr. rer. nat. Jürgen Schimetschek (from 26 May 2004)
Employee of Munich Reinsurance Company

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

Dr. rer. nat. Dipl.-Chemiker Klaus Schumann (until 26 May 2004)
Employee of Munich Reinsurance Company

Kerstin Seefried (from 26 May 2004)
Employee of Munich Reinsurance Company

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

Wolfgang Stögbauer
Employee of Munich Reinsurance Company

Josef Süßl
Employee of Munich Reinsurance Company

Judy Võ
Employee of Munich Reinsurance Company

Ludwig Wegmann (until 26 May 2004)
Employee of Munich Reinsurance Company

Membership of the Supervisory Board committees

Personnel Committee
Ulrich Hartmann (Chairman) (until 26 May 2004)
Dr. Hans-Jürgen Schinzler (Chairman) (from 26 May 2004)
Herbert Bach
Dr. Bernd Pischetsrieder

Standing Committee
Ulrich Hartmann (Chairman) (until 26 May 2004)
Dr. Hans-Jürgen Schinzler (Chairman) (from 26 May 2004)
Herbert Bach
Dr. Bernd Pischetsrieder
Dr. Albrecht Schmidt
Josef Süßl

Audit Committee
Dr. Albrecht Schmidt (Chairman)
Hans-Georg Appel (from 26 May 2004)
Klaus Peter Biebrach (until 26 May 2004)
Ulrich Hartmann (until 26 May 2004)
Prof. Dr. Henning Kagermann
Dr. Hans-Jürgen Schinzler (from 26 May 2004)
Dr. Klaus Schumann (until 26 May 2004)
Wolfgang Stögbauer (from 26 May 2004)

Conference Committee
Ulrich Hartmann (Chairman) (until 26 May 2004)
Dr. Hans-Jürgen Schinzler (Chairman) (from 26 May 2004)
Herbert Bach
Dr. Bernd Pischetsrieder
Wolfgang Stögbauer (until 26 May 2004)
Judy Võ (from 26 May 2004)

02 Board of Management

Board of Management

Dr. jur. Nikolaus von Bomhard
(Chairman of the Board of Management)

*1956, lawyer, with Munich Re since 1985
Executive Offices
Press
Internal Auditing
Strategic Planning

Georg Daschner

*1949, chartered insurer, with Munich Re since 1965
Europe 2 and Latin America

Dr. jur. Heiner Hasford

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

Stefan Heyd

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

Dr. rer. nat. Torsten Jeworrek

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

Christian Kluge

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

John Phelan

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

Dr. phil. Detlef Schneidawind

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

Dr. jur. Jörg Schneider

*1958, business graduate, lawyer, with Munich Re since 1988
Accounting
Controlling
Integrated Risk Management
Taxes
Investor Relations

Karl Wittmann

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

03 Management report

Classes of business

As a professional reinsurer, Munich Reinsurance Company operates worldwide in all classes of insurance. It is the parent company of the Munich Re Group, whose business encompasses reinsurance, primary insurance and asset management. There were no significant changes in the Company's international organisation in the business year 2004.

In 2004, Munich Reinsurance Company wrote gross premiums totalling €19.2bn (21.7bn), or 11.5% less than in 2003. Adjusted to eliminate the effects of changes in exchange rates, the decrease amounted to 9.0%. While growth in life reinsurance was sustained, premium income in non-life declined. The fall was particularly strong in liability and fire business and was mainly attributable to the reduction or termination of large-volume business. Foreign business accounted for 76% (77%) of premium, whereas domestic business was responsible for 24% (23%).

Our underwriting result before allocations to claims equalisation provisions showed a profit of €622m (1,131m). It was significantly influenced by an unprecedented series of severe natural catastrophes in the second half of the year. The combined ratio, which reflects the relation of claims and costs to net premiums earned, was 96.4% (93.8%). Excluding claims burdens from natural catastrophes, it improved to 91.2% (92.1%).

Whereas in the previous year claims equalisation provisions, which are posted in accordance with German commercial law, had been raised by €2,878m, allocations in the year under review came to €1,129m, given the again positive business performance. The largest portion of this was in fire reinsurance, with an amount of €739m. After allocations to claims equalisation provisions, our underwriting result showed a loss of €507m (1,747m).

The investment result totalled €2.9bn (3.6bn), of which €999m (981m) was incorporated in the underwriting result as interest on underwriting provisions, in compliance with accounting regulations.

The profit for the year totalled €777m (511m). After allocation of €319m (224m) to the revenue reserves and a profit carried forward of €1m (0m), a balance sheet profit of €459m (287m) remains for 2004. This profit is earmarked for the payment of an increased dividend of €2.00 per share.

We again recorded a significant increase in premium income in life reinsurance. This growth was mainly due to large treaties covering mortality and morbidity risks in Canada, the United Kingdom and the USA. We strengthened our leading position in these countries and on the German market. The result just failed to reach the previous year's good figure but stabilised at a high level. For 2005 we anticipate a further rise in premium and a higher profit again.

Health reinsurance was marked by a decrease in premium income that was largely attributable to the termination of a retrocession by our US subsidiary American Re as at 30 June 2004. This with lead to a further fall in premium in 2005. The result should nevertheless improve slightly.

Liability reinsurance experienced a pronounced decline in premium, which was essentially due to a reduction of our share in a large-volume treaty with a UK cedant. The result was again negative, owing partly to long-tail claims from prior years. The renewals at 1 January 2005 were for the most part characterised by unchanged price levels. Given the additional portfolio rehabilitation measures taken, we assume that there could be a further fall in premium but the result should improve appreciably.

Personal accident reinsurance also experienced a decline in premium, due in particular to the scheduled reduction of a block of business with a large premium volume. Exceptionally high claims costs for major losses were responsible for the negative result. For the current business year we expect premium volume to remain nearly unchanged, and personal accident reinsurance is likely to return to the profit zone.

Our premiums in motor reinsurance did not quite attain the previous year's level – a fact that clearly reflects our consistent portfolio remedial measures. In the year under review, we had to strengthen reserves for prior years, in particular for French motor liability business. The largest individual loss – a spectacular lorry accident on the Wiehltal bridge in Germany – once again demonstrated how important it is to stop granting unlimited liability. The overall result nevertheless reached the previous year's level. For 2005 we expect a slight decrease in premium income. If claims costs are average, risk-adequate prices should result in an overall profit.

Despite the high market premium level, it was not possible to achieve growth in marine reinsurance. This is attributable to the fact that we no longer renewed business which did not meet our high standards. On the whole, prices were risk-adequate, allowing us to again significantly improve the profitability and quality of our portfolio. High burdens from major losses caused the result to dip back slightly into the red. In the current year, we expect a moderate increase in premium, but the result should be positive again.

In aviation reinsurance, premium income rose marginally. We compensated for the currency-related decline in premium with new business, among other things by raising our participation in the business of the world's biggest aviation insurer. We thus further expanded our leading position in aviation and space business. The rise in the number of insured satellite launches caused premium income in space insurance to climb as well. As in the previous year, the underwriting result we posted for aviation was very satisfactory. The trend towards reductions in rates remains unbroken, although prices are still at a risk-commensurate level. For 2005 we anticipate a slight premium decrease. If claims incidence is average, the result is likely to be good again.

In fire business, the reduction in premium was particularly strong. We lowered our share in individual large reinsurance treaties as planned but also consistently withdrew from business that did not meet our return requirements. Gross premiums were also adversely influenced by changes in exchange rates, whereas the business itself again developed very pleasingly. The cyclones on the Atlantic and Pacific coasts as well as the tsunami triggered by the severe earthquake in the Indian Ocean had a significant impact on the result, but in relative terms these events did not affect us as much as they did some other providers. We had restricted our exposure through increased retentions for primary insurers, liability limits and more efficient accumulation control. Our result was again clearly positive, despite the high expenditure for natural catastrophes. In the ongoing renewals of reinsurance treaties, we are still continuing to negotiate according to the maxim of profitability before growth. We are willing to sacrifice premium volume if we cannot achieve a risk-adequate price level. On the other hand, we will take systematic advantage of business opportunities that meet our profitability requirements. For the current year we anticipate a somewhat lower premium volume. Provided there are no exceptional natural catastrophes or other major loss events, we expect the result to develop favourably.

In engineering reinsurance (machinery, EAR, CAR, EEI, etc.), premiums fell as a consequence of our selective underwriting policy. Business performance was characterised by a lower burden from large losses. The most remarkable single loss was the collapse of the roof of the terminal at Roissy-Charles de Gaulle airport in Paris in the second quarter of 2004. For 2005 we expect the result to reach the same high level, with premium income falling slightly.

Under the heading of "other classes of business", we subsume the remaining classes of property reinsurance (burglary, glass, hail, water damage, contingency, windstorm, livestock and householders' and homeowners' comprehensive reinsurance) as well as credit and fidelity guarantee reinsurance.

Together, these classes of business recorded slightly lower premium income than in the previous year. We succeeded in significantly improving the combined result and benefited in the property reinsurance classes from an extremely low incidence of major losses in the year under review. Credit reinsurance again showed a noticeable improvement, despite the rise in insolvencies. This is the consequence of our strictly profit-oriented underwriting in this class. For 2005 we anticipate a slightly higher premium volume and a result of around the same very good level as last year.

Investments

The book value of Munich Reinsurance Company's investments (excluding deposits retained on assumed reinsurance) rose by 2.6% to €46.7bn (45.5bn).

Real estate, at €1.04bn (1.05bn), shows almost no change compared with the previous year.

Investments in affiliated enterprises and participating interests fell by €0.6bn to €14.3bn (14.9bn). This decline is mainly attributable to writedowns on our HypoVereinsbank shares.

The other investments increased by 6.4% to €31.4bn (29.5bn), with bearer bonds and other fixed-interest securities climbing to €17.9bn (16.2bn). We were able to invest funds from regular cash flow.

The market value of our real estate, investments in affiliated enterprises and participating interests and other investments totalled €53.5bn at 31 December 2004, or 1.8% more than in the previous year.

Income from investments decreased to €4.0bn (8.1bn). In the previous year, intra-Group shareholding transactions had produced extraordinary income of €4.0bn, part of which was offset by the item "expenses from loss transfers" totalling €3.7bn.

Expenses for investments totalled €1.1bn (4.5bn). Adjusted to eliminate the effects of the intra-Group loss transfer in 2003 and the writedown of €0.6bn on our HypoVereinsbank shares in the business year 2004, these expenses showed a reduction. Without the writedown on the participation, the writedowns in the year under review would have decreased by €284m on the previous year. In addition, losses on the disposal of investments were €93m lower.

The overall investment result totalled €2.9bn (3.6bn).

Prospects

In the renewals at 1 January 2005, Munich Re offered its capacity at strictly risk-adequate prices and conditions. Although rates showed varying trends in the individual segments, they remained at an appropriate level overall. We will consistently pursue our result-oriented approach, being prepared to sacrifice premium volume if treaties are not attractive to us on the basis of their rates and conditions. Consequently, we expect premium income to be marginally lower.

The continually improving quality of the portfolio should have a positive effect on the underwriting result in the current business year. A major factor, however, will be what claims costs affect us as a result of natural catastrophes and other major losses during the risk period.

The macroeconomic environment of the capital markets in 2005 is likely to be characterised by an economic slowdown and comparatively high commodity prices. In view of this, the performance of the stock markets will probably be on the moderate side. Despite possible changes in key interest rates by the central banks, we anticipate that there will be only limited scope for higher long-term interest rates on the bond markets.

All in all, we expect the business year 2005 to be a successful one for the Company.

Risk report

Following a short description of the functions and organisation of risk monitoring and risk control – based on German Accounting Standard DRS 5-20 – we focus in this report on the main risks and important risk management measures. At the end of the report, we evaluate the risk position of the Company as a whole.

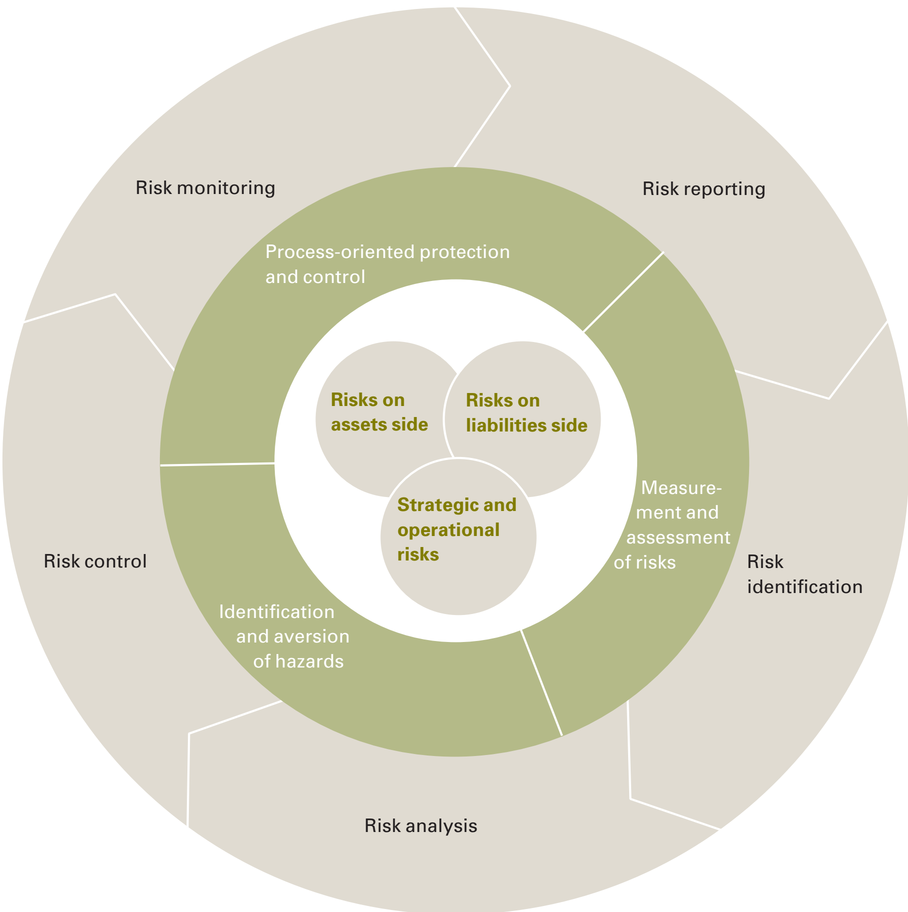
Functions and organisation of risk monitoring and control
Responsibility for holistically analysing, regulating and controlling the risks on the asset and liability sides is located centrally with the Company's Integrated Risk Management Division. Here, we have combined important instruments such as asset-liability management, active capital management and capital modelling.

In day-to-day business, on the other hand, responsibility for systematically handling individual risks in reinsurance lies with executives in their function as risk managers. They identify, analyse, monitor and manage the risks on an ongoing basis with support from the risk controllers.

In addition, regular risk assessments are performed. Besides a standardised risk survey among the risk managers, relevant risks and risk fields are looked at in more depth with the respective experts and are evaluated in workshops together with the reinsurance risk controllers responsible in order to assess the risk situation holistically.

Central Risk Controlling develops and maintains the systems, reports to management about the current risk situation – on an ad-hoc basis if required – and checks measures relating to risk policy, proposing new ones where necessary.

The Company complies with the German Law on Corporate Control and Transparency. The risk management system is regularly examined independently, both by internal auditing units of the individual subsidiaries and by the external auditor as part of the annual audit.



Main underwriting risks and important control measures
Often the risk of change coincides with the risk of random fluctuations, making it more difficult to identify and quantify the risk potential. For example, the exceptional hurricane season in 2004 coincides with a trend towards greater frequency of severe weather catastrophes due to global warming. Furthermore, we are witnessing an increasing regional concentration of insured values, especially in highly exposed regions. Only extensive know-how and well-maintained data resources can produce risk-adequate prices and conditions in these circumstances. Through selective underwriting, client-focused claims handling and state-of-the-art reserving methods, we endeavour to minimise risks resulting from the risk of change.

Our combined ratios, which are important to us along with other key indictors in monitoring the premium/claims risk in property-casualty reinsurance, have developed as follows over the last ten years:

Combined ratios	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Including natural catastrophes	96.4	93.8	108.3**	127.4*	115.7	120.6	101.9	98.8	97.8	99.9
Excluding natural catastrophes	91.2	92.1	104.8**	126.1*	111.7	107.2	98.9	97.9	97.7	99.0

*Thereof the World Trade Center: 15.9%.
**Thereof the World Trade Center: 3.5%.

In life reinsurance the biometric risk, the lapse risk and the interest guarantee risk are especially relevant. We calculate the biometric risk on the basis of "best estimates", which are derived from portfolio data and include appropriate assumptions regarding future development. We also consider market standards in calculating the biometric risk. Lapse risks can be reduced by means of suitable product and contract design. The residual lapse risk is estimated by means of product-specific portfolio analyses and taken into account in the pricing. We exclude the interest-guarantee risk in many cases by means of suitable treaty design. Furthermore, as a matter of principle, we use prudent assumptions regarding the probable interest rate when fixing the actuarial interest rate in the calculation of premiums and reserves.

Binding underwriting guidelines and limits and clear underwriting authorities within the Company precisely regulate who is authorised and accountable for concluding insurance and reinsurance contracts and at what conditions. We regularly check compliance with these guidelines. As a general rule, our treaties and the original business ceded to us contain clear liability limits, since unlimited covers in reinsurance are not calculable. Despite the implementation of our restrictive underwriting policy with regard to unlimited covers, such risks will continue to feature in our portfolio in the foreseeable future, as insurers cannot convert their original in-force policies immediately.

Another preventive risk controlling measure is the agreement of accumulation budgets in reinsurance. The loss scenarios underlying the accumulation budgets are regularly checked.

An excellent tool for risk prevention, and thus for risk controlling, is careful reserving to ensure that sufficient funds are available to cover future claims and losses which have been incurred but not yet reported or not reported enough. Hence we generally establish provisions for uncertain liabilities using actuarial methods. In addition, where required under national rules of insurance supervision and accounting, we post provisions for fluctuations in claims experience. Claims provisions for all classes of business and at all companies are regularly checked by means of internal reviews and audits to make sure they are sufficient.

A further important risk control measure in the field of underwriting is the cession of a portion of our risks to third parties via external retrocession. We have appropriate retrocession cover, the core component of which is an accumulation excess-of-loss cover that provides protection against losses from natural catastrophes and is placed on the international reinsurance market.

We only choose business partners for our externally placed retrocessions that have been accepted by our Security Committee, which examines the security of potential retrocessionaires on the basis of a range of criteria. The minimum requirement for participating in one of our retrocession treaties is a rating of A– from S&P or A. M. Best.

Risks from defaults on receivables from underwriting business

3.3% of our receivables on underwriting business at the balance sheet date were outstanding for more than 90 days. The average default rate of the last three years amounts to 0.4%.

Main investment risks and important control measures

In the investment sector, the Company is guided by the following principles: only investments are to be made from which an appropriate return can be expected and which offer a high degree of security, as reflected in high-quality ratings of the relevant issuers and counterparties, for example. Also important is sufficient liquidity at all times to cover obligations from underwriting business and a targeted diversification in terms of region and type of investment.

Asset-liability management forms the basis for our investment strategy. In other words, besides return and risk aspects, we consider requirements relating to underwriting, supervisory regulations, accounting, tax, liquidity and currencies.

Besides this, for individual products involving explicit financial risks, such as interest-rate or currency risks, asset-liability management is already carried out at micro level when the product is being designed. This is especially the case with long-tail business, owing to the high interest-rate risk.

Market-price risks in investments are measured and controlled using the value-at-risk approach, which is also employed in our strategic investment planning to model the optimum investment portfolio according to risk preference. Using stress tests, sensitivity analyses and duration analyses, we also simulate market fluctuations and devise strategies for countering them where necessary.

The following sensitivity analyses for market-price risks serve to estimate potential changes in the value of investments under hypothetically possible market scenarios. The basis for the review are the holdings of the Company at 31 December 2004.

The changes in share price assumed in these scenarios, ±10% and ±20% respectively, a corresponding shift in the interest rate curve of ±100 and ±200 basis points (BP) respectively, and a fluctuation in exchange rates of ±10%, would produce the following changes in market value:

Change in share prices	Change in market value of investments sensitive to share prices
Increase of 20%	+€4.329bn
Increase of 10%	+€2.164bn
Fall of 10%	–€2.164bn
Fall of 20%	–€4.329bn
Market values at 31.12.2004	€21.758bn

Change in interest rates	Change in market value of investments sensitive to interest rates
Increase of 200 BP	–€2.987bn
Increase of 100 BP	–€1.580bn
Fall of 100 BP	+€1.763bn
Fall of 200 BP	+€3.724bn
Market values at 31.12.2004	€29.017bn

Change in exchange rates	Change in market value of investments sensitive to exchange rates
Increase of 10%	+€1.987bn
Fall of 10%	–€1.987bn
Market values at 31.12.2004	€19.874bn

We only run currency risks to a very small extent, since we practise a policy of currency matching. This means that for the main currency liabilities in underwriting business, appropriate matching items are established on the assets side.

We use derivative financial instruments to hedge parts of the portfolio, to optimise earnings and to implement planned purchases and sales.

Credit risks in the investment portfolio are measured and limited using the credit-value-at-risk approach. The main elements for measuring the credit risk are the investment volume, the term of the investment, the quality of the collateralisation, and the default probability of the individual issuers in the portfolio.

Our counterparty limit system, with which we additionally restrict default risks in respect of individual issuers, considers the issuer's individual rating, its capitalisation as a basis for covering the liability, the quality of the collateralisation of the respective issue, the sector concerned, and our internally defined risk tolerance. Regular watch-lists with critical cases are prepared in order to monitor individual issuers. Thus, as in previous years, our investments were only affected to a very slight extent by defaults.

Detailed liquidity planning ensures that we 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 also in connection with the losses resulting from the attack on the World Trade Center.

Main operational risks

Operational risks are risks whose origins lie in processes, people, technology or external events and which could lead to unexpected losses.

Risks in the area of information technology and project risks

Munich Re's global business requires a networking of our business units and systems worldwide, both organisationally and technically. The consequence of this is a growing dependency on electronic communications technology, the complexity of which is continually increasing. The value of the processed information is also growing. Consequently, the organisational and technical measures needed to protect the confidentiality, availability and integrity of these data and systems are acquiring ever-greater importance. We are also exposed to IT risks such as breakdowns and outages, disruptions due to viruses, attacks by hackers and theft of data, including misuse by our own staff. The dependence on central IT systems requires that, in the event of failure or outage of computer centres, the most important systems and applications can be restored as quickly as possible.

The aim of our GLORIA project is to unify the entire Company's IT and process landscape for the administration of reinsurance contracts on the basis of an SAP standard product. The size and complexity of the undertaking naturally harbour corresponding project risks. Risk management and problem-handling are therefore central tasks of the project management. Now that we have successfully put the first major module into operation, the next step is the scheduled implementation of the basic system.

Risks in the human resources sector

The main human resources risks are: shortages of qualified personnel, insufficient adaptation, demotivation and loss of staff. We identify these risks by means of appropriate indicators and metrics. With targeted personnel marketing measures, potential assessment schemes and systematic succession planning, we counter the risk of shortages in qualified staff. Individual development planning and suitable training offers enable our staff to adapt to current market requirements. Modern management tools and adequate monetary and non-monetary incentives ensure high motivation. Our human resources tools as a whole serve to strengthen our staff's ties with the Company and consequently to safeguard our business knowledge.

Legal risks

Legal risks may arise on the one hand from court decisions and legislation (changes in legal parameters) and on the other from legal disputes and arbitration proceedings in which we as an international reinsurer are involved, especially in the area of claims settlement.

Last April, New York Attorney General Eliot Spitzer started an investigation into the use of Placement or Market Services Agreements in the insurance industry. Several other US state regulators subsequently commenced similar probes into this matter. Entities of the Munich Re organisation have received requests to provide information in connection with these investigations and are cooperating fully with the authorities. Entities of the Munich Re organisation, together with several other insurers and brokers, have been named defendants in several PSA-related class actions by US policyholders. Munich Re will defend itself vigorously.

Currently the US Securities and Exchange Commission (SEC) and New York Attorney General (NYAG) are making inquiries with respect to "certain loss mitigation insurance products". Munich Re has received requests from both to produce information and material, and is cooperating fully in this regard.

Other cases from which legal risks may develop:

- Legislative procedure for the Fairness in Asbestos Injury Resolution Act 2004 in the USA
- Ultimate claims burden in connection with the attack on the World Trade Center of 11 September 2001

Outlook

Within a system that permeates the whole Company, we are intensifying and systematising risk management and controlling. We are devoting particular attention to linking integrated risk management, risk controlling and capital planning even more closely.

By implementing systematic asset-liability management, we aim to holistically optimise our portfolio in terms of underwriting and investment and to make accumulations between underwriting risks and investment risks more transparent.

Summary of the risk position

We see ourselves on course for sustained profitability and evaluate the Company's risk situation as controlled and viable. We have identified a need for action in certain areas and have initiated the necessary measures. According to our assessment, based on an overall evaluation of the situation, there are no risks which could have a significant and lasting adverse effect on the assets, liabilities, financial position and results of our Company.

04 Financial statements

Balance sheet as at 31 December 2004

Assets	Notes	T€	T€	T€	T€	Prev. year T€
A. Intangible assets	(1)				116,487	156,604
B. Investments	(2, 3)					
I. Real estate				1,036,821		1,049,044
II. Investments in affiliated enterprises and participations						
1. Shares in affiliated enterprises			11,929,167			11,822,848
2. Loans to affiliated enterprises			1,193,029			1,252,192
3. Participations*			1,085,811			1,789,695
4. Loans to participations			43,209			72,328
				14,251,216		14,937,063
III. Other investments						
1. Shares, investment fund certificates and other non-fixed-interest securities			12,927,179			12,919,695
2. Bearer bonds and other fixed-interest securities			17,937,158			16,189,399
3. Mortgage loans			10,045			10,980
4. Other loans						
a) Registered bonds		4,300				4,030
b) Loans and promissory notes		2,724				5,304
c) Miscellaneous		169				177
			7,193			9,511
5. Deposits with banks			379,199			298,571
6. Miscellaneous investments			105,037			52,163
				31,365,811		29,480,319
IV. Deposits retained on assumed reinsurance business				26,139,706		25,426,262
					72,793,554	70,892,688
C. Receivables						
I. Accounts receivable on reinsurance business Thereof from – affiliated enterprises: T€741,547 (1,122,925) – participations: T€4,616 (5,968)				2,159,221		2,541,669
II. Other receivables Thereof from – affiliated enterprises: T€258,535 (180,447) – participations: T€826 (382)				643,773		655,433
					2,802,994	3,197,102

*Companies in which a participating interest is held.

Assets	Notes	T€	T€	T€	T€	Prev. year T€
D. Other assets						
I. Tangible assets and inventories				54,244		48,274
II. Cash at bank in current accounts, cheques and cash in hand				138,213		137,298
III. Own shares				113		150
IV. Miscellaneous				605		–
					193,175	185,722
E. Deferred taxes					352,004	379,407
F. Other deferred items						
I. Accrued interest and rent				331,747		309,039
II. Miscellaneous deferred items				2,684		2,132
					334,431	311,171
Total assets					**76,592,645**	**75,122,694**

Equity and liabilities	Notes	T€	T€	T€	Prev. year T€
A. Shareholders' equity	(4)				
I. Issued capital			587,725		587,725
II. Capital reserve			6,832,037		6,832,037
III. Revenue reserves			3,987,254		3,668,734
IV. Balance sheet profit			459,160		286,975
				11,866,176	11,375,471
B. Subordinated liabilities	(5)			3,037,910	3,391,747
C. Underwriting provisions	(6)				
I. Unearned premiums					
1. Gross amount		4,251,243			4,433,106
2. Less for retroceded business		207,875			211,734
			4,043,368		4,221,372
II. Provision for future policy benefits					
1. Gross amount		21,192,143			20,727,448
2. Less for retroceded business		1,377,373			1,962,358
			19,814,770		18,765,090
III. Provision for outstanding claims					
1. Gross amount		23,764,386			23,113,239
2. Less for retroceded business		1,240,536			1,525,290
			22,523,850		21,587,949
IV. Provision for premium refunds					
1. Gross amount		11,252			16,065
2. Less for retroceded business		–			1,535
			11,252		14,530
V. Claims equalisation provision and similar provisions			7,959,827		6,881,203
VI. Other underwriting provisions					
1. Gross amount		765,353			636,364
2. Less for retroceded business		15,972			7,412
			749,381		628,952
				55,102,448	52,099,096

Equity and liabilities	Notes	T€	T€	T€	Prev. year T€
D. Other accrued liabilities	(7)				
I. Provisions for employees' pensions and similar commitments			318,888		301,012
II. Provisions for tax			608,333		834,720
III. Miscellaneous			606,662		503,345
				1,533,883	1,639,077
E. Deposits retained on retroceded business				1,451,234	2,183,499
F. Other liabilities					
I. Accounts payable on reinsurance business Thereof to – affiliated enterprises: T€299,172 (188,146) – participations: T€1 (2,181)			1,937,296		1,592,527
II. Notes and debentures	(8)		1,239,426		1,218,905
III. Amounts owed to banks	(9)		127,176		650,198
IV. Miscellaneous liabilities Thereof towards – affiliated enterprises: T€141,741 (286,336) – participations: T€3 (–) Thereof from taxes: T€7,110 (3,693) Thereof for social security: T€4,089 (3,840)	(10)		295,012		968,551
				3,598,910	4,430,181
G. Deferred items				2,084	3,623
Total equity and liabilities				**76,592,645**	**75,122,694**

Income statement for the business year 2004

Items	Notes	T€	T€	T€	Prev. year T€
I. Technical account					
1. Earned premiums for own account					
a) Gross premiums written		19,242,562			21,747,736
b) Retroceded premiums		1,112,748			1,440,599
			18,129,814		20,307,137
c) Change in gross unearned premiums		87,712			–832,320
d) Change in retroceded share of unearned premiums		–1,371			–12,352
			86,341		–844,672
				18,216,155	19,462,465
2. Interest on underwriting provisions for own account	(12)			880,373	894,358
3. Other underwriting income for own account				15,744	3,567
4. Claims incurred for own account					
a) Claims paid					
aa) Gross amount		12,197,217			11,839,156
ab) Retroceded amount		959,416			1,127,980
			11,237,801		10,711,176
b) Change in provision for outstanding claims					
ba) Gross amount		1,357,642			2,166,311
bb) Retroceded amount		–259,411			–424,540
			1,617,053		2,590,851
				12,854,854	13,302,027
5. Change in other underwriting provisions for own account					
a) Net provision for future policy benefits			–487,283		–156,433
b) Other net underwriting provisions			62,615		44,843
				–424,668	–111,590
6. Expenses for premium refunds for own account				2,727	9,597
7. Operating expenses for own account	(13)				
a) Gross operating expenses			5,463,899		6,051,052
b) Less commission received on retroceded business			287,391		268,395
				5,176,508	5,782,657
8. Other underwriting expenses for own account				31,133	23,922
9. Subtotal				622,382	1,130,597
10. Change in claims equalisation provision and similar provisions				–1,128,936	–2,877,794
11. Underwriting result for own account	(11)			–506,554	–1,747,197

Items	Notes	T€	T€	T€	T€	Prev. year T€
II. Non-technical account						
1. Investment income	(14, 16)					
a) Dividends from participations						
Thereof from affiliated enterprises: T€63,586 (4,122,983)			**69,484**			4,155,103
b) Income from other investments						
Thereof from affiliated enterprises: T€461,253 (375,345)						
ba) Rents from real estate		**134,983**				159,004
bb) Income from other investments		**2,411,701**				1,971,097
			2,546,684			2,130,101
c) Income from write-ups			**289,194**			297,200
d) Realised gains on investments			**1,069,044**			1,326,748
e) Income from profit-transfer agreements			**–**			49,151
f) Income from reduction of special reserve			**–**			175,183
				3,974,406		8,133,486
2. Investment expenses	(13, 15, 16)					
a) Expenses for the management of investments, interest paid and other expenses for investments			**123,707**			141,940
b) Writedowns on investments			**844,299**			504,392
c) Realised losses on investments			**119,383**			212,532
d) Expenses from loss transfers			**954**			3,678,757
				1,088,343		4,537,621
				2,886,063		3,595,865
3. Interest income on underwriting provisions				**999,260**		981,302
					1,886,803	2,614,563
4. Other income					**298,637**	261,856
5. Other expenses					**804,195**	605,217
6. Operating result before tax					**874,691**	524,005
7. Taxes on income				**91,539**		7,601
8. Other taxes				**6,193**		5,570
					97,732	13,171
9. Profit for the year					**776,959**	510,834
10. Profit brought forward from previous year					**721**	420
11. Transfer to revenue reserves					**318,520**	224,279
12. Balance sheet profit					**459,160**	**286,975**

Notes to the financial statements

The financial statements have been prepared on the basis of German accounting regulations (German Commercial Code).

Accounting and valuation methods

Basic principle
The assets and liabilities shown in the company financial statements are included and valued uniformly according to conservative principles.

Intangible assets
Intangible assets are valued at the acquisition cost less admissible straight-line or, where applicable, extraordinary depreciations.

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

Shareholdings in affiliated enterprises and other participations are generally valued at the acquisition cost; necessary writedowns are made.

Loans to affiliated enterprises and to companies in which participations are held, mortgage loans, registered bonds, and loans and promissory notes are generally included in the balance sheet at their nominal values. An exception are bearer papers and zero bonds issued to affiliated enterprises and participations, which are accounted for at amortised cost in the items "loans to affiliated enterprises" and "loans to participations"; in the case of inclusion at the nominal values, the relevant premiums and discounts are shown as deferred items and placed to account pro rata temporis.

Shares, investment fund certificates, bearer bonds, fixed-interest and non-fixed-interest securities, and other investments are valued at acquisition cost or at the market price at the balance sheet date, whichever is the lower. Investments with participating interests have been valued according to the strict lower of cost or market principle, despite the alternative valuation option provided for under Section 341 b of the Germany Commercial Code.

Lower valuations from previous years are maintained for our investments if the impairment in value is probably permanent. Where the market value at the balance sheet date was higher than the previous year's valuation, we have written back the value to the acquisition cost or the amortised cost.

Receivables
Deposits retained on assumed reinsurance business, amounts receivable on reinsurance business and other receivables are included at the nominal values less any necessary adjustments of value.

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

Deferred taxes
Deferred taxes result from temporary differences between financial statement valuations and valuations prescribed for determining taxable income.

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

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

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

The item "claims equalisation provision and similar provisions" contains the amounts required in accordance with commercial law to mitigate fluctuations in claims experience in future years, plus the provisions for major risks and natural hazards.

The "other underwriting provisions" mainly comprise provisions for profit commission and the provision for anticipated losses. Provisions for anticipated losses are posted if, in a reinsurance portfolio, the future premiums plus the proportionate investment result will probably not be sufficient to cover the expected claims and costs.

Underwriting provisions apportionable to the business retroceded by us have been calculated in accordance with the terms of the retrocession agreements.

Other accrued liabilities

In calculating the provisions for employees' pensions, we have followed the IFRS approach, taking into account future increases in pensions and salaries and measuring these using an actuarial interest rate of 5.0%. Except for the semi-retirement provisions, which are measured using an actuarial interest rate of 3%, the other provisions are posted in accordance with the probable requirements.

Liabilities

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

Foreign currency translation

All business transactions are generally booked in the respective original currencies. For the balance sheet, foreign currencies have been translated using the respective year-end exchange rates. In the income statement, moving average exchange rates are used.

Realised exchange gains and realised and unrealised exchange losses are included under "other income" and "other expenses" respectively; unrealised exchange gains are neutralised through the formation of an appropriate provision.

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	
	31.12.2004	Prev. year	**31.12.2004**	Prev. year
Australian dollar	**1.73395**	1.67410	**1.68959**	1.73874
Canadian dollar	**1.62860**	1.62995	**1.61701**	1.58280
Pound sterling	**0.70795**	0.70460	**0.67878**	0.69222
Rand	**7.65770**	8.41950	**8.00423**	8.52223
Swiss franc	**1.54565**	1.56000	**1.54385**	1.52091
US dollar	**1.35925**	1.26135	**1.24402**	1.13231
Yen	**139.28200**	135.17900	**134.42000**	131.04000

Notes to the balance sheet – Assets

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

Item	Carrying amount 31.12.2003 T€	Currency translation effects T€	Additions T€	Disposals T€	Appre-ciation T€	Depre-ciation T€	**Carrying amount 31.12.2004 T€**
(1) Intangible assets	156,604	–	7,503	–2	–	–47,618	**116,487**
(2) Investments							
Real estate	1,049,044	–	7,760	–	14,448	–34,431	**1,036,821**
Investments in affiliated enterprises and participations							
– Shares in affiliated enterprises	11,822,848	40	274,359	–69,989	–	–98,091	**11,929,167**
– Loans to affiliated enterprises	1,252,192	–71,466	69,626	–57,323	–	–	**1,193,029**
– Participations	1,789,695	–129	405	–81,331	2,688	–625,517	**1,085,811**
– Loans to participations	72,328	–2,982	–	–26,137	–	–	**43,209**
	14,937,063	–74,537	344,390	–234,780	2,688	–723,608	**14,251,216**
Other investments							
– Shares, investment fund certificates and other non-fixed-interest securities	12,919,695	–302,573	2,201,788	–2,023,631	179,674	–47,774	**12,927,179**
– Bearer bonds and other fixed-interest securities	16,189,399	–96,457	15,763,525	–13,913,728	26,044	–31,625	**17,937,158**
– Mortgage loans	10,980	–	1,214	–2,149	–	–	**10,045**
– Other loans							
– Registered bonds	4,030	3	267	–	–	–	**4,300**
– Loans and promissory notes	5,304	–	20	–2,600	–	–	**2,724**
– Miscellaneous	177	–	–	–8	–	–	**169**
– Deposits with banks	298,571	–4,261	130,576	–45,687	–	–	**379,199**
– Miscellaneous investments	52,163	–	–	–3,999	59,368	–2,495	**105,037**
	29,480,319	–403,288	18,097,390	–15,991,802	265,086	–81,894	**31,365,811**
Total investments (2)	**45,466,426**	**–477,825**	**18,449,540**	**–16,226,582**	**282,222**	**–839,933**	**46,653,848**

In the business year 2004 the appreciation and depreciation in investments have been shown at year-end exchange rates, whereas in the income statement they have been calculated using average exchange rates.

The intangible assets consist mainly of purchased insurance portfolios, renewal rights in respect of insurance portfolios, and software.

The carrying amount of self-occupied real estate totals T€253,644 (264,380).

Of the total depreciation on participations, T€623,924 comes from HypoVereinsbank AG.

The item "miscellaneous investments" is largely made up of swaptions (see derivatives).

Of our total investments (excluding deposits retained on assumed reinsurance business) with a carrying amount of T€46,653,848 (45,466,426), an amount of T€5,125,236 (4,362,458) is deposited with ceding companies or foreign governments or in the custody of trustees nominated by us. In addition, investments of €326m (324m) are subject to a restraint on disposal and have been transferred to the custody of a trustee solely to safeguard pension commitments.

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

Derivatives	Balance sheet item	Carrying amount T€	Fair value T€	Nominal value T€
Options				
Long stock options	Shares, investment fund certificates and other non-fixed-interest securities	–	56	497,701
Short stock options		–	–56	497,701
Currency forwards	Miscellaneous other accrued liabilities	–6,729	–6,729	376,997
Interest rate swaps	Miscellaneous other accrued liabilities	–	3,366	57,490

In addition, there are financial instruments with derivative components. Thus, in June 2000, Munich Re issued exchangeable bonds on Allianz shares. The conversion right had a fair value of T€452 at the balance sheet date. If investors do not exercise their conversion rights, the bonds will be redeemed on 9 June 2005.

Furthermore, to hedge an interest-rate risk assumed in underwriting business, we have purchased swaptions for compensation purposes, the carrying and fair value of which amounts to T€105,037. The current nominal volume totals T€1,570,700.

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

Derivatives are generally valued at the acquisition cost or their fair value at the balance sheet date, whichever is the lower. A pending liability is taken into account through the posting of a provision for anticipated losses. The only exceptions are swaptions, which are always accounted for at fair value.

To determine the fair values, market values at the balance sheet date are used. If there are no stock market prices available, these values are based on recognised valuation methods. In the case of options, we use the Black-Scholes option pricing model to determine fair values. The fair value of interest rate swaps is determined by discounting the cash flows.

Valuation reserves

	Fair value	Carrying amount	Valuation reserves
	T€	T€	T€
Real estate	2,691,480	1,036,821	1,654,659
Shares in affiliated enterprises	12,982,571	11,929,167	1,053,404
Loans to affiliated enterprises	1,197,169	1,193,029	4,140
Participations	1,283,519	1,085,811	197,708
Loans to participations	47,915	43,209	4,706
Other investments	35,263,312	31,365,811	3,897,501
Total	**53,465,966**	**46,653,848**	**6,812,118**

For the fair values of real estate, the capitalised earnings value is generally used; new buildings are valued at cost at the balance sheet date. In the case of shares in affiliated companies, participations, equities, investment fund certificates and other non-fixed interest securities, the market prices on the balance sheet date are used if the investments concerned are listed on the stock market. If no market prices are available, we calculate the capitalised earnings value. In the case of new acquisitions, we use the acquisition cost. The fair values of fixed-interest securities listed on the stock market are determined on the basis of the market prices at the balance sheet date. In the case of fixed-interest securities not listed on the stock market, interest rate curves are used to determine fair values.

The hidden negative valuation differences on financial instruments result from the following fair values and carrying amounts:

	Fair value	Carrying amount	Negative valuation differences
	T€	T€	T€
Shares in non-consolidated affiliated enterprises	172	239	–67
Associated enterprises (at cost)	9,656	11,155	–1,499

Owing to the lack of a definition of “financial instruments” in the German Commercial Code, the criteria of IAS 39 “Financial Instruments” have been used.

(3) List of shareholdings

The information to be disclosed in accordance with Section 285 item 11 of the German Commercial Code is filed with the commercial registry in Munich.

Notes to the balance sheet – Equity and liabilities

(4) Shareholders' equity

The total share capital €587,725,396.48 as at 31 December 2004 is divided into 229,580,233 registered shares, each fully paid up and entitled to one vote.

On 26 May 2004, the Annual General Meeting voted to replace Authorised Capital Increase 2002, which amounted to €89,662,858.24 following its partial utilisation, by a new amount of €280m (Authorised Capital Increase 2004).

The capital authorised for capital increases is thus as follows:

All figures in €m	31.12.2004
Authorised Capital Increase 2004 (until 25 May 2009)	280.0
Authorised Capital Increase 2001 (until 18 July 2006)	3.8
Total	**283.8**

The contingent capital is as follows:

All figures in €m	31.12.2004
To safeguard subscription rights from exercise of warrants (Contingent Capital Increase 2003 I)	35
To safeguard conversion rights or subscription rights from convertible bonds or bonds with warrants (Contingent Capital Increase 2003 II)	100
Total	**135**

€319m from the profit for the year 2004 has been allocated to the revenue reserves, which contain a reserve for own shares amounting to T€113m.

The balance sheet profit for the business year includes a profit of T€721 carried forward from the previous year.

By resolution of the Annual General Meeting on 11 June 2003, Munich Re was authorised to buy back shares amounting to a maximum of 10% of the share capital up to 11 December 2004. This authorisation was cancelled by the Annual General Meeting on 26 May 2004 and replaced by a new one, authorising the Board of Management to buy back shares amounting to a maximum of 10% of the share capital up to 25 November 2005.

On 31 December 2004, a total of 1,060,826 Munich Re shares with a calculated nominal value of €2,715,714.56 were held by Group companies. This represents 0.46% of the share capital.

10,000 shares were purchased at an average price of €78.64 for the employee share programme set up by Munich Reinsurance Company in 2004. After subscription by the employees in 2004 and taking into account the 1,559 shares left over from the 2002 employee share programme, a total of 1,436 shares remain. In addition, one subsidiary holds 803,269 shares to safeguard stock appreciation rights granted to the Board of Management and top Munich Re executives since 2000.

2,739 shares remained in the portfolio of ERGO Versicherungsgruppe AG from the ERGO Insurance Group's employee share programme in the business year 2002. In the business year 2004, companies of the ERGO Group acquired 1,651 shares at a price of €96.30 each and a further 60,712 shares at a price of €90.03 each to cover future commitments from the long-term incentive plans launched at 1 July in 2004 and 2003. Together with the remaining Munich Re shares acquired to safeguard the stock appreciation rights granted in 2002 and 2003, the ERGO Group has a total portfolio of 251,921 shares.

Europäische Reiseversicherung AG acquired a further 3,200 Munich Re shares at a price of €91.00 per share in the year under review to safeguard future obligations from the long-term incentive plan it set up on 1 July 2003. As at 31 December 2004, together with the shares acquired in 2003 to safeguard the long-term incentive plan, it had a total portfolio of 4,200 shares.

The acquisition costs of all Munich Re shares in the possession of Group companies at the end of the business year totalled €157,519,934.32.

(5) Subordinated liabilities

The income from the subordinated bonds of €3,000m and £300m issued and guaranteed by Munich Re Finance B. V. was transferred to Munich Re as subordinated loans of €2,969,840,000 and £297,276,000 in the business year 2003. The period to redemption of each bond is more than five years. To improve transparency, these legal transactions are being shown separately under the item "B. Subordinated liabilities" as from the business year 2004. In the previous year, they were shown under "F. IV. Other liabilities". The difference in the euro loan amount compared with the previous year is mainly due to the fact that our subsidiary ERGO assumed a partial amount of €351,841,471 from the euro loan by way of full discharge of the original debtor.

The items concerned have been adjusted in the "previous year" column for better comparability.

(6) Underwriting provisions

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

	Unearned premiums	Provision for future policy benefits	Claims provision	Claims equalisation provision	Other provisions	**Total**	**Reserves as % of net premiums**
Life	1,147	18,307	1,007	3	524	**20,988**	**397**
Health	113	866	253	1	7	**1,240**	**113**
Personal accident	118	642	1,181	–	14	**1,955**	**268**
Liability	425	–	7,448	1,616	13	**9,502**	**483**
Motor	351	–	4,995	721	68	**6,135**	**259**
Marine	193	–	896	211	9	**1,309**	**196**
Aviation	253	–	704	777	–	**1,734**	**236**
Fire	657	–	3,565	3,039	107	**7,368**	**264**
Engineering	460	–	1,573	729	2	**2,764**	**264**
Other classes	326	–	902	863	16	**2,107**	**147**
Non-life combined	2,896	1,508	21,517	7,957	236	**34,114**	**266**
Total	**4,043**	**19,815**	**22,524**	**7,960**	**760**	**55,102**	**304**

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

	31.12.2004 T€	Prev. year T€
Claims equalisation provision	**6,359,078**	5,285,606
Provision for major risks	**249,087**	235,108
– For nuclear facilities	**65,365**	60,689
– For pharmaceutical products liability	**56,703**	55,117
– For terrorism risks	**127,019**	119,302
Provisions for natural hazards	**1,351,662**	1,360,489
Total	**7,959,827**	**6,881,203**

In the year under review, a provision of T€1,783 (0) was posted for anticipated losses.

(7) Other accrued liabilities

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

There are pension provisions of T€51,731 (47,808) for former members of the Board of Management or their surviving dependants.

The miscellaneous other provisions include, in particular, provisions of T€323,006 for currency risks and T€86,999 for personnel expenses not yet due at the balance sheet date.

(8) Notes and debentures

In June 2000, Munich Reinsurance Company issued exchangeable bonds on Allianz shares. Creditors are entitled to convert each of their exchangeable bonds into Allianz shares with an equivalent value of €460.97 per share. The conversion price was reduced as a result of the capital increase carried out by Allianz AG in 2003. The annual coupon payment is 1% on the face value. If the bonds are not converted by investors beforehand, they will be redeemed on 9 June 2005 at 108.5629% of the face value; the creditors' annual gross yield will then amount to 2.625%.

(9) Amounts owed to banks

Liabilities with a remaining term of more than five years total T€0 (122,703).

(10) Miscellaneous liabilities

The sum of the liabilities secured by mortgages is T€0 (128).

Notes to the income statement

(11) Reinsurance underwriting result by class of business in €m

	Gross premiums written		Underwriting result		Change in claims equalisation provisions		Combined ratio in %	
	2004	2003	2004	2003	2004	2003	2004	2003
Life	5,680	5,164	164	192	–2	–1	–	–
Health	1,148	1,341	6	43	–1	–	99.4	96.3
Personal accident	758	999	–44	–17	–	–	105.8	101.5
Liability	1,985	2,700	–345	–122	349	–920	117.4	104.7
Motor	2,443	2,693	–154	–142	–6	–137	106.3	105.8
Marine	702	823	–10	75	–50	–160	102.2	90.6
Aviation	857	843	107	130	–205	–125	82.9	77.7
Fire	3,054	4,072	484	706	–739	–1,053	82.8	81.2
Engineering	1,104	1,281	129	109	–195	–229	87.6	90.7
Other classes	1,512	1,832	285	157	–280	–253	80.7	90.4
Non-life combined	13,563	16,584	458	939	–1,127	–2,877	96.4	93.8
Total	**19,243**	**21,748**	**622**	**1,131**	**–1,129**	**–2,878**	**–**	–

(12) Interest on underwriting provisions

We have calculated the interest on underwriting provisions in accordance with Section 38 of the German Accounting Regulations for Insurance Companies and – where prescribed there – have transferred it from the non-technical to the technical account.

(13) Personnel expenses

The management expenses include the following personnel expenses:

	2004 T€	Prev. year T€
Wages and salaries	247,537	242,327
Social insurance contributions and voluntary assistance	49,938	49,803
Expenses for employees' pensions	21,480	21,676
Total	**318,955**	**313,806**

They also include expenses for a long-term incentive plan, which links compensation for the Board of Management and top executives of the Munich Re Group to the performance of Munich Re's share price.

(14) Investment income

The write-ups result from the reversal of no longer appropriate writedowns.

(15) Investment expenses

Of the writedowns on investments, T€790,480 (218,882) comprised exceptional depreciations as per Section 253 para. 2 sentence 3 of the German Commercial Code.

No special writedowns (T€165,050) were made for tax purposes as per Section 6 b of the German Income Tax Act.

(16) Tax influences on accounting

Writedowns for tax purposes and the reduction of the special reserve as per Sections 6 b and 52 para. 16 of the German Income Tax Act affected the Company's result for the year by T€0 (165,050) and T€0 (175,183) respectively. No allocations were made to the special reserve.

(17) Long-term incentive plans

As at 1 July in the years 1999 to 2004, 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 organisation 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 the initial share price.

As a result of the Company's capital increase in the business year 2003, the initial share prices for the stock appreciation rights issued and the number of stock appreciation rights already granted were adjusted in accordance with the conditions.

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 the initial price. In addition, Munich Re shares must have outperformed the DAX 30 (Plan 1999) or the EURO STOXX 50 (from Plan 2000) 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 423,923 (418,798) stock appreciation rights were granted, 133,803 (139,698) of these to members of the Board of Management. Munich Re shares have been acquired by one subsidiary to cover future obligations arising from long-term incentive plans. The personnel expenses and income incurred for the stock appreciation rights have been determined on the basis of the change in Munich Re's share price. At each balance sheet date, the intrinsic value is calculated and reserved as the difference between Munich Re's share price and the initial share price for the stock appreciation rights. The personnel expenses recognised therefore correspond to the change in the provision in the year under review, taking into account any rights exercised.

In 2004, provisions of €4.6m (5.7m) were posted for stock appreciation rights; no rights were exercised.

The fair value of the all stock appreciation rights at the balance sheet date amounted to €21.3m (10.7m) for the Company. This figure takes into account not only the intrinsic value but also the possibility of value growth up to the data of expiry of the rights and is determined with reference to the exercise conditions on the basis of recognised pricing models.

	Incentive Plan 1999	Incentive Plan 2000	Incentive Plan 2001	Incentive Plan 2002	Incentive Plan 2003	**Incentive Plan 2004**
Plan commencement	1.7.1999	1.7.2000	1.7.2001	1.7.2002	1.7.2003	**1.7.2004**
Old initial share price	€182.60	€319.34	€320.47	€260.37	€86.24	**–**
New initial share price after 2003 capital increase	€173.67	€303.72	€304.80	€247.64	€82.02	**€88.65**
Intrinsic value in 2004 for one right	–	–	–	–	€8.98	**€2.35**
Fair value in 2004 for one right	€0.41	€0.09	€0.36	€2.04	€25.82	**€25.15**
Number of rights on 31 December 1999	104,340	–	–	–	–	**–**
Additions	–	63,496	–	–	–	**–**
Number of rights on 31 December 2000	104,340	63,496	–	–	–	**–**
Additions	–	5,946	96,934	–	–	**–**
Exercised	31,935	–	–	–	–	**–**
Number of rights on 31 December 2001	72,405	69,442	96,934	–	–	**–**
Additions	–	–	270	119,338	–	**–**
Exercised	2,587	–	–	–	–	**–**
Forfeited	–	321	443	–	–	**–**
Number of rights on 31 December 2002	69,818	69,121	96,761	119,338	–	**–**
Additions	3,540	3,434	4,923	6,057	400,844	**–**
Exercised	–	–	–	–	–	**–**
Forfeited	1,596	1,928	2,298	3,179	–	**–**
Number of rights on 31 December 2003	71,762	70,627	99,386	122,216	400,844	**–**
Additions	–	–	–	–	–	**423,923**
Exercised	–	–	–	–	–	**–**
Forfeited	–	438	600	748	2,354	**–**
Number of rights on 31 December 2004	71,762	70,189	98,786	121,468	398,490	**423,923**
Exercisable at year-end	71,762	70,189	98,786	121,468	–	**–**

Other information

(18) Boards of the company, compensation and loans for Board members

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

The total compensation of the members of the Board of Management amounted to T€14,755 (12,430). This includes the compensation components that Mr. Phelan received for his work as a member of Munich Reinsurance Company's Board of Management, namely annual bonus and medium-term incentive plan, as well as his travel expenses from the USA to Munich. Taken into account for the first time in the disclosure are the provisions for the long-term incentive plan of the Board of Management. The previous year's figures have been adjusted for comparative purposes.

	2004 in T€	2003 in T€
Overall compensation	**14,755**	**12,430**
Fixed components	**5,365**	**6,398**
Basic remuneration	4,838	5,549
Remuneration in kind/fringe benefits	527	849
Statutory social benefits	20	16
Voluntary social benefits	35	449[1]
Company car	97	102
Healthcare	4	3
Security measures	–	1
Insurance	47	56
Special expenses	163[2]	58
Tax on remuneration in kind/fringe benefits	161	164
Variable components	**9,390**	**6,032**
Annual bonus 2002		
Reversal of provision	–	–574[3]
Annual bonus 2003		
Allocation to provision 2003	–	3,288
Expense	1,635[4]	–
Annual bonus 2004		
Allocation to provision 2004	4,860	–
Medium-term incentive plan		
Allocation to provision 2003	–	1,440
Allocation to provision 2004	3,262[5]	–
Long-term incentive plan		
Allocation to provision 2003	–	1,878
Allocation to provision 2004	–367	–
Additional personnel expenses for valuation of stock appreciation rights at fair value[6]	**2,552**	**756**

[1] Higher expenses for 2003 are due to anniversary payments.
[2] Higher expenses for 2004 are due to the invoicing of Mr. Phelan's travel expenses for 2003 and 2004.
[3] Bonus payment for 2002 lower than estimated and reserved bonus payment.
[4] Bonus payment for 2003 higher than estimated and reserved bonus payment.
[5] Higher provision due to good business results in 2004.
[6] Additional notional personnel expenses in year under review for all stock appreciation rights granted as from the long-term incentive plan 1999. This amount takes into account the possibility of growth in value up to the time the rights are forfeited or elapse. It is determined in consideration of the exercise conditions using recognised valuation models, but is not included in personel expenses.

Basic remuneration made up 33% of overall compensation in 2004, and remuneration in kind and fringe benefits 4%.

The variable compensation includes allocations to provisions for the annual bonus probable on the basis of current estimates and for the medium-term incentive plan. Whether these reserved amounts will actually be paid out to the Board members, and if so how high the sums will be, is not yet certain and will depend on the degree to which individual objectives are achieved and the exercise conditions of the long-term incentive plans. In accordance with the plan conditions, there were no payments made under the medium-term incentive plan in the business year.

The average level of provision for the pension entitlements of the members of the Board of Management amounts to 38% of the basic remuneration.

Payments to retired members of the Board of Management or their surviving dependants total T€4,258 (3,323).

Taking into account the proposal for the appropriation of the profit, the total emoluments of the members of the Supervisory Board amounted to T€1,799 (1,356). This sum includes emoluments of T€1,168 (694) dependent on the dividend paid to the shareholders.

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

(19) 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
Dr. jur. Hans-Jürgen Schinzler Chairman (from 26 May 2004)	Bayerische Hypo- und Vereinsbank AG Deutsche Telekom AG METRO AG	
Ulrich Hartmann Chairman (until 26 May 2004)	Deutsche Bank AG Deutsche Lufthansa AG E.ON AG (Chairman) Hochtief AG IKB Deutsche Industriebank AG (Chairman)	Henkel KGaA ARCELOR, Luxembourg
Prof. Dr. rer. nat. Henning Kagermann	DaimlerChrysler Services AG Deutsche Bank AG	
Prof. Dr. rer. nat. Hubert Markl	Bayerische Motoren Werke AG	Sanofi-Aventis S. A., Paris Royal Dutch Petroleum Company/Shell, The Hague
Wolfgang Mayrhuber	Bayerische Motoren Werke AG Eurowings Luftverkehrs AG Thomas Cook AG LSG Lufthansa Service Holding AG* Lufthansa Cargo AG* Lufthansa CityLine GmbH* (Chairman) Lufthansa Technik AG*	Heico Corporation, Miami
Prof. Karel Van Miert	RWE AG	Agfa-Gevaert NV, Mortsel Anglo American plc, London De Persgroep, Asse Royal Philips Electronics NV, Amsterdam Solvay S. A., Brussels Vivendi Universal S. A., Paris Wolters Kluwer NV, Amsterdam
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	Dresdner Bank AG METRO AG Audi AG* (Chairman)	Tetra-Laval Group, Pully Scania AB, Södertälje* (Chairman) SEAT S. A., Barcelona*
Dr. jur. Dr. h. c. Albrecht Schmidt	Bayerische Hypo- und Vereinsbank AG (Chairman) Siemens AG	Thyssen'sche Handelsgesellschaft m. b. H.
Dr. phil. Ron Sommer	Celanese AG	Motorola Inc., Schaumburg

[1] Status: 31 December 2004.
* 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. Nikolaus von Bomhard Chairman	ERGO Versicherungsgruppe AG* (Chairman)	–
Georg Daschner	–	Münchener Rück Italia S. p. A., Milan* (Chairman)
Dr. jur. Heiner Hasford	Commerzbank AG D. A. S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG* ERGO Versicherungsgruppe AG* Europäische Reiseversicherung AG (Chairman) MAN AG Nürnberger Beteiligungs-AG VICTORIA Lebensversicherung AG* VICTORIA Versicherung AG* WMF Württembergische Metallwarenfabrik AG	American Re Corporation, Wilmington, Delaware*
Stefan Heyd	EXTREMUS Versicherungs-AG Münchener und Magdeburger Agrarversicherung AG	–
Dr. rer. nat. Torsten Jeworrek	–	Munich American Capital Markets Inc., Delaware* (Chairman) New Reinsurance Company, Geneva* (Chairman)
Christian Kluge	Karlsruher Lebensversicherung AG Karlsruher Versicherung AG (Chairman) Mercur Assistance AG Holding (Chairman)	–
John Phelan	–	American Re Corporation, Wilmington, Delaware* (Chairman) American Re-Insurance Company, Princeton* (Chairman) Munich Reinsurance Company of Canada, Toronto*
Dr. phil. Detlef Schneidawind	DKV Deutsche Krankenversicherung 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	MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH*	American Re Corporation, Wilmington, Delaware*
Karl Wittmann	–	Jordan Ins. Co. p. l. c., Amman Saudi National Insurance Company E. C., Jeddah

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

(20) Number of staff
The number of staff employed by the Company in Munich and at its offices abroad in the business year 2004 averaged 3,265 (3,143).

(21) Contingent liabilities, other financial commitments
The Company has given a customary market guarantee and a guarantee required by supervisory law for the liabilities of one foreign subsidiary.

For two foreign subsidiaries, guarantees have been given in connection with a loan obligation of US$ 250m and a rent guarantee of US$ 1m.

In addition, in connection with a sale of shares, the Company has assumed a liability towards the purchaser totalling a maximum of £2m.

The transfer to ERGO of part of the income from the subordinated bonds issued by Finance B. V. results in a contingent liability of €386m for the Company.

Otherwise, there are no contingent liabilities of significance for the assessment of the company's financial position.

Other financial commitments totalling €62m result mainly from various agency agreements concluded by the Company.

(22) Declaration of compliance with the German Code of Corporate Governance as per Section 161 of the German Stock Companies Act
In December 2004, the Board of Management and the Supervisory Board of the Company published an updated declaration of compliance as per Section 161 of the German Stock Companies Act and made this declaration permanently available to shareholders on the internet.

Munich, 25 February 2005

The Board of Management

Auditor's report

The following is a translation of the auditor's opinion in respect of the original German financial statements and management report:

We have audited the annual financial statements, together with the bookkeeping system, and the management report of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München for the business year from 1 January 2004 to 31 December 2004. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the Articles of Association are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code and the generally accepted standards for the audit of financial statements promulgated by the Institute of German Certified Accountants (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München in accordance with principles of proper accounting. Altogether, the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Munich, 4 March 2005

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Herbert Loy	Peter Ott
Wirtschaftsprüfer	Wirtschaftsprüfer
(Certified public accountant)	(Certified public accountant)

Proposal for appropriation of profit

The balance sheet profit at the disposal of the Annual General Meeting amounts to €459,160,466.00.

We propose that this balance sheet profit be appropriated as follows: distribution of a dividend of €2.00 on each share entitled to dividend, with the amount apportionable to own shares being carried forward to new account. Up to the Annual General Meeting the number of shares entitled to dividend may decrease or increase through the further acquisition or sale of own shares. In this case, a suitably modified proposal for the appropriation of the profit, with an unchanged dividend of €2.00 per share entitled to dividend, will be made to the Annual General Meeting.

Munich, 25 February 2005

The Board of Management

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