Deutsche Rück

Deutsche Rückversicherung Group

2020

ANNUAL REPORT

Deutsche Rückversicherung Group

ANNUAL REPORT 2020

Gross premiums written
€1,213.3 m

Securities
€2,212.5 m
incl. net provisions for outstanding claims and for future policy benefits

Operating result before tax
€10.2 m

STANDARD & POOR'S
Interactive Rating
very good financial performance
A+

Key figures of the Deutsche Rück Group

FINANCIAL YEARS in €m	2020	2019	2018	2017	2016
Gross premiums written	1,213.3	1,107.9	1,108.4	1,201.6	1,175.0
Net premiums earned	780.7	736.2	728.8	705.8	720.7
Net loss ratio (as % of net premiums earned)	63.4	68.1	65.3	65.1	64.4
Expense ratio – net (as % of net premiums earned)	32.7	33.5	31.7	30.6	36.1
Combined ratio – net (as % of net premiums earned)	95.9	101.1	97.2	95.8	100.4
Underwriting result – net (after change to the equalisation reserves)	–41.4	–21.0	–9.4	–20.0	–14.0
Result of general business	51.7	46.0	87.7	44.0	37.0
Operating result before tax	10.2	25.0	78.2	24.0	23.1
(as % of net premiums earned)	1.3	3.4	10.7	3.4	3.2
Net profit for the year (after tax)	9.7	13.5	56.0	3.0	14.5
(as % of net premiums earned)	1.2	1.8	7.7	0.4	2.0
Investments incl. deposits retained	2,291.7	2,177.4	1,998.2	1,936.7	1,861.7
(as % of net premiums earned)	293.5	295.8	274.2	274.4	258.3
Current average interest rates as % (total excl. deposits retained as %)	2.6	2.3	2.7	3.1	2.4
Net technical provisions (excl. equalisation reserves)	1,560.1	1,497.0	1,448.7	1,345.1	1,293.3
(as % of net premiums earned)	199.8	203.3	198.8	190.6	179.4
Security (before appropriation of profit)	758.0	639.2	604.1	529.2	511.9
(as % of net premiums earned)	97.1	86.8	82.9	75.0	71.0
thereof: **Balance sheet equity (before appropriation of profit)**	306.5	300.8	280.8	225.6	232.1
(as % of net premiums earned)	39.3	40.9	38.5	32.0	32.2
Hybrid capital	121.8	61.8	61.8	61.8	61.8
(as % of net premiums earned)	15.6	8.4	8.5	8.7	8.6
Equalisation reserves	329.7	276.7	261.5	241.8	218.1
(as % of net premiums earned)	42.2	37.6	35.9	34.3	30.3

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Board of Executive Directors

Frank Schaar, Chief Executive Officer
Achim Bosch
Michael Rohde

From left: Achim Bosch, Frank Schaar (Chief Executive Officer), Michael Rohde

Group Management Report

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Group Management Report

BASIS OF THE GROUP

The Deutsche Rück Group is a multi-line reinsurer concentrating on property/casualty insurance. The Group's biggest market is Germany. The Deutsche Rück Group is also expanding its position in European and selected international markets. We place an emphasis on sustainable, long-term business partnerships. The rating agency Standard & Poor's regularly awards the Deutsche Rück Group an "A+" rating, acknowledging the Group's stable long-term financial standing and systematic underwriting policy.

The Deutsche Rück Group operates its reinsurance business through the companies Deutsche Rückversicherung AG in Düsseldorf and Deutsche Rückversicherung Switzerland Ltd (DR Swiss) 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.

ECONOMIC REPORT

OVERALL ECONOMIC AND SECTOR-SPECIFIC CONDITIONS

Economy and labour market

The spread of the SARS-CoV-2 coronavirus and the associated infectious disease, COVID-19, dominated public life in 2020 and had a massive impact on the global economy and international financial markets. The World Health Organisation (WHO) officially declared COVID-19 to be a pandemic on 11 March. Lockdowns followed in almost all developed countries, which were loosened over the summer before more restrictive measures were introduced again from October.

The German economy experienced a sharp decline as a result, although it was not as severe as many experts had anticipated. The Federal Office of Statistics calculates that gross domestic product fell by 4.9 % in 2020, following a rise of 0.6 % in the previous year and 1.3 % in 2018. After ten years of growth, the German economy is thus in a similarly deep recession to that experienced during the global financial and economic crisis, which caused Germany's economy to slump by 5.7 % in 2009.

The coronavirus pandemic has left its mark on all economic sectors. Economic output fell by 9.7 % year on year in manufacturing and by 10.5 % in the processing sector. Industry was affected by temporary disruptions to supply chains, especially in the first half of the year. Service sectors in particular recorded unprecedented declines in some cases, with economic output in trade, transport and the hospitality industry falling by 6.1 %. In contrast, the construction industry held its ground in the crisis, with gross value added actually rising by 2.8 %.

While consumer spending had propped up the economy during the 2008/2009 financial and economic crisis, private consumer spending was down 6.1 % in 2020, an unprecedented drop. Government spending, on the other hand, increased by 3.3 % and thus had a stabilising effect during the coronavirus crisis. Gross investment in fixed assets recorded a significant drop of –3.1 % with adjustments for inflation. The coronavirus pandemic also had a huge impact on foreign trade. Exports and imports of goods and services fell for the first time since 2009, with exports declining by 9.4 %, while imports dropped by 8.5 %.

The consequences of the pandemic and measures to contain it also had a direct impact on the labour market. However, short-time working had a stabilising effect, allowing many employment contracts to be protected and preventing higher unemployment. Figures from the Federal Employment Agency show that the number of people registered as unemployed rose to an average of about 2.7 million in 2020. The unemployment rate increased by 0.9 percentage points to 5.9 %. According to the Federal Office of Statistics, around 44.8 million people were employed on average in 2020, a drop of about 487,000 or 1.1 % compared with 2019. The coronavirus pandemic thus put an end to the rise in employment that had continued for over 14 years.

Government budgets showed a financing deficit of €139.6 billion at the end of 2020, the second-highest deficit since German reunification.

Developments in the insurance market

With growth of 1.2 % across all lines of business to €220 billion (previous year: 7.1 %), German insurers recorded a slight increase in premiums despite the difficult economic climate due to the coronavirus pandemic, according to initial projections. While premiums in life insurance fell slightly, premiums in property and casualty insurance and in private health insurance recorded stable growth.

German property and casualty insurers reported premium growth of 2.1 % to €74.8 billion for 2020. This represented a slight slowdown in growth (2019: 3.5 %). Many motor insurers allowed clients to reduce their premiums as they were driving less; premium growth in this line of business was correspondingly low, at 0.6 %. By contrast, property insurance had a stabilising effect with premium growth of 5.4 %, as many lines such as home contents and buildings insurance were not affected by the pandemic.

Benefits paid out in property and casualty insurance fell by 2.5 % to €52.0 billion. The lockdowns led to high costs for cancelled events and business closures during the year. At the same time, however, insurers reported fewer accidents on the roads and during leisure activities and a drop in burglaries, damage to goods during transport and business failures. According to initial estimates, losses due to natural hazards are also well below the long-term average of €3.7 billion, at €2.5 billion. The combined ratio in property and casualty insurance improved by 2.8 percentage points to 90 %.

The coronavirus crisis left its mark on life insurers' new business, partly owing to the postponement of consultation appointments. The number of new contracts concluded declined by about 12 %. However, total premium income including pension schemes and pension funds (excluding provisions for premium refunds) fell only slightly in life insurance by 0.4 % to €102.7 billion. While life insurance business with regular premiums was down 1.0 % at €64.4 billion, business with lump sum premiums grew slightly by 0.4 % to €38.3 billion.

Premium income of private health insurers rose by 3.8 % to €42.6 billion in 2020. Of this sum, €38.4 billion related to private health insurance (+1.5 %) and €4.2 billion to private long-term care insurance (+31.2 %). This was mainly due to additional services in connection with statutory care reforms. Insurance benefits paid out rose slightly by 0.2 % to €30.1 billion.

Capital market trends

The extensive measures and restrictions imposed to combat the pandemic led to drops in economic output all around the world. Fiscal policy measures and government financial support helped to soften the recession, but did not prevent the rate of change in gross domestic product in most economies from turning negative compared with 2019. Central banks propped up economies with large-scale monetary policy measures, particularly the US Federal Reserve Bank, which cut its base rate by a total of 150 basis points in two steps in the first quarter to 0.25 % and extended its bond-buying programme. The European Central Bank also loosened its monetary policy by launching new purchase programmes, expanding existing programmes and offering banks additional options for securing liquidity. It kept its deposit rate unchanged at –0.5 %.

Significant price drops occurred on global stock markets towards the end of the first quarter. Germany's DAX index plummeted within just a few trading days, falling from over 13,500 points in mid-February to below 8,500 points in mid-March. Other respected stock market indices such as the broad-based US S&P 500 index and the Dow Jones EuroStoxx 50 performed similarly during this period. The combination of investment pressure and fiscal and monetary policy support measures led to a strong recovery on stock markets by the end of the year, given that returns on safe investments were still very low. The S&P 500 gained 16.3 % year on year in net terms, even reaching a new all-time high of 3,756 points. In Germany, the DAX climbed 3.6 %, while the Dow Jones EuroStoxx 50 lost 5.1 % year on year.

The yield on ten-year US treasuries fell year on year from 1.92 % to 0.91 %, driven by interest rate cuts by the US central bank, having reached an annual low of 0.51 % in August. The return on ten-year German government bonds slid deeper into negative territory. Having stood at –0.19 % at the beginning of the year, it reached a new historic low of –0.86 % in early March. By the end of the year it was back up at –0.57 %, resulting in a net decline of 38 basis points.

The euro began the year at around USD 1.12 before falling to below USD 1.07 by the end of March. The external value of the euro then rose again steadily, leading to an exchange rate of around USD 1.22 at the end of the year. There was a mixed picture for commodities in 2020. The price of crude oil, which had stood at around USD 66 per barrel of Brent at the beginning of the year, fell sharply as a result of economic weakness and falling demand, reaching an annual low of about USD 20 per barrel at the end of April. It then recovered towards the end of the year, closing the year at around USD 52 per barrel – a year-on-year drop of about 21 %. The gold price, in contrast, proved very strong, climbing from USD 1,517 per fine ounce to an annual high of USD 2,063 per fine ounce by August. By the end of the year the gold price was slightly lower again at USD 1,899, representing a net increase of 25 %.

BUSINESS PERFORMANCE AND RESULTS OF OPERATIONS

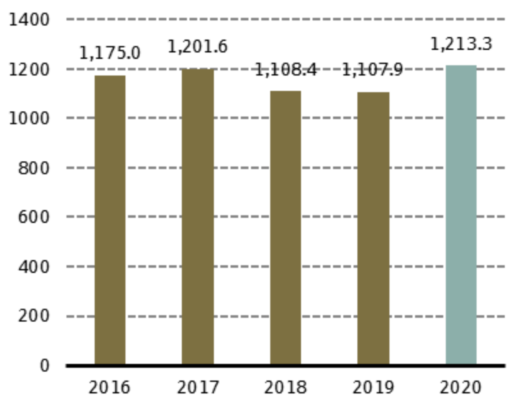
Technical business

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.

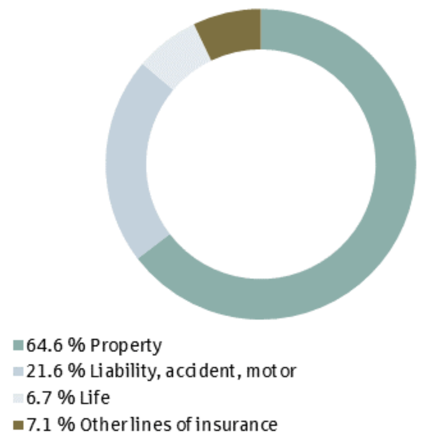
Premium income

PREMIUM INCOME BY CLASS OF BUSINESS FOR 2020	Gross premiums written		Net premiums earned	
		Difference to 2019		Difference to 2019
	in €'000	in %	in €'000	in %
Property	784,547	+ 12.2	399,656	+ 15.3
Liability, accident, motor	261,677	– 4.4	258,268	– 4.5
Life	81,236	– 10.6	34,973	– 21.1
Other lines of insurance	85,871	+ 95.6	87,844	+ 17.1
Total	**1,213,331**	**+ 9.5**	**780,740**	**+ 6.1**

DEVELOPMENT OF GPE 2016 – 2020
in €m



PORTFOLIO STRUCTURE 2020
Share in gross premiums in %



Gross premiums written in the Deutsche Rück Group grew significantly in the 2020 financial year, rising by €105,420K or 9.5 % from €1,107,911K in the previous year to €1,213,331K in the year under review. The winding-up of residual credit business, which was restructured within the Group in 2018, continued to have an impact on the portfolio in the year under review, as cancellation premiums once again had a negative effect on premium growth, albeit to a much lesser extent than in the previous year. The strongest premium growth in the property classes was recorded in fire and homeowners' comprehensive insurance. In contrast, premium income fell in liability, accident and motor insurance business and in life reinsurance.

Premiums for our retrocessions, which mainly protect the business assumed by the parent company, rose by 14.6 % or €55,877K to €437,846K in the year under review.

Premiums earned for own account increased by €49,543K or 6.8 % to €775,485K. **Net premiums earned** rose by €44,512K or 6.1 % to €780,740K.

In **property business**, which accounts for almost two thirds of our total gross premiums, premium income grew by €85,151K or 12.2 % from €699,396K to €784,547K. This growth came mainly from the fire (€+41,405K) and homeowners' comprehensive insurance (€+20,428K) lines. All other property insurance lines also recorded growth in premiums. As a large portion of the parent company's property portfolio is retroceded, this meant that premiums earned for own account came to €399,656K, up €53,074K on the previous year's volume.

Gross premium income in **liability, accident and motor insurance business**, the second-largest segment in our portfolio, came to €261,677K in the year under review, down €12,061K on the previous year. While motor liability insurance business accounted for the largest share of this decline, with a drop in income of €13,846K, other motor insurance recorded growth in income of €5,859K. Premium income in the liability and accident insurance lines was down year on year. Since liability, accident and motor insurance business is predominantly retained for own account, net premiums earned were only marginally lower than gross premiums, at €258,268K.

In **life reinsurance**, which is operated exclusively by the parent company, gross premiums fell by €9,630K to €81,236K in the year under review owing to a change in the terms governing the statements of account for an existing contract. As premiums for retrocession remained stable year on year, net premiums earned recorded a similar drop to that in gross premium income of €9,341K and totalled €34,973K.

The effects of the restructuring of residual credit business were still being felt in **other lines of insurance**. Cancellation premiums fell significantly year on year, which meant that gross premiums almost doubled overall, rising by €41,960K from €43,911K to €85,871K. Net premiums earned for own account increased by €12,805K to €87,844K.

Claims expenditure

Gross claims expenditure dropped by €26,461K from €702,902K to €676,441K in the year under review. The **gross loss ratio** fell accordingly from 61.2 % to 54.9 %. Through our retrocession scheme, which is geared towards property business, we were able to reduce gross claims expenditure in the affected lines. As claims expenditure from business outside the group of public insurers increased in the year under review and this business was included in our retrocession scheme only to a limited extent, these claims remain in the retention. The relief provided by our retrocession instruments amounted to €181,130K in the year under review, below the previous year’s figure of €201,198K. This resulted in total claims expenditure for own account of €495,311K, down €6,393K compared with the previous year’s claims expenditure of €501,704K. In relation to net premiums earned, the net loss ratio fell by 4.7 percentage points from 68.1 % to 63.4 %.

Claims expenditure resulting from the coronavirus pandemic was calculated partly using individual cedants’ portfolio information, as not all statements of account were available at the time of preparing the financial statements. Where cedants have made estimates, they have paid particular attention to the issue of legal certainty. As part of the so-called “Bavaria settlement” in Germany (relative lump-sum settlement of 15 % of the agreed amount of liability), policyholders have regularly signed settlement declarations, with the result that all entitlements arising from a further wave of the pandemic or from a mutation of the virus have been satisfied. The rate of acceptance of these settlements varies between cedants. Cedants are negotiating with those policyholders who have not agreed to the “Bavaria settlement”, and legal proceedings have been instituted in some cases. It is not yet clear what the outcome of these proceedings will be, owing to the different individual issues underlying the legal dispute. In view of the uncertain risk situation here, we have added a safety margin to the reported claims expenditure in each case.

The calculated claims expenditure relates mainly to the first wave of infections and the lockdown in the spring of 2020. It is unclear whether further waves of infection and associated restrictions on public life will lead to an additional loss burden and if so, how high this will be. Based on our clients' claims experience from the first wave, we have prepared appropriately by recognising a provision for unknown IBNR claims.

Gross claims expenditure of €76,069K has been calculated for the Deutsche Rück Group in the 2020 annual financial statements. The largest burden comes from the German market, but burdens of millions were also recorded in Switzerland, Ireland, France, the UK and Italy. This reduces the Group's net profit for own account by €50,034K. The fire, business interruption, transport and other property insurance lines are affected.

Claims expenditure in **property business** increased, mainly owing to losses arising from the coronavirus pandemic. Gross claims expenditure rose by €35,595K to €446,016K. In the fire segment (fire, business interruption and extended coverage), the gross claims burden was up by €55,728K year on year. The gross loss ratio rose accordingly by 5.9 percentage points to 73.8 %, while the ratio for own account increased from 74.6 % to 82.1 %.

In windstorm and buildings insurance, the claims burden from natural hazard events declined. There was only one major natural hazard event in the year under review, storm CIARA (also known as SABINE). Gross claims expenditure in the natural hazards segment declined by €27,045K in the year under review, while the gross loss ratio dropped from 50.3 % in the previous year to 38.2 %. The claims burden for own account also fell. The loss ratio for own account dropped by 19.2 percentage points to 40.9 %.

In **liability, accident and motor insurance business**, the gross claims burden fell by €25,598K from €206,774K in the previous year to €181,176K in the year under review. The accident line accounted for a large share of this reduction, having recorded a drop of €19,308K in claims expenditure owing to a high run-off profit in connection with the termination of a contract. The gross loss ratio fell by 6.5 percentage points from 75.4 % to 68.9 %. 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 69.6 %).

The net loss ratio in **life insurance business** rose by 1.2 percentage points in the year under review to 53.6 %.

In **other lines of insurance**, which include most of the residual credit business, claims expenditure fell further year on year in both gross and net terms. In relation to gross premiums earned, the gross loss ratio declined from 65.5 % to 21.3 %. The net loss ratio fell from 52.3 % to 38.7 %.

The net loss ratio for non-life business fell by 5.3 percentage points from 69.2 % to 63.9 %.

Operating expenses
The significant rise in premiums also led to an increase in gross expenses for insurance operations, which in total rose from €359,699K to €399,413K. Expenses also increased on the retrocession side, with net expenses for insurance operations rising from €242,855K to €253,688K. In relation to the higher net premiums, the **net expense ratio** for all classes fell from 33.5 % to 32.7 %.

Other technical expenses
Other technical expenses were positively influenced in the previous year by the release of a provision for profit shares. Consequently, they rose from €16,985K to €26,687K in the year under review.

Technical result
The net technical account before changes to equalisation reserves closed with a profit of €11,599K, following a loss of €5,841K in the previous year. A sum of €53,036K was allocated to equalisation reserves and similar provisions in the year under review.

After changes to equalisation reserves and similar provisions, the technical account closed with a loss of €41,437K, following a loss of €20,998K in the previous year.

Non-technical business

Investment income
The Deutsche Rück Group increased its investment income by €7,525K to €57,938K in the year under review, despite price fluctuations on capital markets due to the pandemic and the fact that interest rates remained very low.

After deduction of interest income on technical provisions, which was down €232K at €1,694K, €56,244K remained (previous year: €48,487K).

In particular, dividends from participating interests, which were up by €2,891K, and higher proportional profit contributions from associated companies (€+5,394K) contributed to this positive development.

Income from other investments also increased by 4.6 % to €45,235K. In particular, increased granting of loans secured by land charges had a positive impact on the development of income.

The balance of write-backs and write-downs, which was positive in the previous year at €2,528K, was negative in the year under review at €1,013K. Income from write-backs was down, at €2,221K (previous year: €4,443K). Write-downs were recognised on investments in the amount of €3,234K (previous year: €1,915K). Unscheduled write-downs were carried out on shares and bearer bonds, including where impairment was not expected to be permanent.

We realised gains of €3,082K on the disposal of investments in the year under review, which were due in particular to the disposal of equity funds. Losses on disposal increased only slightly to €573K in the year under review (previous year: €316K).

The current average interest yield, which takes into account not only regular income, but also regular expenses, amounted to 2.6 % (previous year: 2.3 %).

Other non-technical result
The balance of other income and other expenses was negative, at €4,559K. While other expenses remained stable year on year, other income declined owing to lower exchange rate gains compared with the previous year.

In total, the non-technical account closed with income of €51,685K in the year under review, up 12.4 % on the previous year.

After taking into account the technical loss of €41,437K, the Deutsche Rück Group achieved an operating result before tax of €10,248K in the last financial year (previous year: €24,997K).

Net profit for the year and balance sheet profit
Tax expenses for the 2020 financial year came to €520K, well below the previous year's expenses of €11,517K. This decline was partly due to the lower operating result before tax, while the valuation of claims provisions for tax purposes at the parent company also reduced tax expenses.

After deduction of taxes on income, net profit for the year came to €9,728K (previous year: €13,480K). This was increased to €10,961K (previous year: €12,758K) by the external shareholders' share of €1,233K in the net loss of DR Swiss.

After taking into account the consolidated profit carry forward of €39,717K and the external shareholders' share in the loss carry forward for DR Swiss (€3,489K), as well as a transfer of €3,500K to retained earnings from the profit for 2020, the consolidated balance sheet profit for the year under review totalled €50,666K (previous year: €50,844K).

NET ASSETS AND FINANCIAL POSITION

Net assets are influenced by the insurance business. Investments excluding deposits retained predominate on the assets side of the balance sheet, with a share in the Group's total assets of 83.8 % as at the balance sheet date (previous year: 84.5 %). The equity and liabilities side is dominated by net technical provisions, with a share of 72.9 % (previous year: 73.3 %).

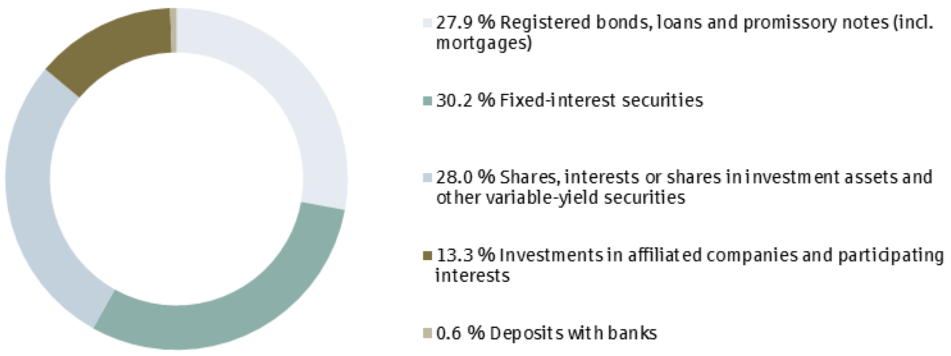
Assets

Investments excluding deposits retained increased by €127,842K to €2,172,343K in the year under review. The strongest growth was recorded in the asset class "registered bonds, loans and promissory notes (including mortgages)", which grew by €79,705K or 15.2 %, in particular owing to the granting of loans secured by land charges. The increase of €36,112K in the asset class "shares in affiliated companies and participating interests" was due in particular to further payments into existing participating interests. The growth in the asset class "shares, interests or shares in investment assets and other variable-yield securities" was primarily due to further purchases of units in the master fund. The asset classes "fixed-income securities" and "deposits with banks" both recorded a decline year on year.

INVESTMENT PORTFOLIO STRUCTURE	2020		2019	
	in €'000	in %	in €'000	in %
Shares in affiliated companies and participating interests	288,800	13.3	252,687	12.4
Shares, interests or shares in investment assets and other variable-yield securities	608,917	28.0	577,399	28.2
Fixed-interest securities	655,510	30.2	657,504	32.2
Registered bonds, loans and promissory notes (incl. mortgages)	605,616	27.9	525,911	25.7
Deposits with banks	13,501	0.6	31,000	1.5
Total	**2,172,343**	**100.0**	**2,044,501**	**100.0**

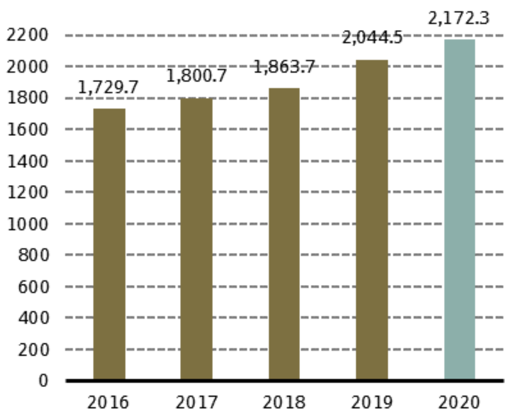
INVESTMENT STRUCTURE AS AT 31 DECEMBER 2020

in %



INVESTMENT PERFORMANCE 2016–2020

in €m



Receivables and other assets increased by €57,928K year on year to €287,295K at year-end. While accounts receivable from reinsurance business declined by €13,916K, other receivables increased by €24,654K, largely owing to a rise in entitlements to tax refunds. Cash at banks also increased by €47,217K to €203,178K in the year under review.

Liabilities and shareholders’ equity

Balance sheet equity increased by a total of €5,688K in the year under review to €306,483K. Retained earnings attributable to the parent company were strengthened with an addition of €7,698K. The external shareholders’ share fell by €1,832K, mainly owing to the result of the subsidiary DR Swiss for the year under review.

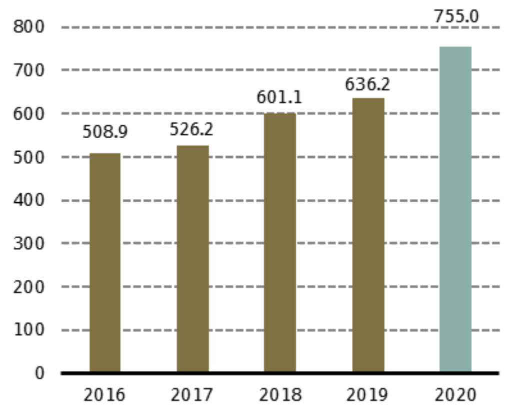
Equalisation reserves and similar provisions were strengthened significantly in the year under review with an addition of €53,036K.

Hybrid capital (subordinated liabilities) increased to €121,750K due to an additional €60,000K at the subsidiary DR Swiss, maturing on 30 November 2040.

Taking into account the balance sheet profit after appropriation of profit (dividend of €3,000K), our equity capital came to €754,953K in the year under review, up €118,724K compared with the previous year. In relation to the net premiums earned, this equates to a ratio of 96.5 % (previous year: 86.4 %).

The rating agency Standard & Poor’s says that the Deutsche Rück Group has a sustainable, extremely good capital base at AAA level and a sound financial standing.

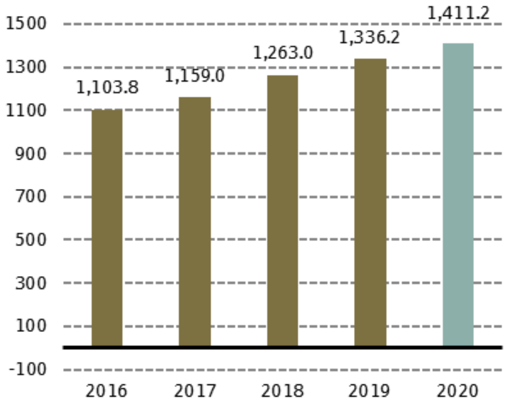
DEVELOPMENT OF SECURITY 2016 – 2020
in €m



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

Net technical provisions grew by €116,074K to €1,889,796K in the year under review. At €1,411,243K, the majority of net provisions related to claims provisions (net).

DEVELOPMENT OF CLAIMS PROVISIONS 2016 – 2020
in €m



Liabilities totalled €208,718K in the year under review and were thus stable year on year. While liabilities to banks from cash collateral received in the course of collateral management rose by €8,180K, other liabilities fell by €6,427K.

Financial and liquidity position

Our active liquidity management aims to ensure that our payment obligations are fulfilled at all times. Incoming and outgoing payment flows, mainly from reinsurance business and investments, are taken into account in financial planning. We also counter risks arising from unforeseeable liquidity requirements by ensuring that our investments have a balanced maturity structure. This ensured that we were able to meet our payment obligations at all times in the last financial year and will continue to do so in future.

For further detailed information about the liquidity situation, please refer to the comments on the cash flow statement.

Rating: A+

The rating agency Standard & Poor's has confirmed its rating of "A+" for the Deutsche Rück Group. The outlook remains "stable", despite the coronavirus crisis. Standard & Poor's reports that the Deutsche Rück Group has a sustainable, extremely good capital base, a strong competitive position and a secure earnings position. This is supported by risk-commensurate underwriting and a conservative strategy for the recognition of reserves.

In addition, the rating agency has highlighted the Group's strategy of developing its leading role among public insurers, as well as the gradual expansion of its international business – most recently in selected markets in North Africa and the Gulf States and in Latin America – as important factors in the Group's success. In this context, it has confirmed its "A+" rating and the Group's ongoing positive business performance with a stable outlook.

Sustainable investment

Sustainability criteria play a strategically important part in the management of our investments, simply because of our long-term business model as a reinsurer. At the Deutsche Rück Group, we are also aware of our responsibility to the environment and society and therefore take sustainable investment very seriously. To that end, we have integrated relevant environmental, social and governance issues (ESG criteria) into our investment processes.

The investors' initiative PRI (Principles for Responsible Investment), which we signed up to on 17 September 2019, serves as a framework for sustainable action in the field of investment. PRI is a globally recognised financial initiative for responsible investment created as a spin-off from the UN partner organisations Global Compact and UNEPFI. The six principles of PRI form the basis of our guidelines for responsible investment.

The Deutsche Rück Group aims to actively influence companies' sustainability decisions through engagement and by exercising its voting rights as part of "active ownership". As an active investor, we want to lead by example and encourage the companies we invest in to take a sustainable approach. Practising "active ownership" is therefore an important component of our commitment to sustainable investment.

OVERALL STATEMENT ON THE GROUP'S ECONOMIC POSITION

The Deutsche Rück Group increased its net premiums earned in the 2020 financial year. A drop in the net claims burden and increased expenses for insurance operations resulted in a technical profit overall, which ultimately became a loss after a large addition to the equalisation reserves. We generated income from our investments. The operating result before tax therefore showed a profit, although it was lower than the good result achieved in the previous year. After deduction of taxes on income, the net profit for the year was down year on year.

The Group once again strengthened its assets on a lasting basis, which is reflected in its 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 2020.

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 company's risk-bearing resources 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 the Risk Management department. 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 management and optimisation. 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
- Rating
- Balance sheet result (German Commercial Code)

Multi-year projection and forecasts of key risk indicators and analyses 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. Risk management in underwriting is based on the budget process during the renewals phase. This includes retrocession and strategic asset allocation of investments. The monthly Investment Committee meetings and their reports constitute central elements of the investment risk management process. Ad hoc reporting is in place for exceptional developments concerning major and accumulation losses in the property classes and on the capital market. 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 at the individual companies, in collaboration with the relevant company organs.

RISK REPORTING AND RISK TRANSPARENCY

Risk report and ORSA report

In the risk report, Deutsche Rück reports to the Board of Executive Directors and Supervisory Board on the overall risk situation and on exposures to potential individual risks. The reporting process is based on meetings of the Supervisory Board (three meetings in 2020). In its current edition, the report ensures the transparency of the risk situation of Deutsche Rückversicherung AG, 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 2020. 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 the report is a fundamental component of 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.

Risk management function (RMF)

The RMF is responsible for risk management at Deutsche Rück. It is assigned to the Risk Management department (RM). At Group level, the RMF is responsible for developing and implementing strategies, methods, processes and reporting procedures that are necessary in order to continuously identify, measure, monitor, manage and report on potential risks or risks that have been entered into, on an individual and aggregate basis, as well as their interdependencies. It is generally responsible for monitoring the risk management system and identifies possible weaknesses, reports on these to the Board of Executive Directors and develops proposals for improvements. In particular, the RMF is responsible for all processes that are relevant to risk, such as the ORSA process and risk reporting.

Central Underwriting Management (CUM)

At the Düsseldorf site, CUM is responsible for operational management of underwriting in non-life business and thus for the ongoing development of operational recommendations for action with respect to utilisation of the risk capital, diversification and profitability. CUM develops the rating instruments, particularly NatCat assessment models, and formulates the underwriting guidelines. The results of its work are incorporated into the internal non-life risk model (RATech), which measures premium risks and catastrophe risks, and the results of its risk analyses serve as the basis for the company's main management instruments.

Underwriting Committee (UWC)

The Underwriting Committee in Düsseldorf and Zurich gives advice in defined cases on the procedure to be adopted for major business transactions when decisions are required on underwriting. The UWC is made up of managers from the Market, Underwriting and Group Controlling units and from the RMF.

Controlling

The Controlling department is responsible for the Group-wide management and controlling process. The management of the company as a whole in accordance with commercial law and our values is based on this process, supported by the rating process. The management parameters that are relevant to the company as a whole are monitored and analysed as part of this. The department also develops the central systems that form the basis for the necessary analyses.

Actuarial Reserve Services (actuarial function)

Actuarial Reserve Services is assigned to Controlling/Risk Management and System 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. The actuarial function carries out the valuation of reserves within the meaning of Solvency II.

Compliance function

As part of the Legal and Compliance 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

The internal auditing function 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. It reports 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 developed 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 %	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Loss ratios as % of earned premiums	63.9	69.2	66.0	66.9	66.0	69.6	75.3	86.1	72.0	73.7
Run-off results as % of provision for outstanding claims	0.3	–1.5	11.7	9.1	9.3	13.1	6.4	15.4	14.8	10.9

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 issuers' or contractual partners' creditworthiness. 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.

AS AT 31/12/2020 CHANGES IN INDEX AND MARKET VALUES		AS AT 31/12/2020 CHANGES IN INTEREST RATE AND MARKET VALUES	
Index change	Change in market value of investments sensitive to equity prices in €m	Interest rate change	Change in market value of interest-rate sensitive investments incl. bonds from funds in €m
Increase of 20 %	+30.6	Increase of 200 bp	–153.3
Increase of 10 %	+15.3	Increase of 100 bp	–75.1
Drop of 10 %	–15.3	Drop of 100 bp	+77.0
Drop of 30 %	–45.9	Drop of 200 bp	+157.2

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. The weighted average rating for interest-bearing investments held directly, calculated with Moody’s factors (WARF), is “A”. The “lowest rating principle” is applied here, whereby the lowest of all the available credit ratings from recognised rating agencies is regularly used. At 81.6 %, the majority of all carrying amounts in direct investments (mean: 81.8 %) have a rating of “AAA to A–”, while 16.6 % (mean: 16.6 %) have been assigned ratings of “BBB+ to BBB–” and only 1.7 % (mean: 1.7 %) are in the non-investment grade range. The fact that our average rating has remained stable for years shows that we are able to keep the quality of our portfolio high despite low interest rates. 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 and monitor reinsurers on the basis of their current ratings and other criteria.

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 the Deutsche Rück Group 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 an 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 each working day 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 risks that 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.

COVID-19

On 11 March 2020, the World Health Organisation (WHO) officially declared the outbreak of the novel COVID-19 virus to be a pandemic. The Deutsche Rück Group's crisis team became operational at the same time and has met regularly since. The company has continued to operate as planned and without restrictions since 12 March 2020 with staff working from home. A step-by-step plan has been drawn up for the return to the office, which will be implemented in line with the latest developments in infections. Protecting the health of our employees is our company's top priority. Where it is necessary for staff to be in the office in person, it is possible to have a limited presence in two shifts that supplements the work done at home. A code of conduct has been drawn up for this, including the mandatory "AHA rules" (on distance, hygiene and face masks). The aim of these measures is to prevent and contain potential infections, in order to protect employees and ensure that business operations can continue.

As early as 9 March 2020, the EuroStoxx 50 stock market index closed at 2,959 points, representing a drop of about 21 % since the beginning of the year. The markets have since recovered. Large-scale, unprecedented lockdowns were imposed in many countries in order to combat the rapid spread of infection. In the insurance industry, this led in particular to claims on insurance for business closures and cancelled events. Adverse effects on the Deutsche Rück Group in the 2020 financial year have been taken into account in this report.

In the context of the ongoing COVID-19 pandemic and the measures taken to combat it, there is a possibility of additional setbacks on the capital markets and further limited adverse effects on underwriting. From an IT viewpoint, the general switch to home working was based on options that were already available and in use at the beginning of the year, which meant that there were only minor changes in the IT risk profile.

OPPORTUNITIES REPORT

The area in which the Deutsche Rück Group operates includes German-speaking markets, European markets and selected non-European markets, in which the Group is constantly expanding its position. It most recently expanded in the Middle East and, from mid-2021, it plans to expand in Latin America. We provide reinsurance cover for many different lines of insurance. We attach particular importance to existing client relationships and to gradually expanding these connections over the long term.

Opportunities and risks for our business are diverse. We provide a forecast for the development of our business based on realistic assumptions about general conditions in the section “Forecast for 2021”, which takes account of both short-term developments and long-term trends.

Over the last few years we have been holding restructuring talks with major clients, particularly in industrial fire business, which has led to a reduction in loss risks. We see an opportunity here to further stabilise the quality of our portfolio in proportional reinsurance business. We regard the expansion of our business in further markets outside Europe as an opportunity for broader geographical diversification, which will help to reduce risks. However, developments on financial markets and hedge transactions in conjunction with natural catastrophes remain fraught with uncertainty.

As a medium-sized reinsurer, the Deutsche Rück Group has sufficient flexibility and stability to not only react to unforeseen developments, but to seize them as an opportunity for the company. Our business model is based on long-term relations, i.e. it is designed for continuity and ensures that the burden balances out over time and that terms and conditions are commensurate with risk. This is of particular value in years with an extremely high claims burden.

In the long term, we expect to see an increase in weather-related natural catastrophes and the resultant claims burden. We are therefore constantly refining our risk management and adjusting our risk models. As well as needs-based insurance concepts, however, increasing weather-related risks also call for appropriate and sustainable sociopolitical measures. Technological developments with regard to the use of renewable energies and increasing digitalisation in all economic sectors entail new risks, but also, more importantly, offer new business opportunities.

In liability, accident and motor insurance business, particularly in motor insurance, our business activities are focused on our domestic market. We are also increasingly focusing on expanding our liability, accident and motor insurance business in selected neighbouring countries in order to help diversify our portfolio, and are concentrating on widening our expertise in the areas of cover concepts, underwriting and advice. As part of this, we intend to strengthen our position as a reliable and competent partner in European countries and in selected non-European markets.

Our high level of security (see the report on our financial strength rating) is accorded high priority at the Deutsche Rück Group. 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.

FORECAST REPORT

COMPARISON OF FORECAST AND ACTUAL DEVELOPMENTS IN 2020

The expected growth in premium volume in fire/property insurance turned out to be stronger than anticipated. Gross premiums in fire business were up 14.2 %, while property business recorded overall growth of 12.2 %. On the claims side, expenses fell and our forecast of an improvement in results was thus realised.

Slight premium growth was expected in natural hazards business in 2020. This assumption from the previous year was exceeded, with an increase of €23,429K. 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. Only one major loss event due to a storm (CIARA, also known as SABINE) had an impact on the result for the 2020 financial year, leading to considerably lower claims expenditure in this segment.

In liability, accident and motor insurance business, our expectation of premium growth for 2020 was not fulfilled, with gross premium income falling by 4.4 %. However, our performance enabled us to further strengthen our IBNR reserves as planned.

Premiums declined in life insurance as expected, owing to the development of residual credit business, with gross premiums actually falling by 10.6 %.

On the whole, the expectation of strong growth in premiums was fulfilled, with an increase of €105,420K. While it had been predicted the previous year that the net loss ratio would stay the same, it actually fell by 4.7 percentage points. The net expense ratio was also down year on year, as expected. Expectations that we would strengthen our assets by further replenishing the equalisation reserves and similar provisions were fulfilled, with an addition of €53,036K. Investment income was expected to fall in 2020. This assumption proved inaccurate, as investment income came to €56,244K, well above the previous year's figure of €48,487K.

FORECAST FOR 2021

General economic development

Following a drastic drop of 7.4 % in gross domestic product in the euro zone in 2020 due to the coronavirus crisis, the Kiel Institute for the World Economy (IfW) expects the economic recovery to be slow. With the number of infections continuing to rise in many countries, restrictions are likely to remain in place for some time in economic sectors where social interaction in confined spaces is unavoidable. Assuming that measures to protect against infection can start to be lifted from mid-2021, however, the IfW predicts a strong upturn. Economic researchers forecast a substantial increase in GDP of 5.6 % for 2021 and 3.0 % for 2022.

As we overcome the coronavirus crisis, the IfW anticipates that the savings rate in the euro zone will return to normal from its current high level and that private consumption will pick up. It is likely that there will then be a moderate increase in consumer prices, although rising unemployment is expected to curb economic development to begin with. The IfW expects delays in company insolvencies and ongoing restrictions on businesses in some service sectors to lead to a significant rise in the unemployment rate in the euro zone initially, before it then gradually falls as the economic recovery progresses.

The economic environment in Germany is of particular importance to our company. In Germany, too, the economic recovery is being hindered in particular by tighter constraints to prevent contact, which are affecting many sectors that are close to consumers. Provided that we can overcome the pandemic by next autumn, the IfW expects German GDP to grow by 3.1 % in 2021. Economic researchers predict that the unemployment rate will rise to an average of 6.1 % for the year, slightly above the previous year's figure of 5.9 %, and do not expect employment to increase again until the end of the year. However, they expect Germany's export-oriented industry to benefit from the upturn in the global economy. Although this trend has been curbed early in the year by measures to contain the second wave of infections, researchers say that global production is still increasing overall. China in particular is reported to be contributing to this, with strong economic momentum.

Insurance industry

Owing to the impact of the coronavirus crisis, the German insurance industry recorded only slight growth of 1.2 % in gross premium income to €220 billion across all lines in 2020. German insurers expect strong premium growth of over 2 % again in the current financial year, despite a weak start to the year due to lockdowns. According to the German Insurance Association (GDV), this is dependent on restrictions being loosened and on significant progress being made with the vaccination campaign in the spring, so that the economic recovery can continue. The industry association anticipates premium growth of 2 % in life insurance, while growth in property and casualty insurance looks set to be weaker, at around 1.5 %.

Reinsurance industry

In the global reinsurance sector, several consecutive preceding years of high claims burdens had led to a noticeable improvement in rates and conditions. The ongoing pandemic and declining investment income owing to interest rates have facilitated a return to growth in premium income.

German market

Premium income from the German market will continue to account for the largest share of Deutsche Rück's overall business in 2021. 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.

In fire business, we expect a moderate increase in premiums for 2021, which will come from business with the group of public insurers. This line of business, in which we also include business interruption insurance, may record further losses arising from the coronavirus pandemic, although we made provision for this to some extent in the last financial year.

We are also anticipating premium growth in natural hazards business in the current year, most of which will come from business with public insurers. At the time of writing this report we expect to achieve a technical profit. Although this may be affected by unexpectedly large losses due to natural hazards, our retrocession instruments will provide relief here, and withdrawals from our equalisation reserves, to which ample funds have been allocated, can also provide relief.

In liability, accident and motor insurance business, which is underwritten mainly with cedants outside the group of public insurers and is growing continuously over the long term, we expect a further increase in premium volume for 2021. By setting up IBNR reserves, we will build up sufficient security for possible future burdens from run-off in these lines of business, which have a long claims settlement process.

In life insurance, we expect premium volume to remain stable year on year in 2021.

European market

We continue to selectively underwrite business that meets our requirements in terms of margins in European markets. The hardening of the markets has already had an impact in the current financial year. We anticipate slight growth in premium income from our European client relationships.

New markets

Our strategy, which is geared towards the long term, provides for the geographical expansion of our business into further markets outside Europe. The aim is to develop profit-oriented business relationships with cedants that mainly insure classic property and liability, accident and motor business. We are beginning this international expansion of our business with target clients in countries in the **Middle East** that will be managed by an experienced underwriter. In the first year, we expect to achieve premium income of €11,700K and a satisfactory positive result, with a combined ratio of about 90 % for the claims that are ultimately settled.

We see further potential for geographical expansion in selected **Latin American countries**. Our target clients are the many smaller and medium-sized insurance companies that operate locally or nationally. We have also gained an experienced underwriter for these target markets.

Overall business

On the whole, we expect to gain a wide range of new client relationships in 2021, which will lead to growth in premium income. We also expect this significant rise in premium income to lead to an increase in claims expenditure. The net loss ratio is predicted to be higher than in the last financial year, although we anticipate a lower net expense ratio. Incidental losses due to natural hazards, the frequency and amount of which is difficult to calculate, may affect the gross technical result. The parent company limits the general exposure of its property insurance portfolio through retrocession instruments geared specifically towards these burdens. Together with the recognition of adequate reserves, this ensures that our result for own account remains calculable at all times. Overall, we expect to achieve a technical profit, although it will be lower than the previous year's profit. A large sum will once again be transferred to the equalisation reserves.

As general conditions on the capital markets do not lead us to expect any significant changes, we anticipate that total investment income will be lower than in the previous year. Overall, we expect the balance sheet profit to be higher 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.

Düsseldorf, 31 March 2021

Board of Executive Directors

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Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2020

ASSETS in €	2020		2019	
A. Intangible assets				
I. 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	1,103,982		474,033	
		1,103,982		**474,033**
B. Investments				
I. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	12,000		12,000	
2. Participating interests	137,654,932		113,545,837	
3. Loans to companies in which a participating interest is held	159,075		659,075	
4. Shareholdings in associated companies	150,973,801		138,470,453	
	288,799,808		252,687,365	
II. Other investments				
1. Shares, interests or shares in investment assets and other variable-yield securities	608,916,602		577,398,638	
2. Bearer bonds and other fixed-interest securities	655,510,030		657,504,371	
3. Receivables from mortgages, land charge and annuity land charge claims	314,828,904		255,156,593	
4. Other loans				
a) Registered bonds	129,000,000		110,000,000	
b) Loans and promissory notes	160,811,919		159,778,960	
c) Other loans	975,000		975,000	
	290,786,919		270,753,960	
5. Deposits with banks	13,501,086		31,000,350	
	1,883,543,541		1,791,813,911	
III. Deposits retained on assumed reinsurance	119,351,735		132,896,466	
		2,291,695,084		**2,177,397,742**
C. Receivables				
I. Accounts receivable on reinsurance business	44,762,834		58,678,531	
thereof participating interests: €1,537,704 (2019: €1,016)				
II. Other receivables	38,704,698		14,051,153	
thereof participating interests: €4,343,574 (2019: €6,894,754)				
		83,467,532		**72,729,684**
D. Other assets				
I. Tangible assets and inventories	650,407		677,809	
II. Cash at banks, cheques and cash in hand	203,177,165		155,959,808	
		203,827,572		**156,637,617**
E. Deferred items				
I. Accrued interest and rent	12,231,673		11,464,107	
II. Other deferred items	361,401		392,519	
		12,593,075		**11,856,625**
Total assets		**2,592,687,245**		**2,419,095,701**

EQUITY AND LIABILITIES

in €	2020		2019	
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	7,320,286		6,410,796	
2. Other retained earnings	153,197,561		146,408,731	
	160,517,847		152,819,527	
IV. Consolidated balance sheet profit	50,666,002		50,844,497	
V. Minority interests	46,481,667		48,313,841	
		306,483,130		**300,795,478**
B. Subordinated liabilities		**121,750,000**		**61,750,000**
C. Technical provisions				
I. Unearned premiums				
1. Gross amount	108,998,223		128,419,854	
2. less: share for retroceded business	63,036,321		77,020,425	
	45,961,902		51,399,429	
II. Provision for future policy benefits				
1. Gross amount	73,693,567		84,514,858	
2. less: share for retroceded business	27,403,302		23,652,216	
	46,290,265		60,862,642	
III. Provision for outstanding claims				
1. Gross amount	1,712,254,447		1,640,155,458	
2. less: share for retroceded business	301,011,093		303,948,094	
	1,411,243,354		1,336,207,365	
IV. Provision for premium refunds				
1. Gross amount	2,756,652		2,404,449	
2. less: share for retroceded business	1,080,132		892,457	
	1,676,520		1,511,992	
V. Equalisation reserves and similar provisions	329,719,697		276,683,663	
VI. Other technical provisions				
1. Gross amount	55,444,240		47,859,475	
2. less: share for retroceded business	540,223		802,972	
	54,904,017		47,056,502	
		1,889,795,756		**1,773,721,593**
D. Other accrued liabilities				
I. Provision for employees' pensions and similar commitments	31,237,265		29,087,456	
II. Tax provisions	183,565		14,638,632	
III. Other provisions	5,758,882		4,848,217	
		37,179,712		**48,574,305**
E. Deposits retained on retroceded business		**27,910,776**		**24,083,485**
F. Other liabilities				
I. Accounts payable on reinsurance business	162,135,522		164,071,107	
thereof accounts due to companies in which a participating interest is held: €26,150,694 (2019: €49,183,788)				
II. Liabilities to banks	20,550,000		12,380,000	
III. Other liabilities	26,032,272		32,459,486	
thereof accounts due to companies in which a participating interest is held: €150,723 (2019: €167,972)				
thereof from taxes: €180,607 (2019: €184,220)				
		208,717,795		**208,910,592**
G. Deferred items		**850,077**		**1,260,248**
Total equity and liabilities		**2,592,687,245**		**2,419,095,701**

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD FROM 1 JANUARY 2020 TO 31 DECEMBER 2020

ITEMS in €	2020		2019	
I. Technical account				
1. Premiums earned for own account				
a) Gross premiums written	1,213,330,788		1,107,910,793	
b) Retroceded premiums	437,846,062		381,968,631	
	775,484,726		**725,942,162**	
c) Change in gross unearned premiums	19,239,848		41,003,386	
d) Change in retroceded share of unearned premiums	13,984,104		30,717,081	
	5,255,744		**10,286,306**	
		780,740,470		**736,228,468**
2. Interest on technical provisions for own account		**1,502,819**		**1,772,829**
3. Other underwriting income for own account		**521,943**		**2,875,696**
4. Claims incurred for own account				
a) Payments for insured events				
aa) Gross amount	597,271,596		665,913,787	
bb) Retroceded amount	184,061,087		232,685,581	
	413,210,509		**433,228,206**	
b) Change in provision for outstanding claims				
aa) Gross amount	79,169,508		36,988,014	
bb) Retroceded amount	–2,930,959		–31,487,613	
	82,100,467		**68,475,627**	
		495,310,976		**501,703,833**
5. Change in other technical provisions for own account				
a) Net provisions for future policy benefits	14,584,661		5,392,361	
b) Other net technical provisions	–9,524,489		9,898,024	
		5,060,172		**15,290,386**
6. Expenses for premium refunds for own account		**541,150**		**463,614**
7. Operating expenses for own account				
a) Gross operating expenses	399,413,297		359,699,156	
b) less: commissions and profit commissions received on retroceded business	145,725,656		116,843,838	
		253,687,640		**242,855,318**
8. Other underwriting expenses for own account		**26,686,961**		**16,985,490**
9. Subtotal		**11,598,677**		**–5,840,875**
10. Change in equalisation reserves and similar provisions		**–53,036,034**		**–15,156,929**
11. Underwriting result for own account		**–41,437,358**		**–20,997,804**

ITEMS in €	2020		2019	
Amount brought forward (Technical result for own account):		**–41,437,358**		**–20,997,804**
II. Non-technical account				
1. Investment income				
a) Dividends from participating interests	8,718,290		5,827,440	
b) Income from associated companies	7,891,756		2,497,846	
c) Income from other investments				
aa) Income from other investments	45,234,814		43,259,851	
d) Income from write-backs	2,220,722		4,443,063	
e) Realised gains on the disposal of investments	3,082,322		1,999,023	
		67,147,904		**58,027,223**
2. Investment expenses				
a) Management expenses, interest charges, and other expenses on investments	5,403,554		5,382,561	
b) Write-downs on investments	3,233,731		1,915,246	
c) Realised losses on the disposal of investments	572,842		316,199	
		9,210,127		**7,614,006**
3. Interest income on technical provisions		**1,693,891**		**1,925,833**
		56,243,886		**48,487,385**
4. Other income	2,899,125		5,310,641	
5. Other expenses	7,457,934		7,803,337	
		–4,558,808		**–2,492,697**
6. Operating result before tax		**10,247,720**		**24,996,884**
7. Taxes on income	497,599		11,175,752	
8. Other taxes	22,117		341,105	
		519,716		**11,516,858**
9. Profit for the year		**9,728,004**		**13,480,026**
10. Minority interests in profit/loss for the year		**1,232,719**		**–721,802**
11. Profit/loss brought forward (–) from previous year		**39,716,711**		**41,445,268**
12. Minority interests in the loss brought forward from previous year		**3,488,568**		**3,141,004**
13. Transfers to retained earnings				
a) to other retained earnings	3,500,000		6,500,000	
		3,500,000		**6,500,000**
14. Consolidated balance sheet profit		**50,666,002**		**50,844,497**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY AS AT 31 DECEMBER 2020

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).

Changes in shareholders’ equity in the year under review were driven mainly by the profit of €9,728K for the year and dividends of €3,714K.

In total, group equity rose by €5,688K to €306,483K in the year under review.

Additions of €4,509K from the previous year’s consolidated balance sheet profit and of €3,500K from the profit for the year under review were made to consolidated retained earnings.

	Equity of the parent company										Non-controlling interests				Group equity
	(Correct-ed) issued capital	Reserves					Difference in equity due to currency transla-tion	Profit carried forward	Consoli-dated net profit/loss for the year attribut-able to the parent company	Total	Non-con-trolling interests before difference in equity due to currency transla-tion and net profit for the year	Difference in equity due to currency transla-tion attribut-able to non-con-trolling interests	Profit/loss attribut-able to non-con-trolling interests	Total	Total
	Issued capital	Capital reserves	Retained earnings			Total									
in € '000	Ordinary shares	in accor-dance with Section 272 (2) No. 1-3 HGB	Legal reserve	Other retained earnings	Total										
As at 31 Dec. 2019	**25,000**	**23,818**	**6,411**	**143,197**	**149,609**	**173,427**	**3,210**	**50,844**	**0**	**252,480**	**33,611**	**14,703**	**0**	**48,314**	**300,795**
Allocation to/withdrawal from reserves			909	7,100	8,009	8,009		–8,009		0				0	0
Dividends paid					0	0		–3,000		–3,000	–714			–714	–3,714
Currency translation					0	0	–311			–311		103		103	–208
Other changes					0	0		–130		–130	12			12	–118
Consolidated net profit/loss for the year					0	0			10,961	10,961			–1,233	–1,233	9,728
As at 31 Dec. 2020	**25,000**	**23,818**	**7,320**	**150,297**	**157,618**	**181,436**	**2,899**	**39,705**	**10,961**	**260,000**	**32,909**	**14,806**	**–1,233**	**46,482**	**306,483**

CONSOLIDATED CASH FLOW STATEMENT FOR THE 2020 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 2020 financial year, it grew from €155,960K to €203,177K at year-end.

Following a cash outflow of €64,799K in the previous year, cash and cash equivalents were strengthened in the year under review with a cash inflow of €52,674K from operating activities. The increase in net technical provisions and the drop in deposits retained and accounts receivable resulted in significant cash inflows. On the other hand, the Group recorded cash outflows from a reduction in other liabilities and from income tax payments, as well as for investments that are recognised under the change in other balance sheet items.

The cash outflow from investment activities increased from €–354K in the previous year to €–1,178K in the year under review. This reflects investment in tangible and intangible assets and is not material to the change in cash and cash equivalents at 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		2020	2019
	Result for the period (profit/loss for the year incl. minority interests)	9,728	13,480
+/–	Net increase/decrease in technical provisions	113,655	42,640
–/+	Increase/decrease in deposits retained and accounts receivable	27,778	1,117
+/–	Increase/decrease in deposits retained and accounts payable	1,437	29,877
–/+	Increase/decrease in other receivables	–23,230	–627
+/–	Increase/decrease in other liabilities	–42,187	9,945
+/–	Change in other balance sheet items not related to investment or financing activities	–37,696	–171,005
+/–	Other income/expenses without impact on cash flow and adjustments to the result for the period	45,417	19,852
–/+	Gain/loss on the disposal of investments and tangible and intangible assets	–2,510	–1,701
+/–	Income tax expense/income	498	11,176
–/+	Income tax paid	–40,216	–19,553
=	**Cash flow from operating activities**	**52,674**	**–64,799**
+	Inflows from disposal of tangible assets	1	18
–	Outflows for investment in tangible assets	311	168
–	Outflows for investment in intangible assets	868	204
=	**Cash flow from investment activities**	**–1,178**	**–354**
+	Inflows from additions of equity from other shareholders	0	8,923
–	Dividends paid to shareholders in the parent company	3,000	3,000
–	Dividends paid to other shareholders	714	1,136
=	**Cash flow from financing activities**	**–3,714**	**4,787**
	Change in cash and cash equivalents with an impact on cash flow	47,782	–60,367
+/–	Changes in cash and cash equivalents due to exchange rates and valuation	–565	1,127
+	Cash and cash equivalents at the beginning of the period	155,960	215,200
=	**Cash and cash equivalents at the end of the period**	**203,177**	**155,960**

Notes to the Consolidated Financial Statements

GENERAL INFORMATION ON CONTENT AND LAYOUT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the provisions of the German Commercial Code (HGB), the German Regulation on the Accounting of Insurance Undertakings (Verordnung über 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). The provisions of German Accounting Standards (DRS) have been observed.

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 figures in the consolidated financial statements are shown in thousands of euros (€K) for better clarity. In this presentation, commercial rounding may mean that the sum of individual figures differs from subtotals or final totals.

CONSOLIDATION

Scope of consolidation

Along with the parent company Deutsche Rückversicherung AG (Deutsche Rück), the consolidated financial statements include the following companies:

COMPANY NAME AND REGISTERED HEAD OFFICE	Share in equity in %	Shareholders' equity in €'000	Result in €'000	Financial statements as at
Subsidiaries fully consolidated				
DR Sachwerte SCS SICAV-RAIF, Senningerberg	100.00	158,790.5	2,389.5	30 Sept. 2020
Deutsche Rückversicherung Switzerland Ltd, Zurich	71.25	177,804.6	–2,362.5	31 Dec. 2020
Subsidiaries not consolidated (Section 296 (2) German Commercial Code (HGB))				
DRVB GP S.à r.l., Senningerberg	100.00	13.6	8.6	30 Sept. 2019

COMPANY NAME AND REGISTERED HEAD OFFICE	Share in equity in %	Shareholders' equity in €'000	Result in €'000	Financial statements as at
Associated companies consolidated at equity				
DRVB Invest Beteiligungs GmbH, Düsseldorf	50.00	20,902.6	–247.3	31 Dec. 2020
Hansapark 2 GmbH & Co. KG, Düsseldorf	50.00	19,864.9	1,827.1	31 Dec. 2020
Hansapark Verwaltungs GmbH & Co. KG, Düsseldorf	50.00	21,618.0	11,049.5	31 Dec. 2020
Immobiliengesellschaft Burstah Hamburg GmbH & Co. KG, Düsseldorf	50.00	13,265.6	403.2	31 Dec. 2020
Objekt Aachen, Großkölnstraße GmbH, Düsseldorf	50.00	4,773.7	68.4	31 Dec. 2020
Objekt Karlsruhe Kaiserstraße GmbH, Düsseldorf	50.00	21,649.1	725.9	31 Dec. 2020
Objekt Leipzig Katharinenstraße GmbH, Düsseldorf	50.00	2,443.2	373.6	31 Dec. 2020
VonWerth Grundbesitz GmbH, Cologne	50.00	565.3	–44.4	31 Dec. 2019
Ecosenergy Zweite Betriebsgesellschaft mbH & Co. KG, Nordhorn	44.44	14,845.6	846.8	31 Oct. 2019
DC Values Karl-Marx GmbH & Co. KG, Grünwald	40.00	8,185.0	37.2	31 Dec. 2019
DC Values MKH GmbH & Co. KG, Grünwald 1)	40.00	1.0	0	19 Jun. 2019
DRVB Wohnen Beteiligungs-GmbH, Düsseldorf	40.00	5,873.6	110.6	31 Dec. 2020
Objekt Düsseldorf An der Kaserne GmbH & Co. KG, Düsseldorf	40.00	12,103.6	341.5	31 Dec. 2020
Objekt Düsseldorf Couvenstraße GmbH & Co. KG, Düsseldorf	40.00	6,190.1	165.3	31 Dec. 2020
Objekt Leipzig Nordstraße GmbH, Düsseldorf	40.00	5,100.7	316.5	31 Dec. 2020
Objekt Warstein Max-Planck-Straße GmbH & Co. KG, Frankfurt am Main	40.00	–5.7	–6.8	31 Dec. 2019
Objekte Nürnberg GmbH & Co. KG, Düsseldorf	40.00	16,891.2	644.0	31 Dec. 2020
Objekt Minoritenstraße Köln GmbH & Co. KG, Düsseldorf	37.96	2,249.2	–89.5	31 Dec. 2020
RFR 1. THA 70 – 74 GmbH, Frankfurt am Main	31.00	22,749.6	–275.9	31 Dec. 2019
RFR 2. THA 70 – 74 GmbH, Frankfurt am Main	31.00	53,908.5	250.4	31 Dec. 2019
MAGNUM EST Digital Health GmbH, Berlin	31.39	–1,283.7	–1,403.9	31 Dec. 2019
Lintgasse 14 GmbH, Cologne	25.00	3,834.1	–69.2	31 Dec. 2019
ASPF II Beteiligungs GmbH & Co. KG, Munich	20.00	319.9	371.5	31 Dec. 2019
MBS Beteiligungs GmbH, Frankfurt am Main 2)	16.67	32,206.1	801.9	31 Dec. 2019
Associated companies not consolidated (Section 311 (2) German Commercial Code (HGB))				
Hansapark Verwaltungs GmbH, Düsseldorf	50.00	125.3	8.5	31 Dec. 2020
OEV Equity Trust GmbH, Düsseldorf	50.00	323.9	17.2	31 Dec. 2020
Prime Capital Portal S.A., SICAV-RAIF, Luxembourg	25.54	3)	3)	3)
Reha Assist Deutschland GmbH, Arnsberg	26.00	297.8	40.1	31 Dec. 2019

1) Newly founded, opening balance sheet available as at the stated balance sheet date
2) Associated company owing to material influence through joint venture agreement
3) Newly founded in 2020; financial statements not yet available

The companies listed as “subsidiaries not consolidated” are not included in the consolidated financial statements in accordance with Section 296 (2) HGB. Likewise, the provisions of Sections 311 (1) and 312 HGB are not applied to associated companies not consolidated in accordance with Section 311 (2) HGB. These companies are not material to providing a true and fair view of the Group’s net assets, financial position and results of operations, either individually or collectively.

No associated companies were included in the consolidated financial statements for the first time at equity in the 2020 financial year in accordance with the revaluation method.

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 €12,921K. This included goodwill of €837K. 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.

Consolidation principles

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

DR Sachwerte SCS SICAV RAIF prepares its annual financial statements as at 30 September. An interim statement as at 31 December is drawn up for the consolidated financial statements. Ecosenergy Zweite Betriebsgesellschaft mbH & Co. KG prepares its annual financial statements as at 31 October.

The annual financial statements of the included companies Deutsche Rückversicherung Switzerland Ltd (DR Swiss) and DR Sachwerte SCS have in each case been transferred to financial statements that comply with German accounting regulations in the Group. Balance sheet items and valuations at DR Swiss have been transferred in accordance with special regulations for foreign insurance companies, in line with Sections 300 (2) and 308 (2) HGB. The financial statements of DR Swiss, which are in foreign currency, have been converted using the modified reporting date method pursuant to Section 308a HGB.

For the first-time consolidation of DR Swiss and Hansapark Verwaltungs GmbH & Co. KG, which took place before 1 January 2010, capital consolidation in accordance with the book value method was maintained in line with Art. 66 (3) Sentence 4 of the Introductory Act to the German Commercial Code (EGHGB).

First-time consolidation of all other affiliated and associated companies after 31 December 2009 was based on the revaluation method. Equity has been recognised at the fair value corresponding to the fair value of the assets, liabilities, deferred items and special items to be included in the consolidated financial statements. Any differences arising from first-time consolidation have been recognised as goodwill. Depreciation takes place over an expected useful life of five years.

Associated companies are recognised in the consolidated financial statements at equity at their carrying amount, as permitted by Sections 311 (1) and 312 (1) 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.

The shares held by other shareholders in DR Swiss are shown separately under equity capital in accordance with Section 307 (1) HGB. The other shareholders participate in the net profit or loss for the year and the profit or loss carry forward of DR Swiss in proportion to their stakes in the company.

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

ACCOUNTING PRINCIPLES

Intangible assets
Intangible assets acquired in return for a fee 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 Section 296 (2) HGB or Section 311 (2) HGB, as well as the other participating interests, are valued as fixed assets in accordance with the mitigated lowest value principle pursuant to Section 341b (1) HGB in conjunction with Section 253 (3) Sentence 5 HGB. Write-downs are made for any impairments that are expected to be permanent.

Loans to companies in which a participating interest is held are recognised as fixed assets in accordance with Section 341b (1) HGB, and the difference between acquisition cost and repayment amount is amortised using the effective interest rate method in accordance with Section 341c (3) HGB.

Information on the recognition of shareholdings in associated companies is included in the notes on consolidation principles.

Shares, interests or shares in investment assets and other variable-yield securities and bearer bonds and other fixed-interest securities are valued in accordance with the rules on current assets pursuant to Section 341b (2) HGB in conjunction with Section 253 (4) HGB. If these investments are intended to serve the company’s business operations on an ongoing basis, they will be valued in accordance with the rules on fixed assets pursuant to Section 341b (2) second half-sentence HGB in conjunction with Section 253 (3) Sentence 5 and 6 HGB. Shares worth €9,204K, investment fund units totalling €400,350K and bearer bonds worth €650,510K are allocated to fixed assets.

Receivables from mortgages and land charge claims comprise loans that are secured through land charges, which are recognised in the balance sheet at the cost of acquisition less any repayments made in accordance with the rules on fixed assets pursuant to Section 341b (1) Sentence 2 HGB. Any differences between acquisition cost and repayment amount are amortised using the effective interest rate method in accordance with Section 341c (3) HGB.

Registered bonds are recognised in the balance sheet at par value in accordance with the rules on fixed assets as required by Section 341c (1) HGB, while redemption premiums and discounts are spread over the term of the bond as deferred items on the assets and liabilities side in proportion to the capital.

Loans and promissory notes and other loans are valued as fixed assets at acquisition cost in accordance with Section 341b (1) HGB. Any differences between acquisition cost and repayment amount are amortised using the effective interest rate method in accordance with Section 341c (3) HGB.

Due regard is given to the requirement to reverse write-downs where the reasons for them no longer exist in accordance with Section 253 (5) HGB.

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.

Deferred items
Accrued interest and rent, which is recognised at nominal value, relates to the year under review but was not yet due as at 31 December 2020. Accrued premiums on registered bonds are spread over the term of the bond.

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 Carrying amount: EUR 13,949K	Micro-hedge	Risk of change in value Currency risk US dollar (USD)	USD 13,318K EUR 10,853K
Bearer bonds and other fixed-interest securities Carrying amount: EUR 13,922K	Micro-hedge	Risk of change in value Currency risk Danish krone (DKK)	DKK 104,141K EUR 13,996K

As at the balance sheet date, risks of a change in value (currency risks) with a total volume of €24,849K 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 results in an excess of deferred tax assets, due predominantly to the determination of the claims provision, reinvested income from investment funds and the valuation of pension provisions. 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 HGB to be recognised in the consolidated financial statements as at 31 December 2020.

Subordinated liabilities

Subordinated liabilities are made up entirely of subordinated registered bonds with a fixed-interest period until 31 October 2026. These are recognised at their settlement amount.

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).

Provision for employees' pensions and similar commitments
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 % and 1.0 % p.a. The biometric accounting principles were obtained from the Heubeck mortality tables 2018G. Provisions were discounted at the average market interest rate of 2.3 % (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 €4,103K (previous year: €4,037K) 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 €150,030K.

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 2020, the pension provision totals €176K before offsetting against the claim arising from reinsurance in the same amount.

Tax provisions and other provisions
Tax provisions and other provisions are valued in accordance with Section 253 (1) Sentence 2 HGB at the amount expected to be required for settlement of the obligation, applying reasonable commercial judgement. Provisions with a remaining term of more than one year are discounted at the average market interest rate for the last seven financial years as appropriate for their term, in accordance with Section 253 (2) Sentence 1 HGB.

The provisions for semi-retirement obligations and for long-service award expenses are calculated in accordance with actuarial principles using an interest rate of 1.97 % and an assumed annual salary increase of 2.75 %. The calculations are based on the Heubeck mortality tables 2018G.

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

Deferred items
Deferred items on the liabilities side are measured at nominal value. Any discounts that are included are spread over the term.

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 2020 FINANCIAL YEAR in €'000	Carrying amount (previous year)	Changes in the exchange rate	Additions	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	474	0	868	0	0	238	1,104
Sum A.	**474**	**0**	**868**	**0**	**0**	**238**	**1,104**
B.I. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	12	0	0	0	0	0	12
2. Participating interests	113,546	0	30,304	6,195	0	0	137,655
3. Loans to companies in which a participating interest is held	659	0	0	500	0	0	159
4. Shareholdings in associated companies	138,470	0	14,372	782	0	1,087	150,974
Sum B.I.	**252,687**	**0**	**44,676**	**7,477**	**0**	**1,087**	**288,800**
Total	**253,162**	**0**	**45,544**	**7,477**	**0**	**1,325**	**289,904**

Disclosures in accordance with Section 314 No. 10 of the German Commercial Code (HGB)

FINANCIAL INSTRUMENTS CLASSED AS FINANCIAL ASSETS THAT ARE RECOGNISED AT MORE THAN THEIR FAIR VALUE in €'000	Carrying amount	Fair value	Unrealised loss
Shareholdings in associated companies	4,062	3,852	210
Participating interests	45,655	42,239	3,417
Shares, interests or shares in investment assets and other variable-yield securities	6,224	4,449	1,775
Receivables from mortgages, land charge and annuity land charge claims	5,012	5,004	8
Other loans	0	0	0
Total	**60,953**	**55,544**	**5,409**

Since the intention is to hold these financial instruments until final maturity and on the basis of market assessments for these financial instruments, 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.

Disclosures in accordance with Section 314 (1) No. 18 of the German Commercial Code (HGB)

As at 31 December 2020, 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 2020
Mixed fund	481,914	364,043	117,870	1,678

Remaining terms of receivables

There are accounts receivable with a remaining term of more than one year totalling €3,914K. All other receivables have a remaining term of less than one year.

Deferred items

Premiums on registered bonds totalled €95K as at the balance sheet date (previous year: €74K).

Shareholders' equity

Deutsche Rück's issued capital totals €25,000K and is made up of 488,958 no-par-value shares. A sum of €3,500K was transferred from the profit for 2020 to retained earnings. The consolidated balance sheet profit of €50,666K includes a consolidated profit carry forward of €39,717K. Changes in equity are shown in the consolidated statement of changes in shareholders' equity in accordance with DRS 22.

OTHER PROVISIONS

in €'000	2020	2019
a) Provisions to cover expenses related to preparation of the annual financial statements	446	465
b) Provisions related to human resources	4,326	3,807
c) Provisions for other administration costs	987	576
Total	**5,759**	**4,848**

Other liabilities

There are no liabilities with a term of more than five years and no liabilities that are secured through liens or similar rights. All other liabilities have a term to maturity of less than one year.

Deferred items

Discounts on registered bonds totalled €850K as at the balance sheet date (previous year: €942K).

NOTES TO THE CONSOLIDATED INCOME STATEMENT

GROSS PREMIUMS WRITTEN

in €'000	2020	2019
Property and casualty business	1,132,095	1,017,045
Life insurance business	81,236	90,866
Total	**1,213,331**	**1,107,911**

Technical interest income for own account

Technical interest income transfers the interest income listed in Section 38 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV) to the technical income statement and is calculated from the 2.25 % 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 7.0 % (previous year: 2.3 %) of gross earned premiums and a net profit of 0.7 % (previous year: loss of 2.5 %) of net earned premiums.

PERSONNEL EXPENSES

in €'000	2020	2019
1. Wages and salaries	17,216	15,098
2. Social security contributions and employee assistance expenses	2,215	2,051
3. Expenses for employees' pensions	3,287	2,908
Total	**22,717**	**20,057**

Write-downs in accordance with Section 253 (3) Sentence 5 and 6

Unscheduled write-downs on fixed assets owing to impairment that was expected to be permanent were carried out in the year under review in the amount of €66K (previous year: €186K). Write-downs were also carried out on financial assets in the amount of €235K owing to impairments that were not expected to be permanent (previous year: €451K).

Other income

Other income includes exchange rate gains amounting to €1,251K (previous year: €3,974K).

Other expenses

Interest allocated to provisions for employees' pensions, semi-retirement and long-service award expenses comes to €810K (previous year: €876K). Exchange rate losses of €19K (previous year: €534K) were recorded.

OTHER DISCLOSURES

The company employed an average of 150 staff in the 2020 financial year, of whom 86 were male and 64 female.

Members of the Supervisory Board received total remuneration of €172,664 for performing their duties at the parent company and the subsidiaries in the year under review, while the Board of Executive Directors received total remuneration of €1,026,058.

Total remuneration for former members of the Board of Executive Directors and their surviving dependants came to €565,805. Provisions recognised in this regard amount to €9,444,475.

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 VöV Rückversicherung KöR, we are liable for the company's liabilities up to the level of non-paid-up share capital of €184K. We estimate that the probability of occurrence is extremely low.

There is a joint and several debt service guarantee (surety) for the payment of interest and/or capital repayment (debt service) for a loan of €3,200K taken out by an associated company.

Other financial commitments

There are payment obligations relating to open commitments to associated companies in the amount of €402K, participating interests in the amount of €123,582K and shares or units in investment funds totalling €90,927K.

From the investment portfolio, commitments in the amount of €206,986K 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 0.5 % and 3.625 % and terms to maturity of between two and 27 years. Forward purchases are measured using the cost of carry. Taking into account the market value of the underlying instruments at the balance sheet date, the total fair value of the forward purchases is €45,326K.

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 2.4 % respectively and terms up to 6 July 2037 and 16 February 2038. The purchase obligations have a combined market value of €−30K and €−41K 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.

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 €29,445K. The interest rates are between 1.85 % and 10 %.

Further disclosures

There are no 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 consolidated financial statements.

Total fees in the amount of €156K were paid or set aside for the Group's statutory auditor, Ernst & Young GmbH, in the 2020 financial year, for the audits of the consolidated and annual financial statements and of the solvency overviews. Of this sum, €148K relates to the 2020 financial year.

Cover requirements in accordance with Solvency II were once again fulfilled in 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 Deutsche Rück Group's net assets, financial position and results of operations.

The parent company proposes to the Annual General Meeting that the balance sheet profit of €3,657K shown in the separate financial statements 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	657

Düsseldorf, 31 March 2021

Deutsche Rückversicherung Aktiengesellschaft

Board of Executive Directors

Schaar Bosch Rohde

Independent auditor’s report

To Deutsche Rückversicherung AG, 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 AG and its subsidiaries (the Group), comprising the consolidated balance sheet as at 31 December 2020, 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 2020 to 31 December 2020, 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 AG for the financial year from 1 January 2020 to 31 December 2020.

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

- the enclosed consolidated financial statements comply with the provisions of German legal regulations 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 2020 and of its results of operations for the financial year from 1 January 2020 to 31 December 2020, 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, were the most relevant in our audit of the consolidated financial statements for the financial year from 1 January 2020 to 31 December 2020. 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.

We shall describe the facts that we consider to be of particular importance in our audit below.

Assessment of partial provisions for known and unknown claims included in gross provisions for outstanding claims
<u>Reasons for classification as facts that are of particular importance in the audit</u>
Gross provisions for outstanding claims essentially comprise partial provisions for known and unknown claims, which are valued in accordance with the provisions of Section 341g HGB.

Gross partial provisions for known claims are in principle valued on the basis of the cedants' instructions. If no instructions are available from cedants at the time of preparing the annual financial statements, the amount of provisions will be estimated for each contract. These estimates are then replaced with the reported figures upon receipt of the actual statements of account in the following year. The difference between the estimate and the actual statement of account results in an adjustment effect (true-up), which is recognised in income in the following year.

The company's legal representatives estimate the gross partial provision for unknown claims based on past experience using actuarial methods.

This is a fact that is of particular importance in the audit, as the calculation of partial provisions for known and unknown claims included in gross provisions for outstanding claims is based to a large extent on estimates and assumptions and there is therefore a risk that the calculated figures may be inadequate, both overall and in the individual lines of insurance, and may not comply with the special principle of prudence in accordance with Section 341g HGB. Furthermore, partial provisions for known and unknown claims included in gross provisions for outstanding claims account for a large proportion of total assets.

Our approach in the audit

As part of our audit of the financial statements, we examined the process used to record the cedants' statements of account and the procedures, methods and control mechanisms that are applied there. By tracing the processing of individual cedants' statements of account, we investigated the reinsurance settlement process as far as its presentation in the consolidated financial statements and tested the main controls for effectiveness. These controls relate to both the completeness of reinsurance settlements and the correct valuation of partial provisions for known claims. In addition, we traced the estimates for the year under review and the true-up for the previous year in each case, both overall and at the level of individual lines of business and individual cedants. In the event of significant deviations, we carried out interviews with the persons entrusted with the matter and conducted audits of the individual cases in order to analyse the main factors driving the deviations in estimates.

The purpose of our audit of the calculation of gross provisions for unknown IBNR claims was to assess the underlying procedures and methods to determine whether they are appropriate for ensuring that the amount of provisions is calculated correctly. By carrying out our own actuarial analyses and calculations, we traced whether the parameters on which estimates of IBNR reserves were based had been derived in a way that was comprehensible and whether adequate provisions had been recognised.

To assess whether adequate gross provisions have been calculated for known and unknown claims, we also calculated our own claims projections based on mathematical/statistical methods for the four largest lines/types of insurance. We compared the best estimate we had calculated with the partial provisions recognised for known and unknown claims and on this basis judged that the partial provisions included in gross provisions were adequate overall.

We also assessed whether, based on current knowledge, the partial provisions for known and unknown claims included in gross provisions for outstanding claims in previous years were adequate overall to cover the claims that actually occurred and thus to obtain indications that past estimates were adequate (target/actual comparison).

In the course of our audit, we made use of our own specialists with actuarial expertise.

Our audit procedures did not give rise to any reservations with regard to the valuation of the partial provisions for known and unknown claims included in gross provisions.

Reference to associated disclosures

Information about the valuation of gross provisions for outstanding claims is provided in the "Accounting principles" section of the notes.

Other information

The Supervisory Board is responsible for the Report of the Supervisory Board. The legal representatives are otherwise responsible for other information. Other information includes:

- the overview of key figures shown before the contents of the annual report and
- the Report of the Supervisory Board.

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.

If we conclude on the basis of the work we have carried out that this other information is presented in a way that is significantly incorrect, we have a duty to report this fact. We have nothing to report in this regard.

Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the Group management report

The legal representatives are responsible for preparing the consolidated financial statements, which must comply in all key respects with the provisions of German legal regulations that apply to insurance companies, and are 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 legal representatives are responsible for the internal checks that they have deemed necessary, in accordance with German generally accepted accounting standards, 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 legal representatives are responsible for assessing the Group's ability to continue its activities. Moreover, they have a responsibility to disclose any facts in connection with the continuation of the company's activities where relevant. They also have 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 legal representatives are 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 legal representatives are also responsible for the precautions and measures (systems) that they have 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 legal representatives and the validity of the estimates presented by the legal representatives and associated disclosures;
- draw conclusions about the appropriateness of the going concern principle applied by the legal representatives 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 legal representatives 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 legal representatives 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 financial statements at the Supervisory Board meeting on 1 April 2020. The Supervisory Board instructed us on 4 May 2020 to perform an audit. We have acted as the auditor of Deutsche Rückversicherung AG's consolidated financial statements since the 2019 financial year.

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

Responsible auditor

The auditor responsible for the audit is Dr Markus Horstkötter.

Cologne, 12 April 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dr Horstkötter	Offizier
Wirtschaftsprüfer (Certified public accountant)	Wirtschaftsprüfer (Certified public accountant)

Report of the Supervisory Board

Obligations, committees 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.

Mr Hermann Kasten retired with effect from 31 May 2020 and stepped down from the Supervisory Board. Dr Ulrich Knemeyer, VGH, was elected to the Supervisory Board as his successor with effect from 23 June 2020 at the Annual General Meeting, in accordance with the Articles of Association.

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 four meetings were held in the 2020 financial year. These meetings were held as teleconferences, owing to the coronavirus crisis.

At these meetings, the Supervisory Board received and discussed verbal and written reports from the Board of Executive Directors. 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.

Detailed explanations of the companies' economic position and development were provided at meetings of the Supervisory Board. 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 strategic considerations that have been developed since the 2019 financial year were presented to the Supervisory Board and discussed with the Board of Executive Directors. In the current financial year, the Board of Executive Directors also reported regularly to the Supervisory Board on developments relating to the COVID-19 pandemic, its effects and the burdens it may potentially place on Deutsche Rück and the Group companies.

Adoption of the consolidated financial statements

The Supervisory Board elected the auditor for the 2020 audit. The actual audit order was placed by the Chairman of the Supervisory Board. The consolidated financial statements and Group management report for the 2020 financial year were audited by Ernst & Young GmbH, 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.

The Supervisory Board 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 the Group's successful further development.

Düsseldorf, 12 April 2021

Dr Frank Walthes
Chairman

COMPANY DETAILS

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