

ANNUAL GENERAL MEETING 2001

Letter to shareholders



Münchener Rück
Munich Re Group

Supervisory
Board

Chairman Ulrich Hartmann

Board of
Management

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To our shareholders

Dear Shareholders,

In this letter we would like to inform you about the results for the business year 2000 and our expectations for the current business year 2001. Our report on business experience in the first quarter 2001 was published on 29th May. You can read it on our website (www.munichre.com); we will be pleased to send you a printed copy on request.

Overview of the business year 2000

We have set ourselves ambitious objectives:

- In reinsurance we plan to extend our market position worldwide as leading reinsurer and to be number one, or at least number two, in all important markets. We moved another step closer to this goal in the year under review. The acquisition of CNA Financial Corporation's life reinsurance portfolio by our subsidiary Munich American Reassurance Company shows our determination to exploit growth potentials in attractive markets.
- In primary insurance we are aiming, through ERGO, to become one of the most important groups in personal lines business in Europe. Through the acquisition of Alte Leipziger Europa, which is active primarily in Central and Eastern Europe, and the Italian life insurer, Bayerische Vita, we succeeded in substantially expanding ERGO's foreign business in strongly growing markets last year.

- MEAG, our asset management company, successfully commenced operations in April 2000. It now offers a range of 14 retail mutual funds, which includes the recent addition of three umbrella funds. Total assets under management have a market value of more than €143bn. Our objective is to have €200bn under management by 2005.
- We aim to increase our profit by 10% annually on average, and were certainly successful in this respect: adjusted to eliminate special factors, our profit was up by 50% in the year under review.

Premium growth in both reinsurance and primary insurance was stronger than initially expected in the business year 2000. Altogether, we managed to increase our gross premium by 13.5% to €31.1bn (27.4bn). Around €1.4bn (0.3bn) of this is due to changes in exchange rates. New subsidiaries contributed €470m (32m). Adjusted to eliminate these factors, premium growth totalled €1.9bn (1.6bn) or 6.7% (6.1%).

Key figures (IAS)		2000	Prev. year	Change
		€	€	in %
Gross premiums written	bn	31.1	27.4	13.5
Result before amortization of goodwill	m	2,615	1,821	43.6
Tax	m	399	383	4.2
Minority interests in earnings	m	321	185	73.5
Profit for the year	m	1,750	1,133	54.5
Investments	bn	159.4	150.9	5.6
Shareholders' equity	bn	23.6	18.5	27.9
Net underwriting provisions	bn	131.5	123.5	6.5
Staff as at 31st December		36,481	33,245	9.7

Our result before amortization of goodwill improved in the business year 2000 by 43.6% to €2.6bn (1.8bn).

Amortization of goodwill increased to €145m (120m), owing mainly to the acquisition of Alte Leipziger Europa and Bayerische Vita.

Tax expenses showed only a slight change at €399m (383m).

The consolidated profit for the year rose 54.5% to €1.75bn (1.1bn); in the previous year it had fallen by 5.6% compared with 1998. The result for 2000 was positively influenced by the first-time consolidation of investment funds in which Group companies hold more than half the units (special funds) and the reduction of the corporation tax rate in Germany, which contributed €180m and €320m respectively. Without these two effects,

the profit for the year would have been €1.25bn (0.8bn) or 50% up on the previous year.

Munich Re's share price rose by 51% last year, whilst the DAX fell by around 7.5%. Our target of Munich Re shares outperforming the index was thus clearly surpassed in the year under review.

Key figures for our shares		2000	Prev. year
Number of shares as at 31st December	m	176.9	176.9
Year high	€	391.00	256.00
Year low	€	237.00	159.50
Year-end closing price	€	380.00	251.80
Annual performance	%	50.9	22.1
Market capitalization as at 31st December	€bn	67.2	44.5
Average daily turnover in Xetra trading	'000	441.5	293.3
Price/earnings ratio as at 31st December		38.4	39.0
Earnings per share	€	9.89	6.45
Dividend per share	€	1.25	0.95
Tax credit per share (for German shareholders)	€	0.54	0.41
Overall dividend amount	€m	221	168

The leading rating agencies A. M. Best, Standard & Poor's and Moody's all affirmed their top ratings for Munich Re. Our subsidiaries currently assessed also received excellent ratings.

Reinsurance

Over the past year, the Munich Re Group managed to increase its gross reinsurance premiums by 19.2% (8.6%) to €18.3bn (€15.4bn). More than 7.7 (2.8) percentage points of this were attributable to changes in exchange rates; without these changes, our premium income would have risen by 11.5% (5.8%). This growth also reflects price rises in individual insurance and reinsurance markets.

The main contributors to the steep rise in premium were life, motor and fire business. Regionally speaking, our business expanded particularly in the rest of Europe and in North America.

Reinsurance		2000 €	Prev. year €
Gross premiums	bn	18.3	15.4
Loss ratio non-life	%	85.0	88.2
Expense ratio non-life	%	30.3	30.7
Result before amortization of goodwill	m	1,525	1,208
Investments	bn	64.9	59.6
Net underwriting provisions	bn	43.9	40.4

Results for the year 2000 were disappointing for the reinsurance sector worldwide. The reinsurance capacity available decreased in many markets, but there was still an oversupply. Prices for reinsurance did rise in the course of 2000, however, and in some cases quite substantially – especially for business exposed to natural catastrophes. Original rates also rose in some primary insurance markets. These positive changes will only have an impact on the current year's results, however.

In property-casualty business the combined ratio fell by only 3.6 percentage points to 115.3% (118.9%). Losses from natural catastrophes accounted for just 2.0 (10.7) percentage points, even including subsequent claims from the gales in 1999. Our basic business in non-life reinsurance suffered not only from inadequate prices and conditions, but also from a large number of major losses in the fire, engineering and liability classes of business. On top of this came heavy losses from our marine business on the London market.

Mainly owing to increased investment income, the reinsurers' result before amortization of goodwill improved by 26.2% (–20.8%) to €1.5bn (1.2bn).

Primary insurance

The primary insurers in our Group write all forms of life and health insurance and nearly all lines of property-casualty insurance. By far their most important market is Germany, where they earn around 87% (90%) of their premium income. Our Group includes ERGO, Karlsruher and Europäische Reiseversicherung.

Our premiums from primary insurance in the year under review were up 6.8% (6.5%) to €14.4bn (13.5bn), representing 46% (49%) of Group premium income. The result before amortization of goodwill improved by 41.6% (13.4%) to €1.3bn (0.9bn).

		2000 €	Prev. year €
Primary insurance			
Gross premiums	bn	14.4	13.5
Result before amortization of goodwill	m	1,342	948
Investments	bn	102.9	97.5
Net underwriting provisions	bn	87.3	82.9

72% (73%) of our premium income in primary insurance derives from life and health business, where we recorded premium growth of 5.0% (7.2%) in the year under review.

At €1.2bn, our new business production was less than in the exceptional year 1999. Particularly in the second half of 2000, clients held back with new policies, waiting for political decisions on the parameters of pension reform in Germany. This contrasted with 1999, when the tax reform plans of the German government had prompted many people to bring forward decisions to take

out life insurance, which had enabled us to write new business amounting to €1.6bn.

Our premiums in life insurance climbed by 4.1% (9.8%) to €6.5bn (6.2bn), with foreign subsidiaries contributing €0.4bn (0.3bn) to this. Expenses for claims and benefits rose by 17.2% (6.8%). Operating expenses showed a decrease, mainly because of the reduction in new business.

In health insurance, the Group was able to extend its leading position in Germany and Europe. Premium income was up by 6.7% (3.1%) to €3.8bn (3.6bn), of which €0.5bn (0.4bn) came from abroad. Expenses for claims and benefits increased by 15.9% (1.0%) to €4.2bn (3.6bn).

There are two reasons for our strong growth in the property-casualty sector. On the one hand, new subsidiaries – especially the companies of Alte Leipziger Europa – have been consolidated in our figures since 1st January 2000. On the other hand, the Group was also able to expand in all the main classes of business in Germany. Overall, our premium income rose by 11.4% (4.7%) to €4.1bn (3.7bn), to which the foreign subsidiaries contributed €0.9bn (0.7bn). Expenses for claims and benefits showed a further increase, but the combined ratio is satisfyingly low.

In legal protection insurance we were able to strengthen our position as European market leader.

Asset management

Our investments grew in the year under review by 5.6% (10.9%) to more than €159bn (151bn).

Investment mix	2000		Prev. year		Change in %
	€m	%	€m	%	
Real estate	8,405	5.3	6,901	4.6	21.8
Investments in affiliated and associated enterprises	13,538	8.5	10,633	7.0	27.3
Mortgage loans and other loans	9,150	5.7	8,670	5.7	5.5
Shares and investment fund certificates	36,580	22.9	57,019	37.8	-35.8
Other securities	77,621	48.7	54,316	36.0	42.9
Deposits retained on assumed reinsurance business and other investments	13,533	8.5	12,971	8.6	4.3
	158,827	99.6	150,510	99.7	5.5
Investments for unit-linked life insurance	581	0.4	417	0.3	39.3
Total	159,408	100.0	150,927	100.0	5.6

The investment result rose by 28% to €12.2bn (9.5bn). In spring 2000 the Group's primary insurers in particular took advantage of high prices on the stock markets to realize capital gains. Besides this, the first-time consolidation of the special funds gave the result an appreciable boost.

Shareholders' equity at the balance sheet date contains unrealized gains on investments totalling €9.5bn (7.3bn).

The fair value of our real estate amounted to €10.5bn (9.2bn), and the fair values of our investments in affiliated and associated enterprises to €33.0bn (27.3bn). This means there are valuation reserves of €21.9bn (19.2bn) which are not included in shareholders' equity.

Munich Reinsurance Company

The Munich Reinsurance Company's profit for 2000 is €441m (328m). After allocation of €220m (160m) to the revenue reserves, there remains a balance sheet profit of €221m (168m). The Board of Management and Supervisory Board propose that this be utilized for the payment of a dividend of €1.25 (0.95) per share. This is the eighth dividend increase in succession.

Prospects for the business year 2001

For the current business year, at unchanged currency parities, we expect a Group premium income of €33bn (31bn) and a consolidated profit that follows on from the very good result of last year.

We have set ourselves the goal of increasing our profit before tax and amortization of goodwill by an annual average of 10%. Whether we achieve this 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 that may affect us in reinsurance. 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.

In reinsurance, the renewal of treaties for 2001 went well: Munich Re and its subsidiaries were able to implement price increases in many cases and also improve conditions in other respects. Owing to the rises in rating levels and the pleasing amount of new business – especially in life reinsurance – reinsurance should again show considerable growth in premium income. The foundations for a more favourable reinsurance underwriting result have thus been laid. Nevertheless, further corrections in prices and conditions are still imperative.

Altogether, we expect another good result from life reinsurance in the current business year and – given normal claims experience – a substantial improvement in the non-life reinsurance result.

In primary insurance, premium income will also show a marked rise, owing to the first full consolidation of Bayerische Vita. Independent of this, we also expect premium growth in German property-casualty insurance to be above the market average. Thanks to the favourable composition of our primary insurers' portfolio – 90% of the business is personal lines insurance, and 80% insurances of the person – we hope for another good underwriting result.

We anticipate that for the year 2001 the Munich Reinsurance Company will again be able to pay its shareholders a dividend of €1.25 per share.

Further restructuring of shareholdings

At the beginning of May 2000, Munich Re and Allianz AG announced their intention to reduce their reciprocal stakes of 25% to around 20% each. This reduction is to take place in several steps, with due consideration for the capital markets, and is scheduled to be completed by the end of 2003.

In a first step in the year 2000, the shareholdings were lowered to just under 25%. Following this, in June 2000 Munich Re successfully placed a €1.15bn bond exchangeable into Allianz shares.

It was also agreed in May 2000 that Allianz would acquire Munich Re's stakes of 45% in Bayerische Versicherungsbank AG and 49.9% in Frankfurter Versicherungs-AG. In return, Munich Re has already acquired Allianz's interest of 39% in Mercur Assistance and will obtain its holding of 36.1% in Karlsruher Lebensversicherung in 2002.

At the beginning of April 2001 Munich Re and Allianz AG announced a further restructuring of their shareholdings in jointly held subsidiaries and participating interests. Allianz will acquire from the Munich Re Group all its shares in Dresdner Bank and its 40.6% interest in Allianz Lebensversicherungs-AG. Besides this, Munich Re will make available shares of 4% in Allianz for the offer to Dresdner Bank shareholders. This will reduce Munich Re's stake in Allianz to 21%.

In return, the Munich Re Group will acquire from Allianz and Dresdner Bank all of their shares in HypoVereinsbank (13.55% and 2.5% respectively), thus raising its holding in the bank to 25.7%. Furthermore, Munich Re will increase its holding in ERGO Versicherungsgruppe AG from 62.9% to up to 95%; the HBV Group will hold a 5% stake in ERGO. Allianz's stake in Munich Re will be reduced to 23%.

Consolidated balance sheet in €m	31.12.2000	31.12.1999
Investments	159,408	150,927
Shareholders' equity	23,602	18,454
Net underwriting provisions	131,526	123,473

Consolidated income statement in €m	2000	1999
Gross premiums written	31,113	27,413
Investment result	12,166	9,525
Net expenses for claims and benefits	29,770	25,241
Net operating expenses	7,340	6,500
Result before amortization of goodwill	2,615	1,821
Amortization of goodwill	145	120
Operating result before tax	2,470	1,701
Tax	399	383
Minority interests in earnings	321	185
Profit for the year	1,750	1,133
Earnings per share in €	9.89	6.45

All the transactions are scheduled to be completed next year, following approval by the competent authorities. They will lead to better use of our shareholders' equity and, quite apart from the high tax-free capital gains, will have a lasting positive effect on results.

Ladies and gentlemen,

In the past it has been worth your while being shareholders of Munich Re – not least for the long-term investors amongst you. We will do our utmost to ensure that this will continue to be the case in future.

Yours sincerely,

Munich Reinsurance Company

A handwritten signature in black ink, reading "Klaus von Storchhausen". The signature is written in a cursive style with a large initial 'K' and a prominent horizontal stroke above the 'v'.

Munich, 11th June 2001

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