

ANNUAL GENERAL MEETING 2003

Letter to shareholders



Münchener Rück
Munich Re Group

Supervisory
Board

Chairman Ulrich Hartmann

Board of
Management

Chairman Dr. jur. Hans-Jürgen Schinzler
Dr. jur. Nikolaus von Bomhard
Clement Booth
Dr. jur. Heiner Hasford
Stefan Heyd
Christian Kluge
John Phelan
Dr. phil. Detlef Schneidawind
Dr. jur. Jörg Schneider
Karl Wittmann

To our shareholders

Dear Shareholders,

In this letter we would like to inform you about the results for the business year 2002 and our expectations for the current business year 2003.

Overview of the business year 2002

Group premium income rose by 10.8% (16.1%) in the past year to €40.0bn (36.1bn), thereby exceeding our high expectations. We grew in all areas, mainly organically, and managed to distinctly improve the profitability of our business, especially in reinsurance.

Group premium income in €bn	2002	2001
Reinsurance	25.4	22.2
Primary insurance	16.6	15.7
Consolidation	-2.0	-1.8
Total	40.0	36.1

We earned 59% (57%) of our Group premium from reinsurance, whose premium volume has grown by around 80% since 1998.

Key figures (IAS)		2002	Prev. year	Change in %
Gross premiums written	€bn	40.0	36.1	+10.8
Result before amortisation of goodwill	€m	809	-415	-
Tax	€m	-574	-1,040	+44.8
Minority interests in earnings	€m	-69	145	-
Profit for the year	€m	1,081	250	+332.4
Investments	€bn	156.3	162.0	-3.5
Shareholders' equity	€bn	13.9	19.4	-27.9
Net underwriting provisions	€bn	143.0	138.6	+3.1
Staff at 31 December		41,396	38,317	+8.0

Our core business, reinsurance, is developing well. Even before the events of September 2001, we succeeded in implementing more appropriate price levels in the loss-producing lines of industrial insurance. If one takes the results of our reinsurance treaty renewals just concluded and those preceding them, we have been able to increase prices by a total of around 26%. We have terminated business with an annual premium of €4bn in the last two years, because it no longer offered the requisite prices and conditions. The results of this uncompromising underwriting policy are already being clearly reflected in our figures. If one disregards the reserve strengthening at American Re and for the World Trade Center loss, treating them as special factors which alone account for 15.9% of our combined ratio, the latter figure improved from 112.7% to 106.5% in the past 12 months. We still cannot be satisfied with this combined ratio, however, even given the heavy burden from natural catastrophes in 2002.

In the case of our primary insurance subsidiaries, premium growth is above the market average. With the acquisition of KarstadtQuelle Versicherungen, ERGO has further improved its strategic and marketing position, even if currently it is also having to deal with exceptional burdens in the area of investments. With the reorganisation of our long-term shareholdings in the financial sector and the sole focus on HVB as a cooperation partner among the banks, we have taken decisive steps in the last two years to promote the further development of ERGO's business. The partnership has made a very good start and is already bearing fruit.

But this is not enough, either for you or for us. One thing is clear as far as we are concerned: what is required at the moment is not hectic activity, but prudence, professionalism and perseverance – qualities that have always been the hallmark of Munich Re and are essential for creating lasting value. In our strategy, profitability is given clear precedence over growth. We will gear all our business to this principle, without any taboos, even with respect to things we may have rightly regarded as particularly worthwhile for many years. The fact is that times have changed. Thus, for instance, we have agreed with Allianz to reduce our reciprocal shareholdings to around 15%. The first step for this was taken in March 2003.

Following large share price losses on all the important stock markets, our result objectives had to be considerably revised downwards over the course of the year. The bottom line was a profit of €1,081m.

Group result in €m	2002	Prev. year
Result before amortisation of goodwill	809	-415
Operating result before tax	438	-645
Profit for the year	1,081	250

The Group result for 2002 was heavily influenced by the following factors:

- The shareholding transactions with Allianz AG, for which the stage had been set in the previous years, were completed successfully in the first half-year, resulting in a profit of €4.7bn.
- In the second quarter, we strengthened the loss reserves of our US subsidiary American Re by US\$ 2bn, in order to draw a line under the series of long-tail losses from our US business.
- We also increased our reserves by US\$ 500m for losses from the 11 September 2001 attack on the World Trade Center (WTC).
- We had to take account of the weak state of the capital markets with write-downs of €5.7bn on our security portfolios.
- Losses on the disposal of investments rose to €3,9bn (2,5bn), mainly due to the sale of shares.

Besides the weakness of the economy and the general market trend, the following factors adversely affected our share price in 2002: the flood losses, the strengthening of reserves at American Re and for the WTC loss, the fear of war in Iraq, and the losses in value of our own portfolio of equities and shareholdings, especially those in Allianz and HypoVereinsbank.

Key figures for our shares		2002	Prev. year
Number of shares at 31 December	m	178.7	176.9
Year high	€	307.00	387.00
Year low	€	98.99	230.49
Year-end closing price	€	114.00	304.95
Annual performance (excluding dividend)	%	-62.62	-19.97
Beta relative to DAX		1.34	0.84
Market capitalisation at 31 December	€bn	20.4	54.0
Market value/book value* at 31 December		1.5	2.8
Average daily turnover	'000	1,027	724
Price/earnings ratio* at 31 December		18.8	216.3
Earnings per share	€	6.08	1.41
Dividend per share	€	1.25	1.25
Dividend yield at 31 December	%	1.1	0.4
Overall dividend amount	€m	223	221

* Share price at the end of the year as a percentage of the shareholders' equity shown in the balance sheet, excluding minority interests.

Despite the reduction in its shareholders' equity and valuation reserves, the Munich Re Group is still one of the financially strongest insurance groups in the world, and is also seen by the leading rating agencies and our clients as such. Even though some agencies have downgraded Munich Re's rating, this has not had any adverse effect on our business to date. The current ratings of the Munich Re Group and its subsidiaries may be found on our website.

Reinsurance

The Munich Re Group companies operate in all classes of reinsurance and offer a full range of products – from traditional reinsurance to alternative risk financing and risk transfer structures.

Responsibility for the Group's global reinsurance business at the parent company, the Munich Reinsurance Company, is divided between seven 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		2002	Prev. year
Gross premiums	€bn	25.4	22.2
Loss ratio non-life	%	95.8	104.5
Expense ratio non-life	%	26.6	30.6
Combined ratio non-life	%	122.4	135.1
Result before amortisation of goodwill	€m	2,591	-687
Investments	€bn	68.6	71.0
Net underwriting provisions	€bn	55.3	50.8

Our main objective was to improve the quality of our portfolio as a whole, which we succeeded in doing. Thanks to higher prices for existing business and good new business, we were able to increase our premium income in the year under review by 14.6% (21.1%) to €25.4bn (22.2bn).

Gross premiums by segment in €m	2002	Prev. year
Life and health	6,561	5,900
Property-casualty	18,884	16,296
Total	25,445	22,196

Although we continue to be the leading reinsurer for life and health business in Germany, we are recording significantly higher growth abroad.

The growth in our property-casualty reinsurance reflects the appreciable increases in premiums for existing covers; in many markets, however, we also managed to acquire attractive new business, despite keen competition. Thus the reduction in volume resulting from the termination of unattractive business was more than compensated for overall.

In the last renewal rounds, we have achieved significantly better prices and conditions, but above all appropriate restrictions in the scope of cover, and we have terminated a substantial volume of business that was performing badly. In 2002, this translated into distinctly improved results for the current underwriting year.

Our combined ratio nevertheless only fell to 122.4% (135.1%). This ratio, and with it the income statement for the business year, were significantly impacted by the strengthening of the loss reserves for our US business.

Primary insurance

Our primary insurance operations include first and foremost the ERGO Insurance Group, as well as the Karlsruher Insurance Group and Europäische Reiseversicherung. By far their most important market is Germany, where they earn around 81% (80%) of their premium income. Their foreign premium income derives mainly from Italy, the Netherlands, Spain/Portugal, Belgium, Poland and Austria.

In 2002 we increased our premium income from primary insurance by 5.6% (9.0%) to €16.6bn (15.7bn); it thus contributed 41% (43%) to Group premium as a whole. The good growth in new business impressively underscored our primary insurers' marketing strength, which is built on well-established products, attractive brands and a range of effective distribution channels.

Primary insurance		2002	Prev. year
Gross premiums	€bn	16.6	15.7
Loss ratio property-casualty	%	62.7	64.9
Expense ratio property-casualty	%	36.4	36.5
Combined ratio property-casualty	%	99.1	101.4
Result before amortisation of goodwill	€m	-669	555
Investments	€bn	104.4	103.6
Net underwriting provisions	€bn	88.4	87.4

Our primary insurers earned 70.8% (70.8%) of their gross premiums from life and health insurance, where we achieved a 5.7% (7.9%) increase in premium income in the year under review.

This dynamic trend was primarily attributable to life insurance, where premium income was up by 5.6% (9.9%) to €7.5bn (7.1bn). The strong growth in new business particularly reflects our life insurers' good market position with respect to private and company pensions in Germany.

Premium income in health insurance grew by 5.7% (4.6%) to €4.2bn (4.0bn). The fear among many employees in Germany that a drastic increase in the earnings ceiling for compulsory state health insurance could make it more difficult to switch from statutory to private health insurance made a significant contribution to the good growth in new business.

In property-casualty insurance, premium income reached €4.8bn (4.6bn), or 5.4% (11.7%) more than in the previous year. We managed to achieve growth not only in personal lines business but also in commercial property insurance which, thanks to price increases, contributed to the positive premium trend.

The floods in Germany and Central Europe, and also severe windstorm damage, gave rise to claims costs for our primary insurers in the mid double-digit million euro range. Despite these and other burdens from natural hazard events, the combined ratio fell to 99.1% (101.4%).

Asset management

At 31 December 2002, the Munich Re Group's investments amounted to €156.3bn (162.0bn), down 3.5% on the previous year. This was largely due to the heavy losses in the value of equity portfolios and, to a lesser extent, to exchange losses on foreign currencies in relation to our balance sheet currency, the euro.

In the year under review, the investment result amounted to €5.6bn (10.4bn), representing a reduction of 46.2% compared with 2001.

The table below shows the composition of the portfolio by investment type:

Investment mix	2002		Prev. year		Change in %
	€m	%	€m	%	
Real estate	9,848	6.3	9,044	5.6	8.9
Investments in affiliated and associated enterprises	9,601	6.1	12,558	7.8	-23.5
Mortgage loans and other loans	12,644	8.1	11,182	6.9	13.1
Shares and investment fund certificates	18,770	12.0	33,516	20.7	-44.0
Other securities	88,709	56.8	79,127	48.8	12.1
Deposits retained on assumed reinsurance business and other investments	16,003	10.2	15,901	9.8	0.6
	155,575	99.5	161,328	99.6	-3.6
Investments for unit-linked life insurance	703	0.5	666	0.4	5.6
Total	156,278	100.0	161,994	100.0	-3.5

The reduction in the percentage of shares and investment fund certificates, which are shown in the balance sheet at their fair value, is attributable both to losses in value and to the fact that we have deliberately reduced the proportion of shares in our portfolio as a whole.

The investment result for 2002 by type of investment was as follows:

Results of the different types of investment	2002 €m	Prev. year €m	Change in %
Real estate	701	551	27.2
Investments in affiliated enterprises	190	-19	-
Investments in associated enterprises	5,153	1,809	184.9
Mortgage loans and other loans	724	542	33.6
Other securities	-1,274	7,366	-
Other investments	611	746	-18.1
Expenses for the management of investments			
Other expenses	500	575	-13.0
Total	5,605	10,420	-46.2

The difference between the market value of our investments and their balance sheet value changed as follows:

	Valuation reserves	Fair value	Carrying amount	Valuation reserves	Fair value	Carrying amount
All figures in €m	31.12. 2002	31.12. 2002	31.12. 2002	Prev. year	Prev. year	Prev. year
Unrecognised valuation reserves						
Real estate	1,620	11,468	9,848	2,080	11,124	9,044
Associated enterprises	-593	8,758	9,351	14,293	26,548	12,255
Other securities	46	898	852	31	1,011	980
Total	1,073	21,124	20,051	16,404	38,683	22,279

Munich Reinsurance Company

The Munich Reinsurance Company's profit for the year came to €2,606m (441m). After allocation of €1,303m (220m) to the revenue reserves, a balance sheet profit of €1,303m (221m) remains. At the Annual General Meeting, it will be proposed that a further €1,080m from the balance sheet profit be allocated to the revenue reserves and that an unchanged dividend of €1.25 be paid on each share entitled to dividend.

Prospects for the business year 2003

Unfortunately, there is a growing tendency among some investors to sue companies in connection with statements they publish on future development. This practice inevitably leads to companies being reticent about the information they give and disclosing only what is required by law.

For this reason we, too, wish to emphasise the following: predictions about the future development of our Group are based primarily on planning figures, forecasts and expectations. They do not contain descriptions of already established facts. Consequently, the following assessment of the Munich Re Group's development merely reflects our assumptions and expectations. We do not accept any responsibility or liability for cases in which they are not realised either in part or in full.

Growth

We are assuming that for the next few years the prevailing conditions will result in steady growth in reinsurance business, albeit on the moderate side in the single-digit percentage range. The fact that this growth rate is lower than the figures of the last few years reflects our restrictive, strictly profit-oriented underwriting policy. Growth is also being curbed by a stronger euro.

In primary insurance, we again plan to grow by more than the market average in 2003, and are confident of achieving this goal in all classes of business (life and health, property-casualty).

All in all, without taking into account the effects of changes in exchange rates, Group premium income for the current business year is likely to total around €42bn (40bn), which would be 5% more than in 2002.

As prices and conditions in reinsurance have been substantially improved, we expect a combined ratio of around 100% in the current business year. In primary insurance, through systematic claims management and effective cost reductions, we want to further improve the combined ratio, which at 99% is already very low compared with the market in general.

The crucial factor for the result, however, will be what claims burdens affect us from natural catastrophes and other major losses, as well as how the capital markets develop. We assume that our investment returns will show a decline due to the lower interest rates, even if stock prices recover from their current low level. Further losses on disposals and writedowns on our equity portfolios must be expected.

Under these circumstances, we do not have a sufficient basis for publishing a forecast for the Group result at this stage.

Changes in shareholdings

At the beginning of May 2000, Munich Re and Allianz AG had announced their intention to reduce their reciprocal stakes of 25% to around 20% each. This reduction was to take place in several steps, with due consideration for the capital markets. In a first step in the year 2000, the shareholdings were lowered to just under 25%.

It was also agreed in May 2000 that Allianz would acquire Munich Re's 45% stake in Bayerische Versicherungsbank AG and its 49.9% stake in Frankfurter Versicherungs-AG. This was completed in the second quarter of 2002. In return, during the business year 2000 Munich Re acquired Allianz's 39% interest in Mercur Assistance AG Holding, and in mid-2002 Allianz's 36.1% stake in Karlsruher Lebensversicherung AG.

At the beginning of April 2001, Munich Re and Allianz announced a further restructuring of their shareholdings in jointly held subsidiaries and participating interests. In this connection, in the first quarter of 2002 Allianz acquired from the Munich Re Group all its shares in Dresdner Bank and its 40.6% interest in Allianz Lebensversicherungs-AG. Besides this, Munich Re made available from its own holdings shares of 4% in Allianz for the offer to Dresdner Bank shareholders. This reduced Munich Re's stake in Allianz to around 21% of the voting rights.

At the beginning of 2002 the Munich Re Group acquired from Allianz and Dresdner Bank all of their shares in the HVB Group (13.55% and 2.5% respectively), taking our stake in that group's capital up to 25.7%. Furthermore, in the first quarter we successfully completed the increase in our holding in ERGO Versicherungsgruppe AG from 62.9 % to 91.9%.

Munich Re plans to reduce its shareholding in Allianz to around 15%, probably before the end of 2003. For its part, Allianz will reduce its stake in Munich Re in the course of the year by around 16% to 18%, and then also to around 15% by the end of 2004.

Consolidated balance sheet in €m	31.12.2002	31.12.2001
Investments	156,278	161,994
Shareholders' equity	13,948	19,357
Net underwriting provisions	142,966	138,642

Consolidated income statement in €m	31.12.2002	31.12.2001
Gross premiums written	40,014	36,123
Net earned premiums	36,306	31,680
Investment result	5,605	10,420
Other income	1,343	892
Total income	43,254	42,992
Net expenses for claims and benefits	31,129	34,162
Net operating expenses	8,933	7,758
Other expenses	2,383	1,487
Total expenses	42,445	43,407
Result before amortisation of goodwill	809	-415
Amortisation of goodwill	371	230
Operating result before tax	438	-645
Tax	-574	-1,040
Minority interests in earnings	-69	145
Profit for the year	1,081	250
Earnings per share in €	6.08	1.41

Ladies and gentlemen,

Over 100 years ago, Victor Hugo said: "The future has many names. For the weak it is the unattainable. For the fearful it is the unknown. For the bold it is opportunity." With our more than 40,000 dedicated and loyal employees, we are approaching the future resolutely and with confidence. We will exploit the opportunities it holds for Munich Re to the benefit of you, our shareholders, and our Group. The stage for this has been set.

Yours sincerely,

Munich Reinsurance Company

A handwritten signature in black ink, appearing to read "Christian Wüchrich". The signature is written in a cursive, flowing style.

Munich, 12 May 2003

© 2003

Münchener Rückversicherungs-Gesellschaft

Aktiengesellschaft in München

Königinstrasse 107

80802 München

Germany

Tel.: +49 (0) 89/38 91-0

Fax: +49 (0) 89/39 90 56

<http://www.munichre.com>

Order number: 302-03654