DR Swiss

Deutsche Rückversicherung Switzerland Ltd

ANNUAL REPORT

2018

Deutsche Rückversicherung Switzerland Ltd

REPORT ON THE 18TH FINANCIAL YEAR

The invaluable alternative. Based in Zurich, Deutsche Rückversicherung Switzerland Ltd (DR Swiss) is a company within the Deutsche Rück Group. Deutsche Rückversicherung AG in Düsseldorf is the main shareholder in DR Swiss, with a holding of 75 %, the remaining 25 % being held by VHV Holding AG in Hanover. An invaluable alternative on the market, DR Swiss offers its client partners stable and lasting reinsurance cover. With made-to-measure solutions and a high level of flexibility, DR Swiss meets clients' specific needs through its highly experienced team and its profound, long-standing knowledge of the market.

DR Swiss Key Figures

in CHF thousand	2018	2017	Change in %
Gross premiums written	291,594	265,993	+ 9.6
Premiums earned for own account	285,361	265,557	+ 7.5
Net investment income	5,885	26,757	– 78.0
Acquisition and operating expenses for own account	5,381	5,112	+ 5.3
Result after tax	6,397	34	
Financial investments incl. cash deposits	849,715	810,857	+ 4.8
Technical provisions for own account	625,103	602,854	+ 3.7
Shareholders' equity	185,606	179,209	+ 3.6
Loss ratio in % of net premiums earned	67.6	77.4	– 12.7
Administrative expense ratio incl. amortisation in % of net premiums earned	1.89	1.93	– 2.1
Employee headcount	15	15	

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Foreword by the Chairman of the Board of Directors and the Managing Director

DEAR SHAREHOLDERS,
DEAR BUSINESS PARTNERS,

In the highly competitive environment of the reinsurance market, DR Swiss can look back on a positive underwriting result. However, unfavourable developments on capital markets had a negative impact on income from investments. We were nevertheless pleased with our overall net income for the year of CHF 6.4 million.

Gross premiums grew by 9.6 % to CHF 291.6 million in 2018, compared with CHF 266.0 million in the previous year. In original currency, i.e. at constant exchange rates, premiums would have risen by 6.1 %.

Claims expenditure totalled CHF 192.8 million in both gross and net terms. This equates to a decline of 6.2 % compared with the previous year. Because of non-recurring effects in 2017, the loss ratio fell to 67.6 % (previous year 77.4 %) of premiums earned for own account. Claims paid came to CHF 159.0 million and were thus up 9.8 % year on year.

Frank Schaar

Total costs (excluding own administrative expenses) were up 4.9 % in both gross and net terms at CHF 86.1 million. The expense ratio dropped from 30.9 % in the previous year to 30.2 %. The commissions and profit participations paid increased by 8.1 % to CHF 83.0 million.

Own administrative expenses rose year on year from CHF 5.1 million to CHF 5.3 million. The ratio of expenses to gross premiums remained stable year on year at 1.9 %. Growth in earnings was positive, with an underwriting profit (including own administrative expenses) of CHF 1.1 million.

Technical provisions increased to a total of CHF 625.1 million as at 31 December 2018 (previous year CHF 602.9 million), which represented a rise of 3.7 %. In original currency, i.e. at constant exchange rates, technical provisions would have risen by 7.4 %. The main reason for the difference is that the euro was down 3.7 % against the Swiss franc as at the balance sheet date.

The investment portfolio grew from CHF 791.5 million to CHF 808.5 million. Liquidity also rose by CHF 21.8 million to CHF 41.2 million. We expanded our direct holdings of fixed-income securities but reduced our investments in funds with increased credit risks. Overall holdings of fixed-income securities rose from CHF 625.8 million to CHF 665.4 million. We also significantly reduced our holdings in equity funds, which fell by CHF 28.5 million to CHF 39.1 million, and scaled back investments in real estate in CHF. We expanded investments in real estate in foreign currencies and in private equity as planned.

Friedrich Schubring-Giese

Fluctuation reserves for financial investments were reduced from CHF 8.1 million in the previous year to CHF 4.8 million.

Investment income came to CHF 5.9 million, well below the previous year's figure of CHF 26.8 million.

Net income for the year after tax amounted to CHF 6.4 million in 2018, an increase on the previous year's figure of CHF 34 thousand. This will allow us to pay an appropriate dividend.

The rating agency Standard & Poor's once again confirmed its financial strength rating of "A+" with a stable outlook for Deutsche Rück in 2018 – and thus for DR Swiss as well. Standard & Poor's believes that the Deutsche Rück Group has a sustainable and very strong capital base, supported by a conservative strategy for the recognition of reserves. In this context, the rating agency expects the business performance to remain positive.

Outlook for 2019

We expect the volume of gross premiums in original currency to remain stable year on year in the current year. Despite ongoing competition in the reinsurance market, we will be able to maintain the majority of our participations. We will be able to partially offset business that was not renewed by new contracts or increased shares. The confirmation of our rating of "A+" from S&P, together with a stable outlook, will support us in this. Provided that there are no further non-recurring effects, we expect our portfolio to achieve a balanced underwriting result.

To strengthen our organisation, the Board of Directors has appointed Mr Achim Bosch as a second member of the executive management with effect from 1 January 2019.

The recovery of the global economy is expected to continue in 2019, albeit at a slower pace. While solid growth is anticipated for the USA, China and emerging markets in Asia, Europe is expected to lag behind somewhat in this regard. We are more towards the end of the upturn.

The subject of Brexit remains high on the agenda in Europe. The economic situation in Italy appears to be deteriorating continuously, which is having an adverse impact on the entire euro zone. However, the outcome of the trade dispute between the USA and China could also have a considerable influence on stock markets and heighten volatility.

In December 2018, we saw to our cost how quickly volatility can return to the capital markets. Price fluctuations could also be greater this year than during the phase of low volatility in recent years. We expect income on investments to be normal, but with a downward trend.

Overall, we expect to achieve a balance sheet profit once again, enabling us to pay a dividend, among other things.

Thanks

We would like to thank all our employees, who deal with constantly changing situations on the insurance and capital markets and whose expert knowledge and dedication have contributed to DR Swiss' prosperous development.

Once again, we would particularly like to thank our clients and shareholders this year for the confidence they have shown in our employees and our company. This strengthens our determination to further expand our long-standing business partnerships with a great deal of commitment and know-how and our customary good service.

Friedrich Schubring-Giese
Chairman of the Board of Directors

Frank Schaar
Managing Director

Our Philosophy

CONTINUITY

- Reliable and long-lasting partnership approach
- Close cooperation leading to sustainable success for both parties

COMPETENCE

- Credible team with a high level of technical expertise and many years of professional experience
- Profound market knowledge

CONSISTENCY

- Reinsurance arrangements according to specific customer needs
- Strong financial security ("A+" rating from Standard & Poor's; stable group of shareholders)

CLIENT FOCUS

- Tailor-made solutions with great flexibility
- Excellent administration, fast service and prompt claims payment
- Direct negotiations with the authorised managers

DR Swiss Organisation

BOARD OF DIRECTORS

Friedrich Schubring-Giese, Chairman
(since 11 April 2018)
Peter Rainer, Deputy Chairman
(since 11 April 2018)
Dr Arno Junke, Chairman
(until 11 April 2018)
Dr Frank Walthes, Deputy Chairman
(until 11 April 2018)
Dr Andreas Jahn
(since 11 April 2018)
Frank Schaar, Delegate
(until 26 June 2018)
Hugo Singer
(until 28 June 2018)
Ulrich-Bernd Wolff von der Sahl

SHAREHOLDERS

75 % Deutsche Rückversicherung AG, Düsseldorf
25 % VHV Holding AG, Hanover

STATUTORY AUDITOR

PricewaterhouseCoopers AG, Zurich

RATING

A+, Standard & Poor's

EXECUTIVE MANAGEMENT

Frank Schaar (Managing Director)
Achim Bosch (since 1 January 2019)

SENIOR MANAGEMENT

Andreas Aemisegger
Pietro Lodigiani
Heinz Lussi
Peter Lusti
Urs Meier
Juan Serra

Management Report

GENERAL BUSINESS PERFORMANCE

Gross premiums grew by 9.6 % to CHF 291.6 million in 2018, compared with CHF 266.0 million in the previous year.

In original currency, i.e. at constant exchange rates, premiums would have risen by 6.1 %. The mean exchange rate of the euro against the Swiss franc, which is authoritative in determining liquid items, rose by 3.9 % compared with the previous year. The conversion rate used to calculate provisions moved in the opposite direction, as the euro was down against the Swiss franc as at the balance sheet date.

Premiums earned for own account increased by 7.5 % to CHF 285.4 million, compared with CHF 265.6 million in the previous year. The smaller percentage increase compared with gross premiums was due to a rise in premium reserves.

Claims expenditure totalled CHF 192.8 million in both gross and net terms. This equates to a drop of 6.2 % compared with the previous year. After non-recurring effects ceased to apply, the loss ratio fell to 67.6 % (previous year 77.4 %) of premiums earned for own account.

Claims paid came to CHF 159.0 million and were thus up 9.8 % year on year.

Total costs (excluding own administrative expenses) were up 4.9 % in both gross and net terms at CHF 86.1 million. The expense ratio dropped to 30.2 % (previous year 30.9 %). External costs paid (i.e. without any change in provisions for profit shares) rose by 8.1 % to CHF 83.0 million.

Administrative expenses for 2018 totalled CHF 5.4 million, up 5.3 % year on year. CHF 4.0 million of this sum related to personnel expenses.

Earnings increased significantly, with a net technical profit of CHF 6.5 million or 2.3 % of premiums earned for own account. In the previous year – owing to non-recurring effects ("Ogden effect" and industrial legal protection insurance) – the company suffered a technical loss of CHF 22.1 million or 8.3 %.

The previous financial year was shaped by substantial challenges in global politics. The upturn that was taking place simultaneously in all the major economic regions levelled off. Punitive tariffs imposed by the USA on China have intensified the slowdown in the global economy. The structural problems of highly indebted countries such as Argentina, Venezuela and Turkey have been ruthlessly exposed. Uncoordinated negotiations on the United Kingdom's exit from the EU, Italy's budget negotiations with the EU and interest rate hikes in the USA brought volatility back to the financial markets. Other issues that had an increasing influence on the markets included growing imbalances within the euro system, the steady rise in government and corporate debt around the world and an increasing trend towards voting for populist parties.

The good condition of the US economy prompted the US central bank to raise interest rates in a further four steps last year, to between 2.25 % and 2.5 %. The ECB has now also decided to end its ultra-loose monetary policy, and stopped buying up bonds at the end of the year. It is not expected to make any changes to interest rates until the second half of 2019 at the earliest. While the three-month rate for the euro remained in negative territory over the course of the year, the equivalent rate for USD rose by around 1 % to 2.8 %. At the end of the year, the euro 10-year swap rates were down around 10 basis points and the USD rates were up about 30 basis points compared with the beginning of the year.

Share prices in Europe and emerging markets began to slide halfway through the year. In contrast, stocks in US and Japanese companies remained relatively stable up to the end of November, before plunging all the more sharply in December.

The price of crude oil rose continuously to over USD 85 per barrel of Brent at the beginning of October. As fears arose regarding the future development of the global economy, the price of oil slumped as low as USD 50 per barrel. Core inflation remained moderate in 2018. Credit spreads widened considerably owing to continuous growth in debts of most issuers and bleaker economic prospects. Bonds from high-yield debtors particularly suffered. The average interest rate on such USD bonds had risen to over 8 % by the end of 2018. It was only thanks to the ECB's purchase programme that EUR credit spreads remained relatively stable on bonds with ratings of AAA and AA. The US dollar gained nearly 1 % against the Swiss franc, while the euro lost almost 4 %.

At CHF 5.9 million, investment income was well below the previous year's figure of CHF 26.9 million. With current income falling once again, largely owing to low interest rates, the return on our mark-to-market investments was also significantly lower than in the previous year. As well as fund investments in real estate in CHF and bonds, equity holdings in particular performed unfavourably. The portfolio of private equity investments, which we are in the process of building up, had a negative impact on results as expected.

Net income for the year after tax amounted to CHF 6.4 million in 2018, a significant increase on the previous year's figure of CHF 34 thousand. This will enable us to pay an appropriate dividend.

ASSETS

Driven by a high cash inflow from underwriting, the value of investments – at their carrying amounts – grew by around CHF 17.0 million to CHF 808.5 million over the course of the year. We also increased our liquidity by CHF 21.8 million. We expanded our direct holdings of fixed-income securities but reduced our investments in funds with increased credit risks. We also significantly reduced holdings of equities and real estate in CHF. We expanded investments in real estate in foreign currencies and in private equity as planned.

ANNUAL AVERAGE NUMBER OF FULL-TIME EQUIVALENTS

The average number of full-time equivalents at DR Swiss in 2018 was 12.9.

RATING: A+

The rating agency Standard & Poor's once again confirmed its financial strength rating of "A+" with a stable outlook for Deutsche Rück in 2018 – and thus for DR Swiss as well. Standard & Poor's believes that the Deutsche Rück Group has a sustainable and very strong capital base, supported by a conservative strategy for the recognition of reserves. In this context, the rating agency expects the business performance to remain positive.

EVENTS AFTER THE BALANCE SHEET DATE

At the present time and taking into account current business performance, there are no discernible developments that could have a significant and lasting negative impact on DR Swiss' assets, financial position or earnings.

RISK ASSESSMENT

Risk management: Strategic framework
The risk strategy, which is derived from the business strategy, defines the risks that must be accepted in the course of normal business activities and documents the level of risk tolerance stipulated by the Board of Directors and reviewed annually. This is based on the company's risk-bearing resources and on basic strategic considerations.

The Board of Directors and first-tier management are involved in implementation as part of their regular discussion of strategic risks.

Risk identification and risk management organisation
All risks affecting DR Swiss are categorised in a risk map. Responsibility for each identified risk is clearly defined. Identified risks with regard to currentness, completeness and relevance are evaluated once a year in a controlled process.

Measurement and evaluation of risks
The annual assessment is recorded in a report and the results are presented to the Board of Directors. 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. Investment risk monitoring is essentially based on regular meetings of the investment committee and related reporting. Ad hoc reporting is carried out for extraordinary developments relating to major and accumulated losses in the property insurance divisions. Major losses above the reporting threshold are also consolidated and comments on them are provided in the quarterly report to the Board of Directors.

Investment strategy
The strategic asset allocation is determined as part of an annual process involving the investment committee and the Board of Directors.

Risk control functions within the risk management process

The Board of Directors' responsibility for the organisation of the company, strategic management, supervision of the executive management and the organisation of accounting and financial control as established in Art. 716a of the Swiss Code of Obligations (CO) means that the Board of Directors bears overall responsibility for dealing with risks affecting the company. The Board of Directors receives regular updates regarding developments in the risk strategy, which is to be defined annually.

Significant risks

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

1. Reinsurance risks
2. Investment and credit risks
3. Operational risks

1. 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.

Natural hazard/accumulation risks, such as windstorms, floods, earthquakes or hail, pose the biggest risks to DR Swiss. Risk exposure in this area is therefore actively managed as part of the underwriting process.

Tools for limiting risks

DR Swiss uses various tools to control and limit risks in reinsurance. The most important tools are outlined below.

Underwriting guidelines and limits: Underwriting guidelines set out detailed rules on which reinsurance treaties can be underwritten. The underwriting guidelines also stipulate that the double-checking principle must be applied throughout. Limits of indemnity are also specified and monitored regularly. Moreover, ongoing profitability measurements and accumulation checks ensure that risks remain manageable.

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

2. Investment and credit risks

Investment activities give rise to the following investment and credit risks:

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

Credit and creditworthiness risks: The value of existing receivables may go down as a result of changes in the assessment of the creditworthiness of issuers or contractual partners.

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 and/or to losses, due to reductions in price.

Currency risks: Changes in exchange rates may lead to losses due to a mismatch 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 manager works 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 portfolios of fixed-income securities 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, DR Swiss analyses historic events and maps their development on its current investment portfolio. 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.

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.

The minimum limit for new direct investments is generally a rating of “BBB–”. 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.

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 DR Swiss 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.

Foreign currency items on the liabilities side are matched on the assets side of the balance sheet.

3. 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. Compliance risks are risks resulting from non-compliance with contractual agreements or general legal conditions.

Instruments for controlling operational risks

Operational risks are controlled and managed using an internal control system and through specific reports that form part of the overall risk report. Internal Auditing carries out independent investigations to supplement internal risk analyses of the organisation and processes.

IT security concepts and emergency plans

Employees responsible for security in data processing ensure that a comprehensive security concept is in place. Modern hardware and software helps to ensure the availability and integrity of all systems and programmes. Regular checks on network security, constant refinement of the security concept and emergency plans ensure data security and make sure that the systems used are available at all times. A crisis communications concept ensures efficient communication in an emergency.

OPPORTUNITIES REPORT

As a subsidiary of Deutsche Rückversicherung AG and an independent company within the Deutsche Rück Group, we are an invaluable alternative on the market and offer our client partners stable and lasting reinsurance cover. This means that opportunities and risks for our business are correspondingly diverse. In the section “Outlook for 2019”, we provide an assessment of opportunities and a forecast for the development of our business, based on realistic assumptions about general conditions.

Developments on financial markets and hedge transactions in conjunction with natural catastrophes remain burdened with uncertainty. Moreover, inadequate original premiums in European property insurance business limit potential earnings from our proportional reinsurance business.

OUTLOOK FOR 2019

The recovery of the global economy is expected to continue in 2019, albeit at a slower pace. While solid growth is anticipated for the USA, China and emerging markets in Asia, Europe is expected to lag behind somewhat in this regard. We are more towards the end of the upturn. Unemployment rates are low and capacity utilisation in manufacturing facilities is very high. Higher US interest rates and the gradual discontinuation of tax incentives are now expected to cool the economy somewhat. However, US consumers will continue to prop up growth reliably.

The subject of Brexit remains high on the agenda in Europe. The economic situation in Italy appears to be deteriorating continuously, which is having an adverse impact on the entire euro zone. However, the outcome of the trade dispute between the USA and China could also have a considerable influence on stock markets and heighten volatility.

The monetary environment remains expansionary. Although the Fed has now begun to reduce its balance sheet and the ECB stopped buying up bonds at the end of 2018, interest rates are still extremely low. In the USA, a further two interest rate hikes of 25 basis points each are entirely possible. The ECB is not expected to raise interest rates until towards the end of the year at the earliest.

In December 2018 we saw to our cost how quickly volatility can return to the capital markets. The Dow Jones lost more than 2 % on six separate trading days, for example, although it also gained over 1,000 points or 5 % in a single day. Price fluctuations could also be greater this year than during the phase of low volatility in recent years.

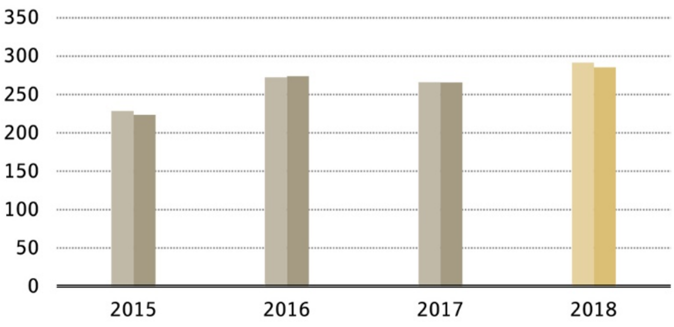
DR Swiss has not suffered any major losses at the time of writing this report. However, the property insurance portfolio assumed from our cedants remains particularly exposed to risks associated with natural hazards. Our conservative underwriting policy, which is designed for such catastrophes, allows us to provide an accurate estimate of our result for own account. Provided that claims remain within the anticipated range and within our budget for major claims, we expect to achieve a balanced result in underwriting business once again. We expect income on investments to be normal, but with a downward trend.

Overall, we expect to achieve a balance sheet profit once again, enabling us to pay a dividend, among other things.

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

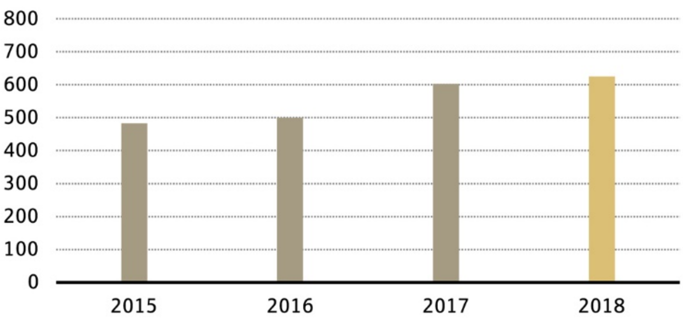
Multi-Year Financial Summary

PREMIUMS
in CHF million



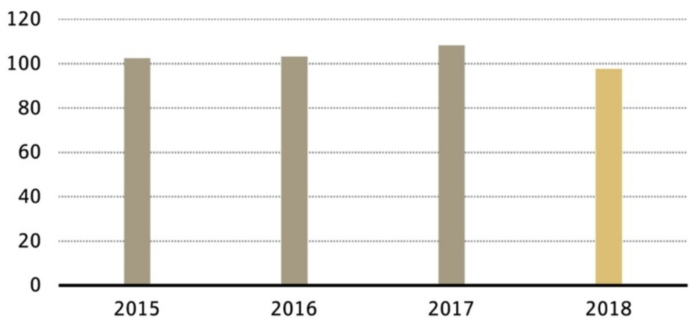
	Gross premiums	Premiums earned
2015	228.5	223.6
2016	272.3	273.8
2017	265.9	265.6
2018	291.6	285.4

TECHNICAL PROVISIONS
in CHF million



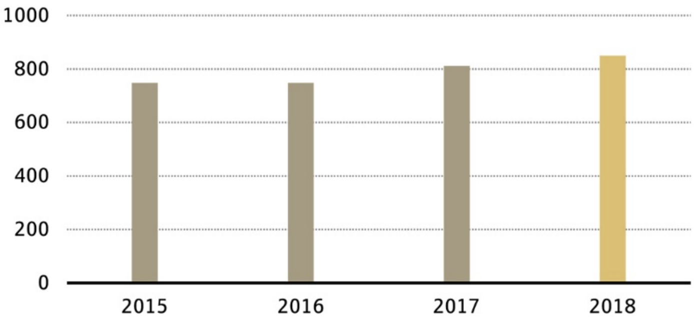
	Technical provisions
2015	482.7
2016	499.8
2017	602.8
2018	625.1

COMBINED RATIO (ON EARNED PREMIUMS)
in %, excl. own administrative expenses



	Combined ratio
2015	102.4
2016	103.2
2017	108.3
2018	97.7

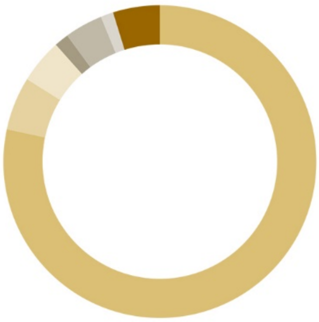
FINANCIAL INVESTMENTS INCL. CASH DEPOSITS
in CHF million



Financial investments

2015	747.8
2016	748.0
2017	810.9
2018	849.7

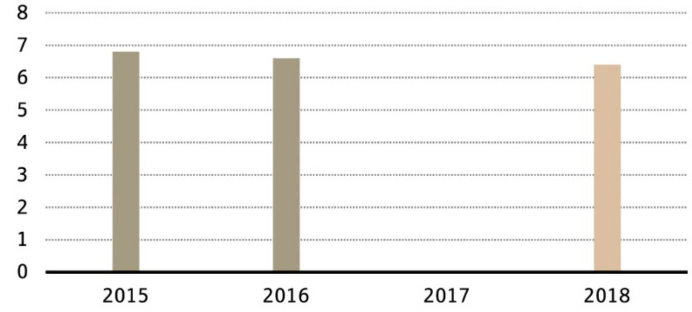
ASSET ALLOCATION AS AT 31 DECEMBER 2018
in %



Asset allocation

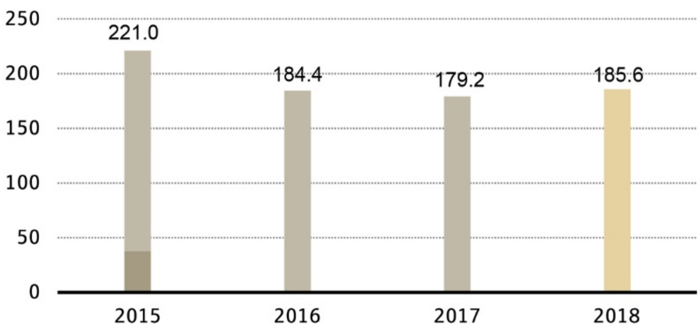
- 78.3 % Fixed-income securities
- 5.5 % Real estate funds
- 4.6 % Equity funds
- 1.5 % Commodities funds
- 3.9 % Infrastructure energy funds
- 1.3 % Private equity
- 4.8 % Cash and cash equivalents

INCOME AFTER TAX
in CHF million



Income after tax	
2015	6.8
2016	6.6
2017	0.034
2018	6.4

SHAREHOLDERS' EQUITY INCL. SUBORDINATED LIABILITIES
in CHF million



	Shareholders' equity	Subordinated liabilities
2015	183.1	37.9
2016	184.4	0.0
2017	179.2	0.0
2018	185.6	0.0

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Balance Sheet as at 31 December 2018

ASSETS in CHF thousand	2018	2017
Investments	**808,531**	**791,491**
Fixed-income securities	665,418	625,813
Other investments	143,113	165,678
Real estate funds	46,873	48,614
Equity funds	39,136	67,619
Commodities funds	12,508	13,068
Infrastructure energy funds	33,490	32,409
Private equity	11,106	3,968
Deposits from reinsurance assumed	**48,661**	**49,492**
Cash and cash equivalents	**41,184**	**19,366**
Other assets	**371**	**352**
Intangible assets	**13**	**14**
Reinsurance receivables	**12,628**	**9,300**
Receivables from shareholders	62	0
Receivables from third parties	12,566	9,300
Other receivables	**1,441**	**744**
Accrued income and prepaid expenses	**5,451**	**6,483**
Total ASSETS	**918,280**	**877,242**

LIABILITIES AND SHAREHOLDERS' EQUITY

in CHF thousand	2018	2017
Technical provisions	**625,103**	**602,854**
Reserves for unearned premiums for own account	14,540	8,757
Reserves for outstanding claims for own account	562,014	547,673
Provisions for profit commissions	48,549	46,424
Non-technical provisions	**4,800**	**8,700**
Fluctuation reserves for financial investments	4,800	8,100
Provisions for currency fluctuations	0	600
Interest-bearing liabilities	**33,807**	**35,106**
Payables to insurance and reinsurance companies	**68,256**	**50,953**
Payables to shareholders	8,340	7,184
Payables to third parties	59,916	43,769
Other liabilities	**106**	**88**
Accrued expenses and deferred income	**602**	**332**
Total liabilities	**732,674**	**698,033**
Share capital	**150,000**	**150,000**
Legal capital reserves	**9,177**	**9,177**
Legal retained earnings	**18,638**	**18,631**
Voluntary profit reserves	**1,223**	**1,223**
Profit carried forward from previous year	**171**	**144**
Net income for the year	**6,397**	**34**
Total shareholders' equity	**185,606**	**179,209**
Total LIABILITIES AND SHAREHOLDERS' EQUITY	**918,280**	**877,242**

Income Statement

For the period 1 January to 31 December 2018

TECHNICAL ACCOUNT in CHF thousand	2018	2017
Gross premiums written	291,594	265,993
Reinsurers' share of gross premiums written	–55	–44
Premiums for own account	**291,539**	**265,949**
Change in unearned premiums	–6,178	–392
Reinsurers' share of change in unearned premiums	0	0
Premiums earned for own account	**285,361**	**265,557**
Other income from insurance business	**41**	**64**
Total income from underwriting business	**285,402**	**265,621**
Gross payments for insurance claims	–158,990	–144,745
Reinsurers' share of payments for insurance claims	0	0
Change in technical provisions	–33,821	–60,866
Reinsurers' share of change in technical provisions	0	0
Claims incurred for own account	**–192,811**	**–205,611**
Acquisition and operating expenses	–5,236	–4,983
Depreciation of tangible assets	–145	–129
Reinsurers' share of acquisition and operating expenses	0	0
Acquisition and operating expenses for own account	**–5,381**	**–5,112**
Commissions and profit shares paid	–83,015	–76,818
Reinsurers' share of commissions and profit shares paid	0	0
Change in provisions for contractual surplus participations	–3,047	–5,219
Other technical expenses for own account	**–86,062**	**–82,037**
Total expenses from underwriting business	**–284,254**	**–292,760**
Underwriting result	**1,148**	**–27,139**

NON-TECHNICAL ACCOUNT

in CHF thousand	2018	2017
Underwriting result (carried forward)	1,148	–27,139
Current income	16,025	14,370
Price gains on investments	10,732	21,850
Realised gains on investments	205	173
Unrealised gains on investments	10,527	21,677
Reversals of impairments on fixed-income securities	306	312
Investment income	**27,063**	**36,532**
Investment administration	–469	–415
Price losses on investments	–23,797	–9,204
Realised losses on investments	–3,447	–41
Unrealised losses on investments	–20,350	–9,163
Impairments on fixed-income securities	–212	–156
Fluctuation reserves for financial investments	3,300	0
Expenses for investments	**–21,178**	**–9,775**
Investment income	**5,885**	**26,757**
Other interest receivable	107	94
Income from differences in exchange rates	461	639
Other financial income	**568**	**733**
Other financial expenses	**0**	**0**
Profit / loss before taxes	**7,601**	**351**
Direct taxes	–1,204	–317
Profit / loss	**6,397**	**34**

Cash Flow Statement

CASH FLOW STATEMENT in CHF thousand	2018	2017
Cash flow from operating activities		
Net income for the year	6,397	34
Change in reserves for unearned premiums	6,177	392
Change in outstanding claims reserves	33,821	60,866
Change in provisions for profit commissions	3,047	5,219
Change in fluctuation reserves for financial investments	–3,300	0
Change in provisions for currency fluctuations	–600	100
Realised gains/losses on sale of investments	2,568	–316
Depreciation and amortisation	145	129
Change in funds held with reinsured companies/reinsurance liabilities	–1,038	1,000
Change in other assets and liabilities	16,496	–70,978
Other non-cash expenses and income	9,419	–11,272
Total cash flow from operating activities	**73,132**	**–14,826**
Cash flow from investing activities (net change)		
Fixed-income securities	–59,412	9,527
Real estate funds	–3,613	–8,235
Equity funds	21,250	–3,572
Commodities funds	0	0
Infrastructure energy funds	–1,928	–4,040
Private equity	–7,528	–1,561
Time deposits	79	0
Increase/decrease in tangible and intangible assets	–162	–244
Total cash flow from investing activities	**–51,314**	**–8,125**
Cash flow from financing activities		
Interest-bearing liabilities	0	31,969
Payments of dividends	0	–5,250
Total cash flow from financing activities	**0**	**26,719**
Total cash inflow/outflow	**21,818**	**3,768**
Cash and cash equivalents at start of period	19,366	15,598
Cash and cash equivalents at end of period	41,184	19,366
Cash inflow/outflow	**21,818**	**3,768**

Notes to the Financial Statements

PRINCIPLES UNDERLYING THE ANNUAL FINANCIAL STATEMENTS

General

Deutsche Rückversicherung Switzerland Ltd (DR Swiss) is a public limited company established in accordance with the Swiss Code of Obligations, with its registered office in Zurich, Switzerland.

On average, during the year the number of full-time equivalent employees at DR Swiss did not exceed 50.

The 2018 annual financial statements have been prepared in accordance with the provisions of the Swiss accounting law (Title 32 of the Swiss Code of Obligations). The balance sheet and income statement comply with the classification rules prescribed by the FINMA (Swiss Financial Market Supervisory Authority) Insurance Supervision Ordinance (AVO-FINMA).

The accounting requires the Board of Directors to make estimates and assessments that could affect the value of the reported assets and liabilities as well as contingent liabilities at the time of preparing the accounts, and which may also have an effect on expenses and earnings for the reporting period. The Board of Directors is free to decide at its own discretion the extent to which it will make use of existing options permitted by law in its accounting and valuation policies. Within the scope permitted by the principle of prudence, depreciation, amortisation, write-downs and provisions may be recognised above and beyond the extent required for financial and accounting purposes, if this serves the well-being of the company.

Accounting and valuation policies

Direct bond investments are valued at acquisition cost on the balance sheet date, using the effective interest method.

Funds (fixed income, real estate, equities and commodities) are valued at market value on the balance sheet date. The exceptions to this are real estate funds in foreign currencies, infrastructure energy funds and private equity, which are valued at the lower of cost or market.

Intangible and tangible assets are valued at purchase cost less scheduled amortisation and depreciation.

Receivables are recognised in the balance sheet at their nominal amount. If necessary, the risk of payment default is accounted for by means of specific provisions.

Original unearned premiums and original reserves for outstanding claims are recognised in the balance sheet in accordance with the disclosures of the ceding companies. Actuarial estimates are made for the statements of account not yet received from ceding companies as at the balance sheet date.

Liabilities are included in the balance sheet at their settlement value.

Foreign currency items in the balance sheet are translated at the exchange rate on the balance sheet date. Transactions in the non-technical account are translated at current rates; transactions in the technical account are translated at annual average rates. Unrealised gains and losses on foreign exchange are recognised in income. Any surplus will be deferred. The relevant exchange rates are shown in the table below.

EXCHANGE RATES ON THE BALANCE SHEET DATE	31 Dec. 2018	31 Dec. 2017
EUR/CHF	1.12690	1.17020
USD/CHF	0.98419	0.97574
GBP/CHF	1.25977	1.31894

AVERAGE EXCHANGE RATES	31 Dec. 2018	31 Dec. 2017
EUR/CHF	1.15500	1.11170
USD/CHF	0.97798	0.98407
GBP/CHF	1.30551	1.26809

INFORMATION, BREAKDOWNS AND NOTES ON ITEMS IN THE BALANCE SHEET AND INCOME STATEMENT

NET RELEASE OF HIDDEN RESERVES IN ACCORDANCE WITH SWISS COMPANY LAW in CHF thousand	2018	2017
Net release of hidden reserves	3,300	0

Interest-bearing liabilities

Interest-bearing liabilities of CHF 33.8 million (EUR 30.0 million) relate to a short-term loan to shareholders with a term of less than one year.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY in CHF thousand	Share capital	Legal capital reserves	Legal re-tained earnings	Voluntary reserves	Disposable profit	Total
As at 31 Dec. 2016	**150,000**	**9,177**	**17,231**	**1,223**	**6,794**	**184,425**
Dividends					–5,250	–5,250
Allocation to legal reserves			1,400		–1,400	0
Net income for the year					34	34
As at 31 Dec. 2017	**150,000**	**9,177**	**18,631**	**1,223**	**178**	**179,209**
Dividends					0	0
Allocation to legal reserves			7,000		–7	0
Net income for the year					6,397	6,397
As at 31 Dec. 2018	**150,000**	**9,177**	**18,638**	**1,223**	**6,568**	**185,606**

Estimates of technical account items with an effect on liquidity

Technical account items with an effect on liquidity are recorded on the basis of the amounts disclosed in statements of account from ceding companies as well as estimates. The estimated figures are reported net. In other words, the opening values as at 1 January 2018 are offset against the closing values as at 31 December 2018. These estimates affected the income statement items in the 2018 financial year as follows:

ITEM in CHF thousand	Disclosed	Estimated	Total recognised
Premiums for own account	289,603	1,936	291,539
Claim payments	145,535	13,455	158,990
Commissions/profit shares	81,528	1,487	83,015
Change in provisions for profit shares	3,047	0	3,047
Commissions and profit shares	**84,575**	**1,487**	**86,062**

ACQUISITION AND OPERATING EXPENSES FOR OWN ACCOUNT in CHF thousand	2018	2017
Personnel expenses	3,978	3,827
Material expenses	1,258	1,156
Depreciation of tangible assets	145	129
Total acquisition and operating expenses for own account	**5,381**	**5,112**

INCOME AND EXPENDITURE ON INVESTMENTS

INCOME

in CHF thousand	2018	2017
Fixed-income securities	10,013	11,365
Real estate funds	4,218	1,092
Equity funds	635	761
Commodities funds	0	0
Infrastructure energy funds	793	951
Private equity	0	0
Other investments	366	201
Total income	**16,025**	**14,370**

APPRECIATION

in CHF thousand	2018	2017
Fixed-income securities	1,195	2,503
Real estate funds	1,253	4,341
Equity funds	6,026	12,147
Commodities funds	1,388	1,795
Infrastructure energy funds	460	526
Private equity	511	678
Other investments	0	0
Total appreciation	**10,833**	**21,990**

REALISED GAINS

in CHF thousand	2018	2017
Fixed-income securities	17	15
Real estate funds	7	29
Equity funds	138	127
Commodities funds	0	0
Infrastructure energy funds	43	2
Private equity	0	0
Other investments	0	0
Total realised gains	**205**	**173**

DEPRECIATION, AMORTISATION AND WRITE-DOWNS in CHF thousand	2018	2017
Fixed-income securities	–2,795	–809
Real estate funds	–2,913	–2,770
Equity funds	–12,129	–3,043
Commodities funds	–1,724	–1,056
Infrastructure energy funds	–352	–692
Private equity	–649	–949
Other investments	0	0
Total depreciation, amortisation and write-downs	**–20,562**	**–9,319**

REALISED LOSSES in CHF thousand	2018	2017
Fixed-income securities	–23	0
Real estate funds	–2,875	0
Equity funds	–524	0
Commodities funds	0	0
Infrastructure energy funds	–25	–41
Private equity	0	0
Other investments	0	0
Total realised losses	**–3,447**	**–41**

Security for commitments

A rent deposit in the amount of CHF 191,391 was lodged with our bankers as security for our rental commitments for business premises.

CONTINGENT LIABILITIES in CHF million	2018	2017
Commitments entered into for the future acquisition of real estate funds	11.7	10.8
Commitments entered into for the future acquisition of infrastructure energy funds	21.8	14.7
Commitments entered into for the future acquisition of private equity investments	57.3	30.9

Rental and leasing commitments

Rental commitments amount to CHF 1,676,324 as at 31 December 2018 (previous year CHF 2,192,116). There are no leasing commitments.

Total auditor's fees

FEE ITEM in CHF	2018	2017
Audit services	71,748	72,187
Other services	37,264	0
Total fees	**109,012**	**72,187**

Proposal for the Appropriation of Profit

The following net result for the year will be available to the General Meeting on 13 March 2019 in Zurich:

PROPOSAL FOR THE APPROPRIATION OF PROFIT AS AT 31 DECEMBER 2018

in CHF thousand	2018	2017
Profit carried forward from previous year	171	144
Net income for the year	6,397	34
Disposable profit	**6,568**	**178**
The Board of Directors proposes to the General Meeting that the disposable profit be distributed as follows:		
Dividends	5,250	0
Allocation to legal reserves	1,300	7
Balance carried forward	**18**	**171**

Report of the Statutory Auditor

As the statutory auditor, we have audited the financial statements of Deutsche Rückversicherung Switzerland Ltd, which comprise the balance sheet, income statement, cash flow statement and notes (pages 26 to 37), for the financial year ended 31 December 2018.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system to ensure that the financial statements that are prepared are free from material misstatement due to either fraud or error. The Board of Directors is also responsible for selecting and applying appropriate accounting policies and making reasonable accounting estimates.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with Swiss law and Swiss auditing standards. These standards require that we plan and perform the audit in such a way as to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence concerning the carrying amounts and other disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including assessment of the risks of material misstatement in the financial statements due to either fraud or error. In assessing these risks, the auditor takes account of the internal control system where it is relevant to the entity's preparation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes an assessment of the appropriateness of the accounting policies used and the plausibility of the estimates made, as well as an evaluation of the overall presentation of the financial statements. We believe that the audit evidence we have obtained provides a sufficient and appropriate basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Report based on other legal requirements
We confirm that we meet the statutory requirements on licensing in accordance with the Swiss law on audit supervision (RAG) and on independence (Art. 728 CO and Art. 11 RAG) and that there are no circumstances that are incompatible with our independence.

In accordance with Art. 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm the existence of an internal control system for the preparation of financial statements, which has been designed according to the instructions of the Board of Directors.

We also confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation and recommend that the financial statements be approved as submitted.

PricewaterhouseCoopers AG

Zurich, 13 March 2019

Martin Schwörer Audit expert Auditor in charge	Magali Zimmermann Audit expert

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