

Interim report
as at 30th June 1999



Münchener Rück
Munich Re Group

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To Munich Re's Shareholders

Dear Shareholders,

We are writing to report to you on the business of the Munich Re Group in the first six months of the business year 1999, which as a whole developed pleasingly. Following the bringing forward of the balance sheet date, this is a further step in informing you at an early stage about significant developments relating to your company.

The report is based on the same accounting and valuation principles as the 1998 consolidated accounts. However, the figures for the first half-year 1998 are only comparable to a limited extent with the figures in the consolidated accounts for the short business year 1998.

For 1999, as already announced, we will be preparing the consolidated accounts on the basis of International Accounting Standards (IAS) for the first time. We look forward to letting you know the changes that will result from this in due course, probably at the end of November.

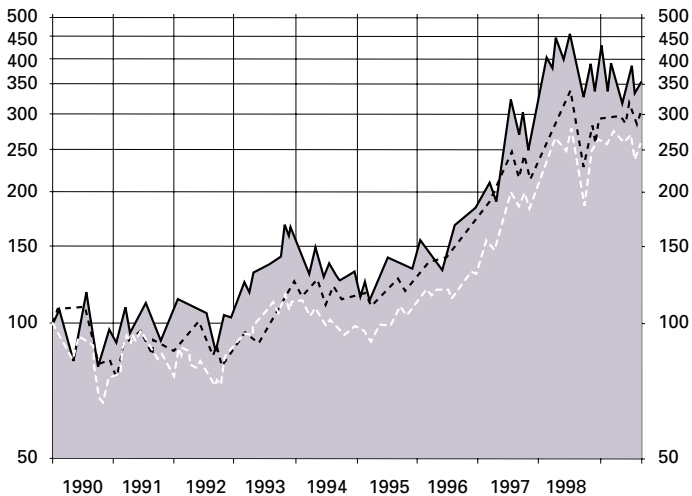
Share price performance

Like the prices of other insurance stocks, our share prices underwent substantial fluctuations in the first half of 1999, partly because of the discussion surrounding the possible effects of the German government's tax reform on the German insurance industry. In the medium to long term the purchase of Munich Re shares has been and is an above-average investment, as the most recent development of the share price confirms.

Since 20th September 1999 Munich Re's registered shares have been included in the Stoxx 50 and the Euro Stoxx 50 share indices, as well as continuing to be in the DAX 30. The inclusion of our registered shares in these indices provides a positive signal for the further development of our share price and evidently also for growth in the number of shareholders, which has meanwhile increased to 57,000 and thus quadrupled in less than two years.

Our objective of unifying our different share categories – bearer shares and registered shares – has now been achieved: at the end of this year only the registered shares will be listed on the stock exchange. We are pleased to report that 98% of all bearer shares have meanwhile been converted into registered shares. This confirms our view that the attractiveness of Munich Re shares has been further enhanced by our package of measures.

Price performance
1. 1. 1990 = 100



— Munich Re registered shares
- - - German share index (DAX)
- - - Morgan Stanley insurance index (in DM)

Status: 10. 9. 1999

Munich Re Group

In the first six months of the business year 1999 the Munich Re Group achieved a further increase in its premium income. Compared with the first half of 1998, premiums were up 5.8% to Euro 13.4bn (12.7bn). Both the reinsurers and the direct insurers contributed to this. In contrast to the previous years, growth was not attributable to changes in the group of consolidated companies.

As reported at the AGM in July, the underwriting result shows a deterioration. This is a consequence of the less favourable experience in reinsurance. By contrast, the direct insurers achieved an increased profit. Thus our Group strategy has again proved its effectiveness: the worse results in volatile reinsurance business in the period under review have been compensated for by better results in more stable personal lines insurance.

The deterioration in reinsurance results is reflected in a considerably smaller allocation to claims equalization provisions.

We succeeded in improving our investment result further, even though the realized capital gains were markedly lower than in the comparable period last year.

Our operating result is thus 8% higher than for the first half-year 1998.

Tax expenditure shows a significant increase, mainly because of the substantial burdens from the tax reform. The expected additional tax expenditure from the "more realistic" valuation of claims provisions has been fully included in our figures for the first-half year 1999.

At Euro 316m the Group profit for the first six months of the business year was therefore lower than for the first half of 1998 (Euro 390m).

For 1999 as a whole, however, we still expect a considerably higher Group profit than last year, given that as things stand at present particularly the investment result will be better in the second half-year than in the first half-year. In addition, tax expenditure will revert to normal levels.

Munich Re Group

Summarized profit and loss account 1st January 1999 to 30th June 1999

	1.1.–30.6.99 Euro m	1.1.–30.6.98 Euro m
Gross premiums written	13,397	12,657
– Reinsurers	6,714	6,276
– Direct insurers	6,683	6,381
Underwriting result	25	239
– Reinsurers	–312	–56
– Direct insurers	337	295
Investment result	1,066	990
Other income and expenditure	–207	–192
Unadjusted earnings	884	1,037
Special allocations to provision for outstanding claims	0	–61
Change in claims equalization provisions	–75	–228
Operating result	809	748
Tax	–493	–358
Profit for the year	316	390

Reinsurance

The Munich Reinsurance Company and its reinsurance subsidiaries have been pointing out for some time that terms and conditions in a number of sectors and markets are no longer risk-commensurate and have been working for an improvement in the situation. In the first half of 1999 we therefore aimed at, and achieved, growth in those areas where such trends towards improvement were evident and a positive development of earnings was to be expected. This selective approach has yielded an increased premium income of Euro 6.7bn (6.3bn) or growth of 7%. Growth has been driven particularly by insurances of the person – life, health and personal accident; in fire and engineering, on the other hand, where we reinsure mainly industrial business with high sums insured, we recorded slight decreases in premium.

With competition continuing unabated, the rate level in several sectors was still much too low, so that the underwriting loss in the first half-year rose to Euro 312m (56m).

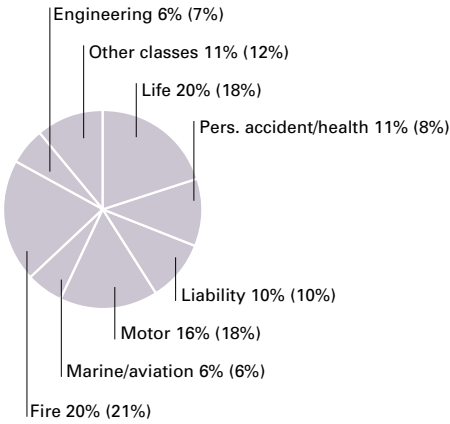
This was partly due to higher claims expenditure for natural catastrophes and other major losses, especially the hailstorm in Sydney in April 1999, which cost us around Euro 130m, and another series of satellite losses, which together gave rise to claims costs of approximately Euro 70m for us in space business.

Viewed in terms of classes of business, there was a marked deterioration in the result situation particularly in fire reinsurance. Whereas in the comparable period last year we achieved a profit in this class of business, this first half-year we recorded a negative result. But experience was

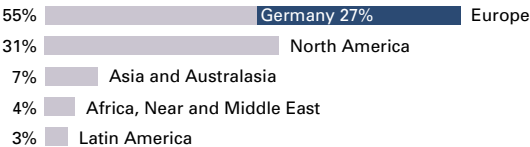
also less favourable in motor, increasing the deficit. In contrast to this, the result in life reinsurance developed positively.

Our reinsurance portfolio is balanced both as regards lines of business and regionally, a mix which has proved effective. Financial reinsurance and alternative risk transfer are acquiring increasing importance.

Gross premiums by class of business



Gross premiums by region



Direct insurance

The positive trend in our direct insurers' business has continued both in terms of premium income and as regards results. This is a consequence of their excellent market position; in addition, the integration of VICTORIA, Hamburg-Mannheimer, DKV and D. A. S. within the ERGO Group has had a positive effect.

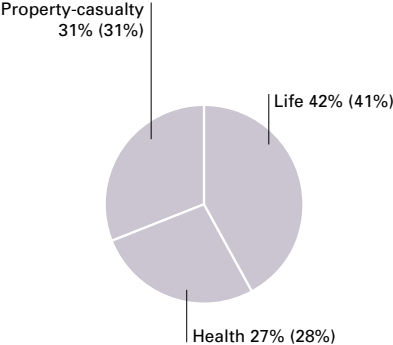
The direct insurers wrote premium income of Euro 6.7bn (6.4bn) in the first six months of the business year 1999, equivalent to growth of 4.7%. Their underwriting result shows an improvement on the comparable period last year. The underwriting profit rose to Euro 337m (295m).

The main contributor to growth was German life insurance, although here there were conflicting influences: on the one hand, people are increasingly recognizing the need to expand private provision and not to rely solely on statutory pension insurance; on the other hand, they have been confused by the federal government's contradictory plans with regard to taxing endowment insurances. The amounts paid in insurance benefits, i.e. the sums paid out or reserved for policyholders, increased further.

Premium income in health insurance also grew, albeit only moderately. This is partly due to the fact that our health insurers use some of their profits to limit the size of necessary premium increases. In this way premiums are kept at an attractive level and clients' loyalty is strengthened. Altogether, therefore, the company's competitiveness is enhanced. Owing to cost increases in outpatient treatment, claims expenditure rose.

Premium income in property-casualty insurance grew further, despite the intense competition, particularly in motor and industrial fire business. Thus our direct insurers were again able to buck the market trend in this area. On the other hand, claims expenditure grew considerably as a result of several major losses.

Gross premiums



Investments

The Group's investments grew further in the first half of 1999. As at 30th June 1999 they totalled Euro 116.7bn (111.0bn). Valuation reserves amounted to Euro 41.2bn (42.0bn).

The reduction in the valuation reserves is attributable to the weak performance of some European stock markets and to the increase in yields and consequent fall in price of fixed-interest securities. The fact that in this environment the reduction was so small shows the quality of our investment portfolio's composition.

At Euro 1.1bn the investment result was 7.7% up on the same period last year. We have taken advantage of the volatility in the stock markets to realize capital gains and to establish new positions. Realized capital gains totalled Euro 444m and were thus markedly lower than in the first half of 1998 (Euro 881m).

Durations in our bond portfolio are oriented towards the structure of our liabilities. In order to provide ourselves with additional security in this phase of rising interest rates, we made changes in our bond portfolio at the beginning of this year, switching from investments with longer maturities into investments with shorter maturities and money market investments (without significantly altering the overall duration). In the meantime we are cautiously investing in medium-term bonds again. With economic growth picking up again, high-quality liquid corporate bonds provide an interesting alternative to government bonds.

On the currency markets, significant differences in national growth rates weakened the confidence of investors in the euro; the US dollar increased in strength in the first half of 1999. Munich Re's result is not affected by these currency changes, as we have always pursued a policy of currency matching for our underwriting liabilities.

Staff

As at 30th June 1999 there were 26,382 (27,800) staff employed in the Munich Re Group, 4,552 (4,326) at the reinsurance companies and 21,830 (23,474) at the direct insurance companies.

Prospects

The data for the first half-year have confirmed our earlier predictions for business development in 1999. We therefore continue to expect a considerably higher Group profit for the year as a whole than last year.

This applies even after the earthquakes that hit north-west Turkey in the middle of August. On the basis of current estimates we will have to reckon with claims costs totalling over Euro 150m from this, with losses mainly affecting fire and engineering insurance. It is not yet possible to put a reliable estimate on the losses resulting from the earthquake north of Athens at the beginning of September or from the earthquake in Taiwan a few days ago. But as we have funds set aside for such natural catastrophes in our earthquake provisions, the Group result for the year as a whole will not be significantly impaired by these events. The losses from the 1999 hurricane and typhoon season so far are within the range of what we had anticipated and will not have a significant impact on the Group result for the year either. However, these loss events make clear what claims burdens have to be reckoned with in reinsurance in individual years. In our view, together with other factors they should also result in a reduction in the worldwide over-

capacity on the reinsurance markets. Individual providers have already withdrawn from reinsurance business. For the approaching renewal season, this ought to accelerate the necessary turnaround in terms and conditions in important segments.

The reinsurance underwriting result is unlikely to improve in the second half of 1999. The result for 1999 as a whole will be an appreciably higher loss than last year, although this should largely be compensated for by smaller allocations to claims equalization provisions.

On the present basis the direct insurers will succeed in extending their position in Germany and the rest of Europe as planned and achieve a very pleasing result.

The investment result should also continue to develop positively. Both current income and realized capital gains are likely to be significantly higher than in the first half-year. At the beginning of December MEAG MUNICH ERGO Asset-Management GmbH will commence operations.

As things stand at present, it should therefore be possible to keep the dividend at Euro 0.92, even though the first half of 1999 has seen a doubling in the number of shares owing to the stock split and to the capital measure for the holders of bearer shares, meaning that an unchanged dividend rate requires a doubling of the overall dividend amount. This naturally presupposes that no more exceptional loss events occur before the end of the business year and that we are not hit by big price losses on the capital markets.

Yours sincerely,

Münchener Rückversicherungs-Gesellschaft

Dr. Hans-Jürgen Schinzler
Dieter Göbel

Munich, 28th September 1999

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