Deutsche Rückversicherung Switzerland Ltd

ANNUAL REPORT

2019

Deutsche Rückversicherung Switzerland Ltd

REPORT ON THE 19TH 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 71.25 %. VHV Holding AG in Hanover owns 23.75 % and Oberösterreichische Versicherung AG in Linz holds 5 % of the share capital. 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	2019	2018	Change in %
Gross premiums written	269,887	291,594	– 7.4
Premiums earned for own account	278,574	285,361	– 2.4
Net investment income	26,177	5,885	+ 344.8
Acquisition and operating expenses for own account	6,126	5,381	+ 13.8
Result after tax	7,097	6,397	
Financial investments incl. cash deposits	884,595	849,715	+ 4.1
Technical provisions for own account	609,083	625,103	– 2.6
Shareholders' equity	197,379	185,606	+ 6.3
Loss ratio in % of net premiums earned	72.7	67.6	+ 7.5
Administrative expense ratio incl. amortisation in % of net premiums earned	2.2	1.89	+ 16.4
Employee headcount	19	15	

Contents

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
Peter Rainer, Deputy Chairman
Dr Andreas Jahn
Othmar Nagl (since 13 March 2019)
Dr Frank Walthes
Ulrich-Bernd Wolff von der Sahl

SHAREHOLDERS

71.25 % Deutsche Rückversicherung AG, Düsseldorf
23.75 % VHV Holding AG, Hanover
5.00 % Oberösterreichische Versicherung AG, Linz

STATUTORY AUDITOR

PricewaterhouseCoopers AG, Zurich

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

RATING

A+, Standard & Poor's

Management Report

GENERAL BUSINESS PERFORMANCE

Gross premiums written fell by 7.4 % to CHF 269.9 million in the 2019 financial year, compared with CHF 291.6 million in the previous year.

In original currency, i.e. at constant exchange rates, premiums would have declined by only 4.2 %. The mean exchange rate of the euro against the Swiss franc, which is authoritative in determining liquid items, fell by 3.7 % compared with the previous year. The same applies to the conversion rate used to calculate provisions, as the euro was also down by 3.7 % against the Swiss franc as at the balance sheet date.

There was a considerably smaller decline of 2.4 % in premiums earned for own account to CHF 278.6 million (previous year CHF 285.4 million). This difference compared with the development of gross premiums was due to shifts in premium reserves and unearned premiums. There was also less need to recognise premium reserves in 2019.

Claims expenditure totalled CHF 202.5 million in both gross and net terms (previous year CHF 192.8 million). This equates to an increase of 5.0 % compared with the previous year. The loss ratio increased by 5.1 % to 72.7 %.

Claims paid came to CHF 193.4 million and were thus up 21.6 % year on year.

Total costs (excluding own administrative expenses) were down 0.8 % in both gross and net terms at CHF 85.4 million (previous year CHF 86.1 million). Owing to the drop in premium volume, the expense ratio rose to 30.7 % of premiums earned for own account (previous year 30.2 %). External costs paid (i.e. without any change in provisions for profit shares) rose by 1.2 % to CHF 84.0 million (previous year CHF 83.0 million).

Administrative expenses for 2019 totalled CHF 6.1 million, up 13.8 % year on year. CHF 4.6 million of this sum related to personnel expenses.

Earnings declined significantly, with a net technical loss before own administrative expenses of CHF 9.4 million or 3.4 % of premiums earned for own account. The company had achieved a technical profit of CHF 6.5 million or 2.3 % for the previous year.

Investment markets were heavily influenced by monetary policy measures taken by central banks in the last financial year. The USA's ongoing trade dispute with China led to a slowdown in the global economy. However, neither this nor increased geopolitical risks seemed to unsettle investors, and volatility on the financial markets remained low. The US central bank's unexpected U-turn, combined with the ECB's zero interest rate policy and its resumption of its bond-buying programme, gave a strong boost to markets and led to new highs in share prices and record lows for bond yields. The ECB's decision to keep purchasing euro bonds for an indefinite period caused credit spreads to narrow significantly again, despite a trend towards falling credit ratings.

The US central bank cut short-term interest rates by a total of 0.75 % in three steps. In addition, the crisis on the US repo market prompted the Fed to make a large amount of liquidity available to the money market. These funds have had the effect of another “quantitative easing” programme.

Unsurprisingly, this has led to substantial gains in share prices. The three-month euro interest rate remained in negative territory throughout the year but was very stable, apart from one anomaly in September when it reached –0.5 %. The equivalent rate for USD fell continuously from around 2.8 % at the beginning of the year to about 1.9 % at the end. The 10-year EUR and USD swap rates were down by around 60 and 80 basis points respectively. Volatility in EUR investments was considerably higher than in USD securities.

Prices on most stock exchanges rose continuously, interrupted by a sideways movement in the summer. The strongest gains were recorded in the final quarter.

Having risen sharply over a four-month period to around USD 75 per barrel of Brent, the oil price levelled off and remained between USD 58 and USD 65 for the rest of the year. Core inflation remained moderate in 2019. Despite a tendency towards weaker key figures for credit, credit spreads continued to narrow. The performance of the BBB sector particularly stood out. The main reason for this may lie in the hunt for returns and in central banks’ more expansionary monetary policies. The US dollar lost around 1.8 % against the Swiss franc, while the euro fell by a further 3.7 %.

At CHF 26.2 million, investment income was well above the previous year’s figure of CHF 5.9 million. Although current income fell once again, largely owing to low interest rates, the return on our mark-to-market investments was significantly higher than in the previous year. As well as fund investments in real estate in CHF, bonds and commodities, equity holdings in particular performed very positively. The Other Investments portfolio (mainly German mortgages), which we are in the process of building up, has already generated substantial income.

Net income for the year after tax amounted to CHF 7.1 million in 2019, a slight increase on the previous year’s figure of CHF 6.4 million. This will enable us to pay an appropriate dividend.

ASSETS

Driven by cash inflow from underwriting and the inflow from the share capital increase, the value of investments – at their carrying amounts – grew by around CHF 60.7 million to CHF 869.2 million over the course of the year. Part of this increase was due to a reduction in liquidity of CHF 25.8 million. We reduced our direct holdings of fixed-income securities but slightly expanded our investments in funds with increased credit risks. We also significantly increased holdings of equities and real estate in foreign currencies. The year-on-year rise in these items is also due to the positive performance of the market.

We expanded our investments in infrastructure, energy and private equity as planned, and invested substantial funds in the new asset class of Other Investments (mainly German mortgages).

ANNUAL AVERAGE NUMBER OF FULL-TIME EQUIVALENTS

The average number of full-time equivalents at DR Swiss in 2019 was 16.4.

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 2019 – and thus for DR Swiss as well. Standard & Poor’s reports that the Deutsche Rück Group has a sustainable and very strong capital base coupled with a secure earnings position and supported by risk-commensurate underwriting and a conservative strategy for the recognition of reserves. In this context, the rating agency has confirmed its “A+” rating and reiterated its expectation that the business performance will remain positive with a stable outlook.

SUSTAINABLE INVESTMENT

At DR Swiss, we are aware of our responsibility to the environment and society and integrate sustainability criteria into our investment processes. That is why, as part of the Deutsche Rück Group, we signed up to the investors’ initiative PRI (Principles for Responsible Investment) on 17 September 2019. 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 objective of the principles is to facilitate a better understanding of the impact that investment decisions have on environmental aspects, social issues and factors relating to good corporate governance.

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 and up to what amount. 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 programs. 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 2020”, 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 2020

Low growth in the global economy looks set to continue in 2020. While the USA is expected to record solid growth, primarily owing to positive consumer sentiment, growth rates in China, Japan and Europe in particular are expected to decline slightly further. The partial agreement (Phase 1 deal) that has been signed by the USA and China could ease tensions in the trade dispute between these two countries. The unemployment rate in the USA is low and is unlikely to fall much further. The US central bank’s U-turn in its monetary policy is expected to lead to corresponding growth in the US economy. Although the US economy is now in the 11th year of an upturn, growth could continue, albeit at a slower pace.

The monetary environment remains expansionary, partly owing to the ECB’s resumption of its securities purchasing programme. In the USA, 2020 will be all about the presidential elections. The US central bank has never raised interest rates in such a year. Interest rates are therefore expected to remain relatively stable, following three cuts of 0.25 % each by the Fed in 2019 and a reduction of 0.1 % by the ECB.

The “Goldilocks” environment on capital markets, with very little inflation, low interest rates, low volatility and steady growth in prices, could therefore certainly continue in 2020. However, if known risks such as an economic slump, trade disputes, geopolitical tensions, profit warnings or new dangers were to flare up suddenly, this could also lead to a significant increase in volatility and thus to significant drops in prices.

DR Swiss will underwrite business in North African countries (Morocco, Tunisia and Algeria) in the new financial year.

Capacity to assume catastrophe risks has also been increased across the board. We anticipate higher premium income here in existing markets.

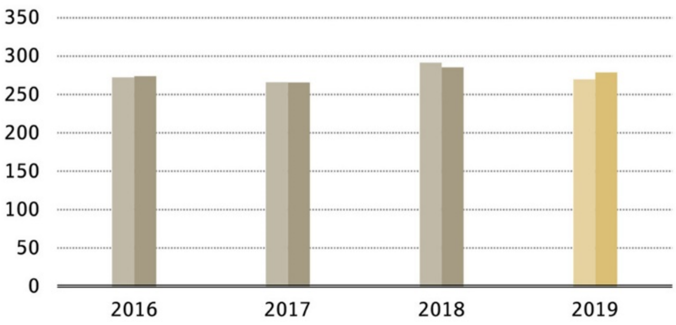
DR Swiss has not suffered any major losses at the time of writing this report. However, the property insurance portfolio assumed from our cedants remains particularly exposed to risks associated with natural hazards. Our conservative underwriting policy, which is designed for such catastrophes, allows 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.

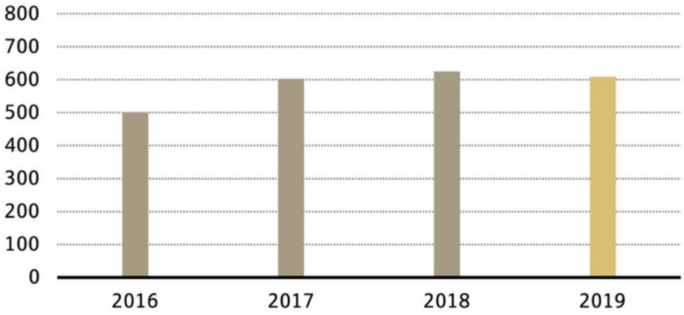
Multi-Year Financial Summary

PREMIUMS
in CHF million



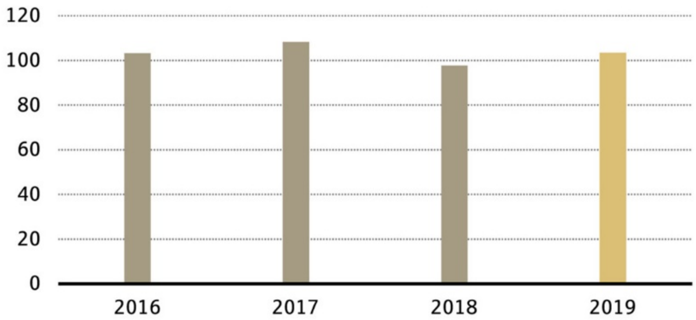
	Gross premiums	Premiums earned
2016	272.3	273.8
2017	265.9	265.6
2018	291.6	285.4
2019	269.9	278.6

TECHNICAL PROVISIONS
in CHF million



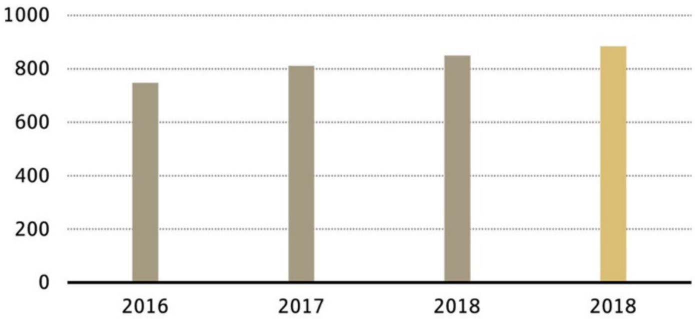
	Technical provisions
2016	499.8
2017	602.8
2018	625.1
2019	609.1

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



	Combined ratio
2016	103.2
2017	108.3
2018	97.7
2019	103.4

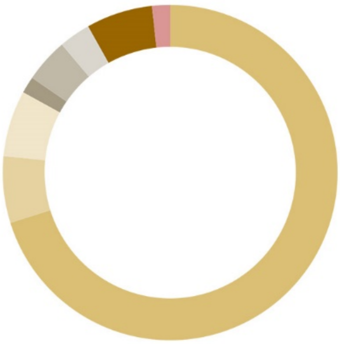
FINANCIAL INVESTMENTS INCL. CASH DEPOSITS
in CHF million



Financial investments

2016	748.0
2017	810.9
2018	849.7
2019	884.6

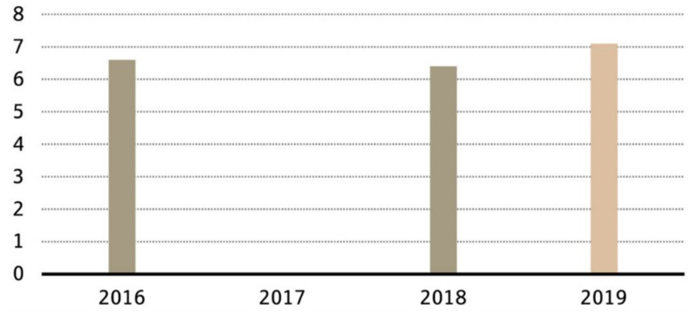
ASSET ALLOCATION AS AT 31 DECEMBER 2019
in %



Asset allocation

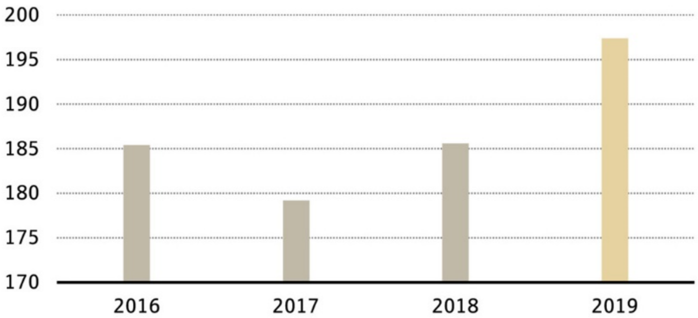
- 70.2 % Fixed-income securities
- 6.4 % Real estate funds
- 6.4 % Equity funds
- 1.6 % Commodities funds
- 4.3 % Infrastructure energy funds
- 3.0 % Private equity
- 6.4 % Other investments
- 1.7 % Cash and cash equivalents

INCOME AFTER TAX
in CHF million



Income after tax	
2016	6.6
2017	0.034
2018	6.4
2019	7.1

SHAREHOLDERS' EQUITY
in CHF million



Shareholders' equity	
2016	184.4
2017	179.2
2018	185.6
2019	197.4

Annual Financial Statements

Balance Sheet as at 31 December 2019

ASSETS in CHF thousand	2019	2018
Investments	**869,199**	**808,531**
Fixed-income securities	620,590	665,418
Other investments	248,609	143,113
Real estate funds	56,692	46,873
Equity funds	56,479	39,136
Commodities funds	14,250	12,508
Infrastructure energy funds	37,641	33,490
Private equity	26,822	11,106
Miscellaneous investments	56,725	0
Deposits from reinsurance assumed	**48,574**	**48,661**
Cash and cash equivalents	**15,396**	**41,184**
Other assets	**337**	**371**
Intangible assets	**31**	**13**
Reinsurance receivables	**6,063**	**12,628**
Receivables from shareholders	11	62
Receivables from third parties	6,052	12,566
Other receivables	**149**	**1,441**
Accrued income and prepaid expenses	**3,854**	**5,451**
Total ASSETS	**943,603**	**918,280**

LIABILITIES AND SHAREHOLDERS' EQUITY

in CHF thousand	2019	2018
Technical provisions	**609,083**	**625,103**
Reserves for unearned premiums for own account	5,490	14,540
Reserves for outstanding claims for own account	555,051	562,014
Provisions for profit commissions	48,542	48,549
Non-technical provisions	**10,500**	**4,800**
Fluctuation reserves for financial investments	10,000	4,800
Provisions for currency fluctuations	500	0
Interest-bearing liabilities	**43,416**	**33,807**
Payables to insurance and reinsurance companies	**80,453**	**68,256**
Payables to shareholders	6,759	8,340
Payables to third parties	73,694	59,916
Other liabilities	**220**	**106**
Accrued expenses and deferred income	**2,552**	**602**
Total liabilities	**746,224**	**732,674**
Share capital	**157,900**	**150,000**
Legal capital reserves	**11,203**	**9,177**
Legal retained earnings	**19,938**	**18,638**
Voluntary profit reserves	**1,223**	**1,223**
Profit carried forward from previous year	**18**	**171**
Net income for the year	**7,097**	**6,397**
Total shareholders’ equity	**197,379**	**185,606**
Total LIABILITIES AND SHAREHOLDERS' EQUITY	**943,603**	**918,280**

Income Statement

For the period 1 January to 31 December 2019

TECHNICAL ACCOUNT in CHF thousand	2019	2018
Gross premiums written	269,887	291,594
Reinsurers' share of gross premiums written	–45	–55
Premiums for own account	**269,842**	**291,539**
Change in unearned premiums	8,732	–6,178
Reinsurers' share of change in unearned premiums	0	0
Premiums earned for own account	**278,574**	**285,361**
Other income from insurance business	**60**	**41**
Total income from underwriting business	**278,634**	**285,402**
Gross payments for insurance claims	–193,379	–158,990
Reinsurers' share of payments for insurance claims	0	0
Change in technical provisions	–9,140	–33,821
Reinsurers' share of change in technical provisions	0	0
Claims incurred for own account	**–202,519**	**–192,811**
Acquisition and operating expenses	–5,961	–5,236
Depreciation of tangible assets	–165	–145
Reinsurers' share of acquisition and operating expenses	0	0
Acquisition and operating expenses for own account	**–6,126**	**–5,381**
Commissions and profit shares paid	–83,991	–83,015
Reinsurers' share of commissions and profit shares paid	0	0
Change in provisions for contractual surplus participations	–1,414	–3,047
Other technical expenses for own account	**–85,405**	**–86,062**
Total expenses from underwriting business	**–294,050**	**–284,254**
Underwriting result	**–15,416**	**1,148**

NON-TECHNICAL ACCOUNT

in CHF thousand	2019	2018
Underwriting result (carried forward)	–15,416	1,148
Current income	13,710	16,025
Price gains on investments	19,640	10,732
Realised gains on investments	708	205
Unrealised gains on investments	18,932	10,527
Reversals of impairments on fixed-income securities	280	306
Investment income	**33,630**	**27,063**
Investment administration	–420	–469
Price losses on investments	–1,637	–23,797
Realised losses on investments	–16	–3,447
Unrealised losses on investments	–1,621	–20,350
Impairments on fixed-income securities	–196	–212
Fluctuation reserves for financial investments	–5,200	3,300
Expenses for investments	**–7,453**	**–21,178**
Investment income	**26,177**	**5,885**
Other interest receivable	70	107
Income from differences in exchange rates	–101	461
Other financial income	**–31**	**568**
Other financial expenses	**–118**	**0**
Profit / loss before taxes	**10,612**	**7,601**
Direct taxes	–3,515	–1,204
Profit / loss	**7,097**	**6,397**

Cash Flow Statement

CASH FLOW STATEMENT in CHF thousand	2019	2018
Cash flow from operating activities		
Net income for the year	7,097	6,397
Change in reserves for unearned premiums	–8,732	6,177
Change in outstanding claims reserves	9,140	33,821
Change in provisions for profit commissions	1,414	3,047
Change in fluctuation reserves for financial investments	5,200	–3,300
Change in provisions for currency fluctuations	500	–600
Realised gains/losses on sale of investments	–600	2,568
Depreciation and amortisation	165	145
Change in funds held with reinsured companies/reinsurance liabilities	–1,458	–1,038
Change in other assets and liabilities	26,442	16,496
Other non-cash expenses and income	–18,656	9,419
Total cash flow from operating activities	**20,512**	**73,132**
Cash flow from investing activities (net change)		
Fixed-income securities	34,248	–59,412
Real estate funds	–7,726	–3,613
Equity funds	–7,892	21,250
Commodities funds	0	0
Infrastructure energy funds	–5,756	–1,928
Private equity	–16,465	–7,528
Miscellaneous investments	–58,150	0
Time deposits	–44	79
Increase/decrease in tangible and intangible assets	–149	–162
Total cash flow from investing activities	**–61,934**	**–51,314**
Cash flow from financing activities		
Contributions from equity injections	9,926	0
Interest-bearing liabilities	10,958	0
Payments of dividends	–5,250	0
Total cash flow from financing activities	**15,634**	**0**
Total cash inflow/outflow	**–25,788**	**21,818**
Cash and cash equivalents at start of period	41,184	19,366
Cash and cash equivalents at end of period	15,396	41,184
Cash inflow/outflow	**–25,788**	**21,818**

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 2019 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 in CHF, 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, illiquid bond funds, other investments 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. 2019	31 Dec. 2018
EUR/CHF	1.08540	1.12690
USD/CHF	0.96617	0.98419
GBP/CHF	1.27574	1.25977

AVERAGE EXCHANGE RATES	31 Dec. 2019	31 Dec. 2018
EUR/CHF	1.11240	1.15500
USD/CHF	0.99366	0.97798
GBP/CHF	1.26730	1.30551

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	2019	2018
Net release of hidden reserves	0	3,300

Interest-bearing liabilities

Interest-bearing liabilities of CHF 43.4 million (EUR 40.0 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 retained earnings	Voluntary reserves	Disposable profit	Total
As at 31 Dec. 2017	**150,000**	**9,177**	**18,631**	**1,223**	**178**	**179,209**
Dividends					0	0
Allocation to legal reserves			7		–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**
Share capital paid in	7,900					7,900
Premium from capital increase		2,026				2,026
Dividends					–5,250	–5,250
Allocation to legal reserves			1,300		–1,300	0
Net income for the year					7,097	7,097
As at 31 Dec. 2019	**157,900**	**11,203**	**19,938**	**1,223**	**7,115**	**197,379**

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 2019 are offset against the closing values as at 31 December 2019. These estimates affected the income statement items in the 2019 financial year as follows:

ITEM in CHF thousand	Disclosed	Estimated	Total recognised
Premiums for own account	271,433	–1,591	269,842
Claim payments	173,179	20,200	193,379
Commissions/profit shares	84,380	–389	83,991
Change in provisions for profit shares	1,414	0	1,414
Commissions and profit shares	**85,794**	**–389**	**85,405**

ACQUISITION AND OPERATING EXPENSES FOR OWN ACCOUNT

in CHF thousand	2019	2018
Personnel expenses	4,564	3,978
Material expenses	1,397	1,258
Depreciation of tangible assets	165	145
Total acquisition and operating expenses for own account	**6,126**	**5,381**

INCOME AND EXPENDITURE ON INVESTMENTS

INCOME

in CHF thousand	2019	2018
Fixed-income securities	8,705	10,013
Real estate funds	1,369	4,218
Equity funds	85	635
Commodities funds	0	0
Infrastructure energy funds	1,809	793
Private equity	34	0
Other current income	1,265	0
Other investments	443	366
Total income	**13,710**	**16,025**

APPRECIATION

in CHF thousand	2019	2018
Fixed-income securities	3,410	1,195
Real estate funds	2,980	1,253
Equity funds	10,150	6,026
Commodities funds	1,980	1,388
Infrastructure energy funds	295	460
Private equity	397	511
Other investments	0	0
Total appreciation	**19,212**	**10,833**

REALISED GAINS

in CHF thousand	2019	2018
Fixed-income securities	470	17
Real estate funds	10	7
Equity funds	71	138
Commodities funds	0	0
Infrastructure energy funds	151	43
Private equity	6	0
Other investments	0	0
Total realised gains	**708**	**205**

DEPRECIATION, AMORTISATION AND WRITE-DOWNS

in CHF thousand	2019	2018
Fixed-income securities	–303	–2,795
Real estate funds	–112	–2,913
Equity funds	0	–12,129
Commodities funds	0	–1,724
Infrastructure energy funds	–814	–352
Private equity	–511	–649
Other investments	–77	0
Total depreciation, amortisation and write-downs	**–1,817**	**–20,562**

REALISED LOSSES

in CHF thousand	2019	2018
Fixed-income securities	–2	–23
Real estate funds	0	–2,875
Equity funds	0	–524
Commodities funds	0	0
Infrastructure energy funds	0	–25
Private equity	-14	0
Other investments	0	0
Total realised losses	**–16**	**–3,447**

Security for commitments

A rent deposit in the amount of CHF 191,426 was lodged with our bankers as security for our rental commitments for business premises.

BNP Paribas holds securities that serve as cover for our technical provisions. As at the balance sheet date of 31 December 2019, these amounted to EUR 37,608 (CHF 42,211.20).

CONTINGENT LIABILITIES in CHF million	2019	2018
Commitments entered into for the future acquisition of real estate funds	7.2	11.7
Commitments entered into for the future acquisition of infrastructure energy funds	13.9	21.8
Commitments entered into for the future acquisition of fixed-income securities	4.1	0
Commitments entered into for the future acquisition of private equity investments	44.9	57.3

Rental and leasing commitments

Rental commitments amount to CHF 1,005,282 as at 31 December 2019 (previous year CHF 1,676,324). There are no leasing commitments.

Total auditor's fees

FEE ITEM in CHF	2019	2018
Audit services	71,913	71,748
Other services	8,382	37,264
Total fees	**80,295**	**109,012**

Significant events after the balance sheet date

In the light of the situation concerning COVID-19, the Swiss Federal Council declared a state of emergency in Switzerland on 16 March 2020. We had already activated our Business Continuity Management (BCM) plan at the end of February. Employees have switched to working from home. We are not expecting any major impact on operations.

In anticipation of further turbulence on the capital markets in the coming weeks, we are giving the maintenance of liquidity top priority. To stabilise our net income for the year, we have the option of utilising the fluctuation reserves for financial investments that we have set aside for this purpose.

We expect to sustain only minor losses in personal insurance, as we underwrite health reinsurance business only in a few exceptional cases. On the other hand, we are anticipating an increase in claims in business interruption insurance and surety insurance. With respect to our portfolio, however, we do not expect this to have a major impact on our predicted underwriting result.

Proposal for the Appropriation of Profit

The following net result for the year will be available to the General Meeting on 23 March 2020 in Zurich:

PROPOSAL FOR THE APPROPRIATION OF PROFIT AS AT 31 DECEMBER 2019

in CHF thousand	2019	2018
Profit carried forward from previous year	18	171
Net income for the year	7,097	6,397
Disposable profit	**7,115**	**6,568**
The Board of Directors proposes to the General Meeting that the disposable profit be distributed as follows:		
Dividends	2,763	5,250
Allocation to legal reserves	1,420	1,300
Balance carried forward	**2,931**	**18**

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 22 to 32), for the financial year ended 31 December 2019.

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 2019 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 (page 33) complies with Swiss law and the company's articles of incorporation and recommend that the financial statements be approved as submitted.

PricewaterhouseCoopers AG

Zurich, 23 March 2020

Martin Schwörer	Magali Zimmermann
Audit expert	Audit expert
Auditor in charge	

COMPANY DETAILS

Published by
Deutsche Rückversicherung Switzerland Ltd
Schweizergasse 21
CH-8001 Zurich
Tel. +41 44 215 76 66
Fax +41 44 215 76 69
info@drswiss.ch
www.drswiss.ch

Translation
BBi (Scotland) Ltd, Glasgow, UK


Schaffhausen
Basel-City
Thurgovia
Zurich
Jura
Basel-Country
Argovia
ZURICH
Appenzell Outer-Rhodes
Appenzell Inner-Rhodes
Solothurn
St. Gall
Zug
Lucerne
Schwyz
Glarus
Neuchâtel
BERNE
Nidwalden
Berne
Obwalden
Uri
Grisons
Vaud
Fribourg
Ticino
Geneva
Valais


Argovia (AG) 1803
Appenzell Outer-Rhodes (AR) 1513
Appenzell Inner-Rhodes (AI) 1513
Basel-Country (BL) 1501
Basel-City (BS) 1501
Berne (BE) 1351
Fribourg (FR) 1481
Geneva (GE) 1814
Glarus (GL) 1352
Grisons (GR) 1803
Jura (JU) 1978
Lucerne (LU) 1332
Neuchâtel (NE) 1814
Nidwalden (NW) 1291
Obwalden (OW) 1291
Schaffhausen (SH) 1501
Schwyz (SZ) 1291
St. Gall (SG) 1803
Solothurn (SO) 1481
Ticino (TI) 1803
Thurgovia (TG) 1803
Uri (UR) 1291
Vaud (VD) 1803
Valais (VS) 1814
Zug (ZG) 1352
Zurich (ZH) 1351

DEUTSCHE RÜCKVERSICHERUNG SWITZERLAND LTD

Schweizergasse 21
CH-8001 Zurich
Switzerland
Phone +41 44 215 76 66
Fax +41 44 215 76 69
info@drswiss.ch
www.drswiss.ch