Deutsche Rück

# Deutsche Rückversicherung Group

ANNUAL REPORT

2018

# Deutsche Rückversicherung Group

**ANNUAL REPORT 2018**

Deutsche Rückversicherung AG and its subsidiary Deutsche Rückversicherung Switzerland Ltd offer reinsurance cover on the European insurance market. In this capacity, we offer our shareholders significant strategic benefits, while our excellent long-term financial standing, consistent market approach and strong client focus make us a preferred partner. Together with the Association of German Public Insurers, the Deutsche Rück Group has established itself as one of the leading reinsurers on the German market.

# Key figures of the Deutsche Rück Group

| FINANCIAL YEARS<br>in €m | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Gross premiums written** | 1,108.4 | 1,201.6 | 1,175.0 | 1,077.4 | 1,038.3 |
| **Net premiums earned** | 728.8 | 705.8 | 720.7 | 661.1 | 628.3 |
| **Net loss ratio**<br>(as % of net premiums earned) | 65.3 | 65.1 | 64.4 | 67.9 | 73.7 |
| **Expense ratio – net**<br>(as % of net premiums earned) | 31.7 | 30.6 | 36.1 | 30.6 | 30.2 |
| **Combined ratio – net**<br>(as % of net premiums earned) | 97.2 | 95.8 | 100.4 | 98.8 | 104.2 |
| **Underwriting result – net**<br>(after change to the equalisation reserves) | –9.4 | –20.0 | –14.0 | –25.2 | –35.1 |
| **Result of general business** | 87.7 | 44.0 | 37.0 | 42.2 | 44.8 |
| **Operating result before tax** | 78.2 | 24.0 | 23.1 | 17.0 | 9.7 |
| (as % of net premiums earned) | 10.7 | 3.4 | 3.2 | 2.6 | 1.5 |
| **Net profit for the year (after tax)** | 56.0 | 3.0 | 14.5 | 14.3 | 7.8 |
| (as % of net premiums earned) | 7.7 | 0.4 | 2.0 | 2.2 | 1.2 |
| **Investments incl. deposits retained** | 1,998.2 | 1,936.7 | 1,861.7 | 1,742.3 | 1,665.5 |
| (as % of net premiums earned) | 274.2 | 274.4 | 258.3 | 263.5 | 265.1 |
| **Current average interest rates** | 2.9 | 3.2 | 2.6 | 2.9 | 3.4 |
| **Net technical provisions**<br>(excl. equalisation reserves) | 1,349.9 | 1,345.1 | 1,293.3 | 1,256.9 | 1,194.8 |
| (as % of net premiums earned) | 185.2 | 190.6 | 179.4 | 190.1 | 190.2 |
| **Security**<br>(before appropriation of profit) | 604.1 | 529.2 | 511.9 | 498.9 | 470.1 |
| (as % of net premiums earned) | 82.9 | 75.0 | 71.0 | 75.5 | 74.8 |
| thereof:<br>**Balance sheet equity**<br>(before appropriation of profit) | 280.8 | 225.6 | 232.1 | 221.1 | 206.5 |
| (as % of net premiums earned) | 38.5 | 32.0 | 32.2 | 33.4 | 32.9 |
| **Hybrid capital** | 61.8 | 61.8 | 61.8 | 85.0 | 85.0 |
| (as % of net premiums earned) | 8.5 | 8.7 | 8.6 | 12.9 | 13.5 |
| **Equalisation reserves** | 261.5 | 241.8 | 218.1 | 192.8 | 178.6 |
| (as % of net premiums earned) | 35.9 | 34.3 | 30.3 | 29.2 | 28.4 |

# Contents

# Report of the Chief Executive Officer

## DEAR SHAREHOLDERS AND CLIENTS, LADIES AND GENTLEMEN,

The Deutsche Rück Group successfully continued its rock-solid performance in 2018. Within long-standing business partnerships, we improved our clients' risk positions, generated added value for our shareholders and simultaneously strengthened our company's assets.

In a market that remained highly competitive, our net premium volume developed positively, particularly in the liability, accident and motor insurance and life insurance lines, thanks to sustainable growth. We recorded a lower premium volume in gross terms owing to the restructuring of residual credit business within the group of public insurers.

Our clients were particularly affected by storm DAVID (also known as FRIEDERIKE) and a large number of major fire claims in 2018. Gross claims expenditure consequently also rose significantly for the Deutsche Rück Group. However, we were able to limit our risk positions effectively through our retrocession scheme, which is geared towards property business. There was only a marginal change in the net loss ratio and the combined ratio for overall business.

Our technical account recorded a higher profit than in the previous year before changes to the equalisation reserves. We further strengthened our equalisation reserves in 2018, in line with our long-term, very conservative policy on the recognition of reserves. After this, the technical account closed with a loss that had halved year on year.

We generated exceptionally good and significantly increased income from our investments, leading to a marked rise in our operating result before tax. As there was only a slight increase in tax expenses, this effect was also apparent in our very positive net profit for the year. The further strengthening of the Group's assets in 2018 is reflected in a very strong capital base at AAA level and in our “A+” rating with a stable outlook from Standard & Poor's.

We expect our business performance to remain stable in the current financial year, with slightly lower gross premium volume overall. This will be driven by the winding-up of the residual credit business, which we have already mentioned above. We will be unable to offset this effect entirely in gross terms with premium growth in fire and property insurance business and in the liability, accident and motor insurance lines.

The foreseeable negative impact on our technical result from storm EBERHARD is in line with our expectations. Provided that overall claims do not exceed our budget for major claims or the anticipated range in 2019, we expect the performance of our underwriting business to enable us to further strengthen our assets, based on the information available.

We expect investment income to be considerably lower. Assuming that there are no disruptions in the capital markets, we expect to achieve a good result once again in 2019, although it will not reach the same level as in 2018.

On behalf of my colleagues on the Board of Executive Directors, I would like to sincerely thank our business partners and shareholders for their trust. We will continue to attach great importance to continuity and reliability in our relations with you. These principles are upheld by all employees of the Deutsche Rück Group, whom I would like to thank sincerely for their excellent work in the last year.

Yours sincerely,

Frank Schaar
Chief Executive Officer

Frank Schaar

# Group Management Report

# Group Management Report

The Deutsche Rück Group's overall performance was positive in the 2018 financial year. Net premiums earned increased noticeably compared with the previous year. The technical result also improved considerably. We were very pleased with our investment income, which significantly exceeded the previous year's figure. This led to a corresponding increase in the operating result before tax. Taking into account a slightly higher tax burden, we concluded the 2018 financial year with a significantly increased net profit.

The Group once again strengthened its assets on a lasting basis, which is reflected in our strong capital base at AAA level. The rating agency Standard & Poor's once again awarded us a rating of "A+" with a stable outlook in 2018.

## ECONOMIC ENVIRONMENT

The German labour market remained extremely sound in 2018. However, the German economy began to show signs of a slowdown. Although gross domestic product grew by 1.5 %, its ninth consecutive year of growth, there was a loss of momentum. Gross domestic product had increased by 2.2 % in each of the two preceding years. Looked at over the longer term, however, German economic growth in 2018 was still above the average figure for the last 10 years.

The impetus for this continued positive development once again came mainly from within Germany. Consumer spending was up by 1.0 %, while government spending also increased by 1.1 %. However, growth was significantly lower than in the previous three years. Gross investment, on the other hand, grew again strongly by 4.8 %. In particular, investment in equipment rose by 4.5 % and investment in construction by 3.0 %. German exports also grew by 2.4 %, although this was weaker growth than in previous years. However, imports grew more strongly by 3.4 %. Economic development was boosted by the very positive performance of the labour market.

## DEVELOPMENTS IN THE INSURANCE MARKET

With growth of 2.1 % across all lines of business to a premium volume of €202.2 billion, the German insurance sector surpassed the €200 billion mark for the first time in 2018.

German property and casualty insurers forecast premium growth of 3.3 % (previous year: 2.9 %) to €70.6 billion for 2018. Benefits paid out increased by 6.8 % to €53.5 billion, a much higher level of growth than in the previous year (1.8 %). This affected Industry/Trade/Agriculture in particular, where storms and several large fire claims led to a rise of 30 % in benefits paid out, to €6.6 billion. After one of the worst years for storms in the last two decades, benefits paid out in homeowners' insurance also increased by 20 % to €6.3 billion.

Although the combined ratio in property and casualty insurance rose by 2.8 percentage points to 96 %, it remained adequate. In total, German property and casualty insurers expect to achieve a technical profit of €2.6 billion.

After premium income stagnated in the previous year, life insurers increased their premium income, including pension schemes and pension funds (excluding provisions for premium refunds), again slightly by 1.4 % to €91.9 billion. New life insurance business with regular premiums improved by 1.9 % to €5.3 billion. Business with lump-sum premiums grew by 3.7 % to €27.2 billion. According to initial estimates, the cancellation rate will be at the same low level as in previous years, at 2.6 %.

Premium income of private health insurers rose by 1.7 % to €39.7 billion. Of this sum, €37.1 billion related to private health insurance (+1.8 %) and €2.6 billion to private long-term care insurance (+0.2 %). Insurance benefits paid out rose significantly by 5.5 % to €28.7 billion. In private long-term care insurance alone, benefits paid out soared by 8.9 % to €1.4 billion (previous year: 1.3 %).

## CAPITAL MARKET TRENDS

Financial markets were heavily influenced by monetary policy and geopolitical events in 2018. The trade dispute between the USA and China and the unknown outcome of Brexit negotiations led to uncertainty. Combined with fears about inflation and interest rate hikes in the USA, this led to a significant correction on international stock markets towards the end of 2018, following a good start to the year. Protectionist threats, populist election results, loss of confidence in the solvency of Turkey and Argentina and falling lead indicators in China and Europe led to nervousness on capital markets. By the end of the year, an increasing number of assessments were critical regarding the economy and no longer ruled out a downturn or recession.

Following a good start to the year, a short-term correction in February and an all-time high in September, the US stock market index S&P 500 lost 6.2 % in net terms over the course of the year. European stocks suffered much worse losses than US equities, largely owing to the electoral victory in Italy of powers that are critical of the EU and the uncertain impact of Brexit. Germany's DAX index initially reached a historic high of 13,559 points in January, but ended the year close to its annual low of 10,558 points, a drop of 18.2 %.

The monetary policy of central banks in the USA and the euro zone was largely free of surprises in 2018. The US central bank implemented four interest rate increases of 0.25 % each. The ECB ended its net purchase programme for bonds at the end of 2018 as planned, although it will continue to reinvest maturing bonds and interest. The yield on ten-year US treasuries increased from 2.41 % to 2.68 % over the course of the year. Ten-year German government bonds developed in the opposite direction; the yield was at an annual low of just 0.24 % at the end of the year.

The euro began the year at around USD 1.20 and later climbed as high as USD 1.25. However, the euro's strength began to wane in April when elections were held in Italy. The exchange rate stood at around USD 1.15 at the end of the year, a net drop of 4.2 %.

With regard to commodities, the price of oil initially developed favourably as OPEC and some non-OPEC oil-producing countries adhered to agreements to reduce production, and reached an annual high of around USD 85 per barrel of Brent in early October. Concerns about a global economic slump then caused the oil price to fall to about USD 50 per barrel. At the end of the year it was around USD 54 per barrel, a drop of approximately 14 % over the year.

Owing to weak actual demand from the gold-processing industry, the price of gold fell by about 10 % from around USD 1,303 per fine ounce to USD 1,174 in August. From October onwards, the precious metal benefited from increasing risk aversion among market participants. The gold price recovered within three months and stood at around USD 1,282 at the end of the year, representing a slight drop of 1.5 % in net terms.

## BUSINESS PERFORMANCE

The Deutsche Rück Group recorded a decline in gross premiums in 2018. However, the volume of premiums for own account was up year on year. Net claims expenditure increased slightly. The technical account before changes to equalisation reserves closed with a higher profit than in the previous year. We further strengthened our equalisation reserves and similar provisions. Although the situation on the markets remained difficult, we achieved much higher investment income than in the previous year. Tax expenses were up slightly on the previous year, while the net profit for the year was significantly higher.

The Group's earnings depend on premium income, the combined ratio, the technical result and investment income. These are regarded as the most important performance indicators and are explained below.

The Deutsche Rück Group consists of the companies Deutsche Rückversicherung AG in Düsseldorf and Deutsche Rückversicherung Switzerland Ltd in Zurich, which, as the risk carriers, form the basis for business management. The consolidated balance sheet shows the two risk carriers as one economic unit.

## DEVELOPMENTS IN DETAIL

Gross premiums written declined by €93,223K or 7.8 % to €1,108,405K in the 2018 financial year. This decline was due to the restructuring of residual credit business at the parent company, which Deutsche Rück had in the past transferred to the group of public insurers, with only a small portion remaining on the company's books. From the 2018 underwriting year onwards, only the net share of this business was assumed. Without taking into account residual credit business, the Deutsche Rück Group recorded premium growth of 3.3 %.

This growth came both from business connections of the parent company and from our subsidiary DR Swiss, which recorded an increase in premium income in the 2018 financial year following a drop in the previous year. Premiums for our retrocessions fell by 23.9 % or €117,735K to €374,846K in the year under review. This large decline was also due to the restructuring of residual credit business. As a result, net premiums written rose by €24,499K to €733,546K. **Premiums earned for own account** grew by €23,026K or 3.3 % to €728,786K.

After the claims burden had fallen in the 2017 financial year, a large number of major fire claims had a negative impact on business in 2018. Claims expenditure also increased considerably in windstorm and buildings insurance, in particular as a result of storm DAVID (also known as FRIEDERIKE). The Group's claims burden increased in both gross and net terms. While there was a noticeable improvement in the liability, accident and motor insurance lines, expenses rose significantly year on year in the windstorm business, which is affected by losses due to natural hazards, and in buildings insurance. The claims burden in fire insurance was also up significantly compared with the previous year. Other lines of insurance reported lower claims expenditure in the year under review. In addition to the reserves posted by our cedants for claims, IBNR reserves were also set up in line with requirements in liability, accident and motor insurance business in 2018.

Overall gross claims expenditure rose by €96,124K from €656,118K to €752,242K in the year under review. The **gross loss ratio** increased from 56.0 % to 65.9 %. After retrocessions, the Group's net claims burden came to €475,674K, compared with €459,396K in the previous year. In relation to net premiums earned, the **net loss ratio** rose by 0.2 percentage points from 65.1 % to 65.3 %.

In total, gross expenses for insurance operations fell from €392,041K to €343,093K. While they declined year on year at the parent company, owing to the change in the handling of residual credit business, they rose slightly at DR Swiss. Expenses declined more sharply on the retrocession side, leading to an increase in net expenses for insurance operations from €217,049K to €232,414K. In relation to net premiums written, the **net expense ratio** across all lines increased from 30.6 % to 31.7 %.

Other technical expenses, which relate mainly to life insurance business, fell from €35,418K to €19,266K. This decline was due to the release of provisions for future policy benefits, which offset claims payments and had no impact on results. Following a profit of €3,788K in the previous year, the technical account closed with a profit of €10,246K in the year under review. In net terms, €19,684K was allocated to equalisation reserves and similar provisions, compared with €23,791K in the previous year. After this, the **technical account** closed with a loss of €9,438K (previous year: loss of €20,003K).

Regular income from investments declined from €61,476K to €56,254K in the last financial year, owing to one-off effects. A drop in income from associated companies was offset by growth in income from participating interests and from other investments.

In terms of realised gains on the disposal of investments, the scheduled disposal of participating interests in real estate enabled the Group to achieve a profit of €41,732K, well above the previous year's result of €4,803K.

Expenses for investments increased from €8,368K to €10,104K owing to larger losses on disposal.

Total **investment income** after deduction of interest income on technical provisions came to €86,501K (previous year: €57,219K).

The balance of other expenses and income was positive in the year under review at €1,177K, following a negative balance of €13,204K in the previous year.

Overall, the non-technical account posted earnings before tax of €87,678K, a considerable improvement on the previous year's figure of €44,014K.

Including the technical loss, the Deutsche Rück Group achieved an operating result before tax of €78,241K (previous year: €24,011K).

Tax expenses increased by €1,197K in the year under review to €22,244K, which mainly comprised tax expenses of the parent company.

After tax, the net profit for the year came to €55,997K (previous year: €2,964K).

## TECHNICAL BUSINESS

### Premium income

**Gross premiums** in the Group fell by €93,223K or 7.8 % to €1,108,405K in the year under review. This decline was due to the restructuring of residual credit business at the parent company. In the past, Deutsche Rück had transferred this assumed business to the group of public insurers and kept only a small portion of it on its own books. From the 2018 financial year onwards, only the existing net share of this business was assumed. **Net premiums earned** rose by €23,026K or 3.3 % to €728,786K.

At €270,818K, liability, accident and motor insurance business accounted for almost one quarter of total premium volume and recorded the highest growth within the segments. Premiums in motor liability insurance business grew by €10,079K. The general liability, accident and other motor insurance lines also recorded premium growth. Since liability, accident and motor insurance business is predominantly retained for own account, net premiums earned were only marginally lower than gross premiums, at €264,690K.

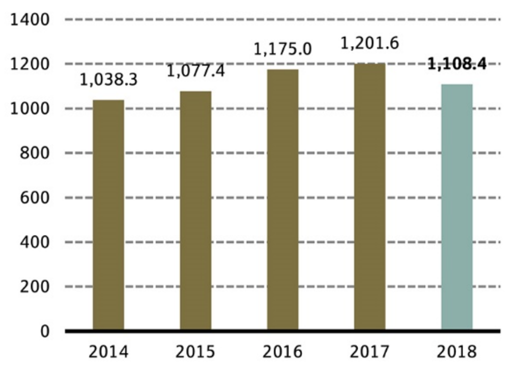
In property business, which accounts for over half of our total gross premiums, premium income fell slightly by €4,555K or 0.7 % to €694,192K. The engineering classes of insurance (€–5,272K), homeowners' comprehensive insurance (€–3,840K) and burglary insurance (€–3,444K) were responsible for the largest share of this decline. Comprehensive buildings insurance recorded the highest premium growth of €12,819K. As a large portion of the parent company's property portfolio is retroceded, this meant that premiums earned for own account came to €344,715K, down €1,638K on the previous year.

Gross premium income in life reinsurance, which is operated exclusively by Deutsche Rück, grew again in the 2018 financial year, climbing by 29.0 % year on year to €72,293K. This was due to an increase in premiums in existing treaties. As a large proportion of this increase was attributable to residual credit business, which continues to be retroceded, net premiums earned amounted to €32,828K (previous year: €26,368K).

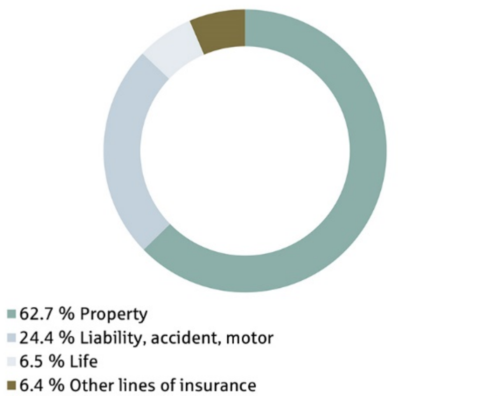
The effects of the restructuring of residual credit business became clear in other lines of insurance. Following gross premium volume of €194,924K in the previous year, income declined to €71,088K (–63.5 %). Slight growth of €891K to €86,553K was recorded in the figures for own account.

| PREMIUM INCOME BY CLASS OF BUSINESS FOR 2018 | Gross premiums written | | Net premiums earned | |
|---|---|---|---|---|
| | | Difference to 2017 | | Difference to 2017 |
| | in €'000 | in % | in €'000 | in % |
| Property | 694,192 | – 0.7 | 344,715 | – 0.5 |
| Liability, accident, motor | 270,818 | + 7.5 | 264,690 | + 7.0 |
| Life | 72,294 | + 29.0 | 32,828 | + 24.5 |
| Other lines of insurance | 71,088 | – 63.5 | 86,553 | + 1.0 |
| **Total** | **1,108,392** | **– 7.8** | **728,786** | **+ 3.3** |

**DEVELOPMENT OF GPE 2014 – 2018**
in €m




**PORTFOLIO STRUCTURE 2018**
Share in gross premiums in %




## Claims expenditure

The gross claims burden was significantly higher in the 2018 financial year than in the previous year. Claims expenditure increased by a total of €96,124K from €656,118K to €752,242K. The gross loss ratio rose accordingly from 56.0 % in the previous year to 65.9 %. In net terms, however, there was only a slight increase in the loss ratio from 65.1 % to 65.3 %.

After the claims burden had fallen continuously in recent years, fire business, which primarily comprises proportional covers ceded by our cedants in the fire, business interruption and extended coverage lines, was hit by a large number of major fire claims. The gross claims burden rose by €53,740K to €270,535K, while the gross loss ratio increased from 64.2 % in the previous year to 81.1 % in the year under review. The ratio for own account increased to 83.2 %.

Claims expenditure also increased considerably in windstorm and buildings insurance, in particular as a result of storm DAVID (also known as FRIEDERIKE). In the comprehensive buildings and windstorm lines, which were negatively impacted by natural hazard events in the 2018 financial year, the gross claims burden grew by €57,709K to €194,694K. The gross loss ratio increased from 49.9 % in the previous year to 68.7 % in the year under review. The relief provided by our reinsurance instruments ensured that the net claims burden rose by only €4,188K. The net loss ratio rose from 61.5 % to 63.7 %.

In liability, accident and motor insurance business, the gross claims burden fell by €21,792K from €179,179K in the previous year to €157,387K in the year under review. It had been necessary in the previous year to recognise additional reserves for motor insurance business in the UK; there were no such one-off burdens in 2018. The gross loss ratio was 58.6 %, below the previous year’s level of 71.5 %. Since most of this business is retained for own account, this also roughly reflects the development in business for own account (net loss ratio of 59.1 %). The drop in the claims burden resulted mainly from the motor liability line, in which the claims burden was down €13,105K compared with the previous year. The claims burden also fell in other lines in this segment, dropping in general liability (€–2,691K), accident (€–1,922K) and comprehensive motor insurance (€–4,072K). As in previous years, we calculated claims provisions in line with the actuarial risk and replenished them as required by strengthening our IBNR reserves.

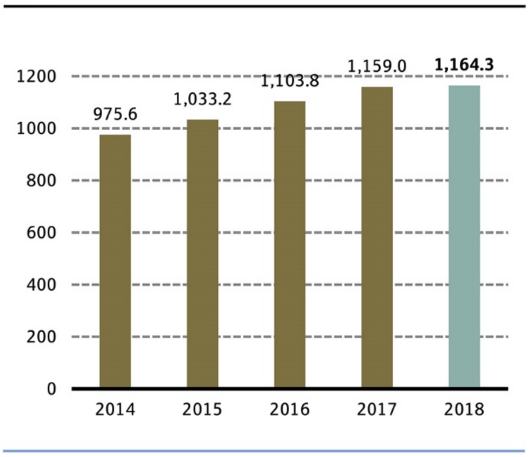
In other lines of insurance, which include most of the residual credit business, claims expenditure fell year on year in both gross and net terms. In relation to the much lower gross premiums earned, the gross loss ratio increased from 46.4 % to 66.9 %. The net loss ratio fell from 67.1 % to 61.9 %.

The net loss ratio for non-life business declined by 0.9 percentage points from 66.9 % to 66.0 %.

Owing to payouts of savings contributions, the net loss ratio in life insurance business rose from 19.3 % in the previous year to 50.6 % in the year under review. Provisions for future policy benefits were released at the same time, so there was no significant impact on results.

**DEVELOPMENT OF CLAIMS PROVISIONS 2014 – 2018**

in €m



**Technical result**
The net technical account before changes to equalisation reserves closed with a profit of €10,246K, up €6,459K compared with the previous year's figure of €3,788K. Substantial allocations to equalisation reserves and similar provisions were once again required. In net terms, however, the amount of €19,684K that was allocated was down €4,107K on the previous year's figure of €23,791K. The overall technical loss after changes to equalisation reserves and similar provisions came to €9,438K, down €10,565K on the previous year's loss of €20,003K.

## NON-TECHNICAL BUSINESS

The Deutsche Rück Group achieved investment income of €86,501K after deduction of interest income on technical provisions in the year under review, up €29,282K on the previous year. This increase was due in particular to higher gains on disposals of investments, while investment expenses rose only moderately by comparison.

The Group recorded a year on year drop in regular income, as expected. This decline was primarily attributable to lower income from associated companies, which had been above-average in the previous year at €17,462K, owing to one-off effects.

The scheduled disposal of participating interests in real estate led to gains on disposal of €41,732K, well above the previous year's figure of €4,803K.

Investment expenses totalled €10,105K (previous year: €8,368K) and essentially resulted from higher losses on disposals of €2,082K. A slight increase in expenses for investment management compared with the previous year was offset by lower write-downs in the year under review.

Interest income on technical provisions fell slightly by €220K in the year under review to €2,033K.

The balance of other income and expenses was positive in the year under review at €1,177K, following a negative balance of €13,204K in the previous year. These balances include gains and losses from exchange rates, which arise as a result of the reconciliation of DR Swiss' financial statements with German accounting regulations. The expenses also include interest for servicing subordinated liabilities.

The operating result before tax increased significantly year on year by €54,229K to €78,241K.

Tax expenses came to €22,244K in the year under review, up slightly by €1,197K compared with the previous year's figure. In particular, these expenses resulted from the valuation of claims provisions for tax purposes at the parent company in Germany.

After tax, the Group achieved a net profit for the year of €55,997K (previous year: €2,964K). This is reduced to €50,485K (previous year: €6,691K) by the external shareholder's share of €5,512K in the net profit of DR Swiss (previous year: increase of €3,726K).

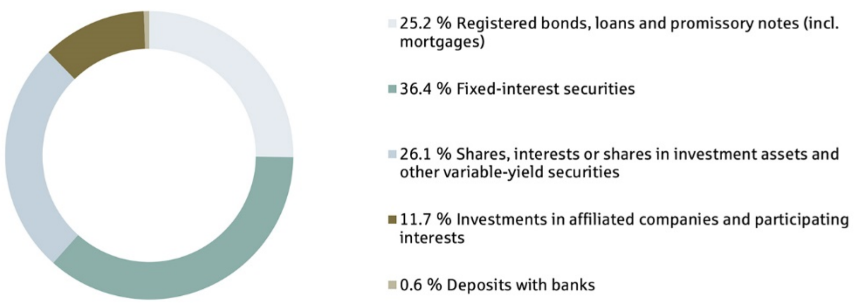
After taking into account the consolidated loss carry forward of €10,268K and the external shareholder's share in the loss carry forward of DR Swiss, our Group achieved a total balance sheet profit of €47,273K (previous year: €2,037K).

**Net assets**

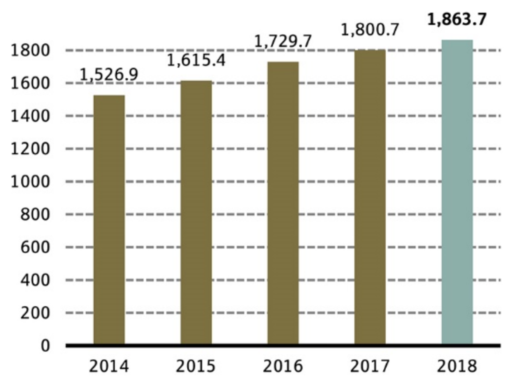
At €1,863,663K, the investment portfolio excluding deposits retained was up €62,993K in the year under review compared with the previous year's level of €1,800,670K. The decline in deposits with banks (€–9,001K) was offset by growth in all other asset classes. The asset class of "Fixed-interest securities" recorded the highest growth of €53,717K, followed by growth of €12,332K in the asset class "Shares in affiliated companies and participating interests".

| INVESTMENT PORTFOLIO STRUCTURE | 2018 | | 2017 | |
|---|---|---|---|---|
| | in €'000 | in % | in €'000 | in % |
| Shares in affiliated companies and participating interests | 217,691 | 11.7 | 205,359 | 11.4 |
| Shares, interests or shares in investment assets and other variable-yield securities | 487,117 | 26.1 | 481,471 | 26.8 |
| Fixed-interest securities | 678,547 | 36.4 | 624,830 | 34.7 |
| Registered bonds, loans and promissory notes (incl. mortgages) | 469,308 | 25.2 | 469,009 | 26.0 |
| Deposits with banks | 11,000 | 0.6 | 20,001 | 1.1 |
| **Total** | **1,863,663** | **100.0** | **1,800,670** | **100.0** |

**INVESTMENT STRUCTURE AS AT 31 DECEMBER 2018**
in %




**INVESTMENT PERFORMANCE 2014 – 2018**
in €m

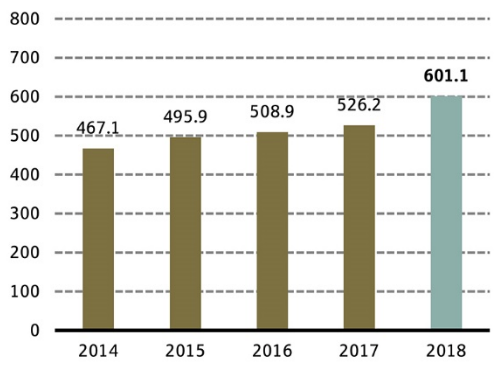


## SECURITY

Balance sheet equity increased by €55,184K in the year under review to €280,832K. This increase resulted from the balance sheet profit of €47,273K and an increase in minority interests of €7,105K to €38,795K. Allocations to equalisation reserves and similar provisions came to €19,684K in the year under review, bringing the total to €261,527K. Hybrid capital (subordinated liabilities) remained unchanged at €61,750K. Taking into account the balance sheet profit after appropriation of profit (dividend of €3,000K), our equity capital came to €601,109K in the year under review, up €74,867K compared with the previous year. In relation to the net premiums earned, this equates to a ratio of 82.5 % (previous year: 74.6 %).

The Deutsche Rück Group's security is still very good and remains at a very high level even under the current solvency requirements.

**DEVELOPMENT OF SECURITY 2014 – 2018**
in €m




Balance sheet equity after appropriation of profit,
profit-sharing rights outstanding and equalisation reserves

## RATING: A+

The rating agency Standard & Poor's once again confirmed its financial strength rating of "A+" with a stable outlook for the Deutsche Rück Group in 2018. Standard & Poor's believes that Deutsche Rück has a sustainable and very strong capital base, supported by a conservative strategy for the recognition of reserves. In this context, and given Deutsche Rück's unique competitive position as one of the leading reinsurers in its home market, the rating agency expects this positive performance to continue.

## RISK REPORT

**Risk management: strategic framework**

The risk strategy, which is derived from the business strategy, defines the risks that are considered acceptable in the course of normal business activities and documents the level of risk tolerance stipulated by the Board of Executive Directors and reviewed annually. This is based on the risk-bearing resources of the companies and the Group and on fundamental strategic considerations.

### RISK MANAGEMENT PROCESS: AN INTEGRAL COMPONENT OF BUSINESS OPERATIONS

**Identification of risks and risk management organisation**

Identification of risks is organised in the Group on a decentralised basis and is the responsibility of the individual companies. The results are centrally compiled by Group risk management. Risks are filtered according to the possible size of claims and probability of occurrence; those that have a major impact on the Group’s net assets, financial position and results of operations are documented in the risk report.

**Measurement and evaluation of risks**

The core task of risk management is to analyse the overall risk situation on a regular basis from different risk perspectives. The most important element is the internal risk model underlying our risk and business management. Three other risk perspectives are considered in addition to the internal risk model, so that model and parameter risks can also be minimised. These are:

- Solvency II standard model, Swiss Solvency Test
- Rating
- Balance sheet result (German Commercial Code)

Multi-year projection and forecasts of key risk indicators and of the development of the risk situation from different risk perspectives are regularly summarised in a risk report. As well as key risk indicators at the level of the company as a whole, material risks relating to underwriting and investment are managed through additional processes in the Group companies. Risk management in underwriting is based on the integrated budget process during the renewals phase.

Investment risk management is based on monthly analysis and reporting processes. Ad-hoc reporting is carried out for extraordinary developments relating to major or accumulation losses in the property insurance divisions. In addition, the reported major losses are summarised each month in comparison with the same period of the preceding year.

**Investment strategy**

Investment strategy in the Group is based on the respective strategic asset allocation in collaboration with the relevant company organs and Group risk management.

## RISK REPORTING AND RISK TRANSPARENCY

### Risk report and ORSA report

The risk report keeps the Board of Executive Directors and Supervisory Board informed of the overall risk situation as well as exposures to potential individual risks. The reporting process is based on meetings of the Supervisory Board. In its current edition, the report ensures the transparency of the risk situation of Deutsche Rückversicherung AG (Deutsche Rück), Deutsche Rückversicherung Switzerland Ltd (DR Swiss) and the Deutsche Rück Group on the basis of the aforementioned risk perspectives. In particular, the risk report takes account of the development of key risk indicators over time, as well as of the drivers of change and the effects of risk management measures.

The ORSA report was submitted to BaFin in December 2018. It documents the results of the entire risk management process and assesses them in the context of corporate planning for the next three years. The required content of the ORSA report is specified by the regulatory authority and forms a key part of the basis for the regulatory Solvency II process.

### Risk information system

The risk information system supports the integrated risk management process and promotes risk transparency as well as the risk culture in the company. The risk management organisation and results of risk workshops are documented in the risk information system. The person in charge, the risk-specific analysis and control methods and various scenarios, together with the probability of occurrence and the associated impact in gross and net terms, are documented for each identified individual risk. Risks are calculated in relation to the company's equity capital using risk matrices, to analyse their potential threat to the limits specified in the risk strategy. Risk analysis and risk control documents relating to individual corporate units are also incorporated into the system. The risk information system is available to all employees for research purposes.

## RISK CONTROL FUNCTIONS AS PART OF THE RISK MANAGEMENT PROCESS

The following functions play a major part in the risk controlling process at our company:

### Supervisory boards

The reinsurance companies in the Group have two supervisory boards: the Supervisory Board of Deutsche Rück and the Board of Directors of DR Swiss in accordance with the monistic management structure pursuant to the Swiss Code of Obligations. Within the framework of internal ORSA and risk reports, the Supervisory Board ensures that appropriate systems, methods and processes have been set up for implementing the risk strategy and assesses the reports on the company's risk exposure that are submitted to the Supervisory Board. The Supervisory Board is responsible both for Deutsche Rück and for the Group as a whole.

### Board of Executive Directors

The Board of Executive Directors has overall responsibility for risk management, which includes the establishment of an early warning system. It defines the risk strategy in consultation with the Supervisory Board and monitors the risk profile on an ongoing basis.

**Chief Risk Officer (Group risk management function)**
The Chief Risk Officer is responsible for risk management at Deutsche Rück. He is responsible for identifying, evaluating and analysing risks at an aggregate level. In addition, he is responsible for developing processes and methods of risk management at Group level. The risk management function and actuarial function in accordance with Solvency II are also assigned to this area.

**Central Underwriting Management (CUM)**
The basic task of CUM is to manage the underwriting of non-life business and hence to continuously monitor and assess the Group portfolio as regards utilisation of the risk capital, diversification and profitability. CUM develops the rating instruments and formulates the underwriting guidelines. Its work is based on the internal non-life risk model (RATech), which measures premium risks and catastrophe risks. The results of its risk analyses serve as the basis for the company's main management instruments.

**Underwriting Committee (UWC)**
An Underwriting Committee has been set up at each Group company. The Underwriting Committee gives advice in defined cases on the procedure to be adopted for major business transactions when decisions are required on underwriting.

**Actuarial Reserve Services (actuarial function)**
Actuarial Reserve Services is assigned to Group Controlling and Integrated Risk Management. The actuarial function is directly subordinate to the Board of Executive Directors in performing its duties and reports directly to it. Actuarial Reserve Services is responsible for the economic evaluation of the Deutsche Rück Group's claims provisions. It develops and defines appropriate analytical tools and undertakes the evaluation processes in consultation with CUM. This collaboration also serves to promote a common understanding of the data and results. Actuarial Reserve Services performs the actuarial function as defined by Solvency II.

**Compliance function**
As part of the Legal department, the compliance function is responsible for monitoring Group-wide compliance with the statutory regulations governing the company's business operations. Compliance with the law forms the basis of all the Group companies' business activities.

**Internal Auditing**
Internal Auditing carries out regular checks in the business units, verifying the structures and processes, adherence to internal regulations and legal provisions, as well as the correct nature of the workflows. It performs its tasks autonomously and is process-independent and risk-oriented.

The internal auditing function at Deutsche Rück and the Internal Audit Officer at DR Swiss report directly to management. The company makes use of external expertise in individual cases when conducting audits.

## SIGNIFICANT RISKS

Risks can in principle arise in all areas, functions and processes. We structure risks in five different risk categories:

1. Non-life reinsurance risks
2. Life reinsurance risks
3. Investment and credit risks
4. Operational risks
5. Other risks

### 1. Non-life reinsurance risks

The **premium/claims risk** is the risk that costs or benefits due could turn out to be higher than was assumed when the premiums were calculated.

The **reserve risk** describes the risk that emerges when the provision for outstanding claims is not adequate, as losses incurred are not yet known or insufficient reserves have been set up to cover known losses. Reserves may have been calculated with insufficient allowance or no allowance at all for extraordinary events resulting in exceptionally high loss frequencies or amounts.

The **retrocession risk** refers to the risk that the retrocession scheme may be inadequate or may not be appropriately structured to cover the majority of claims in the case of an extreme event. Such an event may be an extreme individual loss, an accumulation loss made up of a large number of small claims or a combination of the two.

**Natural hazard/accumulation risks**, such as windstorms, floods, earthquakes or hail, pose the greatest risks to the Deutsche Rück Group. Risk exposure in this area is therefore actively managed as part of the underwriting and retrocession process. The Group companies have set up internal risk models for optimum analysis of risks.

Adequate risk management is in place for **terrorism losses**. A threat to the survival of the company as a result of extreme events is virtually ruled out, due to the high degree of diversification within the portfolio and the comparatively small risk coverage.

### 2. Life reinsurance risks

**Biometric risks** are of major importance in life insurance. We are guided not only by our own analyses and statistical evaluations, but also by the accounting principles of our cedants and the probability tables of the German Association of Actuaries (DAV). A review of the mortality and disability tables currently used may lead to the need for additional reserves in the future.

In our estimation, the extent of our reserves is appropriate and adequate and contains a sufficient safety margin for the future.

The **premium/claims risk** is the risk that costs or benefits due could turn out to be higher than was assumed when the premiums were calculated. Claims payment calculations may have made insufficient allowance or no allowance at all for such extraordinary events as accumulation losses or terrorist attacks.

The term **reserve risk** refers to the risk that the reserves set up may not suffice to settle all claims.

**Interest rate guarantee risks and lapse risks** are merely of secondary importance to the Deutsche Rück Group as a reinsurance company. The interest rate guarantee risk does not apply, as the Group only shares in mortality and disability risks, but not in the cedants' investment risk. The lapse risk is taken into account through appropriate cancellation clauses in the quotation and in the terms of the treaty. In this way, the impact on the technical result is limited, even in the event of negative deviations from the expected development.

## Tools for limiting risks

The Deutsche Rück Group applies various tools to control and limit risks in life and non-life reinsurance. The most important tools are summarised below:

### Underwriting guidelines and limits

Underwriting guidelines specify exactly which responsible unit may underwrite which reinsurance treaties and up to which amounts throughout the Group. Consistent adherence to the double-checking principle is stipulated in the underwriting guidelines. Limits of indemnity are also specified and monitored regularly. Moreover, ongoing profitability measurements and accumulation checks ensure that risks remain manageable.

### Retrocession

This is an essential tool for limiting risks. The Deutsche Rück Group has adequate retrocession cover, with a special emphasis on covering major and accumulation losses. Based on extensive analyses and a retrocession scheme tailored to our individual needs, we ensure on one hand that there is always sufficient cover for extreme events and on the other that the costs of retrocession remain economical.

### Monitoring technical provisions

Provisions for uncertain liabilities stemming from obligations assumed are regularly checked by Actuarial Reserve Services using recognised actuarial methods. The run-off is monitored on an ongoing basis.

**Loss ratios and run-off results**
The results of systematic control and monitoring of technical risks are documented in the table of loss ratios and run-off results. It shows the corresponding ratios for own account in non-life reinsurance business over the last ten years.

**NET NON-LIFE LOSS RATIOS AND RUN-OFF RESULTS**

| in % | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Loss ratios as % of earned premiums | 66.0 | 66.9 | 66.0 | 69.6 | 75.3 | 86.1 | 72.0 | 73.7 | 73.8 | 67.8 |
| Run-off results as % of provision for outstanding claims | 11.7 | 9.1 | 9.3 | 13.1 | 6.4 | 15.4 | 14.8 | 10.9 | 13.3 | 21.5 |

## 3. Investment and credit risks
The investment and retrocession of insurance transactions gives rise to the following investment and credit risks:

**Market price risks:** These can arise from potential losses due to unfavourable changes in market prices, particularly on the equity, real estate and interest rate markets. In economic terms, changes in interest rates affect not only the assets side but also the liabilities side of the balance sheet. Any mismatch between the maturity structures of assets and liabilities gives rise to an economic risk.

**Credit and creditworthiness risks:** The value of existing receivables may go down as a result of changes in the assessment of the creditworthiness of issuers or contractual partners. Besides credit risks resulting from the purchase of investments, the risk of default by retrocessionaires also plays an important part.

**Liquidity risks:** Untimely inflows and outflows of liquidity may make unscheduled disposals of investments necessary. Depending on how tradable the various investments are, this can lead to opportunity costs of varying magnitude due to reductions in price and/or to losses.

**Currency risks:** Changes in exchange rates may lead to losses due to mismatches between investments and technical obligations with respect to underwriting. Even if an investment strategy based on matching maturities is followed, risks may still exist as a result of misjudgements with regard to the level of claims provisions.

### Tools for controlling and monitoring investment and credit risks
Our investment management is based on the principles of adequate profitability combined with a high level of security. Along with the necessary distribution of risk, adequate liquidity of investments must be maintained at all times. These principles are monitored by means of ongoing reporting with regular valuation of portfolios. Our portfolio managers work in accordance with investment guidelines that are regularly reviewed and adjusted to the changing environment.

**Stress tests and value-at-risk analyses for assessing market risks**

We measure market price risks for annuity portfolios and equities using stress tests that simulate the effects of unexpected fluctuations in the market. As well as stress tests that are prescribed by the regulator, Group companies analyse historic events and map their development on their current investment portfolios. In addition, market risks for all assets and all liabilities that are subject to market risks are assessed and managed by means of value-at-risk analyses based on an economic scenario generator.

Deutsche Rück invests in real estate through its own real estate companies or participating interests in real estate funds. Risks can arise in connection with these investments due to negative changes in value. Such changes may be due to the specific characteristics of an individual property or to a general decline in prices on the real estate market. We counter these risks with a broadly diversified investment strategy. This includes a clear focus on sustainable locations in metropolitan areas and on classic types of use such as office, commercial and residential buildings. Strategic portfolio planning and portfolio management are controlled internally by our own employees. Professional real estate partners are responsible for local implementation in individual properties.

**Minimum rating for the containment of credit risks**

For fixed-income investments, the company carries out a credit assessment of the issuers/issues – based on ratings from recognised rating agencies, for example – and its own additional assessment of their creditworthiness. If no external rating information is available, the company calculates its own internal rating based on suitable documents or existing hedge tools, such as available cover funds or guarantee and warranty commitments. The minimum limit for new direct investments is generally a rating of “A–” according to Standard & Poor’s. Issuer risks are also widely spread. At the same time, we take into account upper limits for each issuer, which we monitor and adjust on an ongoing basis in the light of their respective equity resources.

**Choice of reinsurers (retrocessionaires)**

Credit risks due to retrocession stem from receivables due from reinsurers and cedants. To minimise these risks, we select reinsurers on the basis of their current ratings and other prerequisites.

**Liquidity planning**

We counter risks arising from unforeseeable liquidity requirements by ensuring a balanced maturity structure for our investments. Anticipated inflows and outflows of liquidity are reflected in ongoing investment planning.

**Investment policy**

Falling interest rates lead to increases in the market value of fixed-income securities, while rising interest rates lead to a decline in their market value. The high proportion of fixed-income securities in its portfolio means that Deutsche Rück is in principle exposed to this risk. By adjusting the management of investment maturities to liabilities, we can hold securities until they mature and thereby avoid balance sheet losses.

## 4. Operational risks

Operational risks are risks in business systems or processes that are caused by human conduct or technical failure or that are due to external influences. Deutsche Rück distinguishes between the following operational risks:

- IT risks
- Legal risks
- Business interruption
- Human resources risks
- Compliance risks
- Organisational failure

## 5. Other risks

### Strategic risks

Inadequate business policy decisions can give rise to strategic risks that may jeopardise the continuation of business operations in the long term. Fundamental business policy decisions are reached in consultation with the supervisory bodies as required by the Articles of Association. Key strategic risks and issues are identified during the annual meeting of the Board of Executive Directors including first-tier management.

### Reputation risk

This term refers to the risk of impairment of the company's image in the eyes of clients, the general public, shareholders or other stakeholders.

### Emerging risks

We define technological and social developments and new risks arising from them, which are characterised by a high degree of uncertainty with regard to their probability of occurrence, the expected size of claims and their potential effects, as emerging risks.

## Instruments for controlling other risks

To control reputation risk, all contact with the media is managed centrally through the Communications and Press Relations department, which acts in close consultation with the CEO of Deutsche Rück and the Chairman of the Board of Directors of DR Swiss. Principles for communication in standard situations and crises have been implemented in order to optimise communication processes and prepare communications in the event of a crisis. Media reports are also monitored on a daily basis so that any reports capable of damaging the company's reputation can be identified and countermeasures can be initiated.

### Summary of the risk situation

The paragraphs above describe a closely meshed system of controls that the Deutsche Rück Group has developed to manage its risks. These could potentially have a major impact on the net assets, financial position and results of operations. For the purposes of an overall assessment, however, the risks associated with a business operation must always be weighed up against the opportunities it presents. Our risk management system ensures efficient and effective control of the risks to our companies and to the Group as a whole. Based on current findings, we cannot detect any risks capable of jeopardising the survival of any Group company or of the Group as a whole or of causing major or lasting impairment of the net assets, financial position and results of operations.

## OPPORTUNITIES REPORT

The Deutsche Rück Group is one of the leading reinsurers in German-speaking markets and is constantly expanding its market position in Europe. We provide reinsurance cover for many different lines of insurance. The Deutsche Rück Group plays a key role as a leading reinsurer for public insurers in Germany and is in a strong position in its target markets. We attach particular importance to existing client relationships and to gradually expanding these connections.

This means that opportunities and risks for our business are correspondingly diverse. In the section “Outlook for 2019”, we provide a forecast for the development of our business, based on realistic assumptions about general conditions. This takes account of both short-term developments and long-term trends.

Developments on financial markets and hedge transactions in conjunction with natural catastrophes remain fraught with uncertainty. Based on restructuring talks that we have been holding with major clients in fire business over the last few years, we see an opportunity to stabilise the quality of our portfolio in proportional reinsurance business.

As a medium-sized reinsurer, the Deutsche Rück Group not only has adequate flexibility, but also the necessary stability to react to unforeseen developments and seize them as an opportunity for the Group. The value of our business model, which is based on long-term relations, lies in an approach based on continuity, which ensures that the burden balances out over time and that terms and conditions are commensurate with the risk. This is most clearly evident in years with an extremely high claims burden.

In the long term, the Deutsche Rück Group expects the number of weather-related natural catastrophes and the resultant claims burden to increase. We are constantly refining our risk management and adjusting our risk models accordingly. However, increasing weather-related risks cannot be countered solely with needs-based insurance concepts, but also call for appropriate and sustainable sociopolitical measures. Technological developments with regard to the use of renewable energies and digitalisation in all economic sectors entail new risks, but also offer new opportunities for our business.

In liability, accident and motor insurance business we are concentrating on further widening our expertise in the areas of cover concepts, underwriting and advice, with the aim of expanding our business activities, particularly in motor insurance, in our domestic market as well as selected neighbouring countries and thereby helping to diversify our portfolio. As part of this, we also intend to strengthen our position as a reliable and competent partner in European countries.

Our excellent level of security is accorded high priority. Overall, we believe we will have a good chance of further strengthening our company's assets on a lasting basis in the current financial year.

## OUTLOOK

### COMPARISON OF FORECAST AND ACTUAL DEVELOPMENTS IN 2018

Expectations that restructuring measures and further improvements in conditions in fire business would have a positive impact on technical results were not fulfilled in the last financial year. Although we have made significant progress with restructuring, several claims involving large loss amounts led to a technical loss in 2018.

Premium volume in natural hazards business was expected to remain stable year on year in 2018. However, premium income grew by €11,207K. It is particularly difficult to provide a forecast of how results will develop in this segment, as the severity and frequency of losses due to natural hazards cannot be predicted with accuracy. Several medium-sized claims occurred in the 2018 financial year, which led to a higher burden in the windstorm line and slightly lower claims expenditure in comprehensive buildings insurance than in the previous year.

A further increase in premiums had been anticipated in liability, accident and motor insurance business in 2018, which was clearly achieved with growth of 7.5 % or €18,901K. Our performance enabled us to further strengthen our IBNR reserves.

We had anticipated a decline in premiums in life insurance business. Gross premiums actually rose by 29.0 % in this line, owing to an increase in premiums in existing treaties.

Expectations that we would strengthen our assets by further replenishing the equalisation reserves and similar provisions were fulfilled. Investment income rose significantly, contrary to expectations. The assumption that net profit would remain stable year on year also proved to be too conservative, as the net profit was very high compared with the previous year.

## FORECAST FOR 2019

**General economic development**

According to the Kiel Institute for the World Economy (IfW), economic development in the euro zone lost momentum in 2018. Economic researchers expect gross domestic product to grow by 1.8 % in 2019 and 1.7 % in 2020. The IfW estimates that utilisation of production capacity in the euro zone is already slightly above normal levels and that the output gap will open further in the coming years. It expects the unemployment rate to continue falling, and believes that in 2020 it could drop below the low reached before the global financial crisis. It warns that this could lead to tensions on the labour market in many countries, while wages in the euro zone have most recently increased. The biggest risks to economic development that the IfW has identified are a possible escalation of international trade disputes, a loss of economic momentum in countries that are important trading partners, the UK's departure from the European Union with no agreement on a cooperative trading regime and an Italian government that is not willing to cooperate with European partners, particularly if pressure on financial markets intensifies further and doubts return about the cohesion of the monetary union.

The economic environment in Germany is of particular importance to our company. According to the IfW's forecast, the German economy has reached the late phase of the upturn that has been ongoing for more than five years, which means that a downturn can be expected to begin in the course of 2019. Economic researchers therefore predict weaker growth in gross domestic product of 1.8 % in both 2019 and 2020. Along with exports, consumer spending in particular is becoming the most important driver of the economy. Consumer purchasing power is said to be benefiting from strong wage growth and expansionary fiscal policy, which is expected to particularly benefit sectors that are close to consumers. However, numerous uncertainties are reported to be affecting development. With utilisation of production capacity at a high level, German industry is expected to become more vulnerable to disruptions, while rising wages will push profitability down. This will be compounded by risks relating to foreign trade, particularly as a result of the ongoing trade dispute between the USA and China and tensions in the euro zone.

**Insurance industry**

The German insurance sector grew by 2.1 % across all lines in 2018, achieving gross premium income of €202.2 billion, which once again surpassed the previous year's result. The German Insurance Association (GDV) expects stable premium growth of around 2 % for the current financial year. While life insurers are anticipating growth of about 1 %, property and casualty insurers expect premium growth of 3 %.

**Reinsurance industry**

Within the global reinsurance sector, renewals as at 1 January 2019 indicated that much higher prices had to be paid for portfolios that had historically had a high claims burden than for those with a good claims history. Despite several catastrophe events, interest in catastrophe bonds and other insurance-linked securities remains very high, causing a tense situation in the sector.

**German market**
Premium income from the German market will once again account for the largest share of our business as a whole in 2019. However, the winding-up of residual credit business will lead to a further reduction in gross premium volume in 2019, which we will be unable to offset entirely through increases in our share and natural growth.

As a reinsurance company with a long-term approach that focuses mainly on German-speaking countries, we are continuing to concentrate on profit-oriented underwriting and on reviewing existing client relations.

In **fire/property insurance**, we anticipate a slight increase in premium volume for 2019. Our performance over the last few years shows that our extensive restructuring measures have had an effect, even if the 2018 financial year did not live up to our expectations, owing to higher loss amounts at the parent company. As we are continuing with restructuring measures, we expect to achieve a satisfactory technical profit in this segment again in 2019.

We expect premium volume to increase year on year in **natural hazards business**. Several storm claims have already occurred at the time of writing this report, of which cyclone EBERHARD is expected to have a noticeable impact on our company’s gross technical result. However, net claims after retrocession will be within the expected range.

We anticipate a further increase in premium volume in **liability, accident and motor insurance business** for 2019. By setting up IBNR reserves, we will build up sufficient security for possible future burdens in these lines of business, which have a long claims settlement process.

We expect overall premium volume to fall in **life insurance business** in 2019, following a significant increase in premiums in the last financial year, owing to a decline in premiums in residual credit business.

**European market**
We continue to selectively underwrite business that meets our requirements in terms of margins in European markets. We anticipate a slight decline in premiums from our European client relationships in the current financial year.

**Overall business**
Losses due to natural hazards will have an impact on the gross technical result. We limit the general exposure of our property insurance portfolio through a specific retrocession scheme and by setting up adequate reserves, which ensures that our result for own account remains calculable at all times. We nevertheless expect the net loss ratio to increase. At the same time, we anticipate a lower net expense ratio.

We expect underwriting business to stabilise in other segments, provided that claims remain within the anticipated range and within our budget for major claims, which will allow us to replenish equalisation reserves and similar provisions. Owing to extraordinary effects in the 2018 financial year, we expect investment income to fall in 2019. Overall, we expect the net profit for the year to be lower than in the previous year.

No significant changes are anticipated in net assets or in the financial position. However, these assumptions remain highly tentative in view of continuing uncertainty over the future development of the global economy.

## BOARD OF EXECUTIVE DIRECTORS

**Frank Schaar,** Deputy Chief Executive Officer (until 20 February 2018),
Chief Executive Officer (since 21 February 2018)
**Achim Bosch** (since 1 January 2019)
**Dr Katrin Burkhardt** (until 31 December 2018)
**Michael Rohde**

Düsseldorf, 26 March 2019

Board of Executive Directors

# Consolidated Financial Statements

# Annual Financial Statements

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018

| ASSETS<br>in € | 2018 | | 2017 | |
|---|---|---|---|---|
| **A. Intangible assets** | | | | |
| Concessions, industrial property rights and similar rights and assets, as well as licences to such rights and assets, that have been acquired in return for a fee | | **483,753** | | **470,767** |
| **B. Investments** | | | | |
| I. Investments in affiliated companies and participating interests | | | | |
| 1. Shares in affiliated companies | 12,000 | | 12,000 | |
| 2. Participating interests | 83,977,976 | | 61,248,546 | |
| 3. Shareholdings in associated companies | 133,700,602 | | 144,098,827 | |
| | **217,690,578** | | **205,359,373** | |
| II. Other investments | | | | |
| 1. Shares, interests or shares in investment assets and other variable-yield securities | 487,117,364 | | 481,471,311 | |
| 2. Bearer bonds and other fixed-interest securities | 678,546,880 | | 624,829,580 | |
| 3. Receivables from mortgages, land charge and annuity land charge claims | 175,196,035 | | 116,519,183 | |
| 4. Other loans | | | | |
| a) Registered bonds | 120,092,467 | | 160,000,000 | |
| b) Loans and promissory notes | 173,019,801 | | 191,560,130 | |
| c) Other loans | 1,000,000 | | 929,180 | |
| | **294,112,268** | | **352,489,310** | |
| 5. Deposits with banks | 11,000,000 | | 20,001,135 | |
| | **1,645,972,547** | | **1,595,310,519** | |
| III. Deposits retained on assumed reinsurance | 134,501,957 | **1,998,165,082** | 136,005,317 | **1,936,675,209** |
| **C. Receivables** | | | | |
| I. Accounts receivable on reinsurance business | 56,259,366 | | 52,727,646 | |
| thereof: participating interests: €43,601 (2017: €1,016) | | | | |
| II. Other receivables | 13,388,336 | **69,647,702** | 19,262,913 | **71,990,559** |
| thereof: affiliated companies: €0 (2017: €0) | | | | |
| thereof: companies in which a participating interest is held: €4,995,320 (2017: €1,390,966) | | | | |
| **D. Other assets** | | | | |
| I. Tangible assets and inventories | 793,964 | | 866,959 | |
| II. Cash at banks, cheques and cash in hand | 215,199,946 | **215,993,910** | 134,220,979 | **135,087,938** |
| **E. Deferred items** | | | | |
| I. Accrued interest and rent | 11,587,810 | | 11,272,914 | |
| II. Other deferred items | 362,571 | **11,950,381** | 281,682 | **11,554,596** |
| **Total assets** | | **2,296,240,828** | | **2,155,779,069** |

## EQUITY AND LIABILITIES

| in € | 2018 | | 2017 | |
|---|---|---|---|---|
| **A. Shareholders' equity** | | | | |
| I. Issued capital | 25,000,000 | | 25,000,000 | |
| II. Capital reserve | 23,817,613 | | 23,817,613 | |
| III. Retained earnings | | | | |
| 1. Legal reserve | 5,897,543 | | 5,892,821 | |
| 2. Other retained earnings | 140,049,250 | | 137,212,279 | |
| | 145,946,793 | | 143,105,100 | |
| IV. Consolidated balance sheet profit/loss | 47,273,376 | | 2,036,868 | |
| V. Minority interests | 38,794,586 | **280,832,368** | 31,689,285 | **225,648,866** |
| **B. Subordinated liabilities** | | **61,750,000** | | **61,750,000** |
| **C. Technical provisions** | | | | |
| I. Unearned premiums | | | | |
| 1. Gross amount | 169,215,413 | | 202,760,961 | |
| 2. less: share for retroceded business | 107,737,505 | | 145,973,427 | |
| | 61,477,908 | | 56,787,534 | |
| II. Provision for future policy benefits | | | | |
| 1. Gross amount | 84,536,009 | | 86,715,442 | |
| 2. less: share for retroceded business | 18,368,605 | | 13,080,134 | |
| | 66,167,404 | | 73,635,308 | |
| III. Provision for outstanding claims | | | | |
| 1. Gross amount | 1,598,483,202 | | 1,422,680,933 | |
| 2. less: share for retroceded business | 335,434,019 | | 263,667,360 | |
| | 1,263,049,183 | | 1,159,013,573 | |
| IV. Provision for premium refunds | | | | |
| 1. Gross amount | 2,210,539 | | 2,388,167 | |
| 2. less: share for retroceded business | 816,456 | | 1,018,477 | |
| | 1,394,083 | | 1,369,690 | |
| V. Equalisation reserves and similar provisions | 261,526,734 | | 241,842,798 | |
| VI. Other technical provisions | | | | |
| 1. Gross amount | 57,529,623 | | 55,278,169 | |
| 2. less: share for retroceded business | 913,989 | | 961,943 | |
| | 56,615,634 | **1,710,230,946** | 54,316,226 | **1,586,965,129** |
| **D. Other accrued liabilities** | | | | |
| I. Provision for employees' pensions and similar commitments | 27,176,207 | | 23,886,538 | |
| II. Tax provisions | 17,691,697 | | 16,780,740 | |
| III. Other provisions | 4,097,110 | **48,965,014** | 4,329,413 | **44,996,691** |
| **E. Deposits retained on retroceded business** | | **18,594,888** | | **13,325,829** |
| **F. Other liabilities** | | | | |
| I. Accounts payable on reinsurance business | 137,094,099 | | 170,074,579 | |
| thereof accounts due to companies in which a participating interest is held: €33,856,971 (2017: €57,490,842) | | | | |
| II. Liabilities to banks | 7,710,000 | | 8,190,000 | |
| III. Other liabilities | 29,898,975 | **174,703,074** | 43,492,218 | **221,756,797** |
| thereof accounts due to affiliated companies: €0 (2017: €0) | | | | |
| thereof accounts due to companies in which a participating interest is held: €147,369 (2017: €79,942) | | | | |
| thereof from taxes: €2,981,027 (2017: €23,982) | | | | |
| **G. Deferred items** | | **1,164,538** | | **1,335,757** |
| **Total equity and liabilities** | | **2,296,240,828** | | **2,155,779,069** |

## CONSOLIDATED INCOME STATEMENT
## FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

| ITEMS<br>in € | 2018 | | 2017 | |
|---|---|---|---|---|
| I. Technical account | | | | |
| 1. Premiums earned for own account | | | | |
| a) Gross premiums written | 1,108,391,878 | | 1,201,628,034 | |
| b) Retroceded premiums | 374,845,702 | | 492,580,365 | |
| | **733,546,176** | | **709,047,669** | |
| c) Change in gross unearned premiums | 33,475,305 | | –30,427,764 | |
| d) Change in retroceded share of unearned premiums | 38,235,922 | | –27,139,745 | |
| | **–4,760,617** | | **–3,288,019** | |
| | | **728,785,559** | | **705,759,650** |
| 2. Interest on technical provisions for own account | | **1,914,378** | | **2,153,207** |
| 3. Other underwriting income for own account | | **1,421,971** | | **3,871,498** |
| 4. Claims incurred for own account | | | | |
| a) Payments for insured events | | | | |
| aa) Gross amount | 576,669,137 | | 608,101,622 | |
| bb) Retroceded amount | 204,788,395 | | 208,853,313 | |
| | **371,880,742** | | **399,248,309** | |
| b) Change in provision for outstanding claims | | | | |
| aa) Gross amount | 175,572,529 | | 48,016,535 | |
| bb) Retroceded amount | 71,778,833 | | –12,131,300 | |
| | **103,793,696** | | **60,147,835** | |
| | | **475,674,438** | | **459,396,144** |
| 5. Change in other technical provisions for own account | | | | |
| a) Net provisions for future policy benefits | 7,555,830 | | 13,478,137 | |
| b) Other net technical provisions | –1,593,777 | | –8,947,281 | |
| | | **5,962,053** | | **4,530,856** |
| 6. Expenses for premium refunds for own account | | **482,199** | | **663,977** |
| 7. Operating expenses for own account | | | | |
| a) Gross operating expenses | 343,093,630 | | 392,041,471 | |
| b) less: commissions and profit commissions received on retroceded business | 110,678,747 | | 174,992,086 | |
| | | **232,414,883** | | **217,049,385** |
| 8. Other underwriting expenses for own account | | **19,266,055** | | **35,417,907** |
| 9. Subtotal | | **10,246,386** | | **3,787,798** |
| 10. Change in equalisation reserves and similar provisions | | **–19,683,936** | | **–23,790,584** |
| 11. Underwriting result for own account | | **–9,437,550** | | **–20,002,786** |

| ITEMS<br>in € | 2018 | | 2017 | |
|---|---|---|---|---|
| **Amount brought forward (Technical result for own account)** | | **–9,437,550** | | **–20,002,786** |
| II. Non-technical account | | | | |
| 1. Investment income | | | | |
| a) Dividends from participating interests | 3,331,764 | | 875,455 | |
| b) Income from associated companies | 1,939,721 | | 17,461,796 | |
| c) Income from other investments | 50,982,442 | | 43,138,488 | |
| d) Income from write-backs | 652,254 | | 1,561,013 | |
| e) Realised gains on the disposal of investments | 41,732,428 | | 4,803,488 | |
| | | **98,638,609** | | **67,840,240** |
| 2. Investment expenses | | | | |
| a) Management expenses, interest charges and other expenses on investments | 4,589,947 | | 4,188,229 | |
| b) Write-downs on investments | 3,432,737 | | 4,100,831 | |
| c) Realised losses on the disposal of investments | 2,082,002 | | 79,149 | |
| | | **10,104,686** | | **8,368,209** |
| 3. Interest income on technical provisions | | **2,033,240** | | **2,253,443** |
| | | **86,500,683** | | **57,218,588** |
| 4. Other income | **9,786,250** | | **876,406** | |
| 5. Other expenses | **8,608,843** | | **14,080,880** | |
| | | **1,177,407** | | **–13,204,474** |
| 6. Operating result before tax | | **78,240,540** | | **24,011,328** |
| 7. Taxes on income | **21,925,828** | | **20,763,754** | |
| 8. Other taxes | **317,994** | | **283,196** | |
| | | **22,243,822** | | **21,046,950** |
| 9. Profit/loss for the year | | **55,996,718** | | **2,964,378** |
| 10. Minority interests in profit/loss for the year | | **–5,512,098** | | **3,726,208** |
| 11. Profit/loss brought forward (–) from previous year | | **–10,267,567** | | **–3,534,281** |
| 12. Minority interests in the loss brought forward from previous year | | **7,056,323** | | **2,580,563** |
| 13. Transfers to retained earnings | | | | |
| a) to other retained earnings | | **0** | | **3,700,000** |
| 14. Consolidated balance sheet profit/loss | | **47,273,376** | | **2,036,868** |

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2018

The consolidated statement of changes in shareholders' equity has been drawn up in accordance with the provisions of German Accounting Standard No. 22 – Group Equity – (DRS 22).

Group equity increased by €55,183K year on year to €280,832K. The change was due to a significant increase in the profit for the year to €55,997K, dividend payments of €3,000K and a positive balance from currency translation in the amount of €2,186K.

| in €'000 | Equity of the parent company | | | | | | | | | | Non-controlling interests | | | | Group equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Correct-ed) issued capital | Reserves | | | | | Difference in equity due to currency trans-lation | Profit carried forward | Consoli-dated net profit/loss for the year attrib-utable to the parent company | Total | Non-con-trolling interests before difference in equity due to currency trans-lation and net profit for the year | Difference in equity due to currency trans-lation attrib-utable to non-con-trolling interests | Profit/loss attrib-utable to non-con-trolling interests | Total | Total |
| | Issued capital | Capital reserves | Retained earnings | | | Total | | | | | | | | | |
| | Ordinary shares | in accor-dance with Section 272 (2) No. 1-3 HGB | Legal reserve | Other retained earnings | Total | | | | | | | | | | |
| **As at 31 Dec. 2017** | **25,000** | **23,818** | **5,893** | **134,368** | **140,261** | **164,079** | **2,844** | **–4,654** | **6,691** | **193,960** | **25,735** | **9,269** | **–3,315** | **31,689** | **225,649** |
| Allocation to/withdrawal from reserves | | | 5 | | 5 | 5 | | –5 | | 0 | | | | 0 | 0 |
| Dividends paid | | | | | 0 | 0 | | –3,000 | | –3,000 | | | | 0 | –3,000 |
| Currency translation | | | | | 0 | 0 | 2,837 | –2,244 | | 593 | | 1,593 | | 1,593 | 2,186 |
| Consolidated net profit/loss for the year | | | | | 0 | 0 | | | 50,485 | 50,485 | | | 5,512 | 5,512 | 55,997 |
| **As at 31 Dec. 2018** | **25,000** | **23,818** | **5,898** | **134,368** | **140,266** | **164,084** | **5,681** | **–9,903** | **57,176** | **242,038** | **25,735** | **10,862** | **2,197** | **38,794** | **280,832** |

## CONSOLIDATED CASH FLOW STATEMENT FOR THE 2018 FINANCIAL YEAR

Group cash flow reporting is based on the provisions of German Accounting Standard No. 21 – Cash Flow Statements – (DRS 21). The Group has exercised its right to use the indirect method to calculate cash flow from operating activities. Only the direct method was used to show payment flows relating to investment and financing activities. The specific features of cash flow statements for insurance companies were taken into account.

The cash fund (cash and cash equivalents) corresponds to balance sheet item “D. II. Cash at banks, cheques and cash in hand”. In the 2018 financial year, it rose from €134,221K to €215,200K at year-end.

Operating activities resulted in a positive cash flow of €81,688K in the year under review, following a cash inflow of €52,106K in the previous year. In particular, cash inflows came from an increase in net technical provisions. These were primarily offset by cash outflows from a reduction in deposits retained and accounts payable, a reduction in other liabilities and the change in other balance sheet items.

Investment activities gave rise to a cash flow of €–458K in the year under review, compared with €–795K in the previous year, which was due to investment in tangible and intangible assets and was of only minor importance to the change in cash and cash equivalents for the Group.

As in the previous year, the cash flow from financing activities comprised dividend payments by Group companies.

**CONSOLIDATED CASH FLOW STATEMENT**

| in €'000 | | 2018 | 2017 |
|---|---|---|---|
| | **Result for the period (profit/loss for the year incl. minority interests)** | 55,997 | 2,964 |
| +/– | Net increase/decrease in technical provisions | 102,991 | 118,538 |
| –/+ | Increase/decrease in deposits retained and accounts receivable | –44 | 36,610 |
| +/– | Increase/decrease in deposits retained and accounts payable | –29,758 | –42,110 |
| –/+ | Increase/decrease in other receivables | –4,484 | 2,549 |
| +/– | Increase/decrease in other liabilities | –18,295 | 67,017 |
| +/– | Change in other balance sheet items not related to investment or financing activities | –33,839 | –91,073 |
| +/– | Other income/expenses without impact on cash flow and adjustments to the result for the period | 10,687 | –42,010 |
| –/+ | Gain/loss on the disposal of investments and tangible and intangible assets | –6,990 | –7,418 |
| +/– | Income tax expense/income | 21,926 | 20,764 |
| –/+ | Income tax paid | –16,503 | –13,725 |
| = | **Cash flow from operating activities** | **81,688** | **52,106** |
| + | Inflows from disposal of tangible assets | 34 | 54 |
| – | Outflows for investment in tangible assets | 291 | 574 |
| – | Outflows for investment in intangible assets | 201 | 275 |
| = | **Cash flow from investment activities** | **–458** | **–795** |
| – | Dividends paid to shareholders in the parent company | 3,000 | 3,000 |
| – | Dividends paid to other shareholders | 0 | 1,204 |
| = | **Cash flow from financing activities** | **–3,000** | **–4,204** |
| | Change in cash and cash equivalents with an impact on cash flow | 78,230 | 47,107 |
| +/– | Changes in cash and cash equivalents due to exchange rates and valuation | 2,749 | –5,151 |
| + | Cash and cash equivalents at the beginning of the period | 134,221 | 92,265 |
| = | **Cash and cash equivalents at the end of the period** | **215,200** | **134,221** |

# Notes to the Consolidated Financial Statements

## CONSOLIDATION

### Scope of consolidation

Along with Deutsche Rückversicherung AG ("Deutsche Rück"), the consolidated financial statements continue to include the subsidiaries Deutsche Rückversicherung Switzerland Ltd ("DR Swiss") and DR Sachwerte SCS, SICAV-RAIF, Senningerberg, Luxembourg ("DR Sachwerte"). Once again, DRVB GP S.à r.l. has not been consolidated, as permitted by Section 296 (2) of the German Commercial Code (HGB), as the company is not material to providing a true and fair view of the Group's net assets, financial position and results of operations.

The associated companies that are included in the consolidated financial statements at equity on the basis of the book value method in accordance with Sections 311 (1) and 312 (1) of the German Commercial Code (HGB) are presented in the corresponding category in the summary of Group companies. Companies not included in the consolidated financial statements pursuant to Section 311 (2) of the German Commercial Code (HGB) are also identified accordingly in the summary. These companies have not been included because the shareholdings are not material to providing a true and fair view of the Group's net assets, financial position and results of operations.

For companies included at equity, the differences between the carrying amount and the equity of the associated companies as at the balance sheet date came to €13,321K. This included goodwill of €1,091K. There were no mandatory disclosures with regard to associated companies with a material influence on the Group's net assets, financial position and results of operations in the year under review.

Commitments for capital contributions in relation to fully consolidated companies included at equity exist in the amount of €156,170K.

### Consolidation principles

Except for the companies mentioned below, the balance sheet date of all companies included in the consolidated financial statements is 31 December.

Ecosenergy Zweite Betriebsgesellschaft mbH & Co. KG prepares its annual financial statements as at 31 October.

The annual financial statements of DR Swiss and DR Sachwerte, which are included in the scope of consolidation, are converted into financial statements that comply with German group accounting regulations.

The following companies were included in the consolidated financial statements:

| COMPANY NAME AND REGISTERED HEAD OFFICE | Share in equity<br>in % | Shareholders' equity<br>in €'000 | Result<br>in €'000 | Financial statements as at |
|---|---|---|---|---|
| **Subsidiaries fully consolidated** | | | | |
| DR Sachwerte SCS SICAV-RAIF, Senningerberg | 100.00 | 88,934.0 | 37,198.6 | 30 Sept. 2018 |
| Deutsche Rückversicherung Switzerland Ltd, Zurich | 75.00 | 164,705.1 | 5,676.8 | 31 Dec. 2018 |
| DRVB GP S.à r.l., Senningerberg | 100.00 | 1) | 1) | 1) |
| **Associated companies consolidated at equity** | | | | |
| DRVB Invest Beteiligungs GmbH, Düsseldorf | 50.00 | 21,187.9 | 42.7 | 31 Dec. 2018 |
| Hansapark 2 GmbH & Co. KG, Düsseldorf | 50.00 | 19,816.4 | 1,770.1 | 31 Dec. 2018 |
| Hansapark Verwaltungs GmbH & Co. KG, Düsseldorf | 50.00 | 8,925.5 | 2,512.7 | 31 Dec. 2018 |
| Immobiliengesellschaft Burstah Hamburg GmbH & Co. KG, Düsseldorf | 50.00 | 12,966.4 | 190.7 | 31 Dec. 2018 |
| Objekt Aachen, Großkölnstraße GmbH, Düsseldorf | 50.00 | 4,789.4 | –65.4 | 31 Dec. 2018 |
| Objekt Karlsruhe Kaiserstraße GmbH, Düsseldorf | 50.00 | 21,039.8 | 75.5 | 31 Dec. 2018 |
| Objekt Leipzig Katharinenstraße GmbH, Düsseldorf | 50.00 | 2,589.0 | 375.0 | 31 Dec. 2018 |
| Ecosenergy Zweite Betriebsgesellschaft mbH & Co. KG, Nordhorn | 44.44 | 14,264.3 | 549.6 | 31 Oct. 2017 |
| DRVB Wohnen Beteiligungs-GmbH, Düsseldorf | 40.00 | 12,802.4 | 103.8 | 31 Dec. 2018 |
| Objekt Düsseldorf An der Kaserne GmbH & Co. KG, Düsseldorf | 40.00 | 12,029.9 | 296.1 | 31 Dec. 2018 |
| Objekt Düsseldorf Couvenstraße GmbH & Co. KG, Düsseldorf | 40.00 | 6,206.5 | 191.6 | 31 Dec. 2018 |
| Objekt Leipzig Nordstraße GmbH, Düsseldorf | 40.00 | 5,054.2 | 279.0 | 31 Dec. 2018 |
| Objekt Warstein Max-Planck-Straße GmbH & Co. KG, Frankfurt am Main | 40.00 | 46.7 | –3.5 | 31 Dec. 2017 |
| Objekte Nürnberg GmbH & Co. KG, Düsseldorf | 40.00 | 16,533.1 | 398.8 | 31 Dec. 2018 |
| Objekt Minoritenstraße Köln GmbH & Co. KG, Düsseldorf | 37.96 | 1,551.9 | –148.0 | 31 Dec. 2018 |
| MF 1. THA 70 – 74 GmbH, Frankfurt am Main | 31.00 | 2,634.2 | 989.1 | 31 Dec. 2017 |
| MF 2. THA 70 – 74 GmbH, Frankfurt am Main | 31.00 | 3,867.5 | 1,269.6 | 31 Dec. 2017 |
| RFR 1. THA 70 – 74 GmbH, Frankfurt am Main | 31.00 | 24,105.6 | 16,924.9 | 31 Dec. 2017 |
| RFR 2. THA 70 – 74 GmbH, Frankfurt am Main | 31.00 | 53,964.3 | 22,622.6 | 31 Dec. 2017 |
| MAGNUM EST Digital Health GmbH, Berlin | 25.52 | 1,255.5 | –753.1 | 31 Dec. 2017 |
| ASPF II Beteiligungs GmbH & Co. KG, Munich | 20.00 | 1,313.5 | 550.8 | 31 Dec. 2017 |
| MBS Beteiligungs GmbH, Frankfurt am Main 2) | 16.67 | 30,664.0 | 639.0 | 31 Dec. 2017 |
| **Associated companies not consolidated (Section 311 (2) German Commercial Code (HGB))** | | | | |
| Hansapark Verwaltungs GmbH, Düsseldorf | 50.00 | 106.4 | 12.0 | 31 Dec. 2018 |
| OEV Equity Trust GmbH, Düsseldorf | 50.00 | 220.6 | 4.3 | 31 Dec. 2017 |
| Reha Assist Deutschland GmbH, Arnsberg | 26.00 | 155.2 | 54.1 | 31 Dec. 2017 |

1) Newly founded in 2017, financial statements not yet available
2) Associated company owing to material influence through joint venture agreement

First-time capital consolidation of DR Swiss was carried out according to the book value method. In this process, the acquisition cost of the shareholding is offset against the amount of the subsidiary's equity attributable to these shares. The liabilities-side balancing item resulting from the difference between the exchange rate at the time the subsidiary was established and the exchange rate on the balance sheet date is included in retained earnings.

Alongside Deutsche Rück, VHV Beteiligungs-Aktiengesellschaft, Hanover, has a 25 % stake in DR Swiss. The shares held by this other shareholder are shown separately under equity capital in accordance with Section 307 (1) of the German Commercial Code (HGB). The other shareholder participates in the net profit or loss for the year and the profit or loss carry forward of DR Swiss in proportion to its stake in the company.

All intercompany receivables and payables, income, expenses and cash flows are eliminated in full upon consolidation.

DR Swiss did not pay a dividend to Deutsche Rück in the year under review. The dividend of €3,671K that was paid in the previous year was eliminated in the consolidated financial statements, with an impact on the income statement.

Information on the recognition of shareholdings in associated companies is included in the notes on accounting policies.

## GENERAL INFORMATION ON CONTENT AND LAYOUT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements and Group management report have been prepared in accordance with the German Commercial Code (HGB), the German Regulation on the Accounting of Insurance Undertakings (Verordnung für die Rechnungslegung von Versicherungsunternehmen – RechVersV), the German Act on the Supervision of Insurance Undertakings (Gesetz über die Beaufsichtigung der Versicherungsunternehmen – VAG) and the German Stock Corporation Act (Aktiengesetz – AktG).

## ACCOUNTING PRINCIPLES

**Intangible assets**
Intangible assets are recognised at acquisition cost and amortised on a straight-line basis over their expected useful life.

**Investments**
Any shares in affiliated companies and associated companies that have not been included in the consolidated financial statements, as permitted by Sections 296 (2) or 311 (2) of the German Commercial Code (HGB), as well as the other participating interests, are carried at acquisition cost plus incidental acquisition expenses or the lower value on the balance sheet date. To this end, the current financial situation of the companies in which investments are held is analysed and, to the extent available, budgets for

subsequent financial years are taken into account in the measurement. Write-downs are made for any impairments that are expected to be permanent.

Associated companies are recognised in the consolidated financial statements at equity according to the book value method, as permitted by Sections 311 (1) and 312 (1) of the German Commercial Code (HGB). Participating interests and balancing items are recognised based on their valuations at the time of acquiring the shares. Any measurement methods that diverge from those used in the consolidated financial statements are not adjusted.

Units held in a master fund and a real estate bond fund and a large portion of the shares (approximately 93 %) and of the fixed-interest securities (around 94 %) are held by Deutsche Rück as fixed assets. The bearer bonds of DR Swiss are likewise recognised in the consolidated financial statements as fixed assets. They are recognised at acquisition cost and measured subsequent to initial recognition in accordance with the provisions governing fixed assets as required by Section 341b (2) of the German Commercial Code (HGB). Write-downs are made for any impairments that are expected to be permanent, with due regard to the requirement to reverse write-downs where the reasons for them no longer exist.

The units in a real estate fund, other shares, bearer bonds and other variable-yield securities that are held by Deutsche Rück as current assets, as well as the investment funds held by DR Swiss, are measured at acquisition cost less any write-downs in accordance with the strict lowest value principle, taking into account the requirement to reverse write-downs where the reasons for them no longer exist.

Receivables from mortgages and land charge claims comprise loans that are secured through land charges. These are recognised in the balance sheet at the amortised cost of acquisition less any repayments made.

Registered bonds are recognised in the balance sheet at par value as required by Section 341c (1) of the German Commercial Code (HGB), while redemption premiums and discounts are spread over the term of the bond as deferred items in proportion to the capital.

Loans and promissory notes, a portion of the land charge claims and other loans are recognised in the balance sheet at acquisition cost using the effective interest rate method, in accordance with Section 341c (3) of the German Commercial Code (HGB). The accumulated amortisation of the difference between acquisition cost and redemption amount is added to or deducted from the acquisition cost.

Deposits with banks and deposits retained on assumed reinsurance business are reported at their nominal amounts.

**Receivables**
Accounts receivable from reinsurance business and other receivables are carried at their nominal value less any appropriate provisions for doubtful debts or write-downs.

**Other assets**
Property, plant and equipment are recognised at cost and depreciated over their expected useful lives. Minor-value assets with a value of between €250 and €800 are written off in full in the year of purchase,

in accordance with the limits that have applied since 1 January 2018 (between €150 and €410 until 31 December 2017). Inventories are recognised at acquisition cost or at their value as at the balance sheet date if lower.

Cash at banks and cash in hand are recognised at nominal value.

**Valuation units**

Together with the associated underlying transactions, hedging transactions conducted by Deutsche Rück are accounted for as a valuation unit in accordance with Section 254 of the German Commercial Code (HGB) in conjunction with IDW RS HFA 35 (Comments on Accounting of the Main Technical Committee of the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer) – No. 35). According to these regulations, assets, liabilities, pending transactions or transactions forecast to be highly probable ("underlying transactions") are pooled together with primary or derivative financial instruments ("hedging transactions") and designated as valuation units for accounting purposes, so as to offset the opposing changes in fair value from the incidence of comparable risks.

When accounting for valuation units in accordance with the provisions of Section 254 HGB, unrealised losses resulting from hedged risks in relation to components (individual transactions) of the valuation unit are not recognised if these losses can be offset by unrealised profits in the same amount arising from other components (transactions) of the valuation unit. This applies to the extent that and for the period in which opposing changes in fair value arising from the underlying and hedging transactions offset each other with respect to the hedged risk.

Accordingly, Deutsche Rück calculates the changes in fair value of underlying and hedging transactions for each valuation unit as at the balance sheet date. When doing so, a distinction is made between changes in fair value for hedged risks and changes in fair value for risks that are not hedged. The changes in fair value for hedged risks (effective part) are offset using the net hedge presentation method and are not recognised in the financial statements. Any unrealised profit that arises from the ineffective part in relation to the hedged risk will not be taken into account. If any loss results from the ineffective part in relation to the hedged risk, a corresponding provision is booked. Changes in fair value that are not attributable to hedged risks are reported without being netted in accordance with the general accounting policies applied to the underlying transactions.

The formation of a hedging relationship (valuation unit) is documented. This documentation will include the purpose of the hedge, the type of risk to be hedged and objective of the hedge, and key contractual data for the underlying transaction and hedging instrument. In addition, the documentation will indicate that the hedging instrument is objectively appropriate for hedging the specified risk at the time the hedging relationship is initiated and during its existence, and that it is therefore expected to be effective (prospective effectiveness).

Both the prospective assessment of effectiveness of the hedging relationship and the retrospective determination of effectiveness of the valuation unit are performed by comparing the underlying and hedging transactions with respect to the key terms and parameters relevant to the valuation (the critical terms match method). As at the balance sheet date, Deutsche Rück has solely created micro-hedges for the purposes of hedging exchange rate fluctuations, whereby the underlying and hedging transactions are in principle subject to the same risk (currency risk), and changes in fair value to this effect are fully offset in the amount of the hedged risk. These micro-hedges are created permanently or for the remaining term to maturity of the underlying transactions. The opposing changes in fair value in the underlying transactions and hedging instruments fully offset each other during the financial year and are also expected to fully offset each other in the future.

Currency risk is hedged by buying forward contracts of corresponding currencies (currency forwards). The interest effect from these currency forwards does not form part of the valuation units and in each case is reported separately on a pro rata basis over the term of the currency forward in the income statement. Since the terms of the underlying transactions and currency forwards (hedging instruments) do not match, as the currency forwards approach maturity further currency forwards are concluded on a rolling basis. If currency forwards are renewed, any resulting cash flows are disclosed as an adjustment item on the balance sheet without being taken through the income statement, or are offset with the carrying value of the underlying transaction.

| Balance sheet item | Type of valuation unit | Hedged risk | Amount of hedged risks |
|---|---|---|---|
| Participating interests<br>Carrying amount: EUR 15,094K | Micro-hedge | Risk of change in value<br>Currency risk<br>US dollar (USD) | USD 16,278K<br>EUR 14,217K |
| Bearer bonds and other fixed-interest securities<br>Carrying amount: EUR 11,450K | Micro-hedge | Risk of change in value<br>Currency risk<br>Danish krone (DKK) | DKK 85,011K<br>EUR 11,384K |

As at the balance sheet date, risks of a change in value (currency risks) with a total volume of €25,601K have been hedged using valuation units.

**Deferred tax assets**

Corresponding tax burdens and tax reliefs have been calculated for temporary differences between the accounts prepared for financial reporting purposes and those prepared for tax purposes. Overall, netting the two items results in an excess of deferred tax assets, predominantly comprising the determination of the claims provision, reinvested income from investment funds and the pension provision. An average tax rate of 31.225 % was applied for calculating deferred taxes in the year under review. The Group has exercised its right pursuant to Section 274 (1) Sentence 2 of the German Commercial Code (HGB) and opted to waive recognition of deferred tax assets in the balance sheet. There were likewise no deferred taxes resulting from application of Section 306 of the German Commercial Code (HGB) to be recognised in the consolidated financial statements as at 31 December 2018.

**Technical provisions**

The technical provisions (unearned premiums, provisions for outstanding claims, provisions for future policy benefits and other technical provisions) were generally recognised in accordance with the instructions of the cedants. Where instructions were not given, provisions were estimated on the basis of the contractual terms and business to date. Appropriate provisions were also established for claims burdens expected in the future. The retrocessionaires' shares were determined in accordance with the contractual agreements.

The equalisation reserves and similar provisions have been set up in accordance with Section 341h of the German Commercial Code (HGB), taking into account the permissible maximum amounts in accordance with Sections 29 et seq. of the German Regulation on the Accounting of Insurance Undertakings (RechVersV).

**Pension provisions**
Provisions for pensions and similar obligations have been established in accordance with actuarial principles using the projected unit credit method. Annual salary increases are taken into account at 2.75 % p.a. and pension rises at 1.9 % p.a. The biometric accounting principles were obtained from the Heubeck mortality tables 2018G. Provisions were discounted at the average market interest rate of 3.2 % (average ten-year interest rate) based on an assumed remaining term of 15 years as at the balance sheet date, as permitted by exercising the option pursuant to Section 253 (2) Sentence 2 of the German Commercial Code (HGB).

In accordance with Section 253 (6) HGB, amounts of €4,627K (previous year: €3,961K) are blocked from dividend payouts in the separate financial statements of the parent company Deutsche Rückversicherung AG; these are offset by adequate retained earnings of €136,558K.

The employee-financed pension obligations resulting from salary waivers are based on individual commitments. Capital-based pension obligations relate to a securities-based pension commitment, where the insured persons have an unlimited and irrevocable right to the maturity benefits, including the allocated profit shares. The current policy reserve of the associated congruent reinsurance coverage constitutes a plan asset as defined by Section 246 (2) of the German Commercial Code (HGB) and is offset against pension obligations. As at 31 December 2018, the pension provision totals €175K before offsetting against the claim arising from reinsurance in the same amount.

**Other provisions**
The provisions for semi-retirement obligations and for long-service award expenses are calculated in accordance with actuarial principles using an interest rate of 2.3 % and an assumed annual salary increase of 2.75 %. The calculations are based on the Heubeck mortality tables 2018G.

Other provisions are recognised on the basis of amounts anticipated to be required for settlement of the obligation (including future increases in costs and prices), applying reasonable commercial judgement. Provisions with a remaining term of more than one year are discounted at the average market interest rate over the past seven financial years corresponding to their remaining term on the balance sheet date.

The discount rates to be applied when recognising provisions are determined by the Deutsche Bundesbank in accordance with the Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung – RückAbzinsV) and published on the latter's website www.bundesbank.de each month. The provisions established in the financial year have a remaining term of less than one year.

**Liabilities**
Deposits retained on retroceded business and accounts payable from reinsurance business are recognised at the amounts shown in the reinsurers' statements of account. Other liabilities are shown at their settlement amounts.

Deferred items are measured at nominal value.

**Foreign currencies**
With the exception of shares in affiliated companies, foreign currency asset and liability items are converted into euros using the relevant mean spot exchange rates at the balance sheet date. Income and expense items are converted into euros, the reporting currency, using the average exchange rates for the year.

## NOTES TO THE CONSOLIDATED BALANCE SHEET

| DEVELOPMENT OF ASSET ITEMS A. AND B. I. IN THE 2018 FINANCIAL YEAR<br>in €'000 | Carrying amounts (previous year) | Changes in the exchange rate | Additions | Reclassifi-cations | Disposals | Write-backs | Write-downs | Carrying amount for financial year |
|---|---|---|---|---|---|---|---|---|
| **Asset items** | | | | | | | | |
| **A. Intangible assets** | | | | | | | | |
| 1. Concessions, industrial property rights and similar rights and assets, as well as licences to such rights and assets, that have been acquired in return for a fee | 471 | 0 | 202 | 0 | 0 | 0 | 189 | 484 |
| **Sum A.** | 471 | 0 | 202 | 0 | 0 | 0 | 189 | 484 |
| **B. Investments** | | | | | | | | |
| I. Investments in affiliated companies and partici-pating interests | | | | | | | | |
| 1. Shares in affiliated companies | 12 | 0 | 0 | 0 | 0 | 0 | 0 | 12 |
| 2. Participating interests | 61,249 | 0 | 32,432 | 3,564 | 13,289 | 22 | 0 | 83,978 |
| 3. Shareholdings in associated companies | 144,098 | 0 | 4,278 | 204 | 14,173 | 0 | 706 | 133,701 |
| **Sum B.** | 205,359 | 0 | 36,710 | 3,768 | 27,462 | 22 | 706 | 217,691 |
| **Total** | **205,830** | **0** | **36,912** | **3,768** | **27,462** | **22** | **895** | **218,175** |

The intangible assets relate to software purchased in return for a fee.

**Notes in accordance with Section 54 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV)**
The fair value of investments (excluding deposits retained) amounted to €2,064K in total at the end of the 2018 financial year, corresponding to a carrying amount of €1,864K. When determining the fair value, different valuation methods were employed depending on the type of investment concerned.

The fair values of shares in affiliated companies that are not included in the consolidated financial statements, as permitted by Section 296 (2) of the German Commercial Code (HGB), and of shareholdings in associated companies and other participating interests were calculated using the capitalised earnings method, the net asset value and in individual instances using acquisition cost. The corporate valuation standard IDW S1 in conjunction with IDW RS HFA 10 was applied for the assessment. In addition, when determining the fair value of property companies, the provisions of the Ordinance Regarding the Principles for the Determination of the Fair Value of Properties (Immobilienwertermittlungsverordnung – ImmoWertV) were applied when calculating capitalised earnings.

The fair values of loans secured by land charges and other loans are generally measured on the basis of appropriate yield curves plus an individual risk premium.

The remaining investments (shares, interests or shares in investment funds as well as fixed-interest securities) have been recognised in accordance with Section 56 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV). For these items, stock market prices or redemption prices on the balance sheet date have been taken as the fair value.

**Shares in affiliated companies, participating interests and shareholdings in associated companies**
Shares in non-consolidated affiliated companies remained at €12K and consisted solely of the stake in DRVB GP S.à r.l., Senningerberg, Luxembourg, which is not included in the consolidated financial statements, as permitted by Section 296 (2) of the German Commercial Code (HGB).

Participating interests increased again in the year under review. As well as capital payments into existing participating interests (commitments), seven new participating interests were acquired. Reclassifications relate to fund structures in the form of legally independent companies that had been recognised under interests or shares in investment assets before being transferred to the subsidiary DR Sachwerte SCS. Changes in valuation resulted in write-backs of €22K.

While one new associated company was acquired in the year under review, three associated companies were disposed of. Capital repayments were also made in connection with several associated companies, which played a significant part in the decline in the carrying amount. Write-downs of €706K were carried out, particularly on goodwill.

Unrealised losses in the amount of €1,133K exist in relation to participating interests with a carrying amount of €23,467K and a fair value of €22,333K. An unrealised loss of €1,179K has been recognised in relation to participating interests in associated companies with a fair value of €7,861K and a carrying amount of €9,040K.

On the basis of market appraisals for these participating interests and shareholdings, Deutsche Rück anticipates that this impairment will be only temporary in nature. As such, no write-down due to permanent impairment need be recognised.

Residual payment commitments amounting to €69,626K exist in relation to participating interests and shareholdings in associated companies.

**Shares, interests or shares in investment assets and other variable-yield securities**
Shares in the amount of €20,876K and investment fund units totalling €308,762K are allocated to fixed assets, in accordance with Section 341b (2) of the German Commercial Code (HGB).

Write-downs of €243K were booked on shares held as fixed assets, while a real estate bond fund held under fixed assets was written down by €15K as at the balance sheet date.

Write-backs totalling €418K and write-downs totalling €2,963K were booked on shares, interests or shares in investment assets held as current assets during the year under review.

An unrealised loss of €343K was recognised in relation to shares with a carrying amount of €4,065K and a fair value of €3,722K. As this impairment is expected to be only temporary based on market appraisals, no write-downs were carried out.

Commitments for capital contributions in relation to shares or units in investment funds were entered into in the amount of €87,196K.

There were no unrealised losses as at 31 December 2018.

As at 31 December 2018, the Group holds more than 10 % of the units in a domestic investment fund in accordance with Section 314 Sentence 1 No. 18 of the German Commercial Code (HGB). There are no restrictions on the option to return the units on any day.

| in €'000 | Fair value | Carrying amount | Unrealised gains | Dividend received in 2018 |
|---|---|---|---|---|
| Mixed fund | 367,848 | 298,984 | 68,864 | 6,974 |

**Bearer bonds and other fixed-interest securities**
Bearer bonds are allocated to fixed assets in the amount of €670,548K in accordance with Section 341b (1) of the German Commercial Code (HGB) and to current assets in the amount of €7,999K.

Write-downs of €211K were booked in the financial year. Of this sum, €200K related to fixed assets and €11K to current assets. A write-back of €196K was booked on securities held under fixed assets and of €17K on securities held under current assets.

Bearer bonds and other fixed-interest securities held as fixed assets with a carrying amount of €65,928K and a fair value of €64,793K result in unrealised losses totalling €1,135K.

No write-down due to permanent impairment of the fair value has been recognised for these items, as the impairment is considered to be temporary and it is both possible and the intention to hold these investments on a long-term basis or until final maturity.

**Mortgages, land charges and annuity land charges**
There were unrealised losses of €173K on some loans secured by land charges. The market values of the loans concerned came to €35,843K, below the carrying amounts of €36,016K.

**Other loans**
Registered bonds continued to be recognised at par value.

The effective interest rate method is applied to promissory notes, in accordance with Section 341c (3) of the German Commercial Code (HGB).

Other loans are reported in the amount of €30,000K as at the balance sheet date, above their fair value of €29,581K. Unrealised losses total €419K.

Since the intention is to hold these securities until final maturity and on the basis of market assessments for these securities, Deutsche Rück anticipates that this impairment will merely be of a temporary nature. As such, no write-down due to permanent impairment has been recognised.

**FAIR VALUES OF INVESTMENTS AS AT 31 DECEMBER 2018**

| in €'000 | Carrying amounts | Fair values | Valuation re-serves |
|---|---|---|---|
| **I. Investments in affiliated companies and participating interests** | | | |
| 1. Shares in affiliated companies | 12 | 12 | 0 |
| 2. Participating interests | 83,978 | 89,990 | 6,012 |
| 3. Shareholdings in associated companies | 133,701 | 149,303 | 15,602 |
| **Sum I** | 217,691 | 239,305 | 21,614 |
| **II. Other investments** | 0 | 0 | 0 |
| 1. Shares, interests or shares in investment assets and other variable-yield securities | 487,117 | 611,829 | 124,712 |
| 2. Bearer bonds and other fixed-interest securities | 678,547 | 710,105 | 31,558 |
| 3. Receivables from mortgages | 175,196 | 176,256 | 1,060 |
| 4. Other loans | 0 | 0 | 0 |
| a) Registered bonds 1) | 120,092 | 128,935 | 8,843 |
| b) Loans and promissory notes | 173,020 | 185,760 | 12,740 |
| c) Other loans | 1,000 | 989 | –11 |
| 5. Deposits with banks | 11,000 | 11,000 | 0 |
| **Sum II** | 1,645,973 | 1,824,874 | 178,901 |
| **Total** | **1,863,663** | **2,064,178** | **200,515** |

1) Premiums and discounts have not been taken into account when calculating the carrying amounts of registered bonds.

### Deferred items

Premiums on registered bonds totalled €79K as at the balance sheet date (previous year: €84K).

### Shareholders' equity

Shareholders' equity comprises issued capital and the capital reserve of Deutsche Rück as well as earnings retained by the Group.

Deutsche Rück's issued capital totals €25,000K and is made up of 488,958 no-par-value shares. Capital reserves remain unchanged at €23,818K.

After consolidation of withdrawals from the organisation fund, DR Swiss increased its legal reserves from the previous year's profit to a total of CHF 9,038K (€7,693K) in the financial year, a rise of CHF 7K (€6K). In accordance with Deutsche Rück's 75 % share, retained earnings from DR Swiss increased to €5,770K (previous year: €5,765K). The 25 % stake held by VHV Beteiligungs-Aktiengesellschaft is included in minority interests in the amount of €1,923K. After taking into account the balancing item of €5,681K (previous year: €2,844K) resulting from currency translation, retained earnings total €145,947K (previous year: €143,105K).

The Group reported a net profit of €55,997K for the year (previous year: €2,964K). After offsetting the consolidated loss brought forward in the amount of €10,268K (previous year: €3,534K) and taking into account minority interests of €1,544K (previous year: €6,307K), and after allocations to retained earnings of €0K (previous year: €3,700K), the consolidated balance sheet profit amounts to €47,273K (previous year: €2,037K).

**Subordinated liabilities**
Subordinated registered bonds in the amount of €61,750K were issued on 1 November 2016 with a fixed-interest period until 31 October 2026.

**OTHER PROVISIONS**

| in €'000 | 2018 | 2017 |
|---|---|---|
| a) Provisions to cover expenses related to preparation of the annual financial statements | 566 | 589 |
| b) Provisions related to human resources | 3,449 | 3,575 |
| c) Provisions for other administration costs | 82 | 165 |
| **Total** | **4,097** | **4,329** |

**Liabilities to banks**
Liabilities to banks of €7,710K were reported as at the balance sheet date. These have arisen in the course of collateral management due to cash collateral received for forward purchases, which must be repaid by the time the transactions mature at the latest.

**Other liabilities**
There are no liabilities with a term to maturity of more than five years. All other liabilities have a term to maturity of less than one year.

**Deferred items**
Discounts on registered bonds totalled €847K as at the balance sheet date (previous year: €936K).

**Contingent liabilities and commitments**
As a member of the German Pharmaceutical Reinsurance Association (Pharma-Rückversicherungs-Gemeinschaft), we are required to assume the benefit obligations of any other member of the pool if one of them drops out. Our obligation applies in relation to our quota share. Similar obligations exist as a result of our membership of the German Nuclear Reactor Insurance Association (Deutsche Kernreaktor-Versicherungsgemeinschaft – DKVG). Due to our membership of the Association of German Public Insurers (Verband öffentlicher Versicherer), we are liable for the Association's liabilities up to €180K. We estimate that the probability of occurrence is extremely low.

**Other financial commitments**
From the investment portfolio, commitments in the amount of €146,266K existed as at the balance sheet date in relation to forward purchases of promissory notes, registered securities and bearer bonds

with interest rates of between 1.125 % and 3.625 % and terms to maturity of between 4 and 29 years. Forward purchases are measured using the cost of carry method. Taking into account the market value of the underlying instruments at the balance sheet date, the total fair value of the forward purchases is €12,058K.

There are also four optional purchase obligations (short put options) as at the balance sheet date arising from two registered bonds issued by the IBRD (World Bank), each of which amounts to €5,000K, with interest rates of 2.26 % and 2.40 % respectively and terms up to 6 July 2037 and 16 February 2038 respectively. The purchase obligations have a combined market value of €−748K and €−759K respectively based on the shifted Libor market model. It is not necessary to recognise provisions for anticipated losses from pending transactions, as there is no impairment to the underlying instrument that is expected to be permanent.

We plan to purchase shares in a non-listed company in the next financial year. A convertible loan has been awarded in connection with this, which contains embedded options. This is a separable derivative financial instrument that is not recognised at fair value. It is not possible to calculate the fair value of derivative components because of their complexity. In view of the opportunities arising from the options, the fair value is not negative.

Deutsche Rück has granted loans secured by land charges in the last three financial years, which have not yet been fully disbursed. The outstanding payments are linked to progress with construction of the properties serving as security. The total loan amounts still to be disbursed come to €18,521K. The interest rates are between 1.85 % and 11 %.

There is an investment restriction resulting from an agreement with a borrower relating to the repayment of a loan secured by land charges. As the lender, Deutsche Rück has promised to leave an amount of €3,591K less current facility fees in the loan account until 30 November 2019 and not to access it.

Rental commitments amounted to €1,488K as at 31 December 2018 (previous year: €1,873K).

There are no leasing commitments.

There are no other contingent liabilities, including pledges and assignments as security as well as liabilities resulting from the issue of bills of exchange and cheques, that are not clearly recognisable from the financial statements.

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

**GROSS PREMIUMS WRITTEN**

| in €'000 | 2018 | 2017 |
|---|---|---|
| Property and casualty business | 1,036,099 | 1,145,588 |
| Life insurance business | 72,293 | 56,040 |
| **Total** | **1,108,392** | **1,201,628** |

**PERSONNEL EXPENSES**

| in €'000 | 2018 | 2017 |
|---|---|---|
| 1. Wages and salaries | 12,963 | 13,878 |
| 2. Social security contributions and employee assistance expenses | 1,728 | 1,727 |
| 3. Expenses for employees' pensions | 3,869 | 2,851 |
| **Total** | **18,560** | **18,456** |

### Technical interest income for own account

Technical interest income comprises the 3.5 % interest allocated to the annuity provision and the deposit interest on the deposit for provisions for future policy benefits.

### Claims expenditure for own account

Releases to the provision for outstanding claims assumed from the previous year generated a gross profit of 15.8 % (previous year: 12.5 %) of gross earned premiums and a net profit of 18.3 % (previous year: 14.2 %) of net earned premiums.

### Other income

Other income includes income of €7,447K (previous year: €104K) from currency conversions.

### Other expenses

Other expenses include interest for the annual servicing of the registered bonds we have issued in the amount of €1,871K (previous year: €1,871K). Interest allocated to provisions for employees' pensions, semi-retirement and long-service award expenses comes to €911K (previous year: €885K). Expenses arising from currency conversion totalled €145K in the financial year under review (previous year: €9,101K).

## OTHER DISCLOSURES

The parent company Deutsche Rückversicherung AG has its head office in Düsseldorf and is registered with the district court of Düsseldorf under the number HRB 24729.

The parent company proposes to the Annual General Meeting that the balance sheet profit of €3,083K be used as follows:

**PROPOSAL FOR APPROPRIATION OF THE BALANCE SHEET PROFIT**

in €'000

| | |
|---|---|
| 12 % dividend on the paid-up share capital | 3,000 |
| Transfers to retained earnings | 0 |
| Carry forward to new account | 83 |

On average, the Group employed 125 full-time staff during the year under review (previous year: 127). Of these, 112 were based in Germany and 13 abroad.

Total remuneration of the Supervisory Board amounted to €102K in the year under review, while the Advisory Board earned €18K. Members of the Investment Committee and Audit Committee received €17K.

Remuneration for the Board of Executive Directors amounted to €336K in the year under review.

Total remuneration for former members of the Board of Executive Directors and their surviving dependants came to €456K. Provisions recognised in this regard amount to €8,797K.

Fees in the amount of €162K were paid or set aside for the Group’s statutory auditors in the 2018 financial year. Of this sum, €147K related to the audit of the annual financial statements for 2018 and €15K to other services provided during the year under review.

At the present time and taking into account current business performance, there have been no major events that could have a significant and lasting negative impact on the Group’s net assets, financial position and results of operations.

Düsseldorf, 26 March 2019

Deutsche Rückversicherung Aktiengesellschaft

Board of Executive Directors

Schaar Bosch Rohde

# Independent auditor’s report

To Deutsche Rückversicherung Aktiengesellschaft, Düsseldorf

## NOTE ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT

**Audit opinion**

We have audited the consolidated financial statements of Deutsche Rückversicherung Aktiengesellschaft and its subsidiaries (the Group), comprising the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of changes in shareholders’ equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2018, and the notes to the consolidated financial statements, including the presentation of accounting principles. We have also audited the Group management report of Deutsche Rückversicherung Aktiengesellschaft for the financial year from 1 January 2018 to 31 December 2018.

In our opinion, based on the findings of our audit,

- the enclosed consolidated financial statements comply with the provisions of German commercial law as applicable to insurance companies in all key respects and give a true and fair view, in accordance with German generally accepted accounting standards, of the Group’s net assets and financial position as at 31 December 2018 and of its results of operations for the financial year from 1 January 2018 to 31 December 2018, and
- the enclosed Group management report gives a true and fair overall view of the Group’s position. In all key respects, this Group management report is consistent with the consolidated financial statements, complies with the provisions of German law and accurately presents the opportunities and risks associated with future development.

In accordance with Section 322 (3) Sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any reservations with regard to the correctness of the consolidated financial statements and the Group management report.

**Basis for our audit opinion**

We have conducted our audit of the consolidated financial statements and the Group management report in accordance with Section 317 of the German Commercial Code (HGB) and Regulation (EU) No. 537/2014 on audits, taking into account generally accepted German standards for auditing financial statements as promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW). Our responsibility in accordance with these regulations and standards is described in more detail in the section “Auditor’s responsibility for auditing the consolidated financial statements and the Group management report” within our auditor’s report. We are independent of the Group companies in accordance with the provisions of European law and German commercial law as well as German rules of professional conduct, and have fulfilled the rest of our professional duties under

German law in accordance with these requirements. We also declare, in accordance with Article 10 (2) sub-paragraph f) of Regulation (EU) No. 537/2014, that we have not provided any prohibited services not related to auditing in accordance with Article 5 (1) of Regulation (EU) No. 537/2014. We believe that the audit evidence we have obtained provides an adequate and appropriate basis for our audit opinion with regard to the consolidated financial statements and the Group management report.

**Facts of particular importance in the audit of the consolidated financial statements**
Facts of particular importance in the audit are those facts that, based on our judgement, are the most relevant in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These facts have been taken into account in connection with our audit of the consolidated financial statements as a whole and in forming our audit opinion; we shall not provide a separate audit opinion on these facts.

**Assessment of partial provisions for known and unknown claims included in gross provisions for outstanding claims**
Risks relating to the financial statements
Gross provisions for outstanding claims come to €1,598.5 million, 69.6 % of total assets.

The gross provision for outstanding claims is made up of various partial provisions. The provision for known and unknown claims relates to a significant portion of the gross provision for outstanding claims.

The assessment of the provision for outstanding claims is subject to uncertainty with respect to the expected amounts of losses and is therefore heavily dependent on judgement. In accordance with the principles of commercial law, this may not be assessed as risk-neutral by giving an equal weighting to opportunities and risks; instead, the principle of prudence in accordance with accounting law must be observed (Section 341e (1) Sentence 1 of the German Commercial Code (HGB)).

Deutsche Rück generally recognises provisions in accordance with the instructions of cedants (known claims). If no instructions are available at the time of preparing the financial statements, provisions are estimated. These estimates are replaced when the actual statements of account are received and entered in the following year. The difference between the estimate and the actual statement of account results in a true-up, which has an impact on the accounts in the following year.

Deutsche Rück also makes additional provisions based on past experience for unknown claims that have not yet been reported by the cedants, by increasing the reported provisions. These are determined by applying actuarial methods.

The risk with respect to claims that are already known at the balance sheet date lies in the possibility that insufficient provisions may have been made for expected claims payments. With regard to incurred but not yet reported (IBNR) claims, there is also a risk that these may not have been estimated accurately.

Our approach in the audit

In auditing the provision for known and unknown claims, we appointed our own actuaries as part of the audit team and performed the following key audit procedures:

- We obtained a basic overview of the process for calculating provisions, identified key checks intended to ensure the completeness and accuracy of estimates and tested these with respect to their appropriateness and effectiveness. In particular, we satisfied ourselves that checks to ensure that cedants' statements of account are recorded and processed correctly and to determine increases in reserves and estimates, which are intended to ensure that assessments are correct, are appropriately structured and are being carried out effectively.
- We carried out our own actuarial reserve calculations for selected segments, which we selected based on risk considerations. In each case, we made a points-based estimate using recognised actuarial methods to assess the level of security in provisions for outstanding claims.
- By comparing the figures over time, particularly the loss ratios for each financial year and in the accounts, we analysed the development of claims provisions in the respective lines of business.
- We analysed the actual development of the provision for outstanding claims recognised in the previous year based on run-off results.
- We also traced the estimates for the year under review and the true-up for the previous year in each case, both in their entirety and at the level of individual lines of business. We carried out interviews and inspections in the event of significant deviations.

Our conclusions

The methods used to assess the partial claims provision for known and unknown claims are appropriate and are in keeping with the accounting principles applied. The underlying assumptions have been appropriately derived.

**Other information**

The legal representatives are responsible for other information. Other information includes the other parts of the annual report, with the exception of the audited consolidated financial statements and Group management report and our auditor's report.

Our audit opinion on the consolidated financial statements and the Group management report does not extend to other information, and we are therefore not providing an audit opinion or any other form of audit conclusion on this information.

As part of our audit, we have a responsibility to read the other information and to determine whether the other information

- reveals significant discrepancies in relation to the consolidated financial statements, the Group management report or the findings of our audit or
- appears to be presented in any other way that is significantly incorrect.

**Responsibility of the Board of Executive Directors and the Supervisory Board for the consolidated financial statements and the Group management report**
The Board of Executive Directors is responsible for preparing the consolidated financial statements, which must comply in all key respects with the provisions of German commercial law that apply to insurance companies, and is responsible for ensuring that the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations in accordance with German generally accepted accounting standards. Furthermore, the Board of Executive Directors is responsible for the internal checks that it has deemed necessary to ensure that it is possible to prepare consolidated financial statements that are free from any material misstatements, either intentional or unintentional.

When preparing the consolidated financial statements, the Board of Executive Directors is responsible for assessing the Group's ability to continue its activities. Moreover, it has a responsibility to disclose any facts in connection with the continuation of the company's activities where relevant. It also has a responsibility to draw up the accounts on the basis of the going concern principle, unless actual or legal conditions prevent this.

In addition, the Board of Executive Directors is responsible for preparing the Group management report, which must give a true and fair overall view of the Group's situation and in all key respects must be consistent with the consolidated financial statements, comply with German legal regulations and accurately present the opportunities and risks associated with future development. The Board of Executive Directors is also responsible for the precautions and measures (systems) that it has deemed necessary in order to enable a Group management report to be prepared in accordance with the applicable German legal regulations and to be able to provide adequate and suitable evidence for the statements made in the Group management report.

The Supervisory Board is responsible for overseeing the Group's accounting process for the preparation of the consolidated financial statements and the Group management report.

**Auditor's responsibility for auditing the consolidated financial statements and the Group management report**
Our aim is to obtain sufficient certainty as to whether the consolidated financial statements as a whole are free from material misstatements, either intentional or unintentional, and whether the Group management report as a whole gives a true and fair view of the Group's situation and in all key respects is consistent with the consolidated financial statements and the findings of our audit, complies with German legal regulations and accurately presents the opportunities and risks associated with future

development, and to issue an auditor's report containing our audit opinion on the consolidated financial statements and the Group management report.

Sufficient certainty means a high degree of certainty, but does not guarantee that an audit conducted in accordance with Section 317 of the German Commercial Code (HGB) and Regulation (EU) No. 537/2014 on audits, taking into account generally accepted German standards for auditing financial statements as promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW), will always reveal any material misstatement. Misstatements can result from irregularities or inaccuracies and are regarded as material if they could reasonably be expected to influence, either individually or collectively, economic decisions made on the basis of these consolidated financial statements and this Group management report by the recipients.

We exercise discretion during the audit and maintain a basic critical stance. We also

- identify and assess the risks of material misstatements, either intentional or unintentional, in the consolidated financial statements and the Group management report, plan and implement audit procedures in response to these risks and obtain adequate and appropriate audit evidence to serve as the basis for our audit opinion. The risk that material misstatements may not be discovered is higher in the case of irregularities than in the case of inaccuracies, as irregularities may include collusion for fraudulent purposes, forgery, intentional omissions, misleading representations and the invalidation of internal checks.
- gain an understanding of the internal control system that is relevant to the audit of the consolidated financial statements and the precautions and measures that are relevant to the audit of the Group management report, in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of issuing an audit opinion on the effectiveness of these systems.
- assess the appropriateness of the accounting methods applied by the Board of Executive Directors and the validity of the estimates presented by the Board of Executive Directors and associated disclosures.
- draw conclusions about the appropriateness of the going concern principle applied by the Board of Executive Directors and, on the basis of the audit evidence obtained, about whether there is any significant uncertainty in connection with events or circumstances that could raise significant doubts about the Group's ability to continue its activities. If we conclude that there is significant uncertainty, we have an obligation to draw attention in our auditor's report to the associated disclosures in the consolidated financial statements and the Group management report or, if these disclosures are inadequate, to amend our respective audit opinion. We draw our conclusions on the basis of the audit evidence we have obtained up to the date of our auditor's report. However, future events or circumstances may mean that the Group is no longer able to continue its activities.
- assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and assess whether the consolidated financial statements present the underlying business transactions and events in such a way that the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations in accordance with German generally accepted accounting standards.

- obtain adequate and appropriate audit evidence for the companies' accounting information or for business activities within the Group, in order to submit audit opinions on the consolidated financial statements and the Group management report. We are responsible for issuing instructions regarding the audit of the consolidated financial statements and for conducting and supervising the audit. We are solely responsible for our audit opinion.
- assess whether the Group management report is consistent with the consolidated financial statements and whether it complies with the law, and assess the view it presents of the Group's situation.
- conduct audit procedures with respect to the forward-looking statements presented by the Board of Executive Directors in the Group management report. On the basis of adequate and appropriate audit evidence, we trace in particular the key assumptions underlying the forward-looking statements made by the Board of Executive Directors and assess whether the forward-looking statements have been appropriately derived from these assumptions. We do not provide a separate audit opinion on the forward-looking statements or the underlying assumptions. There is a substantial and unavoidable risk that future events could deviate significantly from the forward-looking statements.

We discuss the planned scope and schedule of the audit with the parties responsible for supervision, as well as the key findings of the audit, including any deficiencies in the internal control system that we discover during our audit.

We submit a declaration to the parties responsible for supervision stating that we have complied with the relevant requirements with regard to independence, and discuss with them all relationships and other circumstances that can reasonably be expected to have an impact on our independence and the precautions we have taken in this regard.

Of the facts we have discussed with the parties responsible for supervision, we determine those that were the most significant in the audit of the consolidated financial statements for the current reporting period and that therefore constitute particularly important audit facts. We describe these facts in our auditor's report, unless laws or other legal regulations prevent these facts from being publicly disclosed.

## OTHER STATUTORY AND LEGAL REQUIREMENTS

**Other disclosures in accordance with Article 10 of Regulation (EU) No. 537/2014 on audits**
We were elected as the auditor for the consolidated financial statements at the Supervisory Board meeting on 24 April 2018. The Supervisory Board instructed us on 24 May 2018 to perform an audit. We have acted as auditor for the consolidated financial statements of Deutsche Rückversicherung Aktiengesellschaft every year since 2000.

We declare that the audit opinions contained in this auditor's report are consistent with the additional report to the Supervisory Board in accordance with Article 11 of Regulation (EU) No. 537/2014 on audits (audit report).

We provided the following service for Group companies that is not stated in the consolidated financial statements or the Group management report in addition to the audit of the financial statements. As well as auditing the annual/consolidated financial statements and reviewing the solvency overview at the level of Deutsche Rückversicherung Aktiengesellschaft as an individual company, we provided a tax-related service (country-related report in accordance with Section 138a of the German Tax Code (Abgabenordnung – AO)) for Deutsche Rück.

## RESPONSIBLE AUDITOR

The auditor responsible for the audit is Christine Voß.

Cologne, 2 April 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Voß | Fleischerowitz |
| Wirtschaftsprüferin | Wirtschaftsprüfer |
| (Certified public accountant) | (Certified public accountant) |

# Report of the Supervisory Board

**Obligations and appointments**
The Supervisory Board monitored and advised the Board of Executive Directors in its management of the company, exercising the responsibilities incumbent upon it in accordance with statutory regulations, the Articles of Association and the rules of procedure.

Ulrich-Bernd Wolff von der Sahl retired and stepped down from the Supervisory Board with effect from 31 May 2018. Dr Andreas Jahn was elected to the Supervisory Board as his successor with effect from 1 June 2018 at the Annual General Meeting, in accordance with the Articles of Association. The current members of the Supervisory Board were confirmed in their posts at the scheduled re-election of the board. New members of the Supervisory Board committees were also elected at the same time.

In addition, Frank Schaar was elected CEO with effect from 21 February 2018 and Achim Bosch was elected as a member of the Board of Executive Directors with effect from 1 January 2019. Dr Katrin Burkhardt stepped down from the Board of Executive Directors with effect from 31 December 2018.

**Collaboration with the Board of Executive Directors**
The Board of Executive Directors informed the Supervisory Board regularly and comprehensively of the Group's position and development. A total of five meetings were held in the 2018 financial year.

At these meetings, the Supervisory Board received and discussed verbal and written reports from the Board of Executive Directors and adopted the applicable resolutions. The Supervisory Board was also kept abreast of business developments and the Group's position in written quarterly reports from the Board of Executive Directors in accordance with Section 90 of the German Stock Corporation Act (AktG). Business developments at the main subsidiaries were also considered.

In addition, the Chief Executive Officer informed the Chairman of the Supervisory Board of all major developments, forthcoming decisions and the companies' risk position outside these meetings.

At these meetings, the Supervisory Board received detailed explanations of the companies' economic position and development. Regular reports focused above all on the companies' corporate planning and anticipated results, their risk situation and risk management, as well as their financial situation. The holders of all four key functions in accordance with Solvency II presented their annual reports and answered questions from the Supervisory Board in the year under review. Regulatory requirements in accordance with Solvency II and other laws were also discussed and corresponding resolutions were adopted. Furthermore, resolutions were adopted on participating interests and on the procedure for inviting tenders for the reappointment of the auditor in accordance with the German Audit Reform Act (Abschlussprüfungsreformgesetz – AReG).

**Adoption of the annual financial statements**
The Supervisory Board elected the auditor for the 2018 audit. The actual audit order was placed by the Chairman of the Supervisory Board. The consolidated financial statements and Group management

report for the 2018 financial year were audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Cologne, and did not give rise to any objections; an unqualified auditor's opinion was thus issued. The auditors attended the balance sheet meeting held by the Supervisory Board and reported on the key results of their audit.

Following the definitive result of the checks conducted by the Supervisory Board, and after discussing both the consolidated financial statements and the Group management report, the Supervisory Board has no further comments to make on the auditor's report.

The Supervisory Board concurs with the auditor's findings and approves the consolidated financial statements prepared by the Board of Executive Directors.

On behalf of all members of the Supervisory Board, I would like to thank the Board of Executive Directors and all employees of the Deutsche Rück Group for their close collaboration with the supervisory bodies and their great dedication in promoting Deutsche Rück's successful further development.

Düsseldorf, 2 April 2019

Dr Frank Walthes
Chairman

## COMPANY DETAILS

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