ANNUAL GENERAL MEETING **2002**

Letter to shareholders

Münchener Rück
Munich Re Group

Supervisory Board	
Chairman	Ulrich Hartmann
Board of Management	
Chairman	Dr. Hans-Jürgen Schinzler
	Dr. Wolf Otto Bauer (until 30th June 2002)
	Dr. Nikolaus von Bomhard
	Clement Booth
	Dr. Heiner Hasford
	Stefan Heyd
	Christian Kluge
	John Phelan (from 1st April 2002)
	Dr. Detlef Schneidawind
	Dr. Jörg Schneider
	Dr. Hans-Wilmar von Stockhausen (until 30th June 2002)
	Karl Wittmann

To our shareholders

Dear Shareholders,

In this letter we would like to inform you about the results for the business year 2001 and our expectations for the current business year 2002. Our report on business experience in the first quarter 2002 was published on 27th 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 2001

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

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

Growth in Munich Re's PRIMARY INSURANCE business was also very satisfactory. Premium revenue advanced by 9.0% (6.8%) to €15.7bn (14.4bn), 5.4 percentage points being due to consolidation effects (mainly the first full consolidation of Bayerische Vita, Italy, in the ERGO Insurance Group).

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

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

– The **risk of change** had a dramatic impact on insurers and reinsurers in the year under review. A terrorist attack with such catastrophic consequences for many classes of insurance simultaneously was inconceivable prior to 11th September. And where policyholders, insurers and reinsurers do not perceive a risk, it follows that this cannot be reflected in prices and conditions. Our logical conclusion has been to adopt a new model for classifying and evaluating terrorism risks, which we have been implementing since October. Another manifestation of the risk of change was the need to substantially strengthen reserves for long-tail claims in our US business.

– The second factor that affected us much more strongly last year than in the long-term average was the **risk of random fluctuations**. Claims experience in the year under review was characterized by an exceptional accumulation of large and very large losses.

– The third factor was the negative effects of 11th September on the **capital markets**, which brought us considerable losses in the investment sector.

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

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

We are adhering to our objective of growth in all fields of our business, coupled with sustained optimization of profitability. Despite the setbacks we suffered in 2001, we are convinced that we are on the right track. Insurance and reinsurance are growth markets: risks are continuing to increase worldwide, and with them the need for cover and security.

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

Munich Re shares largely performed in line with the most important share price indices in 2001. We are not satisfied with this, of course, given that over the past ten years our shares have significantly outperformed the DAX.

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

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

The rating agencies A. M. Best, Fitch, Moody’s and Standard & Poor’s have all given Munich Re their top ratings again. Our subsidiaries currently assessed also received excellent ratings.

Reinsurance

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

- LIFE AND HEALTH
- EUROPE 1
- EUROPE 2 AND LATIN AMERICA
- ASIA, AUSTRALASIA, AFRICA
- NORTH AMERICA
- CORPORATE UNDERWRITING/ GLOBAL CLIENTS
- SPECIAL AND FINANCIAL RISKS

Reinsurance		**2001**	**Prev. year**
Gross premiums	€bn	22.2	18.3
Loss ratio non-life	%	104.5	85.0
Expense ratio non-life	%	30.6	30.3
Combined ratio non-life	%	135.1	115.3
Result before amortization of goodwill	€m	–687	1.525
Investments	€bn	71.0	64.9
Net underwriting provisions	€bn	50.8	43.9

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

In property-casualty business our premium income grew by 19.6% (17.2%); the combined ratio totalled 135.1% (115.3%). Losses from natural catastrophes accounted for 1.5 (2.0) percentage points, and the terrorist attack of 11th September 2001 for 15.4 percentage points.

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

Primary insurance

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

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

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

Primary insurance		**2001** €	**Prev. year** €
Gross premiums	€bn	15.7	14.4
Loss ratio non-life	%	87.1	91.9
Expense ratio non-life	%	24.8	24.0
Combined ratio non-life	%	119.9	115.9
Result before amortization of goodwill	€bn	555	1,342
Investments	€bn	103.6	102.9
Net underwriting provisions	€bn	87.4	87.3

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

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

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

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

Asset management

Our investments grew in the year under review by 1.6% to €162bn. Regular income from investments totalled €9,654m (8,652m), and net realized gains amounted to €1,765m (4,072m).

Investment mix	**2001 €m**	**%**	**Prev. year €m**	**%**	**Change in %**
Real estate	9,045	5.6	8,405	5.3	7.6
Investments in affiliated and associated enterprises	12,558	7.8	13,538	8.5	–7.2
Mortgage loans and other loans	11,182	6.9	9,150	5.7	22.2
Shares and investment fund certificates	33,516	20.7	36,580	22.9	–8.4
Other securities	79,126	48.8	77,621	48.7	1.9
Deposits retained on assumed reinsurance business and other investments	15,901	9.8	13,533	8.5	17.5
	161,328	99.6	158,827	99.6	1.6
Investments for unit-linked life insurance	666	0.4	581	0.4	14.6
Total	161,994	100.0	159,408	100.0	1.6

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

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

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

All figures in €m	**Valuation reserves 31.12. 2001**	**Fair value 31.12 2001**	**Carrying amount 31.12. 2001**	**Valuation reserves Prev. year**	**Fair value Prev. year**	**Carrying amount Prev. year**
Unrecognized valuation reserves						
Real estate	2,080	11,124	9,044	2,103	10,508	8,405
Associated enterprises	14,293	26,548	12,255	19,777	33,004	13,227
Other securities	31	1,011	980	27	1,213	1,186
Total	16,404	38,683	22,279	21,907	44,725	22,818

Munich Reinsurance Company

The Munich Reinsurance Company's profit for the year in 2001 is the same as in the previous year, namely €441m. After allocation of €220m to the revenue reserves, there remains a balance sheet profit of €221m. The Board of Management and Supervisory Board propose that this be utilized for the payment of a dividend of €1.25 (1.25) on each share entitled to dividend and that the amount apportionable to own shares be carried forward to new account.

Prospects for the business year 2002

In the current business year we expect to record consolidated premium income of €40bn (36bn). As far as the Group result is concerned, we want to resume the positive trend of the previous years, taking as our benchmark the very good 2000 Group result.

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

In the negotiations for the renewal of reinsurance treaties, which were largely at the turn of the year, we reached important intermediate goals. Especially in highly exposed non-proportional business and cover for large individual risks, we succeeded in getting marked price adjustments and improvements in conditions.

Nevertheless, there is still a substantial need for further premium increases in the renewals for 2003.

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

For this reason, and because we are assuming coverage of a particularly large block of business that will initially be limited to one year, our premium income for 2002 will show another strong increase: we anticipate growth of 11.0% (19.2%) and a substantially reduced combined ratio.

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

Over 80% of our primary insurance business comes from Germany.

Around three-quarters of the premium income in the German insurance market derives from personal lines business. The trend with regard to personal incomes and consumer expenditure points to a stable demand for private insurance. The increase in premium income in the German market should reach around 5% – after 2.6% in 2001 – largely driven by growth in life and health insurance.

Altogether, primary insurance should generate gross premium of €16.7bn for us in 2002; that would be 6.3% more than last year. In life insurance we expect growth of 7%, in health insurance an increase of 5%, and in property-casualty a plus of 6%. These figures do not include the premium income of Quelle Versicherungen, which amounted to €550m in 2001.

The primary insurers in the Group are unlikely to contribute as much to the consolidated result as in 2001, when they benefited from large one-off tax effects.

Furthermore, with a view to the situation on the capital markets in 2002 and generally in the next few years, we must reckon with regular income from investments being lower than in the past.

Changes in shareholdings

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

Consolidated balance sheet in €m	31.12.2001	31.12.2000
Investments	161,994	159,408
Shareholders' equity	19,357	23,602
Net underwriting provisions	138,642	131,526

Consolidated income statement in €m	2001	2000
Gross premiums written	36,123	31,113
Investment result	10,420	12,166
Net expenses for claims and benefits	34,162	29,770
Net operating expenses	7,758	7,340
Result before amortization of goodwill	–415	2,615
Amortization of goodwill	230	145
Operating result before tax	–645	2,470
Tax	–1,040	399
Minority interests in earnings	145	321
Profit for the year	250	1,750
Earnings per share in €	1.41	9.89

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

Yours sincerely,

Munich Reinsurance Company

Munich, 14th June 2002

Münchener Rückversicherungs-Gesellschaft
Aktiengesellschaft in München

Order number: 302-03344

Königinstrasse 107 · 80802 München
Germany
Tel.: +49 (0) 89/38 91-0
Fax: +49 (0) 89/38 90 56
http://www.munichre.com
E-mail: info@munichre.com