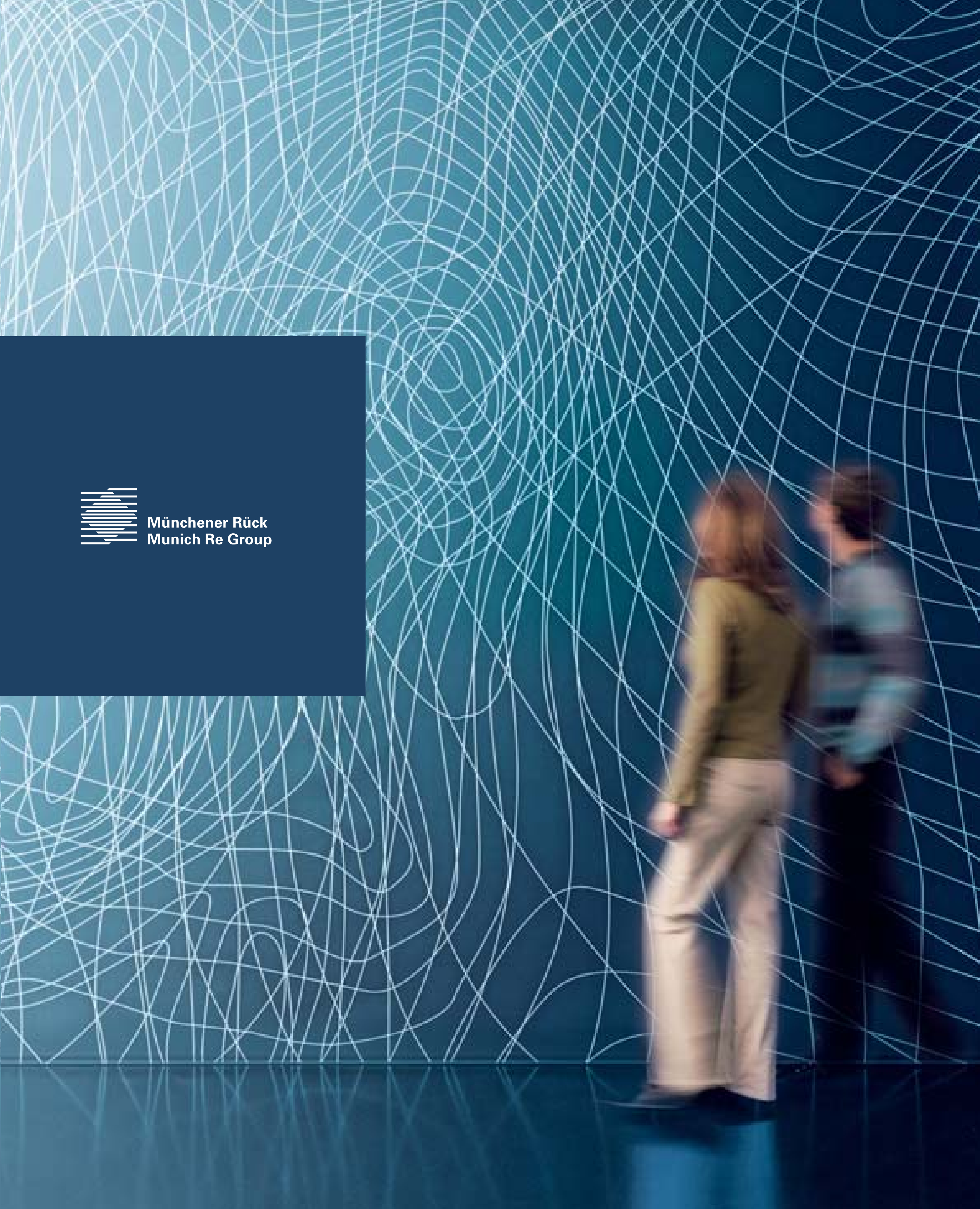
Munich Re Group
Short Annual Report 2005

Paving the way for opportunities



Münchener Rück
Munich Re Group

Key figures (IFRS)
Munich Re Group

		2005	2004	2003	2002	2001
Gross premiums written	€bn	**38.2**	38.1	40.4	40.0	36.1
Result before amortisation of goodwill	€m	**4,137**	3,369*	1,971	–20	–445
Taxes on income	€m	**1,009**	712	1,752	–605	–1,070
Consolidated result	€m	**2,743**	1,887*	–468*	214*	395*
Thereof attributable to minority interests	€m	**72**	54*	–34*	–74*	145*
Investments	€bn	**177.2**	178.1	171.9	156.3	162.0
Return on equity	%	**12.3**	9.5***	–3.0***	1.1***	1.6***
Equity	€bn	**24.7**	20.6*	19.3*	13.9	19.4
Valuation reserves not recognised in balance sheet**	€bn	**2.6**	3.2	1.8	1.1	16.4
Net underwriting provisions	€bn	**154.1**	154.3	147.5	143.0	138.6
Staff at 31 December		**37,953**	40,962	41,431	41,396	38,317

*Adjusted owing to first-time application of IAS 1 (rev. 2003).
**Including amounts attributable to minority interests and policyholders.
***Previous years' figures adjusted owing to change in measurement basis.

Reinsurance*

		2005	2004	2003	2002	2001
Gross premiums written	€bn	**22.3**	22.4	24.8	25.4	22.2
Investments	€bn	**87.0**	81.2	80.4	68.6	71.0
Net underwriting provisions	€bn	**63.4**	58.2	56.7	55.3	50.8
Reserve ratio property-casualty	%	**295.8**	243.8	205.0	201.1	245.6
Large and very large losses (net)	€m	**3,293**	1,201	1,054	1,844	3,407
Thereof natural catastrophe losses	€m	**2,629**	713	288	577	212
Combined ratio non-life	%	**110.5**	98.9	96.7	122.4	135.1

*Before elimination of intra-Group transactions across segments.

Primary insurance*

		2005	2004	2003	2002	2001
Gross premiums written	€bn	**17.6**	17.5	17.6	16.6	15.7
Investments	€bn	**105.9**	115.0	108.3	104.4	103.6
Net underwriting provisions	€bn	**90.7**	96.1	91.0	88.4	87.4
Reserve ratio property-casualty	%	**113.1**	116.8	114.5	116.3	113.9
Combined ratio property-casualty	%	**93.1**	93.0	96.4	99.9	101.4

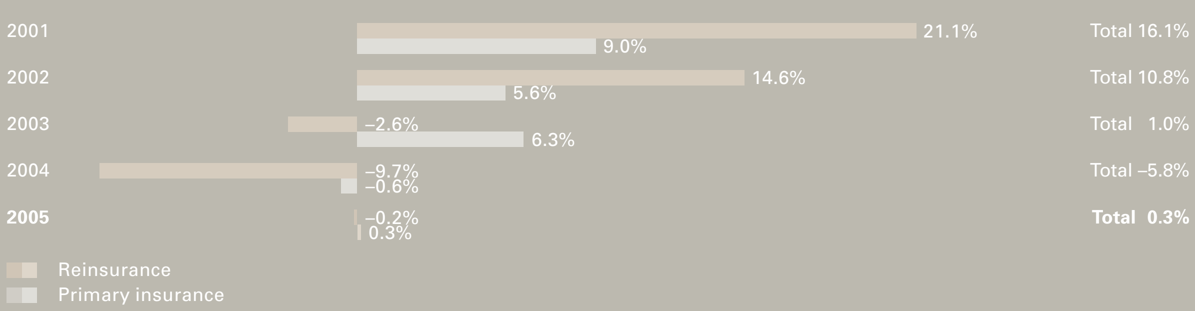
*Before elimination of intra-Group transactions across segments.

Our shares

		2005	2004	2003	2002	2001
Earnings per share	€	**11.70**	8.01	–2.25	1.54*	1.34*
Dividend per share	€	**3.10**	2.00	1.25	1.25	1.25
Amount distributed	€m	**707**	457	286	223	221
Share price at 31 December	€	**114.38**	90.45	96.12	114.00	305.00
Munich Re's market capitalisation at 31 December	€bn	**26.3**	20.8	22.1	20.4	54.0

*Taking into account the capital increase in November 2003.

Premium growth



The Munich Re Group

Our operations encompass all aspects of risk assumption in primary insurance and reinsurance. We are one of the world's largest reinsurers and one of the largest primary insurers in Germany.

Reinsurance: We have been in the business of insuring insurers since 1880.

Primary insurance: Our primary insurers – the ERGO Group with its brands VICTORIA, Hamburg-Mannheimer, DKV, D.A.S. and KarstadtQuelle Versicherungen, plus Europäische Reiseversicherung – provide cover for private individuals and for small and medium-sized businesses.

Our subsidiary MEAG manages our assets and offers investment products for private clients and institutional investors.

Munich Re Group

Reinsurance

Munich Reinsurance Company	Münchener Rück Munich Re Group
American Re-Insurance Company	American Re
Munich American Reassurance Company	MARC Life
Munich Reinsurance Company of Canada	MROC
Temple Insurance Company	Temple
Munich Holdings of Australasia Pty Limited	MHA Munich Re Group
Munich Reinsurance Company of Africa Ltd.	MRoA
Münchener Rück Italia S.p.A.	MRI
New Reinsurance Company	nouvelle ré neue rück new re
Great Lakes Reinsurance (UK) PLC	Great Lakes UK

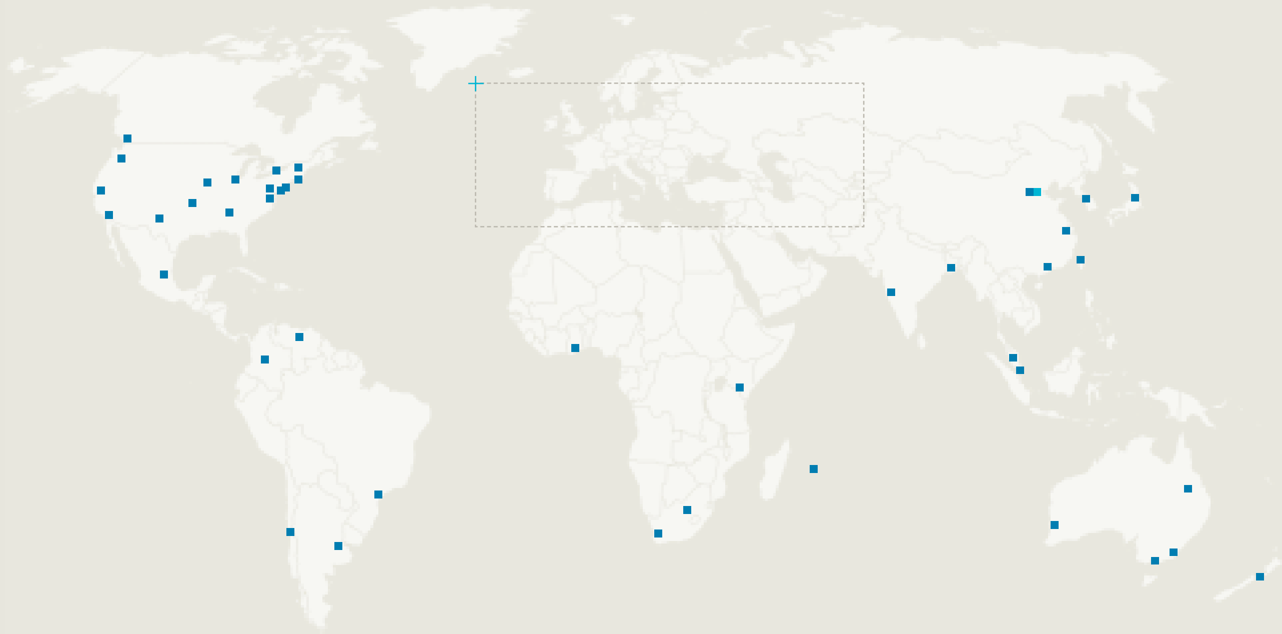
Primary insurance

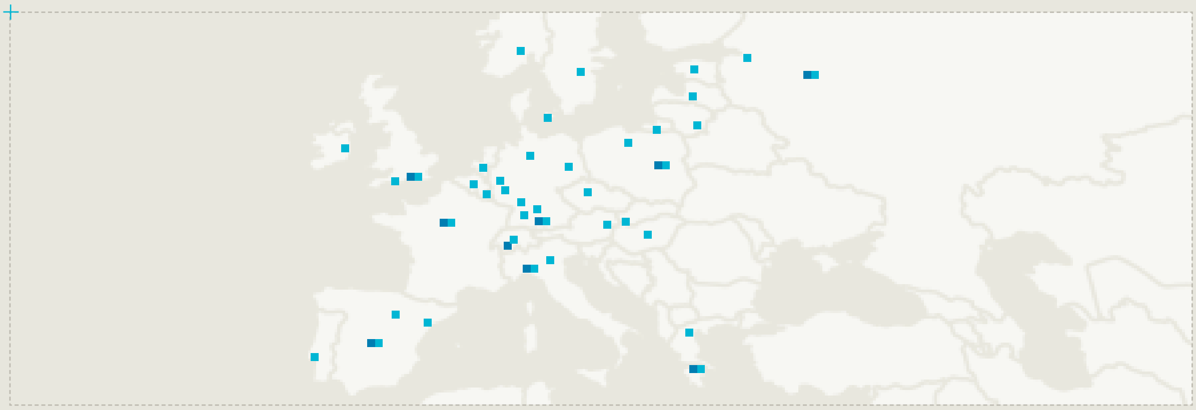
ERGO Versicherungsgruppe AG	ERGO
VICTORIA	VICTORIA
Hamburg-Mannheimer	Hamburg Mannheimer
Deutsche Krankenversicherung AG	DKV
Deutscher Automobil Schutz	DAS
KarstadtQuelle Versicherungen	KarstadtQuelle Versicherungen
ERGO Previdenza S.p.A.	ERGO Previdenza
ERGO Hestia S.A.	Hestia
Europäische Reiseversicherung AG	Die Europäische. Reiseschutz und mehr...
Mercur Assistance AG	
Munich Re Underwriting Ltd.	Watkins Syndicate

Asset management

MEAG MUNICH ERGO AssetManagement GmbH MEAG

Munich Re Group locations





Reinsurance

Europe: Munich, Athens, Geneva, London, Madrid, Milan, Moscow, Paris, Warsaw

Asia: Beijing, Hong Kong, Kolkata, Kuala Lumpur, Mumbai, Seoul, Shanghai, Singapore, Taipei, Tokyo

North America: Atlanta, Boston, Chicago, Columbus, Dallas, Hartford, Kansas City, Los Angeles, New York, Philadelphia, Princeton, San Francisco, Seattle, Montreal, Toronto, Vancouver, Waltham

South America: Bogotá, Buenos Aires, Caracas, Mexico City, Santiago de Chile, São Paulo

Africa: Accra, Cape Town, Johannesburg, Nairobi, Réduit

Australia: Auckland, Brisbane, Melbourne, Perth, Sydney

Primary insurance

Europe: Munich, Agrate Brianza, Amsterdam, Athens, Barcelona, Berlin, Bratislava, Bristol, Brussels, Budapest, Cologne, Copenhagen, Dublin, Düsseldorf, Frankfurt/Main, Fürth, Hamburg, Hilden, Kaliningrad, Lausanne, Lisbon, London, Luxembourg, Madrid, Milan, Moscow, Munsbach, Neuilly-sur-Seine, Nuremburg, Oslo, Ostfildern, Prague, Riga, Saragossa, Sopot, Stockholm, St. Petersburg, Strassen, Tallinn, Thessaloniki, Verona, Vilnius, Warsaw, Vienna

Asia: Beijing

Paving the way for opportunities: Five articles in this year's Munich Re Group Annual Report show what opportunities there are in risk and how Munich Re turns them into value – for every risk has two sides. You can read the articles at www.munichre.com.

Dear Shareholders,

In the Munich Re Group, we can look back on an eventful anniversary year 2005, in which the overall outcome was very successful. We bettered our 2004 record profit of €1.9bn to €2.7bn, and surpassed our result target of a 12% return on IFRS equity after tax, with an RoE of 12.3%. This enables us to substantially increase the dividend by 55% to €3.10 per share.

Our performance in primary insurance and reinsurance was very good in basic business (our underwriting business below the threshold of major individual and catastrophe losses). This has been the case in primary insurance for quite some time. But in reinsurance, too, our basic business has continually improved in recent years and has long since attained an excellent quality. We are reaping the benefits here of our consistent line of not following cyclical market fluctuations, even if it means losing premium volume.

Another feature of the business year that I see as positive was our decision in reinsurance to put an end to the issue of reserve strengthening for American Re's business. Although our package of measures involved a major financial effort, we have freed Munich Re from a burden that had hindered us and adversely affected our Group's public image – especially in the capital markets.

In our investments, we have further reduced concentration risks and shareholdings outside our core business, which accords with our strategy of promoting diversification of risks on the assets side of our balance sheet as well. We achieved €2.1bn in realised capital gains, notably from the sale of stakes in MAN and the Karlsruher Insurance Group, the cutting back of our holdings in Allianz and Commerzbank, and the exchange of our HVB shares into UniCredit stock, followed by the reduction of our UniCredit stake to under 5%. So our diversification strategy also had a positive effect on the result for the year.

This contrasts with the huge burden from the series of natural catastrophes in summer and autumn. Indeed, 2005 can justifiably be called the "year of natural disasters". Not only the hurricanes and the vast amount of damage they caused, especially in the USA, made headlines. The severe earthquake in Pakistan, which claimed so many lives, and the catastrophic floods in the Alpine region, particularly in Switzerland, were also major news items that contributed to the negative picture. Our result was impacted above all by the losses from Hurricane Katrina, which we expect to give rise to claims expenditure of over €1.6bn. Altogether, we estimate that claims costs for natural catastrophes in 2005 at Group level will total €2.6bn. Natural catastrophe losses consumed nearly 18% of the reinsurance

Dr. Nikolaus von Bomhard
Chairman of Munich Re's Board of Management

group's total premium income in the past year, compared with an average of only 3% per annum in the ten-year period 1995–2004; last year's losses alone raise the average for the ten-year period 1996–2005 to 4.6%. But I would like to explicitly stress that we do not determine our pricing policy for natural catastrophe business just retrospectively, from many decades of past claims data, but naturally also prospectively – with due regard to expected developments such as climate change.

The 2005 hurricane season demonstrated that there has been a further increase in exposure. This development requires a re-evaluation of some aspects of the risks and thus an adjustment of the models we work with in order to assess risks from a scientific and actuarial perspective and to calculate the right price. I consider these adjustments to be normal and necessary. For only if our underwriting is based on the latest knowledge can we properly judge the profitability of the business offered to us and take the right decisions. We have to be "best in class" in this field – only then do we have the competitive edge we require.

All in all, I can say that I am pleased with the results achieved in the last two years. But I am not completely satisfied, let alone complacent. There is still too much to be done.

At this point last year, I described three cardinal virtues as the foundation of our strategy on which we intended to build our programme for the next few years. They were: focusing on "risk" as the underlying object of our business, actively diversifying risks, and optimising management quality/improving methods and tools for steering our business. We continue to consistently gear our work to these principles in order to achieve our most important corporate objective: turning risk into value.

I consider it essential in this context to provide you with more details of the change in our communicated result targets (which, incidentally, would not have been possible without the work on the above-mentioned virtues). Up to now we have defined our result target in terms of return on equity (ROE), basing it on the shareholders' equity shown in our balance sheet. This will now change. In future, we will be using return on risk-adjusted capital (RORAC), meaning a result target related to our risk-based capital. In my view, this is the only economic basis that permits meaningful statements on the performance of our business operations. For the same reason, we use value-based management to steer and measure our business internally (reinsurance was the pilot). The amount of equity in our balance sheet is directly influenced by changes in the market values of our investments. Increases would automatically raise the result target, even though they have nothing to do with our real business, especially our risk position. The same applies conversely, of course, with falling market values leading to a lower result target. If we take risk-adjusted capital as the yardstick throughout, we build a direct bridge with the development of the risks we assume on the asset and liability sides of our balance sheet when we acquire investments and write insurance or reinsurance business. Our risk position is aggregated in our risk-based capital. And it is on this capital that we have to earn the return which you, our shareholders, expect.

I freely admit that this material is somewhat complex. But I think it important to present the background to you, since corporate management and control are becoming more methodology-oriented, giving these issues increasing significance.

When it comes to our core business of handling risk, the Munich Re Group has a competitive advantage – our option of coordinating and combining competence in primary insurance and reinsurance, which allows us to realise integrated business models along the whole insurance value chain. Exploiting this option naturally presupposes that we have created suitable structures on the Group's decision-making bodies. That is why we have established a Group Committee and a Reinsurance Committee on Munich Re's Board of Management, enabling us to determine and implement strategy for the whole Group and our reinsurance business more stringently in each case and with enhanced focus. Value-based management and risk management will become more efficient, with even greater advantage being taken of synergies.

An area in which we are already systematically combining our specialist know-how from primary insurance and reinsurance, and thus achieving clear synergetic effects, is the global health market. It is characterised by high growth and earnings potential and offers much scope for innovation. Two examples of the realisation of our integrated health market strategy are China and Abu Dhabi. In the growth market of China, the Munich Re Group is involved through DKV in the formation of the first private health insurer, PICC Health. In Abu Dhabi we are taking on the development and operation of the first private health insurance carrier, offering basic and supplementary insurance for expats and thus improving healthcare provision.

Through these and similar initiatives, we aim to generate profit-oriented growth. But it is still the case that, for us, growth is not an end in itself. I have repeatedly stressed that the profitability of our business clearly has priority, and you can count on it staying that way.

In the current year we remain firmly focused on our course of sustained profitability. Our target for 2006 is a return on risk-adjusted capital of 15%, which translates into a projected consolidated profit of between €2.6bn and €2.8bn, an objective that should continue to make your Munich Re shares an interesting investment.

Yours sincerely,

Dr. Nikolaus von Bomhard
Chairman of Munich Re's Board of Management

Better healthcare in Abu Dhabi.
Thanks to Munich Re, the desert state will soon have its first private health insurer.

The risk_ Medical progress and longevity are cost drivers as well as growth engines.

Things are happening in the health market. It is growing – driven by demographic trends, advances in medical science and the improved economic situation of many people. Global expenditure on healthcare rose from just under US$ 3 trillion in 2000 to over US$ 4 trillion in 2005 and is forecast to be close on US$ 7 trillion by 2015. The insurers of the future, or rather all those involved in the health segment, face the challenge of participating in this growth and repositioning themselves accordingly

Risks in today's world are interconnected in many ways. They can no longer be categorised in the value chain as they traditionally were in the past. In health insurance, organisational boundaries are shifting and, in addition to pure risk-bearing, the provision of service and management support is rapidly increasing in importance both in primary insurance and in reinsurance. Take the example of the Munich Re Group's MedNet companies: as managed care service organisations (MSOs), they form a bridge of competence between our primary insurance clients, their insureds, and medical providers. The objective of the companies is to organise high-quality care at affordable prices, while giving priority to service for the patient. Our MSOs assume core functions in the value chain, such as risk assessment and managed-care services, and combine their expertise and market volume to optimally exploit the cost-benefit relationship. And because we provide this successful service from within our own organisation, we also win reinsurance business.

The world may have got smaller but there are still differences between established and developing countries. There are attractive opportunities for shaping and financing healthcare particularly in evolving health insurance markets where the market players are insufficiently interlinked. To tap the potential for growth in the healthcare market, companies must be capable of ascertaining the various stages of development and of quickly devising and implementing flexible and competitive solutions.

In setting up DAMAN, project manager Dr. Michael Bitzer (second from left) needs to take a breather now and then, as well as talking to the Health Minister, Mubarak Al Mazroui, and holding constructive meetings with his team.

The opportunity_ The General Authority for Health Services in Abu Dhabi and Munich Re have signed a cooperation agreement to establish the health insurer DAMAN.

Project manager Michael Bitzer reports on his daily work:

I wish there were twice as many hours in a day! By 1 May, a specialised primary health insurer must be up and running in Abu Dhabi – and we have had to start from scratch.

Only a small proportion of employees posted abroad are currently privately insured here. In the Emirates, these so-called expats constitute as much as 80% of the population. The majority have access to state health facilities, but many are uninsured. Despite huge out-of-pocket payments from the expats themselves, the state facilities are heavily subsidised. Care is especially inadequate for the lower-income groups. To improve the situation, Abu Dhabi passed a law in September 2005 making health insurance compulsory for expats and introducing partial privatisation.

The Abu Dhabi Investment Company (ADIC) and the General Authority for Health Services in Abu Dhabi (GAHS) put the project out to tender to eight international health insurers. Munich Re had impressive credentials in every respect – its competence in health insurance and reinsurance, healthcare management and assistance services; its experience in the Gulf gained through its MedNet subsidiaries over a period of more than ten years; its portfolio of successful and efficient risk management tools; its international networks and, not least, its professional team.

We were awarded the contract in September, the agreement was signed in December, and the countdown began. The project was launched with a core team of 13 staff, all of them experienced colleagues from the Munich Re Group's international operations. We get support from our colleagues in Munich whenever we need it. The company is expected to employ 350 staff by the end of 2006, and 450 a year later. So this year we will be recruiting one new employee a day on average. On 13 November, the team moved into the 16th floor of an office tower in Hamdan Street, one of the main business thoroughfares in the centre of Abu Dhabi, which we had provisionally furnished courtesy of IKEA. Eventually, we will occupy five floors. The space is quite tight, with more than 30 team members on the only floor currently available for use. Every day, we tackle more new developments here than others handle in a month. We are highly motivated by this exciting environment – otherwise we would never manage to keep up the effort to achieve our ambitious milestones: by 1 April a sales and distribution unit, a card production unit capable of issuing cards to over 40,000 insureds per month, an underwriting department and an operational IT department equipped with all the processes and systems required; and by 1 May a call centre with a capacity of 8,000–10,000 calls per month, a medical claims centre able to handle over 100,000 claims per month by the end of 2006, and finance, human resources and medical network departments. Fortunately, we can use software solutions and tools that we have developed ourselves and tested over many years together with numerous international networks of experienced health insurance professionals. We also have access to Group-wide price agreements. Our project controller is keeping a close eye on timetables and costs. It is very important to us not only that everything should work on day one, but also that the systems we have set up are reliable and expandable, as the health insurer is expected to be stable and profitable in five years without further need for state subsidies. For this reason, we are relying on our integrated and proven project risk management right from the start.

In half an hour, we have a meeting with people from the General Authority for Health Services. We work with them closely and they provide us with important local contacts. They impress us with their high degree of professionalism. Afterwards, as on most days, we will go to our "canteen" – the snack bar opposite the office.



The value_ Well-balanced solutions that fit the needs of the country and its inhabitants benefit all concerned.

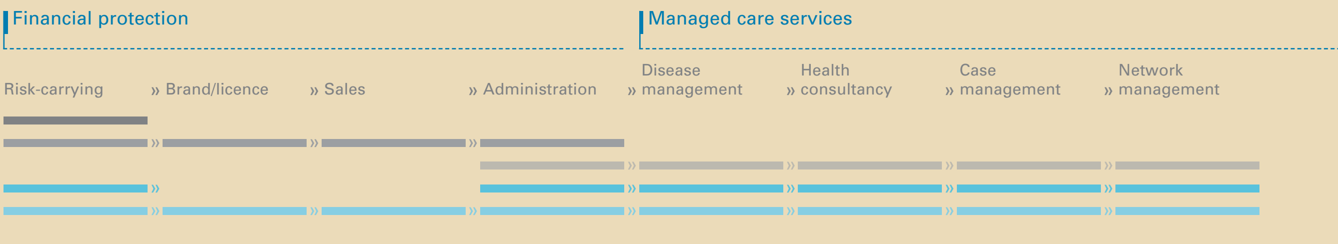
Who will benefit from DAMAN? Certainly to a great extent the country and its inhabitants, as the state healthcare provider will have to compete in quality and price with private providers. If value for money and risks are made more transparent, healthcare financing using primary insurance and reinsurance solutions will be more attractive and easier to plan.

DAMAN offers an individual solution for basic health insurance. It is tailored to the special conditions of the market, such as the structure of the Abu Dhabi population, and in agreement with the government takes account of overarching political factors such as the country's attraction as an economic centre. This means that DAMAN, in which the Emirate of Abu Dhabi currently has a share of 100% and which is expected to operate without state subsidies within five years, will be able to design products and set prices competitively on the basis of its data, thus ensuring its long-term business success.

Of course the Munich Re Group and its investors stand to gain, and not only in reputation. DAMAN, which the Munich Re Group will be responsible for managing, will not only provide basic cover (initially state-subsidised) but from the outset will also offer supplementary private insurance products, for which Munich Re will be the exclusive reinsurer. The experience gathered in this project will increase our expertise and ideally prepare us for further developments in the Gulf region, where DAMAN can serve as a successful model.

Our involvement in DAMAN demonstrates that management competence is key to our business success – both in primary insurance and in reinsurance. An integrated approach linking core competences and fields of business opens up new strategic and operational horizons: we are focusing on the business of risk and deploying our capacity effectively and flexibly, adapting it to each situation in order to maximise our share in the growth potential of the healthcare market.

Active in all fields



Traditional reinsurance
Traditional primary insurance
Administration/managed care services
Integrated reinsurance (MedNet model)
Integrated primary insurance (integrated health company)

The Munich Re Group covers the whole range of business models and competences with its companies – from traditional reinsurance to managed care services and integrated primary insurance. This enables us to offer appropriate solutions in all the markets and optimally exploit earnings and growth potentials.

Members of the Board of Management

What to you are the key factors that allow Munich Re to turn risk into value?

Dr. jur. Nikolaus von Bomhard

(Chairman of the Board of Management)
* 1956, lawyer, with Munich Re since 1985

Group Development (formerly Strategic Planning); Press; Internal Auditing; Executive Offices, Group Top Executives

"Focus and discipline. We must systematically build on our strengths. They will enable us to achieve the growth in profit we aspire to."

Dr. rer. pol. Thomas Blunck

(from 1 October 2005)
* 1965, graduate in business management, with Munich Re since 1999

Special and Financial Risks; Information Technology

"We need to have complete command of the risk value chain – from the assessment of risk via portfolio strategy and accumulation control to the protection of our balance sheet. This complexity is our greatest challenge and also our core competence."

Georg Daschner

* 1949, chartered insurer, with Munich Re since 1965

Europe 2 and Latin America

"Know-how and know-who – What matters is an excellent knowledge of the markets, the trust of our clients, outstanding professional skills, efficient capital management and a positive attitude to innovation."

Dr. jur. Heiner Hasford

* 1947, lawyer, with Munich Re since 1978

Group Investments, Corporate Finance; M&A; Legal and Regulatory Affairs, Compliance; General Services; Organisational Design and Development

"We must keep a close eye on the international capital markets. Successful asset management in the Munich Re Group will allow us to strengthen our capital base further."

Stefan Heyd

(until 31 December 2005)
* 1945, lawyer, with Munich Re since 1975

Corporate Underwriting/Global Clients

"Knowledge and client proximity. We must be the best in risk knowledge – also for new types of risk complex. On this basis, we devise individually tailored products and solutions for our clients, bearing in mind that every client is unique."

Dr. rer. nat. Torsten Jeworrek

* 1961, mathematician, with Munich Re since 1990

Corporate Underwriting/Global Clients; Reinsurance Investments; Accounting, Controlling and Central Reserving for Reinsurance

"Risk is our business, and excellent risk management is the key to success. It is therefore imperative to translate our scientific and technical expertise directly into state-of-the-art risk management."

Christian Kluge
* 1941, chartered marine insurer, with Munich Re since 1964

Europe 1; Corporate Communications

"Seeing risks as a positive challenge and tackling them with creativity, courage and a sense of proportion in order to exploit the opportunities. What appears to be an obstacle can be a chance to forge ahead."

John Phelan
* 1947, underwriter, with Munich Re since 1973

North America

"Turning risk into value implies a readiness to acquire a thorough understanding of the risks which our clients may face, together with both a willingness and an ability to imaginatively and intelligently devise mutually beneficial solutions. Risk is not our adversary, it is our opportunity!"

Dr. phil. Detlef Schneidawind
(until 31 December 2005)
(Board member in charge of industrial relations, within the meaning of Section 33 of the German Co-Determination Act)
*1944, lawyer, graduate in business management, with Munich Re since 1973

Life and Health; Human Resources

"We need employees whose skills and training not only keep pace with the risks as they develop but also anticipate them. It is the only way we can put our resources, in particular our capital, to optimal use."

Dr. jur. Jörg Schneider
* 1958, business graduate, lawyer, with Munich Re since 1988

Group Accounting; Group Controlling; Integrated Risk Management; Taxes; Investor Relations

"Transparency regarding our business through integrated IT systems, first-class risk management and entrepreneurial spirit with the necessary sense of responsibility and proportion. That is the foundation of our long-term strategy of adding value."

Dr. oec. publ. Wolfgang Strassl
(from 1 October 2005)
(Board member in charge of industrial relations, within the meaning of Section 33 of the German Co-Determination Act)
*1956, graduate in economics, with Munich Re since 1988

Life and Health; Human Resources

"First create value for our clients, and then have an appropriate share in the resulting success – and do both better than others."

Karl Wittmann
* 1945, chartered insurer, with Munich Re since 1961

Asia, Australasia, Africa

"Consensus with our business partners with regard to risk, exposure and adequate pricing. But also consensus that the price will not change if the risk and exposure remain the same."

The Supervisory Board

Chairman
Dr. jur. Hans-Jürgen Schinzler
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

Holger Emmert
Employee of Munich Reinsurance Company

Ulrich Hartmann
Chairman of the Supervisory Board of E.ON AG

Dr. rer. nat. Rainer Janßen
Employee of Munich Reinsurance Company

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

Prof. Dr. rer. nat. Drs. h. c. mult. Hubert Markl
Former President of the Max Planck Society
Emeritus Professor of Biology

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

Kerstin Michl
Employee of Munich Reinsurance Company

Prof. Karel Van Miert
Professor at the University of Nyenrode

Ingrid Müller
Employee of Munich Reinsurance Company

Prof. Dr. jur. Dr.-Ing. E. h. Heinrich v. Pierer
Chairman of the Supervisory Board of Siemens AG

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

Dr. rer. nat. Jürgen Schimetschek
Employee of Munich Reinsurance Company

Dr. jur. Dr. h. c. Albrecht Schmidt
Chairman of the Supervisory Board of Bayerische Hypo- und Vereinsbank AG (until 27 November 2005)

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

Membership of the Supervisory Board committees

Personnel Committee
Dr. Hans-Jürgen Schinzler (Chairman)
Herbert Bach
Dr. Bernd Pischetsrieder

Standing Committee
Dr. Hans-Jürgen Schinzler (Chairman)
Herbert Bach
Dr. Bernd Pischetsrieder
Dr. Albrecht Schmidt
Josef Süßl

Audit Committee
Dr. Albrecht Schmidt (Chairman)
Hans-Georg Appel
Prof. Dr. Henning Kagermann
Dr. Hans-Jürgen Schinzler
Wolfgang Stögbauer

Conference Committee
Dr. Hans-Jürgen Schinzler (Chairman)
Herbert Bach
Dr. Bernd Pischetsrieder
Judy Võ

Turning risk into value

We can take advantage of market opportunities in both primary insurance and reinsurance. We exploit this competitive edge with integrated business models, guided by our cardinal virtues.

Professional handling of risk as our core business, active risk diversification, and constantly improving methods and processes to control and steer our business – these remain our three cardinal virtues. Our strategy is thus built on firm foundations, without which we would not have achieved the excellent result of our anniversary year 2005. These foundations are the precondition for turning risk into value. ↗

Our core business of risk

Our Group is in an advantageous position in its core business of handling risk, because our operations cover primary insurance as well as reinsurance. In other words, we distinguish ourselves from other leading insurance groups by being able to assume risks regardless of whether they come from the primary insurance or the reinsurance sector. So we can adapt flexibly to changes in market situations and also pinpoint opportunities for cross-segment solutions. A good example is our strategy for tapping the great potential of the international health insurance market.

What business potential does the global health insurance market offer? What specific know-how do we have in the Munich Re Group for this business segment and what strategic conclusions can we draw? Does a cross-segment approach by primary insurers and reinsurers, with their different competences, offer added value for the Group? What options do we derive for realising our strategy? These are questions we have answered. The potential premium with adequate earnings prospects that can open up for the Munich Re Group in the global health insurance market over the next ten years is in the billion euro range. ↗

The precondition for leveraging this potential is enhanced insurance-reinsurance coordination that enables us

- to cover large portions of the value chain in the health insurance segment,
- to specifically combine different competences, and
- to make flexible use of various business models in the various health insurance markets.

We aim to promote such coordination by setting up a cross-segment International Health Board, which will be responsible for our insurance and reinsurance activities in the global health market.

We can thus exploit market opportunities whether they present themselves in primary insurance or reinsurance. Our objective continues to be sustained profitability. And we actively seek growth opportunities. As an integrated insurance and reinsurance group that can develop its markets through different brands, by focusing on specific target groups, we channel our growth initiatives into the business segments and regions that promise the largest value increase. Hence, as far as we are concerned, defending or acquiring positions in rankings for individual fields of business based on premium volume is meaningless.

Our strategic concept of enhancing the synergies of primary insurance and reinsurance "under one roof" is also reflected in our Group's new decision-making structures. On the parent company's Board of Management, we now differentiate clearly in terms of organisation between Group matters and the operative management of our reinsurance business, enabling us to focus resources better and manage the Group as a whole more efficiently.

Munich Re Board committee structure

Munich Re Parent Board of Management

Board committees[1]

Reinsurance Committee
- Torsten Jeworrek
- Thomas Blunck
- Georg Daschner
- Christian Kluge
- John Phelan
- Wolfgang Strassl
- Karl Wittmann
- Michael Bös[2]
  Chief Investment Officer – Reinsurance
- Hermann Pohlchristoph[2]
  Chief Financial Officer – Reinsurance

Group Committee
- Nikolaus von Bomhard
- Heiner Hasford
- Jörg Schneider
- Charlie Shamieh[2]
  Chief Risk Officer – Group

Strategy Committee
- Nikolaus von Bomhard
- Heiner Hasford
- Jörg Schneider
- Torsten Jeworrek
- Lothar Meyer (ERGO)
- Wolfgang Strassl

International Health Board
- Wolfgang Strassl
- Members of the top management of the primary insurance and reinsurance group

ERGO Board of Management
- Lothar Meyer
- Daniel von Borries
- Günter Dibbern
- Klaus Flemming
- Torsten Oletzky
- Michael Rosenberg
- Michael Thiemermann
- Rolf Ulrich
- Götz Wricke

[1] See page 10f. for distribution of responsibilities on the Board of Management.
[2] Not a member of the Board of Management.

The establishment of separate Board committees for Group and reinsurance operations is also reflected in our downstream organisational structures. Our focus Group-wide is on the development and realisation of corporate strategy, value-based management and integrated risk management.

Meaningful steering with risk capital

These two cardinal virtues, active risk diversification and business management, are closely linked, serving directly to realise our ambitious result targets. Over the last few years, we have made great advances in refining models and methods of integrated risk management and active risk diversification. And the same goes for their practical application. We set standards, which we are continually improving. Their significance for business management and decision-making cannot be overestimated, which is why we are investing so much to develop them further. In addition, the different elements of our risk management are not isolated from each other, but have been integrated into an overall system.

By refining our risk model, for example, we optimise our risk capital deployment and thereby ensure that we can continue to assume substantial liabilities for individual and catastrophe risks. Our budgets for writing, say, natural hazard risks are geared chiefly to the risk capital that is available for that area of business. Retrocession, i.e. external transfer of liabilities, is also structured on the basis of our evaluations from the risk model, with which we steer our risk capital consumption as well.

Through asset-liability management – tailoring investments to the structure of our liabilities – we avoid mismatch of risks on the asset and liability sides of our balance sheet. Sophisticated asset-liability management also enables us to achieve significant diversification effects. The reduction of concentration risks in our investments, which is now well advanced, has released substantial risk capital that can be used for growth. Finally, risk capital is indispensable as an indicator and measure of performance. Consquently, we will in future be defining our result target in relation to the extent of the entrepreneurial risks we assume, using return on risk-adjusted capital (RORAC) (see page 21f.).

Knowledge counts

However, our focus is not solely on integrated risk management. We are also steadily working on improving such areas as strategy development, performance measurement and our knowledge of risk. The definition of our strategic objectives in balanced scorecards, which are "cascaded" from the top of the Group down to the individual operative units, and the use of VBM (see page 18) are essential components of corporate management. In this context, too, the findings from current claims experience – such as the catastrophic hurricanes in the second half of 2005 – are indispensable for the further development of our risk knowledge and thus for our underwriting. A particular challenge is posed by new, previously unknown risks. We have to identify and evaluate these as swiftly as possible, with a view to maintaining our competitive advantage. In so doing, we need to correctly structure the conditions and calculate technically adequate prices to secure the profitability of our business. For this, we rely on our broad knowledge of risk, our expertise in the management of individual risks and whole portfolios, and our experience in the markets.

Keeping on course

Our three cardinal virtues – risk as our core business, risk diversification, and high standards of business control and steering – will continue to determine our course in the current year. They are essential for creating sustained value for our Group, our shareholders and our clients.

Mission statement – What we are and what we aspire to

Turning risk into value
by actively diversifying risk,
by growing profitably,
by steering and controlling our activities with excellence,
by capitalising on our financial strength on a sustained basis.

Our mission presupposes:

- A clear course for sustained profitable growth and value creation for our investors
- Actions consistently geared to the individual needs of our clients
- A strong capital base, integrated risk management and the concentration of our resources on commercial success
- The strengths of our staff, who develop the best possible solutions with their knowledge of the insurance and capital markets and their capacity for innovation
- A pronounced performance culture that motivates our staff, setting clear objectives, giving feedback openly, learning from our mistakes and rewarding success
- Our entrepreneurial responsibility with a commitment to transparency, sustainability and an obligation to society as a whole

Autumn rally brings large price gain

Our strategy of profit before growth also paid off for Munich Re shareholders in 2005. The share price increased by 26.5% year on year, clearly outperforming the shares of other reinsurers.

After a subdued start to the year, the major international stock markets began to climb in the second quarter of 2005. Prices were driven by healthy company profits and a favourable interest-rate environment. The upward trend was broken for a time by rising energy prices and fears of inflation, before the stock markets started a year-end rally. By the end of 2005, the DAX was 27.1% up on the start of the year, and the EURO STOXX 50 showed an increase of 21.3%. The star of the stock market year 2005 was the Japanese Nikkei, with a rise of 40.2%. The performance of the US stock exchanges, on the other hand, was disappointing, with the S&P 500 closing only 2.9% higher than at the beginning of the year, and the Dow Jones almost unchanged.
Despite the record claims burdens for the insurance industry – 2005 was the costliest natural catastrophe year of all time – their performance was very respectable. The MSCI insurance index rose by 30.8% in 2005. A large part of these price gains was achieved towards the end of the year, when the industry benefited from positive profit expectations.

Share price performance
1 January 2005 = 100
Source: Datastream

Munich Re shares began 2005 listlessly. Up to the end of September, their price moved sideways within a narrow range, lagging far behind the DAX. However, in the middle of the hurricane season, our shares began a rally which took the price from around €90 to nearly €120. In the fourth quarter, Munich Re stock performed considerably better than the DAX and also the MSCI insurance index. The capital markets recognised the potential of Munich Re's stock resulting from the severe hurricane season, our effective handling of the American Re reserving issue, and the prospects of record earnings. Altogether, our share price recorded a year-on-year increase of 26.5%. Thus in 2005 our shareholders also benefited from our strategy of profit before growth.

Great interest among analysts

More than 40 analysts constantly monitor Munich Re shares. At the end of 2005, the majority rated our stock positively (54% of analysts compared with 62% the year before). Only 2% of the analysts gave the shares a negative assessment, compared with 7% at the end of 2004.

Large dividend increase

Given the record result in 2005, the dividend proposal of the Board of Management and Supervisory Board at the Annual General Meeting on 19 April 2006 will be payment of an increased dividend of €3.10 per share (€1.10 higher than last year). This amounts to a rise of 55%. Altogether, we will thus distribute a record amount of €707m (457m) to shareholders.
The fact that our shares are also attractive from the dividend point of view is reflected by Munich Re's membership of the DivDax. This subindex of Deutsche Börse AG features the 15 DAX companies with the highest dividend yield.
In former years, Munich Re's dividend remained more or less constant, independent of results. Since 2004, in conjunction with our active capital management, we have been pursuing a more flexible dividend policy, where the amount distributed essentially depends on our result for the year and our capital requirements, although our aim is to pay out at least 25% of the annual result to our shareholders.

Key figures for our shares

		2005	Prev. year
Share capital	€m	587.7	587.7
Number of shares at 31 December	m	229.6	229.6
Year high	€	121.88	99.00
Date		5.12.05	20.1.04
Year low	€	83.32	72.73
Date		13.5.05	18.10.04
Year-end closing price	€	114.38	90.45
Annual performance (excluding dividend)	%	26.5	–5.9
Beta relative to DAX		1.0	1.1
Market capitalisation at 31 December	€bn	26.3	20.8
Market value/equity* at 31 December		1.1	1.0
Average daily turnover	'000	1,825	1,827
Earnings per share	€	11.70	8.01
Dividend per share	€	3.10	2.00
Dividend yield at 31 December	%	2.7	2.2
Overall dividend amount	€m	707	457

*Including minority interests.

Internet services expanded

We publish all important investor relations information on our website where, besides annual and quarterly reports and investor presentations, we provide details about our shares, analysts' opinions, important dates in the financial calendar, and much more. We have further expanded our new shareholder portal, which has been online since 3 January 2005. www.munichre.com/register
The portal's service pages offer our shareholders various facilities, such as registering to receive documents for the Annual General Meeting by e-mail or updating their registered shareholder data online. It also provides historical share prices, by means of which shareholders can trace the performance of their Munich Re share portfolio using a share calculator. Altogether, we are pleased to note that investors are making increasing use of our information on the internet.

Group management report (excerpt)

Important tools of corporate management

Munich Re's value-based management philosophy

The Munich Re Group's objective is to analyse risk from every conceivable angle and to handle it successfully, thereby creating lasting value for its shareholders, clients and staff.
Increasing corporate value is therefore the key factor in our business decisions. This means optimising capital deployment and risk management for all Group activities in reinsurance, primary insurance and asset management. There are differences between the two main fields of business: While our reinsurance group already uses value-based management tools in all of its units, our primary insurers are still in the process of implementing them. In past years, the approach used at individual company level among our primary insurers has in many cases still been based mainly on an accounting perspective.
Munich Re's approach to value-based management offers a number of advantages:

- It enables us to assess business activities not only according to their earnings potential but also relative to the extent of the risks assumed, which is material for the question of added value. Only the risk-return relationship reveals how beneficial an activity is from the shareholder's point of view.
- With clearly defined performance indicators, we ensure the necessary comparability of value-adding measures and initiatives. Fields of business that add value for the Group can be more easily identified and the use of resources optimised accordingly.
- Responsibilities are clearly assigned and levers for adding value made transparent, enabling management and staff to contribute more effectively to increasing corporate value.
- Strategic and operative planning are closely linked. All initiatives are ultimately geared to the overriding financial objective of enhancing corporate value.
- The consistent use of value-based management tools helps the Munich Re Group respond to the tougher competition in the global capital markets and the increasing demand by institutional investors for more transparency and comparability.

Our value-based management system takes into account the individual characteristics of the business segments

In non-life business, we employ the following simple formula for measuring value creation and for managing and monitoring our business activities:

Adjusted result – **Cost of equity** [Necessary operating equity X Target rate] = Value added

The adjusted result serves as the basis for determining the value added. It consists of the operating result, the investment result and the remaining non-technical result. In each case value-based adjustments are made, including the smoothing of expenditure for major losses and the recognition of claims expenses at present value.
We compare the adjusted result with the requisite cost of equity. The basis for determining the cost of equity is the necessary operating equity, which is basically derived from the risk-based capital according to our internal model. If a business unit holds equity capital in excess of the risk-based capital in order to comply with market, rating or supervisory requirements, a return needs to be earned on this capital as well.
Any investment of capital in a company must – from the investor's point of view – achieve at least the return of an alternative risk-commensurate investment (opportunity costs). However, in order to significantly increase its corporate value, the Munich Re Group aims to earn a return on necessary operating equity (return target) that is markedly higher than the opportunity costs.

Consequently, value is only added if the adjusted result exceeds the cost of equity. Given the generally short-term nature of non-life business, this procedure focuses on measuring single-period performance. In assessing the profitability of our underwriting business, we mainly use indicators from the income statement.

The products of life primary insurance and reinsurance, and the bulk of our health primary insurance business, are characterised by their long-term nature and the distribution of results over the duration of the policies. To account for this multi-periodic characteristic, we use key performance indicators for this business that relate to the respective portfolio value – the embedded value. By setting a minimum return requirement, we aim through value-based management to ensure that here, too, an adequate return is earned on the capital employed and appropriate value is added.

Our steering of Munich Re's investments is strongly geared to the liabilities on our balance sheet. With the help of asset-liability management, we determine the "neutral position". This involves a synthetic investment portfolio which – taking into consideration significant additional parameters in the investment of the capital – best reflects the characteristics of our liabilities towards clients. Further information on asset-liability management is provided on page 34 f. The target return, i.e. the expected income from the neutral position, is compared with the return from the actual portfolio, bearing in mind the risk-based capital required for deviating from the neutral position. Finally, a comparison with the returns of relevant stock market indices provides important insights into the performance of our own investments.

In addition to these purely financial performance factors, non-financial performance measures like market share, speed of processes, staff-training level and client satisfaction play a major part in the strategic management of the Munich Re Group. In the long term, a firm can only be successful if it operates sustainably and takes account of such future-oriented qualitative factors as well.

We closely link strategy and operative planning by defining our objectives in structured overviews or "scorecards", from which we derive initiatives, performance measures and responsibilities within a framework of four perspectives: "financial", "market and client", "process" and "employee". We promote an entrepreneurial culture among staff through the clear allocation of responsibility and accountability, recognising how much the individual, unit or field of business contributes to increasing value.

The integration of the financial and non-financial objectives into Board and senior-executive remuneration incentive systems for the Board of Management and executives supports the clear orientation towards value creation.

Value-based management is a holistic system with which managers at all levels of the Group can steer their units in such a way that lasting value is created. Sustainable value creation is also a key factor for our investors.

In order to give more emphasis in external communication to the Munich Re Group's value orientation – as implemented mainly through our internal management tools – we have geared our Group return target to risk-adjusted performance indicators, which are explained in more detail in the following section.

What we aim to achieve

A look back at 2005

In the past year, the Munich Re Group's business performed very well as a whole. The burdens from the Atlantic hurricanes and reserve strengthening at American Re were compensated for by high realised capital gains and, thanks to the very good results of our primary insurance and reinsurance basic business, we recorded an excellent consolidated profit of over €2.7bn. We achieved a return of 12.3% on the average of our IFRS equity at the balance sheet and quarterly reporting dates, even surpassing our return-on-equity target of 12% after tax.

Our return on investment was a very satisfying 5.9% (4.5%). This is the ratio of the investment result of €10,818m to the average market value of the investment portfolio at the balance sheet and quarterly reporting dates, totalling €184.5bn.

Our combined ratio, a much-heeded performance indicator in non-life insurance, was satisfactory only in primary insurance. Calculated as the ratio of the sum of net expenses for claims and benefits plus net operating

expenses to net earned premiums, it corresponds to the sum of the loss ratio and the expense ratio. Put simply, a combined ratio of 100% means that premium income was exactly sufficient to cover claims and costs. Net expenses for claims and benefits mainly include paid claims, change in claims provisions, and other underwriting expenses. Net operating expenses chiefly comprise commission plus personnel and non-personnel expenses for the acquisition and ongoing administration of insurance contracts.
The combined ratio in reinsurance includes the health segment as well as property-casualty business. In 2005, net expenses for claims and benefits of €12,189m (11,063m) and net operating expenses of €4,229m (4,354m) compare with net earned premiums of €14,862m (15,583m). The reinsurance combined ratio thus amounts to 110.5% (98.9%), a very high figure largely due to the hurricane losses.
The combined ratio in primary insurance is determined for the property-casualty segment (including legal expenses insurance). In 2005, paid claims and the change in claims provisions totalled €2,338m (2,287m) and net operating expenses €1,390m (1,374m), compared with net earned premiums of €4,005m (3,938m). Our combined ratio in primary insurance thus amounts to 93.1% (93.0%), an excellent figure both in absolute terms and in comparison with competitors.
When it comes to interpreting the combined ratio, the particular circumstances of the class of business in question have to be taken into account. Of substantial significance, for example, is the composition of the portfolio. The following factors (among others) are important:

- The more the claims burden fluctuates over time, the greater the risk is, and so the rates needed to cover the risk must be higher; loss ratios in good years, as well as average loss ratios, have to be all the lower to provide the reinsurer with an adequate return for assuming this risk – particularly true in the case of natural catastrophes, which may occur rarely, but are often very severe when they do.
- Another important distinguishing feature relates to the time-lag between premium being received and claims being paid. The longer these periods are, the longer the premiums received can be invested in the capital markets. High combined ratios in classes of business in which claims settlement takes a long time (e.g. casualty) therefore also generally entail higher returns from investments with which the loss reserves are covered. These returns are not reflected in the combined ratio.

Therefore, whilst we aim to keep our combined ratio as low as possible, it does not constitute our sole target. Rather, the prime factor we consider is economic value added, which cannot be properly reflected by the combined ratio. We pursue this target internally through our value-based management (VBM) (see page 18 f). In life primary and reinsurance business and in health primary business, we measure performance on the basis of embedded values. When considering performance at the level of the whole Group, however, we have geared our targets to return on capital.

Further development of the return target for 2006

We have set ourselves ambitious targets again for 2006 to follow up the successful performance of the past business year. In so doing, we have further improved the methodology employed. The return target we have used to date – the return on average IFRS equity (RoE) – is an important but insufficient indicator of an insurance company's added value. The reasons are:

- Some of the underlying parameters are influenced by accounting rules that do not adequately reflect economic realities. For example, a large portion of an insurance company's assets are classified as "investments available for sale" and measured at market value, whereas the liabilities in the balance sheet barely react to market fluctuations. This means that rising or falling capital market prices usually have a direct impact on IFRS equity, thus indirectly increasing or decreasing an RoE result target in a way that makes little sense economic-

ally. In particular, interest-rate-induced increases in the prices of fixed-interest securities are not accompanied by any sustained additional earnings opportunities, since the prices of the securities systematically return to the face value on maturity.
– Furthermore, ROE does not reflect the risk assumed in a given business activity. All other things being equal, a high risk usually entails the expectation of a higher profit, which is bought at a cost of additional volatility. An ROE target that does not include any measure of risk might encourage management to focus too much on the earnings side and disregard the risk side. Hence the risk-return relationship, which is decisive for increasing corporate value, is not considered.

An insurance company – and especially a reinsurance company – whose exposure to risks is typically high, should consequently choose a target which takes into account the degree of risk assumed and minimises distortions from accounting. In accordance with this principle, risk – measured by risk-based capital – plays a central role in our internal value-based management. To maximise Munich Re's value for our shareholders, we actively work on diversifying our risks, and on optimising our financing structure and the quality of our results.

A logical step on the way to achieving this is to integrate the risk perspective more closely into the external communication of our targets.

Taking risk assumed into account in our return target

In summer 2005, for the first time, Munich Re officially presented its internal risk model in detail, including the Group-wide, risk-based capital position derived from the model, thus considerably enhancing transparency. Our risk-based capital was divulged for both the reinsurance and primary insurance segments, according to the risk categories of underwriting, market and credit risk. The risk-based capital in question quantifies the risk of the individual units and enables us to make comparisons between non-life, life and investments, as well as between reinsurance and primary insurance.

The next step – after publishing our risk-based capital – is to integrate the risk perspective into our external Group target. This move away from a return based on average IFRS equity to a risk-adjusted return target (return on risk-adjusted capital – RORAC) results in a closer convergence of our internal value-based management and the external communication of our targets. We thus also take greater account of risk-based standards that shape the current and future requirements of supervisory authorities and rating agencies.

The most important advantages of the risk-adjusted return target – particularly in comparison with our target to date – are the risk-based capital's independence from the above-mentioned IFRS effects on equity, and the disclosure of the annual result per unit of risk-based capital (important for measuring added value).

The calculation of the target is based on published figures that are regularly updated and are transparent to external audiences. With the additional information provided on the assumptions for important key indicators, shareholders will find it easier to assess the likelihood of the target being reached.

This will enable our investors to better judge Munich Re's business performance and economic value added in future.

What is behind RORAC?

RORAC is defined as follows:

$$\text{RORAC} = \frac{\text{Net income} - \text{Interest rate x } (1 - \text{tax rate}) \text{ x Additional available equity}}{\text{Risk-based capital}}$$

The numerator in the formula comprises the published IFRS net income adjusted for post-tax income (interest rate x [1 – tax rate]) generated on capital not subject to risk within the given risk tolerance. The basis for the adjustment is the capital exceeding the necessary risk-based capital (additional available equity). This is calculated as follows: the starting point is the equity recognised in the IFRS financial statements, from which the "economic equity" is derived by means of various adjustments. These include the addition of the unrecognised valuation reserves and the unrecognised portion of the embedded values in life and health insurance, and the subtraction of goodwill and deferred tax assets. From this economic equity a margin is deducted for the settlement of existing obligations in following years. The difference between the amount then remaining and the required risk-based capital is the additional available equity, which is also necessary for rating and solvency purposes, as well as for profitable growth. The additional available equity in the system presented here earns a risk-free interest rate, as all the risk components of the investment and underwriting are covered with risk-based capital by the internal risk model, and thus assigned appropriate return requirements.

How high should the RORAC target be set?

For determining the concrete RORAC target figure, we start with our sustainable result expectation per unit of risk. In doing so, we use among other things capital market prices for comparable risks, bearing in mind that no precise methodology exists. Thus, in setting our target, we consider it important to make the level ambitious but also realistic.
After weighing up many factors, we have decided to aim for a RORAC of 15%.
On the basis of our risk positioning and capitalisation at the beginning of the year, this corresponds to a consolidated profit of between €2.6bn and €2.8bn.

What assumptions is this target based on?

In both primary insurance and reinsurance, we are proceeding on the basis of statistically expectable claims experience. Provided there are no significant shifts in the composition of our business portfolio, we reckon with a combined ratio of less than 97% in property-casualty and health reinsurance, which includes an amount equivalent to around 5% of premiums as projected claims expenditure for natural catastrophes costing over €5m per event. In property-casualty primary insurance, we expect a combined ratio of under 95%.
On the investment side, we anticipate a result equivalent to 4.5% of the average market value of the investments.
Lastly, our target is based on a largely stable currency environment. Changes in tax treatment are only considered to the extent that they are already known today.

Embedded values as additional performance indicators

In life primary insurance and reinsurance and in health primary insurance, we will use key indicators based on European Embedded Value (EEV), parallel to the new RORAC perspective. Embedded value is a form of valuation for long-term portfolios whose performance cannot be reasonably measured on the basis of a single year. Specifically, embedded value is the present value of future net earnings from business in force plus the value of shareholders' equity, less the cost of holding capital. A key performance indicator in this case are EEV earnings. We aim to achieve EEV earnings of between 8% and 9% both in primary insurance and in reinsurance business in relation to the value of the overall business in force at the beginning of the year. The life and health insurance business managed and measured on an embedded-value basis will also contribute to the IFRS consolidated profit and thus to reaching the RORAC target, even though IFRS consolidated profits follow the narrower individual business-year perspective.

Our targets – Ambitious but attainable

In selecting suitable targets, contrasting aspects have to be considered and weighed up. On the one hand, undue complexity has to be avoided in order to ensure transparency for investors, staff and the public. On the other hand, the challenge lies in reflecting economic realities as closely as possible avoiding oversimplification, and enshrining added value as the Group's overriding guiding principle.
As the above description shows, the background is complex, especially as the parallel use of different performance indicators is unavoidable. That is why we have devoted considerable space to this topic. We are convinced that we are on the right track with the key performance indicators of RORAC and European Embedded Value as our guiding principle. Taking into account all the relevant factors, we consider that our methodologically improved targets are economically meaningful – ambitious but nevertheless attainable.

Overview and important key figures

Excellent business performance despite very high burdens
"Profitability before growth" strategy consistently pursued
Return-on-equity target surpassed, with a profit of over €2.7bn

		2005	2004	2003	2002	2001
Gross premiums written	€bn	**38.2**	38.1	40.4	40.0	36.1
Combined ratio – Reinsurance non-life	%	**110.5**	98.9	96.7	122.4	135.1
– Primary insurance property-casualty	%	**93.1**	93.0	96.4	99.9	101.4
Consolidated result	€m	**2,743**	1,887*	–434	288	250

*Adjusted owing to first-time application of IAS 1 (rev. 2003).

Overall, in the past year, the Munich Re Group's business performed very well. We achieved a return on equity of 12.3% (9.5%) after tax, thus surpassing our return target (the previous year's figure has been adjusted owing to a change in the method of calculation; see page 19). The sound and profitable basic business in primary insurance and reinsurance helped to compensate for the record losses from natural catastrophes. Our investment result also contributed significantly to our success.

In 2005, reinsurance was affected by a hurricane season hitherto unprecedented in terms of loss amount. Particularly Hurricane Katrina, for which our expenditure was over €2.0bn, hit us hard. Our retrocession agreements allowed us to reduce the burdens from Katrina by approximately €400m. In the year under review, we also incurred high expenditure in strengthening the claims reserves of our US subsidiary American Re by US$ 1.4bn net.

Owing to these significant exceptional burdens, we did not achieve our combined ratio target of 97%. Our profit-oriented underwriting policy has nevertheless continued to pay off, because our business performed well apart from these major events. Especially in the life and health segment, business experience was very positive. Thanks to an excellent investment result, we achieved a good operating result overall in reinsurance, where, as expected, total premium volume declined somewhat owing to our strictly risk-adequate underwriting policy.

Primary insurance significantly exceeded its result targets. Our strategy of writing both reinsurance and primary insurance is effective. Towards the end of the year under review, we sold our holding in the Karlsruher Insurance Group. It would not have made sense to integrate it into the much larger ERGO, given the companies' incompatible sales channels. However, this sale hardly had any effect on growth in the year under review. Premium income in primary insurance was up slightly, chiefly attributable to the health segment. In life insurance, premium volume was down as anticipated following the changes in fiscal parameters. Claims experience in the year under review was again very satisfactory, with no exceptional burdens. Furthermore, we concluded the cost-reduction programme initiated in 2002 and were even able to clearly outperform the combined ratio target of 95%.

For the reporting on individual fields of business, the following principle applies: volumes and results that derive from business within a segment are eliminated, whereas figures that derive from business with companies from other segments (e.g. intra-Group reinsurance cessions from primary insurers to reinsurers) are included in the data. Where the information relates to national accounting law, this is mentioned specifically.

Result

Compared with the previous year, the consolidated result improved to an excellent €2.7bn (1.9bn). The investment result, which was outstanding thanks to considerable realised capital gains, largely offset the burdens from the increase in reserves at American Re and from the hurricanes. At €976m (432m), the life and health reinsurance segment accounted for the largest share of the result. However, primary insurance contributed more significantly to the Munich Re Group's success than in the previous year. Here, the consolidated result climbed by 270.7% to €1,175m (317m) and was thus well above our planned figure.

The operating result rose by 36.5% to €4.1bn (3.0bn). Tax expenditure incurred at Group level for the reserve strengthening at American Re had an adverse effect on the consolidated result.

Consolidated result

All figures in €m	**2005**	2004*	2003	2002	2001
Result before amortisation and impairment losses of goodwill	**4,137**	3,369	1,971	–20	–445
Operating result	**4,130**	3,025	1,284	–391	–675
Consolidated result	**2,743**	1,887	–434	288	250

*Adjusted owing to first-time application of IAS 1 (rev. 2003).

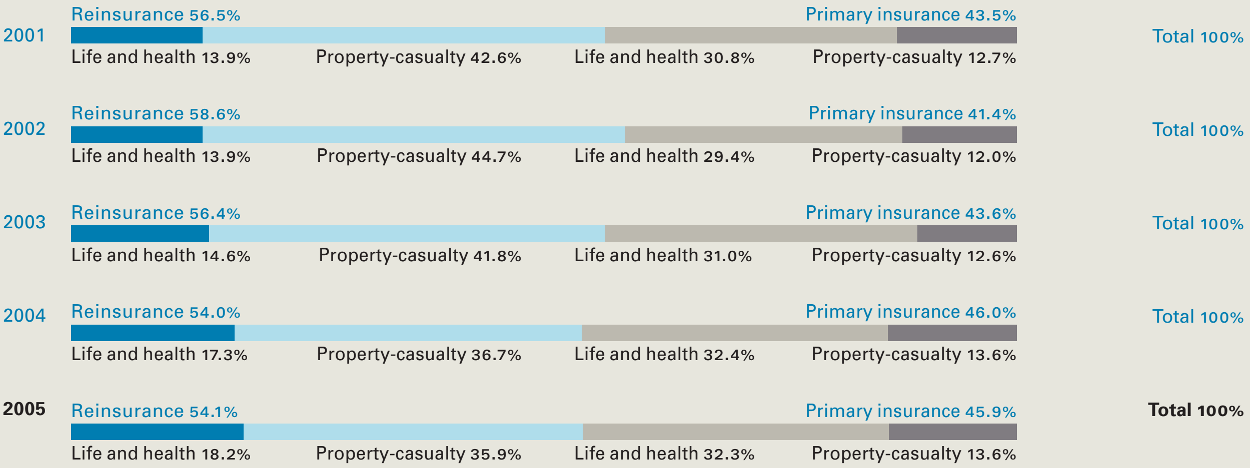
The operating result was influenced in particular by the following factors:

- In reinsurance, our expenditure for the hurricanes totalled €2.3bn after retrocessions and before tax. Some 17.7 (4.5) percentage points of the overall combined ratio of 110.5% (98.9%) were attributable to losses from natural catastrophes.
- The reserve strengthening at American Re reduced the Munich Re Group's operating result by €388m and impacted the combined ratio with 2.6 percentage points. The relief effect of €906m from the release of the IBNR reserve is included in this figure.
- In primary insurance, the pleasingly low claims expenditure was once again a major success factor. The combined ratio, including legal expenses insurance, was only 93.1% (93.0%), much better than the 95% we had aimed for. The cost-reduction programme led to a significant improvement in the result.
- Realised capital gains greatly increased the investment result in reinsurance and primary insurance alike. We cut back our investments in German financial stocks by selling shares in Allianz, Commerzbank and BHW. We also disposed of our stake in MAN. We exchanged our HVB shares into UniCredit shares, realising capital gains to the tune of €988m. Compared with the previous year, the return on investment rose to 5.9% (4.5%).

Premium

As in the previous year, we earned about 54% of our Group premium income from reinsurance and 46% from primary insurance.

Share of reinsurance and primary insurance – Life and health and property-casualty – in Group premium income*



*After elimination of intra-Group transactions across segments.

Reinsurance
Primary insurance

The following diagram shows the percentage of premium from foreign business. In reinsurance we operate on a global basis, whereas in primary insurance our activities are focused on the German market.

Percentage of premium from foreign business*

*After elimination of intra-Group transactions across segments.

Reinsurance
Primary insurance

Premium income in reinsurance was down as a consequence of our consistently profit-oriented underwriting policy and the scheduled termination of individual reinsurance treaties. However, the decrease came to only 0.2% compared with the previous year (9.7%). In particular in the property-casualty segment, we suffered substantial losses in premium volume in North America, as a number of treaties did not meet our strict underwriting guidelines. In Asia by contrast, premium income rose noticeably. The life and health segment also experienced a rise. In 2005, currency translation effects had a much smaller influence on the development of premium than in the previous year.

In primary insurance, there was a slight increase of 0.3% (–0.6%) in premium income overall. Growth was primarily driven by health insurance, the notable expansion in premium volume attributable to premium adjustments and additional sales of supplementary insurance policies. As expected, the change in fiscal parameters caused premium in life insurance to lag behind the high levels achieved in previous years. The fact that the Karlsruher Insurance Group was deconsolidated as at 1 October 2005 accentuated the decline in premium volume. In line with the market, growth in property-casualty insurance was marginal, due in particular to declining prices in motor insurance.

Group premium income

All figures in €bn	**2005**	2004	2003	2002	2001
Reinsurance	**22.3**	22.4	24.8	25.4	22.2
Primary insurance	**17.6**	17.5	17.6	16.6	15.7
Consolidation	**–1.7**	–1.8	–2.0	–2.0	–1.8
Total	**38.2**	**38.1**	**40.4**	**40.0**	**36.1**

Events after the balance sheet date

In December 2005, ERGO Versicherungsgruppe AG signed agreements with GFKL Financial Services AG under which the latter would acquire its majority stake in the ADA-HAS Group, an IT systems specialist. In the meantime, the governing bodies and cartel authorities have provided the formal approvals still outstanding when the agreements were signed, so that the sale will be completed in the current business year. ADA-HAS will continue to be our partner for IT issues.

Reinsurance

Burdens cushioned by successful basic property-casualty business
Excellent performance in life and health

The Munich Re Group operates in virtually all classes of reinsurance. We offer a full range of products – from traditional reinsurance to innovative solutions for risk assumption.
Our reinsurance business is divided between seven divisions: Life and Health; Europe 1; Europe 2 and Latin America; Asia, Australasia, Africa; North America; Corporate Underwriting/Global Clients; and Special and Financial Risks.

Marketing
As reinsurers, we write our business predominantly in direct collaboration with the primary insurers, but also via brokers. This includes business offered to us by industrial clients through their captives or risk retention groups (alternative market business), which we accept via Munich-American RiskPartners (MARP). ↗

Overview and important key figures
The past year impressively demonstrated the quality of our basic business, even though it was affected by certain burdens on the result. We had to strengthen the claims reserves of our US subsidiary American Re for past accident years by US$ 1.4bn net. Owing to the relief effect of €906m from the release of the IBNR provisions, however, the reserve strengthening reduced the Munich Re Group's operating result by €388m. The result was also impacted by the unusually strong Atlantic hurricanes. These two factors alone accounted for 2.6 and 15.4 percentage points of the combined ratio of 110.5% (98.9%), a figure far in excess of our planning for reinsurance. However, these burdens were largely offset by our excellent performance in the life and health segment and our very good investment result.

		2005	2004	2003	2002	2001
Gross premiums written:						
– Property-casualty	€m	**14,547**	14,857	17,919	18,884	16,296
– Life and health	€m	**7,811**	7,540	6,876	6,561	5,900
Loss ratio non-life	%	**82.0**	71.0	69.6	95.8	104.5
Thereof natural catastrophes	Percentage points	**17.7**	4.5	1.6	3.3	1.5
Expense ratio non-life	%	**28.5**	27.9	27.1	26.6	30.6
Combined ratio:						
– Non-life	%	**110.5**	98.9	96.7	122.4	135.1
Consolidated result in property-casualty	€m	**418**	1,234*	1,370	788	–1,203
Consolidated result in life and health	€m	**976**	432*	262	1,548	1,151

*Adjusted owing to first-time application of IAS 1 (rev. 2003).

At €2,629m, the share of natural catastrophe losses in our total expenditure for major losses (€3,293m) was especially high in the business year ended. The exceptional number and severity of the hurricanes in the Gulf of Mexico made 2005 a record year for us in terms of insured natural catastrophe losses. This development, which began to manifest itself in 2004, confirmed our strategy of systematically refining our risk management in the Group.
In the year under review, we continued to gear our underwriting policy consistently to profitability. Although the favourable market environment led to an increased supply of reinsurance, we obtained attractive conditions for both new business and renewals. Claims-free treaties came under moderate price pressure. In loss-affected areas of property insurance, we raised prices across the board. Premiums for natural hazards rose above all in regions affected by losses. The substantial natural catastrophe losses served as a pertinent reminder of the necessity for risk-adequate prices, terms and conditions. We were thus able to improve the adequacy of our portfolio prices at generally stable conditions.

Result

The two reinsurance segments property-casualty and life and health accounted for €0.4bn (1.2bn) and €1.0bn (0.4bn) of the consolidated result respectively. Our overall result for reinsurance was thus 16.3% below that of the previous year.
The operating result of the property-casualty segment reflects the reserve increase at American Re and the considerably higher burden from natural catastrophes compared with business year 2004. Nevertheless, these two effects were largely offset by the solid result in basic business and high income from investments. In contrast to the operating result, the consolidated result in the property-casualty segment was additionally affected by tax expenditure incurred at Group level as a consequence of the reserve strengthening at American Re.
Despite the outstanding business experience in the life and health segment and the excellent investment result, our operating result for reinsurance dropped by 9.8% to €2.4bn (2.6bn).

Reinsurance result

All figures in €m	2005	2004	2003	2002	2001
Operating result	**2,384**	2,642*	2,606	1,639	–834
Consolidated result	**1,394**	1,666*	1,632	2,336	–52

*Adjusted owing to first-time application of IAS 1 (rev. 2003).

Hurricanes Katrina, Rita and Wilma left their mark on the combined ratios, in particular in the divisions Corporate Underwriting/Global Clients; North America; Europe 2 and Latin America; and Special and Financial Risks. The division Europe 1 was not only affected by Winter Storm Erwin but above all by the floods in the German, Austrian and Swiss Alps in August 2005.

Combined ratio by division

All figures in %	2005	2004	2003	2002	2001
Life and Health*	**97.4**	98.9	97.8	104.4	113.9
Europe 1	**94.2**	89.1	96.5	117.7	106.7
Europe 2 and Latin America	**100.1**	98.5	96.6	96.4	115.3
Asia, Australasia, Africa	**95.0**	102.3	91.8	86.8	112.5
North America	**134.0**	119.3	99.1	168.1	156.8
Corporate Underwriting/Global Clients	**126.0**	94.0	98.0	120.8	160.4
Special and Financial Risks	**110.5**	78.9	92.9	116.5	140.9

*Figures for health reinsurance only.

Premium

Premium volume in 2005 fell by 0.2% to €22.3bn (22.4bn). With the euro down against most other important currencies, we recorded premium growth due to changes in exchange rates – in contrast to the previous year. Without these currency translation effects, our premium income would have been 0.9% lower. Approximately €15bn or 69% of premiums was written in foreign currency, of which 53% was in US dollars and 17% in pounds sterling. 31% of our premium volume was transacted in euros.
The main reasons for the decline in premium income were the continuation of our strictly risk-adequate underwriting policy and the scheduled termination of individual reinsurance treaties. Where prices or conditions were not commensurate with the risks, we refrained from renewing treaties or writing new business.

About 35% of our total premium income was attributable to life and health reinsurance and 65% to the property-casualty segment. While our selective underwriting policy had an adverse impact above all on premium income in property-casualty insurance, we experienced growth in ↗ the life and health segment, despite our high-level profitability requirements. This growth was largely due to the strong demand for private-provision products worldwide, a positive effect that is partially offset by the loss of large-volume business.

Gross premiums by segment

All figures in €m	**2005**	2004	2003	2002	2001
Life and health	**7,811**	7,540	6,876	6,561	5,900
Property-casualty	**14,547**	14,857	17,919	18,884	16,296
Total	**22,358**	**22,397**	**24,795**	**25,445**	**22,196**

Primary insurance

Health insurance strongest growth engine thanks to supplementary insurance products
Combined ratio again low at 93.1%
High investment result of €5.9bn thanks to favourable capital markets

The Group's primary insurers essentially comprise the ERGO Insurance Group, Europäische Reiseversicherung and the Watkins Syndicate. Until the fourth quarter, they also included the Karlruher Insurance Group. ↗ Together, they are active in nearly all branches of life, health, property and casualty insurance. Around 81% of their premium income derives from Germany. The remaining 19% stems above all from other European countries. The bulk of business is therefore transacted in euros.

Overview and important key figures

		2005	2004	2003	2002
Gross premiums written:					
– Property-casualty	€m	**5,242**	5,202	5,082	4,841
– Life and health	€m	**12,330**	12,324	12,558	11,752
Loss ratio property-casualty	%	**57.8**	57.5	60.2	62.7
Expense ratio property-casualty	%	**33.5**	33.8	35.4	36.4
Combined ratio property-casualty	%	**91.3**	91.3	95.6	99.1
Combined ratio legal expenses	%	**99.8**	98.9	99.2	101.8
Combined ratio property-casualty including legal expenses insurance	%	**93.1**	93.0	96.4	99.9
Consolidated result property-casualty	€m	**581**	292*	–131	–348
Consolidated result life and health	€m	**594**	25*	–960	–591

*Adjusted owing to first-time application of IAS 1 (rev. 2003).

Our primary insurers performed very well in the past year. The operating result improved by 242.9% to €1,519m (443m) compared with the good previous year, thanks to a pleasingly low number of losses and the very good investment result. All in all, the consolidated result grew by 270.7% to €1,175m (317m) and thus clearly exceeded our original expectations.
Gross premiums written were up 0.3% to €17.6bn (17.5bn), with health insurance accounting for most of this growth.
In the fourth quarter, we sold our majority stake in Karlsruher Lebensversicherung AG, the parent company of the Karlsruher Insurance Group, to Württembergische Lebensversicherung AG for €338m. The deconsolidation of the Karlsruher Insurance Group contributed approximately €120m after taxes on income to our consolidated result. The extensive restructuring of ERGO's management organisation reinforced our view that it would not make sense to integrate Karlsruher's sales channels, with their strong regional orientation, into ERGO's nationwide sales forces. In addition, in its existing form the Karlsruher Insurance Group was not large enough to subsist on its own in a market that is increasingly consolidating.
We considered the various bidders and concluded that Württembergische with its business concept and bid price was the most convincing.

Result

The two primary insurance segments property-casualty and life and health contributed €581m (292m) and €594m (25m) to the consolidated result. The overall result for primary insurance was thus 270.7% higher than in the previous year.

The operating result of the two segments climbed from €0.4bn to €1.5bn, a 242.9% increase. This was attributable to the favourable performance of the bond and equity markets, which we used to further reduce our shares in the financial sector.

Primary insurance result

All figures in €m	**2005**	2004	2003	2002	2001
Operating result	**1,519**	443*	–369	–895	463
Consolidated result	**1,175**	317*	–1,091	–959	561

*Adjusted owing to first-time application of IAS 1 (rev. 2003).

In property-casualty insurance (including legal expenses insurance) the combined ratio of 93.1% (93.0%) was only marginally higher than the previous year's extremely low level but it was nevertheless well within our target of 95%. This is all the more pleasing given that there were several major losses. Loss frequency in motor insurance remained low.

Premium

Premium income developed positively especially in health insurance, where it increased by 7.8%. In life insurance, gross written premiums, which include savings premiums for unit-linked life insurance and capitalisation products (e.g. "Riester" pensions), rose somewhat more slowly than overall premium income. The growth of 0.8% in property-casualty business was on the same level as the market as a whole.

All in all, our primary insurers wrote premium income of €17.6bn (17.5bn), representing growth of 0.3%. The deconsolidation of the Karlsruher Insurance Group as at 1 October 2005 had an impact on the development of premium volume. If the Karlsruher Insurance Group had been included in the consolidated group for the whole year, growth would have been approximately 1.6 percentage points higher.

As in the previous year, the premium volume of our primary insurers accounts for about 46% of the Munich Re Group's total premium income.

Gross premiums overall in €bn

Status: 31 December 2005

In the business year ended, our life insurers' premium income was down 4.5% to €7.4bn (7.8bn). As expected, new business remained 11.7% below the high level of the previous year, when policies were being purchased in anticipation of the change in fiscal parameters in 2005. ↗ The sale of unit-linked products was satisfactory, and life insurance products such as "Riester" pensions also sold better than planned.

Gross premiums in the life segment in €bn
Status: 31 December 2005

Our health insurers' premium income showed a strong rise of 7.8% to €4.9bn (4.5bn). Price increases at the beginning of 2005, which had become necessary due to rising ↗ healthcare costs, strengthened growth in German business. Moreover, we achieved good results with supplementary insurance sales.

Gross premiums in the health segment in €bn
Status: 31 December 2005

Premium income in property-casualty insurance, including legal expenses insurance, grew slightly by 0.8% to €5.3bn (5.2bn). Personal lines business expanded especially in liability and homeowners' insurance, whereas motor ↗ insurance declined. Adjusted to eliminate the effect of the sale of ERGO's subsidiary Nieuwe Hollandse Lloyd Verzekeringsgroep N.V. (NHL) as at 30 June 2005, premium growth amounted to 1.6%.

Gross premiums in the property-casualty segment in €bn
Status: 31 December 2005

Asset management

Very good investment result of €10.8bn for the Munich Re Group
Further reduction of shareholdings in the banking and insurance sector
Increase in business with third-party institutional investors

Overview and important key figures

Around 94% of the assets under management derive from the Munich Re Group's own investments. The vast majority of these are managed by MEAG MUNICH ERGO AssetManagement GmbH, a 100% subsidiary of Munich Re and ERGO, while ERGO Trust GmbH for the most part develops and markets real estate products with an international orientation for Group companies and external investors. Together, MEAG and ERGO Trust had investments of €154.9bn (143.5bn) under management for the Group as at 31 December 2005. The other Group investments are managed by the units MEAG New York and MEAG Hong Kong and by the insurance companies of the Munich Re Group themselves.

At the same time, we also offer our expertise in asset management to partners outside the Group, thus tapping additional sources of earnings. As at 31 December 2005, therefore, MEAG Munich and ERGO Trust had investments of €10.2bn (12.8bn) under management for investors not belonging to the Group. ERGO Trust's concentration on the real estate sector and its resulting withdrawal from other financial investments led to a decline of the assets managed for third parties.

Assets under management

		2005	2004
Group's own investments	€bn	168.6	158.4
Third-party investments	€bn	10.5	13.2
Group asset management result	€m	30	–45*

*Adjusted owing to first-time application of IAS 1 (rev. 2003).

After recording a loss of €45m in 2004, our asset management segment achieved a positive result again in the year under review, posting a profit of €30m.

With the formation of MEAG in 1999 and the related concentration of asset management within the Group, we created the basis for optimising the management of our Group's investments. In 2005, we further consolidated the Munich Re Group's asset management activities under MEAG: with effect from 21 June 2005 MRACM (Munich Re Asia Capital Management Ltd.) was renamed MEAG Hong Kong Ltd., whilst as from 15 July 2005 MRCM (Munich Re Capital Management Corp.) became MEAG New York Corporation. We will continue the bundling of our asset management operations in 2006 by merging the real estate activities of ERGO Trust GmbH and MEAG under the roof of MEAG in Munich. Our motivation is to take greater advantage of the opportunities offered by the international real estate markets for meeting the Munich Re Group's investment requirements and to systematically expand institutional third-party business.

Investment principles

We only make investments in assets from which we expect an appropriate return, at the same time attaching great importance to security, liquidity and diversification. We reduce currency risks by matching our expected liabilities with assets in the correlated currencies.

Besides this, the Munich Re Group keeps sufficiently liquid funds available to meet its payment obligations at all times. Finally, we take care that the maturities of our investments are geared to patterns of our liabilities.

Munich Re's investment strategy also takes account of sustainability criteria. One of the goals we have set ourselves is to ensure that 80% of our equities and corporate bonds are included in recognised sustainability indices. We have already surpassed this target. In the case of government bonds, we have achieved a gratifying rate of around 95% compliance in terms of the indices in question.

Development and structure of investments

As at 31 December 2005, the Munich Re Group's investments amounted to €177.2bn (178.1bn), down 0.5% on the previous year. The deconsolidation of the Karlsruher Insurance Group reduced Group investments by around €12bn compared with the previous year, especially in the area of fixed-interest securities. In our portfolio of non-fixed-interest securities, on the other hand, we recorded price gains. We invested the cash flows from underwriting business largely in fixed-interest securities and loans.

Investment mix

	Reinsurance				Primary insurance				Asset management		Total	
	Life and health		Property-casualty		Life and health		Property-casualty					
All figures in €m*	**31.12. 2005**	31.12. 2004	**31.12. 2005**	31.12. 2004	**31.12. 2005**	31.12. 2004	**31.12. 2005**	31.12. 2004	**31.12. 2005**	31.12. 2004	**31.12. 2005**	31.12. 2004
Land and buildings, including buildings on third-party land	**663**	731	**759**	928	**4,169**	6,634	**179**	710	**28**	43	**5,798**	9,046
Investments in affiliated companies	**18**	14	**20**	16	**34**	45	**101**	69	**11**	14	**184**	158
Investments in associates	**64**	625	**175**	753	**451**	1,726	**400**	543	**38**	78	**1,128**	3,725
Loans	**74**	40	**68**	34	**23,192**	19,279	**1,444**	929	**17**	28	**24,795**	20,310
Other securities held to maturity	**–**	–	**–**	–	**432**	518	**13**	44	**–**	–	**445**	562
Other securities available for sale												
– Fixed-interest	**17,478**	15,230	**27,487**	24,707	**50,106**	57,791	**4,010**	4,533	**25**	9	**99,106**	102,270
– Non-fixed-interest	**5,883**	4,373	**6,912**	5,473	**10,198**	10,822	**2,345**	1,999	**8**	19	**25,346**	22,686
Other securities held for trading												
– Fixed-interest	**13**	–	**545**	–	**32**	61	**310**	290	**–**	–	**900**	351
– Non-fixed-interest	**–**	–	**4**	–	**–**	1	**5**	5	**–**	–	**9**	6
– Derivatives	**133**	54	**151**	61	**685**	185	**1**	–	**–**	–	**970**	300
Deposits retained on assumed reinsurance	**6,740**	6,554	**7,610**	7,778	**225**	191	**6**	7	**–**	–	**14,581**	14,530
Other investments	**321**	264	**539**	576	**638**	1,403	**276**	253	**705**	373	**2,479**	2,869
Investments for the benefit of life insurance policyholders who bear the investment risk	**–**	–	**–**	–	**1,430**	1,319	**–**	–	**–**	–	**1,430**	1,319
Total	**31,387**	**27,885**	**44,270**	**40,326**	**91,592**	**99,975**	**9,090**	**9,382**	**832**	**564**	**177,171**	**178,132**

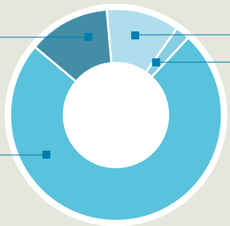
*After elimination of intra-Group reinsurance across segments.

Financial situation

Analysis of our capital structure

Our primary insurance and reinsurance activities have a significant influence on the capital structure of the Munich Re Group. Investments on the assets side of the balance sheet mainly serve to cover underwriting provisions (74% of the balance sheet total). Equity (11% of the balance sheet total) and bonds classified as strategic debt (2% of the balance sheet total) are the most important funds (see chart).

Capital structure



Reinsurance business accounts for approximately 41% of underwriting provisions and primary insurance business for about 59%. As distinct from liabilities from loans and securities issued, we cannot foresee with certainty how high our liabilities from underwriting business will be and when they will occur. This is especially true in the case of reinsurance business. The payout pattern of the underwriting provisions varies from one segment to another and from one line of business to another. In property insurance, for instance, a major portion of the reserves is generally paid out after one year, whereas in life insurance substantial amounts are still due decades after the contracts were concluded. The currency distribution of our provisions reflects the global orientation of our Group. Besides the euro, our main currencies are the US dollar and pound sterling.

We ensure that our business is sufficiently capitalised at all times by monitoring the situation on an ongoing basis and taking suitable measures, which are dealt with in the section on capital management.

To optimise our capital position and reduce capital costs, we have not only employed internal forms of financing in previous years but have also used strategic debt, primarily in the form of subordinated and/or exchangeable bonds. In the year under review, the amount of new external funds acquired by the Munich Re Group was insignificant, as were extensions of credit lines. Outside capital reduced by €1,239m, mainly because we redeemed the Munich Reinsurance Company bonds exchangeable into Allianz AG shares.

At Group level, our capital structure remained largely unchanged in comparison with the previous year. Within the Group, however, some shifts occurred, as we increased the reserves of our US subsidiary American Re: we strengthened American Re's capital base by US$ 1.1bn in the third quarter and converted two intra-Group financing instruments granted to two intermediate holding companies totalling US$ 1.6bn (owing to de facto irrecoverability) into equity.

Since we are an international (re)insurance group, some of our funds are subject to restraints on disposal. For example, the supervisory authorities in some countries require foreign reinsurers to establish premium and reserve deposits with the primary insurer. As at the balance sheet date, investments totalling €4.9bn were subject to restraints on disposal. In addition, there were contingent liabilities. Off-balance-sheet financing measures do not play a significant role in the Munich Re Group.

Asset-liability management

The structure of our underwriting provisions and other liabilities is the basis for the Munich Re Group's investment strategy. The main focus of this strategy is asset-liability management, which is geared to ensuring that economic factors influence the value of our investments and the value of the underwriting reserves and liabilities in the same way. This stabilises our position with regard to capital market fluctuations. For this purpose, we reflect important features of the liabilities, such as maturity patterns, currency structures and inflation sensitivities, on the assets

side of the balance sheet. If, for instance, there is a strong rise in inflation, our nominal outflows as a result of claims payments increase significantly. This applies in particular to lines of business with long payout patterns, e.g. liability, as multi-period inflation rates accumulate here. To an increasing extent, we are endeavouring in our asset-liability management to structure our investment portfolio in such a way that inflows from investments increase in line with rising inflation rates.
To configure our asset-liability management as effectively as possible, we also use derivative financial instruments.

Capital management

In our capital management, we monitor the capital of the Munich Re Group on an ongoing basis. We thereby ensure at all times that

- the Munich Re Group's capitalisation is adequate but does not significantly exceed the required level,
- its financial strength is guaranteed even after the occurrence of large loss events,
- we fulfil the requirements of the insurance supervisory authorities, and
- we meet the criteria of the leading rating agencies.

The aim of our value-based management is that every investment permanently achieves a risk-adequate return. To limit fluctuations in results owing to major losses, we have also developed guidelines and limit systems for underwriters within the framework of our integrated risk management and corporate underwriting for the reinsurance companies. We protect the results and capital of the primary insurance companies against unacceptable fluctuations by means of suitable reinsurance covers.
Our internal risk model plays a central role in capital management. We use it to analyse how certain risk scenarios affect the results of the segments life and health, property-casualty and the investments of the reinsurance group. We determine our economic capital on the basis of the internal risk model data so that we are able to absorb two successive annual losses of a size only to be expected every 100 years. In the next step, the capital so determined is allocated proportionately to the individual divisional units on a proportional basis in line with the volatility of their business activities. The procedure we use in the primary insurance group is similar, but substantially affected by other steering aspects, as supervisory restrictions and clients' participation in surplus play a greater role in that field of business.
We regularly review the assumptions on which the internal risk model is based and adjust them as required.

Group solvency

The Munich Re Group is subject not only to the supervisory requirements applying to individual insurance companies but also to supervision at Group level. Munich Reinsurance Company as the parent has introduced suitable control methods and its reports to the German Federal Financial Supervisory Authority (BaFin) responsible for the Munich Re Group include supplementary aspects at Group level, such as shareholdings, consolidated financial data and intra-Group transactions.
Solvency in the case of insurance companies is generally understood to be the ability of an insurer to always meet the obligations assumed under its contracts. In concrete terms, this means an insurance company must fulfil specific minimum capital requirements. "Adjusted solvency" focuses on the prevention of multiple use of equity to cover risks from underwriting business at different levels of the Group hierarchy. To calculate the adjusted solvency, the minimum equity required for the volume of business (required solvency margin) is compared with the eligible equity actually available (actual solvency margin) on the basis of the IFRS consolidated financial statements. In determining the eligible capital elements, the IFRS equity is adjusted; specifically, it is increased by portions of the subordinated liabilities and reduced by intangible assets. The Munich Re Group's eligible capital is more than three times as high as that required by law.

Adjusted solvency

		2005	2004
Eligible capital of the Group	€bn	**24.5**	16.1
Adjusted solvency ratio	%	**326.1**	206.8

The increase in eligible capital is attributable to the fact that our shareholders' equity has risen by around €4bn and the Solvency Adjustment Ordinance has been improved. Since 1 January 2005, locally established claims equalisation provisions totalling just under €5bn, which are not allowed under IFRS, no longer have to be deducted from IFRS equity when determining eligible capital for solvency purposes.
All insurance companies in the Munich Re Group met their pertinent solvency requirements in the year under review.

Rating

Munich Re's financial strength is generally evaluated by the leading rating agencies as very positive, and our ratings remain at a high level. In 2005, our rating was adjusted as follows. In the first quarter, Moody's revised the outlook for our financial strength rating (Aa3 – Excellent) from negative to stable. In the third quarter, A. M. Best placed its rating for the Munich Re Group (A+ Superior) under review, while Fitch lowered our rating from AA to AA– (Very strong). ↗

In the fourth quarter, A. M. Best took the Munich Re Group off the watch list and lowered its outlook from stable to negative.
The rating agencies A. M. Best, Fitch and Moody's put Munich Re in their second-best category for financial strength, and Standard & Poor's placed us in its third-best category. The Munich Re Group's market position, expertise and capitalisation are cited by the rating agencies as its particular strengths. Given the tough competition in the reinsurance markets, however, Munich Re's ability to sustain the strong increase in earnings was still seen critically.

Financial strength ratings for the Munich Re Group

Rating agency	Rating	Outlook
A. M. Best	A+ (Superior)	Negative
Fitch	AA– (Very strong)	Stable
Moody's	Aa3 (Excellent)	Stable
Standard & Poor's	A+ (Strong)	Stable

The ratings for our subsidiaries on 22 February 2006 at a glance:

Reinsurance group

	A. M. Best	Fitch	Moody's	S&P
American Alternative Insurance Corporation	A			A+
American Re-Insurance Company	A	AA–	Aa3	A+
Great Lakes Reinsurance (UK) PLC	A+			A+
Münchener Rück Italia	A+			A+
Munich American Reassurance Company	A+			A+
Munich Reinsurance Company of Africa				A–
Munich Reinsurance Company of Australasia	A+			A+
Munich Reinsurance Company of Canada	A+			A+
New Reinsurance Company	A+			A+
Princeton Excess and Surplus Lines Insurance Company	A			A+
Temple Insurance Company	A			

Primary insurance group

	A. M. Best	Fitch	Moody's	S&P
D. A. S. Legal Insurance Co. Ltd.				A
DKV Deutsche Krankenversicherung Aktiengesellschaft		A+		A+
ERGO Previdenza SpA		A		
Hamburg-Mannheimer Sachversicherungs-AG				A+
Hamburg-Mannheimer Versicherungs-Aktien-Gesellschaft		A+	Aa3	A+
KarstadtQuelle Lebensversicherung Aktiengesellschaft				BBB+
VICTORIA Lebensversicherung Aktiengesellschaft		A+	Aa3	A+
VICTORIA Versicherung Aktiengesellschaft				A+

Notes and debentures

The notes and debentures issued by our Group are rated as follows:

	A. M. Best	Fitch	Moody's	S&P
Munich Re Finance B. V., 6.75%, €3.0bn, Subordinated Bonds 2003/2023	a	A	A2	A–
Munich Re Finance B. V., 7.625%, £300m, Subordinated Bonds 2003/2028	a	A	A2	A–
American Re Corporation, 7.45%, US$ 500m, Senior Notes 1996/2026	bbb		A2	BBB+
ERGO International AG, 0.75%, €345m, Bonds Exchangeable into Sanofi-Aventis S.A. Shares 2001/2006		A–		A–
ERGO International AG, 2.25%, €345m, Bonds Exchangeable into E.ON AG Shares 2001/2006		A–		A–

Corporate governance

Corporate governance as an ongoing process
Taking account of national features

How we view corporate governance

Corporate governance stands for a form of responsible company management and control geared to long-term creation of value. Of particular importance to us in this context are the promotion of shareholders' interests, efficient practices on the Board of Management and Supervisory Board, good collaboration between these bodies, and corporate communications that are open and transparent both internally and externally.
We see corporate governance as an ongoing process, whose rules must not only be clearly stated but also lived out in practice. Major contributors to ensuring this are Internal Auditing, Risk Management and the Compliance Office.

What rules apply to Munich Re?

With its international organisation, the Munich Re Group has to consider corporate governance rules in different national legal systems. Clearly, we observe not only the respective national standards but also internationally recognised best practices. In Germany, where Munich Re has its registered seat, corporate governance rules are laid down above all in the German Stock Companies Act, the German Co-Determination Act and the German Corporate Governance Code. The latter, which entered into force in 2002 and has since been amended several times, contains the main legal rules that must be observed by German listed companies. In addition, it includes recommendations and proposals based on nationally and international recognised standards of good and responsible management.
Every year, Munich Re's Board of Management and Supervisory Board publish a declaration stating how far the Code's recommendations have been complied with.

Overview of corporate legal structure

Munich Re is a joint-stock company ("Aktiengesellschaft") within the meaning of the German Stock Companies Act. As prescribed by the Act, it has three governing bodies: the Board of Management, the Supervisory Board and the Annual General Meeting.

The Board of Management is responsible for managing the Company and representing it vis-à-vis third parties. It reports regularly to the Supervisory Board. Certain types of transaction, such as investments of substantial size, generally require the Supervisory Board's consent.
The members of the Board of Management are appointed by the Supervisory Board and may be dismissed by the latter at any time for good cause. On initial appointment, members of the Board of Management are usually given contracts for a term of between three and five years. One or more extensions of up to five years each are possible.
Rules of procedure issued by the Supervisory Board determine the distribution of responsibilities and cooperation on the Board of Management. At the end of 2005, the Board of Management set up two committees from amongst its ranks – one for Group operations and the other for reinsurance operations – in order to enhance the efficiency of its work.
The Supervisory Board monitors the Board of Management and gives counsel where appropriate. Certain transactions, such as major investments or capital measures, require its approval, but it is not authorised to execute management measures. The Supervisory Board also appoints the external auditor. Remuneration of the members of the Supervisory Board is regulated in the Articles of Association, i.e. is determined by the shareholders.
In compliance with the law and the company's Articles of Association, Munich Re's Supervisory Board has a total of 20 members. Half of these are elected representatives of the employees. The other ten members are elected by the Annual General Meeting.
Munich Re's Supervisory Board has four committees: the Standing Committee, the Personnel Committee, the Audit Committee and the Conference Committee.

Annual General Meeting

At Munich Re's AGM, the principle of "one share, one vote" applies. Shareholders may exercise their voting rights personally or authorise a proxy appointed in writing, a bank or a shareholders' association to cast their votes. Munich Re also offers its shareholders the opportunity to have their voting rights exercised in accordance with their personal instructions by one of the proxies nominated by the Company.

Taking due account of differences

The legal framework for corporate governance rules varies from country to country. A standard that incorporates "good" corporate governance in one legal system may contravene mandatory law in another, where its observance by a company would be deemed "bad" corporate governance. Despite the fact that there are now numerous international best practices, national law always needs to be considered as well when assessing a company's corporate governance. Here are two related examples:
German joint-stock companies have two boards, the Board of Management and the Supervisory Board, which are strictly separate bodies. The Board of Management manages the company and conducts its business; the Supervisory Board monitors and advises the Board of Management. It is not possible to be a member of both bodies.
By contrast, Anglo-American companies in particular have only one board, meaning that both management and monitoring are performed by the same body. This explains the special attention Anglo-American investors pay to whether a company's audit committee has members who are non-executive directors. As Munich Re's Supervisory Board (and consequently the latter's committees) are not allowed to contain any members of the Board of Management, we naturally fulfil this criterion.
The German Co-Determination Act mandatorily determines the composition of Munich Re's Supervisory Board. Half of the members of the Supervisory Board are representatives of the shareholders and half are employee representatives, elected by the staff. The Chairman – who has a second, casting vote in the event of voting on the Supervisory Board ending in a tie – is generally one of the shareholder representatives. In the Anglo-American legal sphere, there is no comparable form of co-determination. The US Securities and Exchange Commission nevertheless recognises that employee representatives on the Supervisory Board of a German joint-stock company make a valuable contribution to providing an independent check on management (SEC in Final Rule Relating to Listed Company Audit Committees, p. 18802).

Corporate governance topics in 2005

One topic that had dominated public debate in Germany in 2004 was the individualised disclosure of remuneration paid to management boards. In summer 2005, a law on the disclosure of management board remuneration (VorstOG) was passed in Germany. Under this law, the remuneration of the Board of Management will have to be published in individualised form as from 2007 for the business year 2006. Munich Re will comply with this provision. The Board of Management and Supervisory Board will not be seeking a resolution from the Annual General Meeting that allows for an opt-out from individualised disclosure.
As stated in our annual report for 2004, we have found it disquieting how far the important topic of corporate governance has been reduced to the question of individualised disclosure of board compensation. On mature reflection, the Board of Management has therefore again decided against publication in this form because it does not consider such disclosure to be appropriate. The remuneration report provides details of how much the Board of Management as a whole earned in the business year 2005, broken down according to the different remuneration components. By giving such information as a clear overview of individual components and their weighting, fringe benefits, pension entitlements and reserves, we show the structure of the compensation system in great detail. Even without individualised disclosure, Munich Re thus informs investors and shareholders objectively and extensively, enabling them in their investment decisions to assess the relationship between the Board of Management's performance and compensation on the basis of the details they receive regarding the Board of Management as a collegial body.
Last year, too, the Supervisory Board reviewed the efficiency of its activities. This showed that the efficiency enhancement measures decided on in previous years had been effective. Despite some room for improvement in the details, the form, content and timing of reports from the Board of Management to the Supervisory Board, and the flow of information between the committees and the full Supervisory Board were assessed as generally positive and efficient.

Recommendations and suggestions of the German Corporate Governance Code

In November 2005, the Board of Management and the Supervisory Board published the following declaration of compliance, in accordance with Section 161 of the German Stock Companies Act:

"Between the last declaration of compliance in December 2004 and 20 July 2005, Munich Re fulfilled the recommendations of the Government Commission's German Code of Corporate Governance in the version of 21 May 2003, with the exception stated below. Since 21 July 2005, Munich Re has fulfilled the recommendations of the Government Commission's German Code of Corporate Governance in the version of 2 June 2005 (published on 20 July 2005) and will continue to fulfil these recommendations, with the exception stated below:

– Item 4.2.4 sentence 2
  For the business year 2004, the remuneration of the members of Munich Re's Board of Management was shown in detail for the whole Board in the notes to the consolidated financial statements, broken down according to fixed compensation, performance-related components and components with long-term incentive effect, although not individualised as recommended by the German Code of Corporate Governance. For the business year 2005, too, the Board of Management's remuneration will be published in detail for the whole Board but not individualised."

In summary, Munich Re again complies with all the recommendations of the German Corporate Governance Code, with only one exception.

Likewise, Munich Re complies with all the suggestions of the German Corporate Governance Code with only one exception. This concerns item 5.4.7 para. 2 sentence 2 of the Code, which suggests that the result-related remuneration of members of the Supervisory Board should include components based on the company's long-term performance. We consider that a convincing remuneration model for this is still lacking and that our remuneration model, approved by the Annual General Meeting in 2005, is a good solution in terms of corporate governance aspects.

Prospects

Adherence to "profitability before growth" strategy
New target: Return on risk-adjusted capital (RORAC) of 15%

There is a growing tendency among some capital market players to sue companies in connection with statements they have published on future development, a trend that involves considerable loss potential for the companies concerned and for their other shareholders. This practice inevitably affects transparency, as many companies tend to be reluctant about the information they give on future business performance and disclose only what is required by law.
For this reason, we wish to emphasise the following: predictions about the forthcoming development of our Group are based primarily on planning figures, forecasts and expectations. Consequently, the following assessment of the Munich Re Group's development merely reflects our assumptions and views. It follows that we cannot accept any responsibility or liability in the event that they are not realised in part or in full.

Overview

In primary insurance and reinsurance, we will adhere to our "profitability before growth" strategy in the years to come.
In reinsurance, we will continue to focus on adequate prices and wordings. There is no alternative to profitable underwriting and active risk diversification. It is the only way we can create added value for our shareholders and clients alike.
Primary insurance, especially the life and health segment, is going through a period of change. The public's need for care and provision is rising and increasingly needs to be funded privately, as state social security systems throughout Europe are being scaled back. This opens up major opportunities in the medium and long term for our life, health and personal accident insurers. The changes in the legal parameters already underway or still in the pipeline – e.g. the fiscal treatment of life insurance or the debate on a reform of the German state health insurance system – entail certain risks. With their products, however, our companies are well prepared for the future.

Our successful performance in 2005 and the gratifying trend of the past two years are proof that we are on the right track with our strictly profit-based corporate policy. The exceptionally high burden from natural catastrophes and the reserve strengthening at American Re on the one hand and an especially good investment result on the other may tend to mask the fact that we actually slightly exceeded our target by achieving a profit for the year of over €2.7bn and a return on equity of 12.3% in 2005. As specified in the section "What we aim to achieve", our targets for 2006 have been developed further, taking into account the extent of the risks we assume. The goal for the Group is a return on risk-adjusted capital (RORAC) of 15% which, on the basis of our situation at the turn of the year 2005/2006, is equivalent to a consolidated profit for the year of between €2.6bn and €2.8bn. Details on our corporate steering systems and in particular on our new RORAC target figure are provided on page 21ff.
We remain committed to active capital management and a shareholder-friendly dividend policy. The Board of Management and Supervisory Board will propose at the Annual General Meeting that the dividend per share be increased by €1.10 to €3.10, thus enabling our shareholders to participate in Munich Re's good result.

Development of the Munich Re Group

Reinsurance

As expected, the renewals at 1 January 2006, which involved approximately 66% of our property-casualty business, went well. In property reinsurance and offshore energy business, prices for natural catastrophe covers in some cases rose significantly in the wake of the 2005 hurricane season, with especially steep increases for loss-affected treaties and the coastal regions of the USA and the Caribbean.
We do not anticipate any shortages in reinsurance capacity. On the contrary, the attractive price levels are likely to give rise to greater competition from new reinsurers specialised in stop-loss covers.

In classes of business and markets not directly affected by catastrophe losses, prices, terms and conditions have largely remained stable at a high level, with a slight upward trend.
For the forthcoming renewals on 1 April 2006 (Japan and Korea) and 1 July 2006 (parts of the US market, Australia and Latin America), we expect a similarly stable environment to that prevailing on 1 January 2006.
The reinsurance of natural hazards will continue to be a significant part of our business. With Atlantic cyclones becoming potentially more frequent and more extreme, we must be prepared for further high burdens in future. However, we consider these risks insurable, provided prices, terms and conditions remain commensurate with the risk.
In life reinsurance, the strong growth of the past few years is unlikely to be repeated. We expect that premium rates will remain stable or rise slightly. At present, a host of opportunities for growth in various business models is opening up worldwide in the health segment. To tap these opportunities in primary insurance and reinsurance, Munich Re and DKV will work together more closely in specific foreign markets.
Provided there are no strong shifts in exchange rates, reinsurance should record gross premiums of between €22bn and €23bn overall in 2006, which is roughly equivalent to the previous year's level. We expect a combined ratio of less than 97% in property-casualty and health reinsurance. Altogether, we anticipate a profit for the year in reinsurance in the range of €2.1–2.3bn.

Primary insurance

Recent developments in the individual segments are likely to continue in the next few years: in life insurance, we consider that there will be increased demand for private-provision products. The trends towards pension insurance products will probably be maintained. On top of this, we expect a further rise in the sale of "Riester" pension products qualifying for subsidisation. With demand for private provision growing, sales of supplementary health insurances should continue to develop positively. It may be assumed that the ongoing political debate about a restructuring of the German health insurance system will lead to further uncertainty in the area of comprehensive health cover in 2006. Even if the ramifications of such reforms are not yet foreseeable, the uncertainty is curbing the dynamics that would normally be present in this segment.
In the property-casualty segment, overall economic development will again not provide any strong impulses. For this reason and because of consistent adherence to our profit-oriented underwriting policy, our premium volume will not experience more than a modest rise. In other words, we are prepared to sacrifice premium volume for the sake of profit. This will be most significant in the fiercely competitive German motor insurance market.
In legal expenses insurance, we see medium-term opportunities in the field of legal advice, which is increasingly being offered as a supplement to purely financial coverage.
All in all, we expect gross premiums written for 2006 to total between €16.5bn and €17.0bn in primary insurance, which in addition to ERGO Insurance Group essentially comprises Europäische Reiseversicherung and the Watkins Syndicate. Adjusted for the sale of the Karlsruher Insurance Group, our premium income is therefore likely to remain stable. At the same time, we assume that the combined ratio will remain below 95%. We aim to achieve a profit for the year in the range of €600m to €700m.

Asset management

The current investment environment is in a pronounced low-interest-rate phase, the end of which is still not in sight. For this reason, the primary insurers in the Munich Re Group in particular have extended the terms of their fixed-interest securities in recent years to benefit from the higher interest rates. If interest rates remain low, however, fixed-interest securities (which make up the lion's share of our investments) will not earn the same regular income as in previous years.
We strongly gear the composition of our investment portfolio to the structure of our liabilities as well as reserves, and this asset-liability management also takes into account the guarantees and options granted to policyholders in our life insurance business. With our clients and shareholders in mind, we have hedged against sustained low-interest scenarios using interest-rate derivatives in order to secure the interest rates guaranteed on savings premiums.

If interest rates were to rise, we would suffer price losses in our fixed-interest securities: in the case of the fixed-interest securities accounted for at market value, this would cause our equity to decrease. We consider the resultant hazards to be low, in particular since these assets match long-term liabilities that would likewise fall in value economically even though their carrying amount in accordance with the valid accounting rules would not decrease.
The prices of European and US shares developed positively in the past three years, although the volatility of the stock markets has increased since mid-2005. Given the risks described, we will, if required, further reduce our equity exposure, currently at 13.4% of total investments on a market-value basis, after taking hedging transactions into account.
In 2005, we consistently pursued our strategy of reducing the historically evolved concentration of our investments in the German financial services sector and will continue to actively diversify our investment risks.
By achieving a 5.9% return on investment in the past business year, we again exceeded our target of 4.5%. For the coming year, we do not think comparably high realised capital gains will be possible, and therefore aim for a 4.5% target for our Group companies' investments. This would amount to an investment result in the range of €7.8–8.0bn (which will be credited to the segment results in primary insurance and reinsurance).
MEAG intends to selectively extend business with private and institutional investors. It will also offer more guaranteed and portfolio protection products to meet investors' increased need for more security. Private provision for old age continues to be a crucial topic. Here, MEAG is planning to market new retail products in the form of special savings plans to support private provision.

Result and premium of the Munich Re Group

If exchange rates remain steady, we expect gross premiums written for 2006 in primary insurance and reinsurance to total between €37bn and €38bn (consolidated) and thus to attain last year's level, adjusted for the sale of the Karlsruher Insurance Group. Proceeding on the basis of statistically expectable claims experience, we project a combined ratio of less than 97% in property-casualty and health reinsurance and of less than 95% in property-casualty primary insurance. In life primary and reinsurance business and in health primary insurance, we aim to achieve EEV earnings in the range of 8–9%, in relation to the value of the business in force at the beginning of the year. In the investment sector, we anticipate a result equivalent to 4.5% of the average market values of the investments.
Overall, our goal for the business year 2006 is a return on risk-adjusted capital (RORAC) of 15%, which on the basis of our situation at the turn of the year 2005/2006, is equivalent to a consolidated profit for the year of between €2.6bn and €2.8bn.
These are ambitious yet achievable goals. Our shareholders will continue to participate in Munich Re's success: for the coming business years we plan to pay out at least 25% of the IFRS consolidated result as dividends.

Consolidated financial statements (excerpt)
Consolidated balance sheet as at 31 December 2005

Assets				Prev. year		Change
	€m	€m	€m	€m	€m	%
A. Intangible assets						
I. Goodwill		3,264		3,144	120	3.8
II. Other intangible assets		1,036		1,243	–207	–16.7
			4,300	4,387	–87	–2.0
B. Investments						
I. Land and buildings. including buildings on third-party land		5,798		9,046	–3,248	–35.9
II. Investments in affiliated companies and associates		1,312		3,883	–2,571	–66.2
III. Loans		24,795		20,310	4,485	22.1
IV. Other securities						
1. Held to maturity	445			562	–117	–20.8
2. Available for sale	124,452			124,956	–504	–0.4
3. Held for trading	1,879			657	1,222	186.0
		126,776		126,175	601	0.5
V. Deposits retained on assumed reinsurance		14,581		14,530	51	0.4
VI. Other investments		2,479		2,869	–390	–13.6
			175,741	176,813	–1,072	–0.6
C. Investments for the benefit of life insurance policyholders who bear the investment risk			1,430	1,319	111	8.4
D. Ceded share of underwriting provisions			7,980	6,964	1,016	14.6
E. Receivables			9,707	8,683	1,024	11.8
F. Cash with banks, cheques and cash in hand			2,337	2,027	310	15.3
G. Deferred acquisition costs						
– Gross		8,222		8,450	-228	–2.7
– Ceded		98		54	44	81.5
– Net			8,124	8,396	–272	–3.2
H. Deferred tax assets			5,056	4,326	730	16.9
I. Other assets			3,964	1,876	2,088	111.3
Total assets			218,639	214,791	3,848	1.8

Equity and liabilities			Prev. year		Change
	€m	€m	€m	€m	%
A. Equity					
I. Issued capital and capital reserve	7,388		7,388	–	–
II. Retained earnings	8,021		7,018	1,003	14.3
III. Other reserves	6,110		3,957	2,153	54.4
IV. Consolidated profit attributable to Munich Re equity holders	2,671		1,833	838	45.7
V. Minority interests	463		448*	15	3.3
		24,653	20,644*	4,009	19.4
B. Subordinated liabilities		3,408	3,393	15	0.4
C. Gross underwriting provisions					
I. Unearned premiums	6,153		5,874	279	4.7
II. Provision for future policy benefits	94,445		101,926	–7,481	–7.3
III. Provision for outstanding claims	49,380		42,839	6,541	15.3
IV. Other underwriting provisions	10,551		9,324	1,227	13.2
		160,529	159,963	566	0.4
D. Gross underwriting provisions for life insurance policies where the investment risk is borne by the policyholders		1,516	1,328	188	14.2
E. Other accrued liabilities		4,555	3,450	1,105	32.0
F. Liabilities					
I. Notes and debentures	1,097		2,242	–1,145	–51.1
II. Deposits retained on ceded business	3,392		2,900	492	17.0
III. Other liabilities	12,288		13,830*	–1,542	–11.1
		16,777	18,972*	–2,195	–11.6
G. Deferred tax liabilities		7,201	7,041	160	2.3
Total equity and liabilities		218,639	214,791	3,848	1.8

*Adjusted owing to first-time application of IAS 1 (rev. 2003).

Consolidated income statement for the business year 2005

Items				Prev. year (adjusted)*		Change
	€m	€m	€m	€m	€m	%
Gross premiums written	**38,199**			38,071	128	0.3
1. Earned premiums						
– Gross	**38,251**			38,288	–37	–0.1
– Ceded	**2,041**			1,754	287	16.4
– Net		**36,210**		36,534	–324	–0.9
2. Investment result		**10,818**		8,041	2,777	34.5
Thereof:						
– Income from associates		**1,131**		–331	1,462	–
3. Other income		**1,465**		1,116	349	31.3
Total income (1–3)			**48,493**	45,691	2,802	6.1
4. Expenses for claims and benefits						
– Gross	**35,559**			32,546	3,013	9.3
– Ceded	**2,208**			910	1,298	142.6
– Net		**33,351**		31,636	1,715	5.4
5. Operating expenses						
– Gross	**9,611**			9,312	299	3.2
– Ceded	**444**			465	–21	–4.5
– Net		**9,167**		8,847	320	3.6
6. Other expenses		**1,838**		1,839	–1	–0.1
Total expenses (4–6)			**44,356**	42,322	2,034	4.8
7. Result before amortisation and impairment losses of goodwill			**4,137**	3,369	768	22.8
8. Amortisation and impairment losses of goodwill			**7**	344	–337	–98.0
9. Operating result			**4,130**	3,025	1,105	36.5
10. Finance costs			**378**	426	–48	–11.3
11. Taxes on income			**1,009**	712	297	41.7
12. Consolidated result			**2,743**	1,887	856	45.4
Thereof:						
– Attributable to Munich Re equity holders			**2,671**	1,833	838	45.7
– Attributable to minority interests			**72**	54	18	33.3
			€	€	€	%
Earnings per share			**11.70**	8.01	3.69	46.1

*Adjusted owing to first-time application of IAS 1 (rev. 2003).

Group statement of changes in equity

	Equity attributable to Munich Re equity holders								Minority interests*	Total equity*
	Issued capital	Capital reserve	Retained earnings		Other reserves			Consolidated result		
All figures in €m			Retained earnings before deduction of own shares	Own shares held	Unrealised gains and losses	Reserve from currency translation	Valuation result from cash flow hedges			
Status at 31.12.2004	**588**	**6,800**	**7,176**	**–158**	**4,621**	**–674**	**10**	**1,833**	**448**	**20,644**
Currency translation	–	–	–	–	–	650	–	–	1	651
Allocation to retained earnings	–	–	1,376	–	–	–	–	–1,376	–	–
Change in consolidated group	–	–	–94	–	–49	–	–	–	6	–137
Change resulting from valuation at equity	–	–	–62	–	–98	–	–	–	3	–157
Unrealised gains and losses on investments	–	–	–	–	1,654	–	–	–	3	1,657
Consolidated result	–	–	–	–	–	–	–	2,671	72	2,743
Dividend	–	–	–	–	–	–	–	–457	–	–457
Effects pursuant to IAS 8	–	–	–59	–	–	–	–	–	–14	–73
Share buy-backs	–	–	–	–43	–	–	–	–	–	–43
Changes from cash flow hedges	–	–	–	–	–	–	–4	–	–	–4
Other changes	–	–	–115	–	–	–	–	–	–56	–171
Status at 31.12.2005	**588**	**6,800**	**8,222**	**–201**	**6,128**	**–24**	**6**	**2,671**	**463**	**24,653**

*Adjusted owing to first-time application of IAS 1 (rev. 2003).

The increase in the unrealised gains and losses recognised in equity of €1,657m comprises €2,972m (1,545m) in allocations and €1,315m (1,511m) in withdrawals, without impact on profit or loss in both cases.

Segment reporting

Assets	Reinsurance			
	Life and health		Property-casualty	
	31.12.2005 €m	Prev. year €m	31.12.2005 €m	Prev. year €m
A. Intangible assets	267	239	1,374	1,206
B. Investments				
I. Land and buildings, including buildings on third-party land	663	731	759	928
II. Investments in affiliated companies and associates	2,910	3,449	3,238	3,842
III. Loans	310	244	323	258
IV. Other securities				
1. Held to maturity	–	–	–	–
2. Available for sale	23,361	19,603	34,399	30,180
3. Held for trading	146	54	700	61
	23,507	19,657	35,099	30,241
V. Deposits retained on assumed reinsurance	9,089	9,685	10,205	11,314
VI. Other investments	321	264	539	576
	36,800	34,030	50,163	47,159
C. Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–
D. Ceded share of underwriting provisions	1,647	1,403	4,077	3,483
E. Other segment assets	6,179	4,720	10,402	9,173
Total segment assets	44,893	40,392	66,016	61,021

The Munich Re Group's segment reporting is based on IAS 14 and the principles of German Accounting Standard No. 3 (DRS 3) issued by the German Standards Board (DSR). This has been supplemented by the requirements of DRS 3–20, which applies specifically to insurance companies.
In accordance with the recommendations of the DSR, we have made the primary segmentation between the fields of reinsurance, primary insurance (each broken down into life and health and property-casualty) and asset management.

The individual fields of business are shown after consolidation of internal transactions within the individual field but before consolidation across segments. This is shown separately in the "consolidation column".
Goodwill has been allocated to the segment of the respective subsidiary.

	Primary insurance				Asset management		Consolidation		Total	
	Life and health		Property-casualty							
	31.12.2005 €m	Prev. year €m	31.12.2005 €m	Prev. year €m	31.12.2005 €m	Prev. year €m	31.12.2005 €m	Prev. year €m	31.12.2005 €m	Prev. year €m
	1,748	1,961	929	1,014	6	5	–24	–38	4,300	4,387
	4,170	6,642	179	710	28	43	–1	–8	5,798	9,046
	994	3,009	3,506	3,361	95	119	–9,431	–9,897	1,312	3,883
	24,808	20,893	1,514	1,011	151	185	–2,311	–2,281	24,795	20,310
	432	518	13	44	–	–	–	–	445	562
	60,304	68,613	6,385	6,532	33	28	–30	–	124,452	124,956
	717	247	316	295	–	–	–	–	1,879	657
	61,453	69,378	6,714	6,871	33	28	–30	–	126,776	126,175
	229	194	18	137	–	–	–4,960	–6,800	14,581	14,530
	638	1,403	276	253	705	373	–	–	2,479	2,869
	92,292	101,519	12,207	12,343	1,012	748	–16,733	–18,986	175,741	176,813
	1,430	1,319	–	–	–	–	–	–	1,430	1,319
	6,817	8,756	1,701	1,529	–	–	–6,262	–8,207	7,980	6,964
	11,095	10,001	3,914	2,801	205	183	–2,607	–1,570	29,188	25,308
	113,382	123,556	18,751	17,687	1,223	936	–25,626	–28,801	218,639	214,791

Segment reporting

Equity and liabilities	Reinsurance			
	Life and health		Property-casualy	
	31.12.2005 €m	Prev. year €m	**31.12.2005 €m**	Prev. year €m
A. Subordinated liabilities	**1,453**	1,453	**1,561**	1,587
B. Gross underwriting provisions				
I. Unearned premiums	**209**	230	**4,865**	4,571
II. Provision for future policy benefits	**18,675**	19,468	**702**	642
III. Provision for outstanding claims	**5,493**	5,238	**38,080**	31,988
IV. Other underwriting provisions	**888**	722	**190**	214
	25,265	25,658	**43,837**	37,415
C. Gross underwriting provisions for life insurance policies where the investment risk is borne by the policyholders	**–**	–	**–**	–
D. Other accrued liabilities	**712**	300	**1,327**	785
E. Other segment liabilities	**3,807**	3,154*	**8,397**	9,337*
Total segment liabilities	**31,237**	**30,565**	**55,122**	**49,124**

*Adjusted owing to first-time application of IAS 1 (rev. 2003).

	Primary insurance				Asset management		Consolidation		Total	
	Life and health		Property-casualty							
	31.12.2005 €m	Prev. year €m	31.12.2005 €m	Prev. year €m	31.12.2005 €m	Prev. year €m	31.12.2005 €m	Prev. year €m	31.12.2005 €m	Prev. year €m
	19	–	404	353	–	–	–29	–	3,408	3,393
	86	79	1,221	1,208	–	–	–228	–214	6,153	5,874
	79,647	88,155	224	278	–	–	–4,803	–6,617	94,445	101,926
	1,993	2,010	4,765	4,637	–	–	–951	–1,034	49,380	42,839
	9,686	8,604	104	108	–	–	–317	–324	10,551	9,324
	91,412	98,848	6,314	6,231	–	–	–6,299	–8,189	160,529	159,963
	1,516	1,343	–	–	–	–	–	–15	1,516	1,328
	1,175	1,024	1,355	1,287	65	84	–79	–30	4,555	3,450
	14,698	17,735*	5,319	5,224*	1,035	773*	–9,278	–10,210*	23,978	26,013*
	108,820	118,950	13,392	13,095	1,100	857	–15,685	–18,444	193,986	194,147
Equity									24,653	20,644
Total equity and liabilities									218,639	214,791

Segment reporting

Income statement	Reinsurance			
	Life and health		Property-casualty	
	2005 **€m**	Prev. year (adjusted)* €m	**2005** **€m**	Prev. year (adjusted)* €m
Gross premiums written	**7,811**	7,540	**14,547**	14,857
Thereof:				
– From insurance transactions with other segments	**859**	957	**848**	869
– From insurance transactions with external third parties	**6,952**	6,583	**13,699**	13,988
1. Earned premiums				
– Gross	**7,852**	7,575	**14,643**	15,131
– Ceded	**456**	281	**1,078**	950
– Net	**7,396**	7,294	**13,565**	14,181
2. Investment result	**1,897**	1,431	**2,859**	2,166
Thereof:				
– Income from associates	**51**	–24	**208**	–87
3. Other income	**272**	125	**487**	350
Total income (1–3)	**9,565**	8,850	**16,911**	16,697
4. Expenses for claims and benefits				
– Gross	**6,358**	6,264	**12,490**	10,651
– Ceded	**354**	20	**1,145**	473
– Net	**6,004**	6,244	**11,345**	10,178
5. Operating expenses				
– Gross	**2,315**	1,836	**4,089**	4,054
– Ceded	**87**	148	**262**	197
– Net	**2,228**	1,688	**3,827**	3,857
6. Other expenses	**229**	214	**459**	624
Total expenses (4–6)	**8,461**	8,146	**15,631**	14,659
7. Result before amortisation and impairment losses of goodwill	**1,104**	704	**1,280**	2,038
8. Amortisation and impairment losses of goodwill	**–**	6	**–**	94
9. Operating result	**1,104**	698	**1,280**	1,944
10. Finance costs	**80**	106	**212**	255
11. Taxes on income	**48**	160	**650**	455
12. Consolidated result	**976**	**432**	**418**	**1,234**
Thereof				
– Attributable to Munich Re equity holders	**976**	**432**	**418**	**1,229**
– Attributable to minority interests	**–**	**–**	**–**	**5**

*Adjusted owing to first-time application of IAS 1 (rev. 2003).

The ERGO Insurance Group has concluded profit-transfer agreements with nearly all of its German insurance companies. In our segment reporting, expenditure incurred as a result of profit transfer is deemed appropriation of net income. The segments are thus adjusted to eliminate these expenses, the elimination being carried out in the consolidation column.

Primary insurance				Asset management		Consolidation		Total	
Life and health		Property-casualty							
2005 €m	Prev. year (adjusted)* €m	2005 €m	Prev. year (adjusted)* €m	2005 €m	Prev. year (adjusted)* €m	2005 €m	Prev. year (adjusted)* €m	2005 €m	Prev. year (adjusted)* €m
12,330	12,324	5,242	5,202	–	–	–1,731	–1,852	38,199	38,071
1	2	23	24	–	–	–1,731	–1,852	–	–
12,329	12,322	5,219	5,178	–	–	–	–	38,199	38,071
12,323	12,323	5,121	5,145	–	–	–1,688	–1,886	38,251	38,288
1,079	1,202	1,116	1,207	–	–	–1,688	–1,886	2,041	1,754
11,244	11,121	4,005	3,938	–	–	–	–	36,210	36,534
5,054	4,163	853	424	40	19	115	–162	10,818	8,041
233	–198	221	–28	2	6	416	–	1,131	–331
873	711	787	734	267	250	–1,221	–1,054	1,465	1,116
17,171	15,995	5,645	5,096	307	269	–1,106	–1,216	48,493	45,691
14,711	14,093	3,439	3,047	–	–	–1,439	–1,509	35,559	32,546
1,057	1,207	1,049	719	–	–	–1,397	–1,509	2,208	910
13,654	12,886	2,390	2,328	–	–	–42	–	33,351	31,636
2,049	2,181	1,706	1,707	–	–	–548	–466	9,611	9,312
321	242	316	333	–	–	–542	–455	444	465
1,728	1,939	1,390	1,374	–	–	–6	–11	9,167	8,847
1,062	973	1,067	912	241	271	–1,220	–1,155	1,838	1,839
16,444	15,798	4,847	4,614	241	271	–1,268	–1,166	44,356	42,322
727	197	798	482	66	–2	162	–50	4,137	3,369
1	167	5	69	1	8	–	–	7	344
726	30	793	413	65	–10	162	–50	4,130	3,025
3	4	82	65	3	–	–2	–4	378	426
129	1	130	56	32	35	20	5	1,009	712
594	25	581	292	30	–45	144	–51	2,743	1,887
539	10	549	251	32	–42	157	–47	2,671	1,833
55	15	32	41	–2	–3	–13	–4	72	54

Segment reporting

Investments*	Reinsurers		Primary insurers		Asset management		Total	
	31.12.2005 €m	Prev. year €m	31.12.2005 €m	Prev. year €m	31.12.2005 €m	Prev. year €m	31.12.2005 €m	Prev. year €m
Europe	43,942	43,074	97,902	106,802	804	515	142,648	150,391
North America	27,360	21,540	1,426	1,669	23	38	28,809	23,247
Asia and Australasia	2,776	2,517	1,024	625	5	3	3,805	3,145
Africa, Near and Middle East	753	595	81	119	–	–	834	714
Latin America	826	485	249	142	–	8	1,075	635
Total	75,657	68,211	100,682	109,357	832	564	177,171	178,132

*After elimination of intra-Group transactions across segments.

Secondary segmentation is based on the geographical origin of our investments and gross premiums written.

Gross premiums written*	Reinsurers		Primary insurers		Total	
	2005 €m	Prev. year €m	2005 €m	Prev. year €m	2005 €m	Prev. year €m
Europe						
Germany	3,122	3,275	14,272	14,243	17,394	17,518
UK	3,838	4,516	245	224	4,083	4,740
Italy	562	549	732	720	1,294	1,269
Spain	527	525	371	346	898	871
Netherlands	314	456	242	283	556	739
Others	2,060	1,934	1,460	1,459	3,520	3,393
	10,423	11,255	17,322	17,275	27,745	28,530
North America						
USA	4,774	4,969	112	80	4,886	5,049
Canada	1,929	1,842	6	4	1,935	1,846
	6,703	6,811	118	84	6,821	6,895
Asia and Australasia						
Australia	445	453	5	3	450	456
China	362	71	–	–	362	71
Japan	335	288	4	3	339	291
Korea	270	201	1	–	271	201
Others	514	465	47	50	561	515
	1,926	1,478	57	56	1,983	1,534
Africa, Near and Middle East						
South Africa	330	267	17	60	347	327
Israel	140	136	–	1	140	137
Others	202	164	24	15	226	179
	672	567	41	76	713	643
Latin America	927	460	10	9	937	469
Total	20,651	20,571	17,548	17,500	38,199	38,071

*After elimination of intra-Group reinsurance across segments.
Presentation of the figures in the management report differs from this (cf. note on page 23).

Quarterly figures

		31.12.2005	30.9.2005	30.6.2005	31.3.2005
Balance sheet					
Investments	€m	**177,171**	186,610	184,099	179,328
Equity	€m	**24,653**	22,591*	21,965*	21,246*
Net underwriting provisions	€m	**154,065**	164,167	162,504	158,386
Balance sheet total	€m	**218,639**	227,141	224,378	219,532
Shares					
Share price	€	**114.38**	95.00	88.12	92.94
Munich Re's market capitalisation	€bn	**26.3**	21.8	20.2	21.3
Other					
Combined ratio non-life reinsurance	%	**110.5**	108.2	99.8	96.5
Number of staff		**37,953**	40,406	40,641	40,846

*Adjusted owing to first-time application of IAS 1 (rev. 2003).

in €m	Total	Q4 2005	Q3 2005*	Q2 2005	Q1 2005
Income statement					
Gross premiums written	**38,199**	9,574	9,245	9,220	10,160
1. Earned premiums					
– Gross	**38,251**	9,999	9,434	9,548	9,270
– Ceded	**2,041**	593	500	495	453
– Net	**36,210**	9,406	8,934	9,053	8,817
2. Investment result	**10,818**	2,766	3,078	2,517	2,457
3. Other income	**1,465**	355	316	476	318
Total income (1–3)	**48,493**	12,527	12,328	12,046	11,592
4. Expenses for claims and benefits					
– Gross	**35,559**	8,946	9,984	8,452	8,177
– Ceded	**2,208**	716	827	301	364
– Net	**33,351**	8,230	9,157	8,151	7,813
5. Operating expenses					
– Gross	**9,611**	2,570	2,304	2,383	2,354
– Ceded	**444**	84	159	103	98
– Net	**9,167**	2,486	2,145	2,280	2,256
6. Other expenses	**1,838**	556	374	517	391
Total expenses (4–6)	**44,356**	11,272	11,676	10,948	10,460
7. Result before amortisation and impairment losses of goodwill	**4,137**	1,255	652	1,098	1,132
8. Amortisation and impairment losses of goodwill	**7**	3	–	4	–
9. Operating result	**4,130**	1,252	652	1,094	1,132
10. Finance costs	**378**	88	86	101	103
11. Taxes on income	**1,009**	–197	54	811	341
12. Consolidated result	**2,743**	1,361	512	182	688
Thereof:					
– Attributable to Munich Re equity holders	**2,671**	1,339	492	164	676
– Attributable to minority interests	**72**	22	20	18	12

*Adjusted owing to first-time application of IAS 1 (rev. 2003).

		Total	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Earnings per share	€	**11.70**	5.87	2.16	0.72	2.96

Important dates 2006/2007

19 April 2006	Annual General Meeting
20 April 2006	Dividend payment
9 May 2006	Interim report as at 31 March 2006
3 August 2006	Interim report as at 30 June 2006
3 August 2006	Half-year press conference
7 November 2006	Interim report as at 30 September 2006
20 March 2007	Balance sheet press conference for 2006 financial statements
20 March 2007	Analysts' conference for 2006 financial statements
26 April 2007	Annual General Meeting
27 April 2007	Dividend payment
8 May 2007	Interim report as at 31 March 2007
7 August 2007	Interim report as at 30 June 2007
6 November 2007	Interim report as at 30 September 2007

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Responsible for content
Group Accounting
Corporate Communications

Editorial deadline: 24 February 2006

Concept and design
häfelinger + wagner design,
Munich

Printed by
Druckerei Fritz Kriechbaumer,
Wettersteinstr. 12
82024 Taufkirchen
Germany

Picture credits
Jörg Koopmann, Munich, front cover, pp. 16–29
Karsten de Riese, Bairawies, pp. 5, 8–10
Ulrike Myrzik + Manfred Jarisch, Munich, front cover, pp. 2, 13, 30, 40, 136, 212, back cover

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Order number 302-04804