Deutsche Rück

Deutsche Rückversicherung Group

ANNUAL REPORT

2019

Deutsche Rückversicherung Group

ANNUAL REPORT 2019

Gross premiums written
€1,107.9 m

Securities
€2,033.4 m
incl. net provisions for outstanding claims and for future policy benefits

Operating result before tax
€25.0 m

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

Key figures of the Deutsche Rück Group

FINANCIAL YEARS in €m	2019	2018	2017	2016	2015
Gross premiums written	1,107.9	1,108.4	1,201.6	1,175.0	1,077.4
Net premiums earned	736.2	728.8	705.8	720.7	661.1
Net loss ratio (as % of net premiums earned)	68.1	65.3	65.1	64.4	67.9
Expense ratio – net (as % of net premiums earned)	33.5	31.7	30.6	36.1	30.6
Combined ratio – net (as % of net premiums earned)	101.1	97.2	95.8	100.4	98.8
Underwriting result – net (after change to the equalisation reserves)	–21.0	–9.4	–20.0	–14.0	–25.2
Result of general business	46.0	87.7	44.0	37.0	42.2
Operating result before tax	25.0	78.2	24.0	23.1	17.0
(as % of net premiums earned)	3.4	10.7	3.4	3.2	2.6
Net profit for the year after tax	13.5	56.0	3.0	14.5	14.3
(as % of net premiums earned)	1.8	7.7	0.4	2.0	2.2
Investments incl. deposits retained	2,177.4	1,998.2	1,936.7	1,861.7	1,742.3
(as % of net premiums earned)	295.8	274.2	274.4	258.3	263.5
Current average interest rates as % (total excl. deposits retained as %)	2.3	2.7	3.1	2.4	2.7
Net technical provisions (excl. equalisation reserves)	1,497.0	1,448.7	1,345.1	1,293.3	1,256.9
(as % of net premiums earned)	203.3	198.8	190.6	179.4	190.1
Security (before appropriation of profit)	639.2	604.1	529.2	511.9	498.9
(as % of net premiums earned)	86.8	82.9	75.0	71.0	75.5
thereof: **Balance sheet equity** (before appropriation of profit)	300.8	280.8	225.6	232.1	221.1
(as % of net premiums earned)	40.9	38.5	32.0	32.2	33.4
Hybrid capital	61.8	61.8	61.8	61.8	85.0
(as % of net premiums earned)	8.4	8.5	8.7	8.6	12.9
Equalisation reserves	276.7	261.5	241.8	218.1	192.8
(as % of net premiums earned)	37.6	35.9	34.3	30.3	29.2

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Board of Executive Directors

Frank Schaar, Chief Executive Officer
Achim Bosch
Michael Rohde

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

Group Management Report

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Group Management Report

BASIS OF THE GROUP

The Deutsche Rück Group is a multi-line reinsurer concentrating on property/casualty insurance for insurance companies from all over Europe and selected non-European markets. Our business is mainly focused on the German market. It is also our goal to expand our position as a Group in selected international markets. The rating agency Standard & Poor's regularly awards us an "A+" rating, acknowledging our stable long-term financial standing and systematic underwriting policy.

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

ECONOMIC REPORT

OVERALL ECONOMIC AND SECTOR-SPECIFIC CONDITIONS

Economy and labour market

The German economy continued to lose momentum in 2019. Although gross domestic product grew for the tenth consecutive year, making this the longest growth period since the reunification of Germany, growth came to only 0.6 %. GDP had risen by 1.5 % in the previous year and by 2.5 % in 2017. At the same time, growth was below the average figure for the last ten years for the first time since 2013, at 1.3 %.

The fact that development was still positive was mainly due to consumer and government spending, which were up by 1.6 % and 2.5 % respectively. Spending thus increased more strongly than in the previous two years. Gross investment in fixed assets also recorded significant growth of 3.8 %, with particularly strong growth in investment in civil engineering and housing construction, while investment in machinery, equipment and vehicles was up by only 0.4 %. At the same time, there was a marked reduction in inventories, which was partly the result of weak industrial production. This meant that gross investment declined by 1.7 % year on year overall. German exports rose by 0.9 %, a much smaller increase than in 2018 (2.1 %). At 1.9 %, growth in imports was also lower than in the previous year (3.6 %).

Economic development continued to be boosted by the positive performance of the labour market. The number of people registered as unemployed fell to an average of about 2.2 million during the year. The unemployment rate fell by 0.2 percentage points to 5.0 %. In contrast, the number of people in employment subject to social security contributions increased once again. According to the Federal Office of

Statistics, around 45.3 million people were employed on average in 2019, an increase of about 400,000 compared with the previous year and a new high since German reunification.

Developments in the insurance market

With growth of 6.7 % to €216 billion across all lines, German insurers increased their premium income significantly in the 2019 financial year. The sector recorded strong growth in both property and casualty insurance and life insurance in 2019. Growth in private health insurance premiums was also stable.

German property and casualty insurers forecast premium growth of 3.2 % to €72.9 billion for 2019. Benefits paid out increased slightly by 1.7 % to €53.4 billion. By contrast, the combined ratio improved by 1.1 percentage points to 93 %. Overall, companies expect to have achieved a technical profit of €4.7 billion (previous year: €4.1 billion).

Following only slight growth in the previous year, life insurers significantly increased their premium income, including pension schemes and pension funds (excluding provisions for premium refunds), by 11.3 % to €102.5 billion. While life insurance business with regular premiums stagnated at €64.3 billion (+0.1 %), business with lump-sum premiums grew substantially by 37.1 % to €38.2 billion.

Premium income of private health insurers rose by 2.3 % to €40.7 billion in 2019. Of this sum, €38.0 billion related to private health insurance (+2.1 %) and €2.7 billion to private long-term care insurance (+5.2 %). Insurance benefits paid out rose by 4.5 % to €29.9 billion.

Capital market trends

Monetary policy and geopolitical influences once again shaped developments on the international financial markets in 2019. The impact of the trade dispute between the USA and China on economic development, the repeated postponement of a decision on Brexit and conflict in the Middle East led to uncertainty. On the other hand, financial markets received considerable support from central banks, particularly the US Federal Reserve, which cut its base rate three times, each time by 25 basis points, in the second half of the year. The European Central Bank also loosened its monetary policy further, lowering its deposit rate to a new record low of –0.5 %.

After a positive start to the year followed by a sideways trend up to the middle of the year, almost all asset classes ended 2019 with a substantial positive return in a strong final quarter, helped by accompanying monetary policy measures. The broad-based US S&P 500 index stood out among the most respected stock market indices, gaining 28.9 % in net terms over the year. European shares, measured against the Dow Jones EuroStoxx 50 index, climbed 24.8 %. Germany's DAX index, which began the year at 10,558 points, added 25.5 % year on year and ended December at 13,249 points, close to the annual high of 13,407 points it had reached shortly earlier.

The yield on ten-year US treasuries fell year on year from 2.68 % to 1.92 %, driven by interest rate cuts by the US central bank, having reached an annual low of 1.46 % in early September. The yield on ten-year German government bonds slipped back into negative territory. Having begun the year at 0.24 %, it fell below the 0.0 % mark at the end of March and dropped to a historic low of –0.71 % at the end of August. By the end of the year, it was back up at 0.19 %.

The euro began the year at around USD 1.15 and experienced losses early in the year, later falling to an annual low of USD 1.09 by the end of September. At the end of the year it stood at around USD 1.12, an average level within its relatively narrow range for the year.

Commodities prices rose significantly in 2019. The price of crude oil, which at the beginning of the year was still very moderate in a historical context, at around USD 55 per barrel of Brent, reached an annual high of about USD 70 per barrel in April. The market then stabilised, and by early August the oil price had returned to the same level as at the beginning of the year, at USD 55. In mid-September, an attack on Saudi Arabia's largest oil refinery brought half of the oil production there to a standstill. The loss of supply and the risk of a further escalation of conflict caused the oil price to soar from USD 58 to USD 66 within just a few days. The price of crude oil closed 2019 at around USD 66 per barrel, an increase of approximately 19 % over the year. The gold price fluctuated within a narrow range of around USD 1,280 to USD 1,340 per fine ounce up to mid-2019. As conflicts in the Middle East rekindled, it picked up again significantly in the second half of the year and reached an annual high of USD 1,552 per fine ounce at the beginning of September. At the end of the year the gold price was only slightly below this at USD 1,517, a net increase of 18.3 %.

BUSINESS PERFORMANCE AND RESULTS OF OPERATIONS

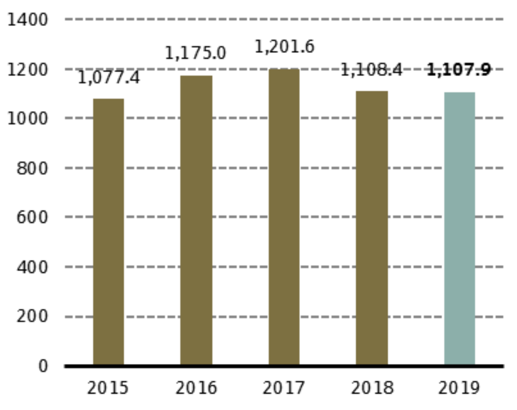
Technical business

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

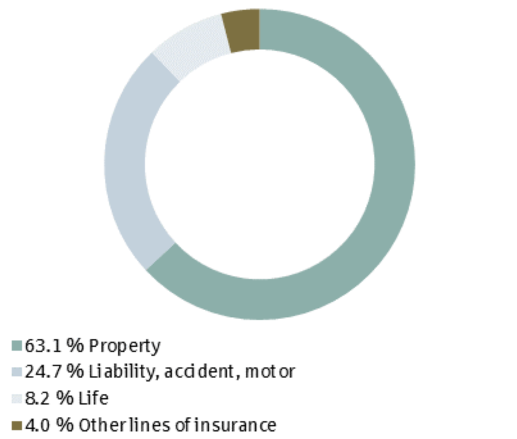
Premium income

PREMIUM INCOME BY CLASS OF BUSINESS FOR 2019	Gross premiums written		Net premiums earned	
		Difference to 2018		Difference to 2018
	in €'000	in %	in €'000	in %
Property	699,396	+ 0.8	346,582	+ 0.5
Liability, accident, motor	273,738	+ 1.1	270,295	+ 2.1
Life	90,866	+ 25.7	44,313	+ 35.0
Other lines of insurance	43,911	– 38.0	75,039	– 13.0
Total	**1,107,911**	**0**	**736,228**	**+ 1.0**

DEVELOPMENT OF GPE 2015 – 2019
in €m



PORTFOLIO STRUCTURE 2019
Share in gross premiums in %



The winding-up of residual credit business that began at the parent company in 2018 continued to have an impact on the development of premiums in the last financial year. **Gross premiums** in the Group declined by €481K or 0.1 % to €1,107,911K in the year under review and thus remained at almost the same level as in the previous year. Residual credit business and the engineering classes of insurance, both of which are included in other lines of insurance, recorded a significant decline in premiums, while life insurance business and some property classes (including fire, homeowners' comprehensive insurance and extended coverage) reported growth that almost offset this decline.

Premiums for our retrocessions, which protect only the business assumed by the parent company, rose by 1.9 % or €7,123K to €381,969K in the year under review.

The increase in retrocession premiums led to a drop of €7,604K in net premiums written to €725,942K.

Premiums earned for own account, which also included the impact of the processing of unearned premiums in residual credit business, increased by €7,443K or 1.0 % to €736,228K.

Property business, which accounts for almost two thirds of our total gross premiums, recorded total growth of 0.8 % in premium income to €699,396K. This included the extended coverage (€+8,087K), homeowners' comprehensive insurance (€+6,733K) and fire (€+5,224K) lines. By contrast, the engineering classes of insurance recorded a decline in premiums of €12,558K. As a large portion of the parent company's property portfolio is retroceded, this meant that premiums earned for own account came to €346,582K, up €1,867K on the previous year's volume.

At €273,738K, **liability, accident and motor insurance business** accounted for almost one quarter of total premium volume. Premiums in liability insurance business were up €3,132K, while accident insurance also recorded growth of €1,351K. Other motor insurance, on the other hand, declined by €3,256K.

Since liability, accident and motor insurance business is predominantly retained for own account, net premiums earned were only marginally lower than gross premiums, at €270,295K.

The Deutsche Rück Group once again reported growth in gross premium income in **life reinsurance**, which is operated exclusively by Deutsche Rück, in the 2019 financial year. Gross premiums increased by 25.7 % year on year to €90,866K. As a large proportion of this increase was attributable to residual credit business, which continues to be retroceded, net premiums earned amounted to €44,313K (previous year: €32,828K).

The effects of the restructuring of residual credit business once again became clear in **other lines of insurance** in the year under review. Following a gross premium volume of €71,088K in the previous year, income declined further to €43,910K (–38.2 %). Net premiums earned for own account also fell by €11,485K to €75,039K.

Claims expenditure

The burden from reported major losses was significantly lower in the year under review than in the previous year. Gross claims expenditure fell by €49,340K from €752,242K to €702,902K. The **gross loss ratio** fell accordingly from 65.9 % to 61.2 %. Through our retrocession scheme, which is geared towards property business, we were able to reduce gross claims expenditure in the affected lines. However, as claims expenditure from business outside the group of public insurers increased in the year under review and this business was included in our retrocession scheme only to a limited extent, these claims remained in the retention. This led to an increase of €26,029K in claims expenditure for own account to a total of €501,704K. In relation to net premiums earned, the **net loss ratio** rose by 2.8 percentage points from 65.3 % to 68.1 %.

The claims burden in **property business** was down significantly year on year in 2019. After the exceptional year of 2018, in which the claims burden increased, the positive development of previous years continued in the year under review thanks to intensive restructuring measures by primary insurers in fire business. The Deutsche Rück Group recorded a much lower gross loss ratio in the fire segment (fire, business interruption and extended coverage) of 67.9 % in the year under review, compared with 81.1 % in the previous year. Business interruption insurance played a large part in this development. This corresponded to a reduction from 83.2 % to 74.6 % in the ratio for own account.

The absence of very large natural hazard events led to a drop in the claims burden in windstorm and buildings insurance as well. The gross claims burden fell significantly year on year, while the gross loss ratio dropped from 68.7 % in the previous year to 50.3 % in the year under review. The claims burden for own account also fell, but to a considerably smaller extent. While the number of claims remained stable compared with the previous year, the amount of the claims was much lower, which meant that there was often no relief from our reinsurance instruments. In relation to net premium income, the net loss ratio was down on the previous year's figure of 63.7 %, at 60.1 %.

In **liability, accident and motor insurance business**, the gross claims burden increased by €49,387K from €157,387K in the previous year to €206,774K in the year under review. This increase was mainly due to the recognition of additional IBNR reserves in the motor liability insurance line. The gross loss ratio was 75.4 %, above the previous year's level of 58.6 %. Since most of this business is retained for own account, this also roughly reflects the development in business for own account (net loss ratio of 76.1 %).

The net loss ratio in **life insurance business** rose by 1.8 percentage points in the year under review to 52.4 %.

In **other lines of insurance**, which include most of the residual credit business, claims expenditure fell year on year in both gross and net terms. In relation to the much lower gross premiums earned, the gross loss ratio declined from 66.9 % to 65.5 %. The net loss ratio fell from 61.9 % to 52.3 %.

The net loss ratio for non-life business rose by 3.2 percentage points from 66.0 % to 69.2 %.

Operating expenses

In total, gross expenses for insurance operations rose from €343,094K to €359,699K, mainly owing to an increase in costs at the parent company. A large profit share was paid in connection with the termination of a contract. Expenses also increased on the retrocession side, with net expenses for insurance operations rising from €232,414K to €242,855K. In relation to the lower net premiums, the net expense ratio for all classes increased from 31.7 % to 33.5 %.

Other technical expenses

Other technical expenses fell from €19,266K to €16,985K. The release of a provision for profit shares contributed to this development.

Technical result

The net technical account before changes to equalisation reserves closed with a loss of €5,841K, down €16,087K compared with the previous year's profit of €10,246K. Substantial allocations to equalisation reserves and similar provisions were once again required. A further €15,157K was allocated to strengthen these provisions in net terms, compared with €19,684K in the previous year.

After changes to equalisation reserves and similar provisions, the technical loss increased to €20,997K (previous year: loss of €9,438K).

Non-technical business

Investment income

The Deutsche Rück Group achieved investment income of €50,413K in the year under review, compared with the previous year's figure of €88,534K, which had been influenced by one-off effects.

After deduction of interest income on technical provisions, €48,487K remained (previous year: €86,501K).

Dividends from participating interests increased by €2,496K owing to higher payouts. Proportional profit contributions from associated companies also rose by €558K.

As expected, income from other investments dropped to €43,260K (previous year: €50,982K). This was mainly due to higher reinvestment in the master fund for strengthening assets, which reduced income from shares, interests or shares in investment assets by €4,508K. As the average coupon fell further in line with interest rates, income from bearer bonds and other loans also declined.

The balance of write-backs and write-downs was positive in the year under review at €2,528K, having been negative in the previous year at €–2,780K. Income from write-backs totalled €4,443K (previous year: €652K), while write-downs on investments came to €1,915K (previous year: €3,433K). Unscheduled write-downs were carried out on shares and bearer bonds, including where impairment was not expected to be permanent.

Realised gains on the disposal of investments had been influenced in the previous year by the scheduled disposal of participating interests in real estate, and declined as expected in the year under review to €1,999K. Losses on disposal fell to €316K in the year under review (previous year: €2,082K).

Interest income on technical provisions fell slightly by €107K in the year under review to €1,926K.

The current average interest yield, which takes into account not only regular income, but also regular expenses, amounted to 2.3 % (previous year: 2.9 %).

Other non-technical result
The balance of other income and other expenses was negative in the year under review at €2,493K, following a positive balance of €1,177K in the previous year. This change was due in particular to interest of €2,336K from tax refunds that was recorded as a one-off effect in the previous year. Gains from exchange rates also declined.

The non-technical account closed with income of €45,995K, which, as expected, was lower than in the previous year, owing to one-off effects in the previous year's investment income.

After taking into account the technical loss of €20,998K, the Deutsche Rück Group achieved an operating result before tax of €24,997K in the last financial year (previous year: €78,241K).

Net profit for the year and balance sheet profit
Taxes on income came to €11,517K in the 2019 financial year, well below the previous year's expense of €22,244K, which had been influenced by the valuation of claims provisions for tax purposes at the parent company in Germany.

The net profit for the year after tax came to €13,480K (previous year: €55,997K). This was reduced to €12,758K (previous year: €50,485K) by the external shareholders' share of €722K in the net profit of DR Swiss (previous year: €5,512K).

After taking into account the consolidated profit carry forward of €41,445K and the external shareholders' share in the loss carry forward for DR Swiss as well as a transfer to retained earnings from the profit for 2019 in the amount of €6,500K, a total consolidated balance sheet profit of €50,844K was achieved for the year under review (previous year: €47,273K).

NET ASSETS AND FINANCIAL POSITION

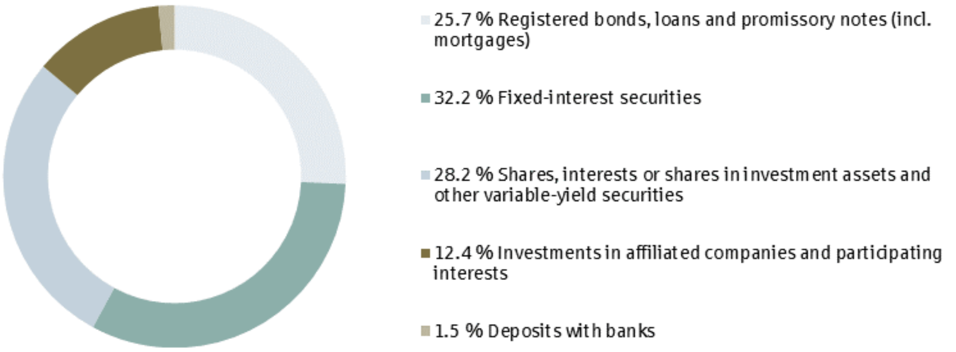
Net assets are influenced by the insurance business. Investments excluding deposits retained predominate on the assets side of the balance sheet, with a share in the Group's total assets of 84.5 % as at the balance sheet date (previous year: 81.2 %). The equity and liabilities side is dominated by net technical provisions, with a share of 73.3 % (previous year: 74.5 %).

Assets

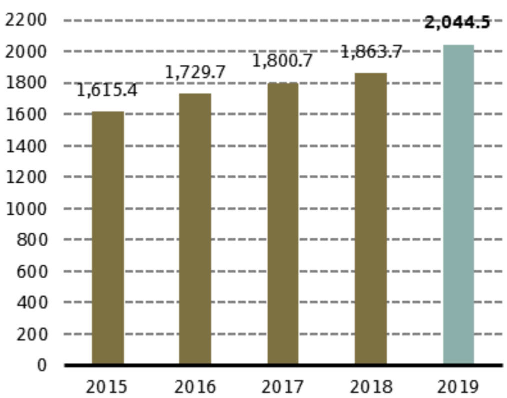
Investments excluding deposits retained increased by €180,838K to €2,044,501K in the year under review. Portfolios grew in all asset classes, with the exception of "fixed-interest securities". The strongest growth of €90,282K was recorded in the asset class "shares, interests or shares in investment assets and other variable-yield securities" and was mainly due to payments into special and investment funds. The asset class "registered bonds, loans and promissory notes (including mortgages)" grew by €56,603K, in particular owing to increased granting of loans secured by land charges.

INVESTMENT PORTFOLIO STRUCTURE	2019		2018	
	in €'000	in %	in €'000	in %
Shares in affiliated companies and participating interests	252,687	12.4	217,691	11.7
Shares, interests or shares in investment assets and other variable-yield securities	577,399	28.2	487,117	26.1
Fixed-interest securities	657,504	32.2	678,547	36.4
Registered bonds, loans and promissory notes (incl. mortgages)	525,911	25.7	469,308	25.2
Deposits with banks	31,000	1.5	11,000	0.6
Total	**2,044,501**	**100.0**	**1,863,663**	**100.0**

INVESTMENT STRUCTURE AS AT 31 DECEMBER 2019
in %



INVESTMENT PERFORMANCE 2015 – 2019
in €m



Receivables and other assets declined by €56,274K from €285,642K to €229,367K, mainly owing to a reduction in cash at banks.

Liabilities and shareholders' equity

Balance sheet equity increased by €19,963K in the year under review to €300,795K. Retained earnings were strengthened with an addition of €6,873K. The consolidated balance sheet profit also increased by €3,571K. The external shareholders' share rose by a total of €9,519K to €48,314K, largely owing to a capital increase of €8,934K at the subsidiary DR Swiss.

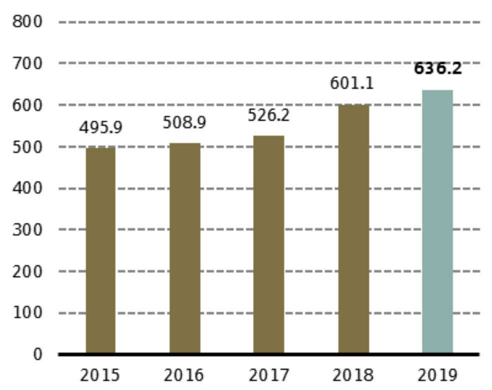
Allocations to equalisation reserves and similar provisions came to €15,157K in the year under review, bringing them to a total of €276,684K.

Hybrid capital (subordinated liabilities) remained unchanged at €61,750K.

Taking into account the balance sheet profit after appropriation of profit (dividend of €3,000K), our equity capital came to €636,229K in the year under review, up €35,120K compared with the previous year. In relation to the net premiums earned, this equates to a ratio of 86.4 % (previous year: 82.5 %).

The rating agency Standard & Poor's says that the Deutsche Rück Group has a strong capital base at AAA level and a sound financial standing.

DEVELOPMENT OF SECURITY 2015 – 2019
in €m

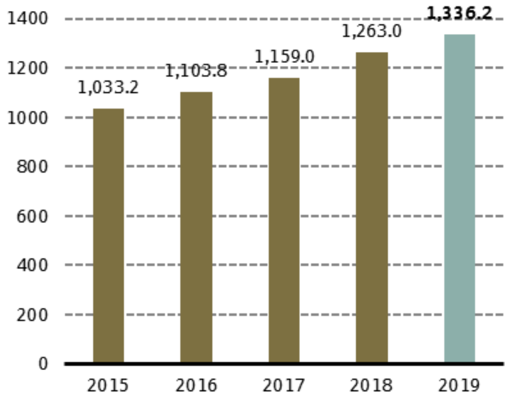


Balance sheet equity (after appropriation of profit),
profit-sharing rights outstanding and equalisation reserves

Net technical provisions increased by €63,491K to €1,773,722K in the year under review. At €1,336,207K, the majority of net provisions related to claims provisions (net).

DEVELOPMENT OF CLAIMS PROVISIONS 2015 – 2019

in €m



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

Liabilities increased by €34,208K or 19.6 % to €208,911K in the year under review, mainly owing to growth in accounts payable from reinsurance business.

Financial and liquidity position

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

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

Rating: A+

The rating agency Standard & Poor’s once again confirmed its financial strength rating of “A+” with a stable outlook for the Deutsche Rück Group in 2019. 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. The rating agency also emphasises the significant role that the Group plays on the German reinsurance market, as well as the gradual expansion of its international business. In this context, it has confirmed its “A+” rating and the company’s ongoing positive business performance with a stable outlook.

Sustainable investment

At the Deutsche Rück Group, we are aware of our responsibility to the environment and society and integrate sustainability criteria into our investment processes. That is why 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.

OVERALL STATEMENT ON THE GROUP'S ECONOMIC POSITION

The Deutsche Rück Group increased its net premiums earned in the 2019 financial year. At the same time, there was an increase in net claims expenditure and expenses for insurance operations, which had a negative impact on the technical result. We generated positive income from our investments. The operating result before tax showed a profit, although it was lower than the previous year's exceptionally good figure. After deduction of taxes on income, the net profit for the year was down year on year.

The Group once again strengthened its assets on a lasting basis, which is reflected in its strong capital base at AAA level. The rating agency Standard & Poor's once again awarded us a rating of "A+" with a stable outlook in 2019.

RISK REPORT

RISK MANAGEMENT: STRATEGIC FRAMEWORK

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

RISK MANAGEMENT PROCESS: AN INTEGRAL COMPONENT OF BUSINESS OPERATIONS

Identification of risks and risk management organisation

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

Measurement and evaluation of risks

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

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

Multi-year projection and forecasts of key risk indicators and analyses of the development of the risk situation from different risk perspectives are regularly summarised in a risk report. As well as key risk indicators at the level of the company as a whole, material risks relating to underwriting and investment are managed through additional processes. Risk management in underwriting is based on the budget process during the renewals phase. This includes retrocession and strategic asset allocation of investments. The monthly Investment Committee meetings and their reports constitute central elements of the investment risk management process. Ad hoc reporting is in place for exceptional developments concerning major and accumulation losses in the property classes and on the capital market. In addition, the reported major losses are summarised each month in comparison with the same period of the preceding year.

Investment strategy

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

RISK REPORTING AND RISK TRANSPARENCY

Risk report and ORSA report

In the risk report, Deutsche Rück reports to the Board of Executive Directors and Supervisory Board on the overall risk situation and on exposures to potential individual risks. The reporting process is based on meetings of the Supervisory Board (three meetings in 2019). In its current edition, the report ensures the transparency of the risk situation of Deutsche Rückversicherung AG, Deutsche Rückversicherung Switzerland Ltd (DR Swiss) and the Deutsche Rück Group on the basis of the aforementioned risk perspectives. In particular, the risk report takes account of the development of key risk indicators over time, as well as of the drivers of change and the effects of risk management measures.

The ORSA report was submitted to BaFin in December 2019. It documents the results of the entire risk management process and assesses them in the context of corporate planning for the next three years. The required content of the ORSA report is specified by the regulatory authority, and the report is a fundamental component of the regulatory Solvency II process.

Risk information system

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

RISK CONTROL FUNCTIONS AS PART OF THE RISK MANAGEMENT PROCESS

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

Supervisory boards

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

Board of Executive Directors

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

Group risk management function (RMF)

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

Central Underwriting Management (CUM)

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

Underwriting Committee (UWC)

The Underwriting Committee gives advice in defined cases on the procedure to be adopted for major business transactions when decisions are required on underwriting. Its permanent members include the CEO, the Chief Underwriting Officer, the head of the relevant market unit, the Head of CUM and Group Controlling and the risk management function.

Actuarial Reserve Services (actuarial function)

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

Compliance function

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

Internal Auditing

The internal auditing function carries out regular checks in the business units, verifying the structures and processes, adherence to internal regulations and legal provisions, as well as the correct nature of the workflows. It performs its tasks autonomously and is process-independent and risk-oriented. It reports directly to management. The company makes use of external expertise in individual cases when conducting audits.

SIGNIFICANT RISKS

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

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

1. Non-life reinsurance risks

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

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

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

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

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

2. Life reinsurance risks

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

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

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

Tools for limiting risks

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

Underwriting guidelines and limits

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

Retrocession

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

Monitoring technical provisions

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

Loss ratios and run-off results

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

NET NON-LIFE LOSS RATIOS AND RUN-OFF RESULTS

in %	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Loss ratios as % of earned premiums	69.2	66.0	66.9	66.0	69.6	75.3	86.1	72.0	73.7	73.8
Run-off results as % of provision for outstanding claims	–1.5	11.7	9.1	9.3	13.1	6.4	15.4	14.8	10.9	13.3

3. Investment and credit risks

The investment and retrocession of insurance transactions gives rise to the following investment and credit risks:

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

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

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

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

Tools for controlling and monitoring investment and credit risks

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

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

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

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

Minimum rating for the containment of credit risks

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

Choice of reinsurers (retrocessionaires)

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

Liquidity planning

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

Investment policy

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

4. Operational risks

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

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

5. Other risks

Strategic risks

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

Reputation risk

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

Emerging risks

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

Instruments for controlling other risks

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

SUMMARY OF THE RISK SITUATION

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

OPPORTUNITIES REPORT

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

Opportunities and risks for our business are diverse. We provide a forecast for the development of our business based on realistic assumptions about general conditions in the section “Outlook for 2020”, which takes account of both short-term developments and long-term trends.

Over the last few years we have been holding restructuring talks with major clients in fire business, where we see an opportunity to further stabilise the quality of our portfolio in proportional reinsurance business. On the other hand, developments on financial markets and hedge transactions in conjunction with natural catastrophes remain fraught with uncertainty.

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

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

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

Our high level of security (see the report on our financial strength rating) is accorded high priority at the Deutsche Rück Group. Overall, we believe we will have a good chance of further strengthening our company’s assets on a lasting basis in the current financial year.

FORECAST REPORT

COMPARISON OF FORECAST AND ACTUAL DEVELOPMENTS IN 2019

Expectations of a slight increase in premium volume in fire/property insurance were fulfilled. Gross premiums in fire business were up 4.3 %, while property business recorded overall growth of 0.8 %. On the claims side, expenses fell after 2018 and our forecast of an improvement in results was thus realised.

Premium volume in natural hazards business was expected to rise year on year in 2019. With growth of €9,293K, this assumption from the previous year proved correct. It is particularly difficult to provide a forecast of how results will develop in this segment, as the severity and frequency of losses due to natural hazards cannot be predicted with accuracy. A large number of small and medium-sized losses due to natural hazards occurred in the 2019 financial year, although the burden from these remained below the previous year's claims expenditure.

A further increase in premiums had been anticipated in liability, accident and motor insurance business in 2019, which was achieved with growth of 1.1 % or €2,920K. Our performance enabled us to further strengthen our IBNR reserves.

We had anticipated a decline in premiums in life insurance business. Gross premiums actually rose by 25.7 % in this line, owing to an increase in premiums in existing treaties.

Expectations that we would strengthen our assets by further replenishing the equalisation reserves and similar provisions were fulfilled. Investment income was expected to fall in 2019, as the previous year's income had been positively influenced by extraordinary effects that were not expected to be repeated in the last financial year. This assumption also proved accurate. It was therefore also anticipated that the net profit for the year would fall.

FORECAST FOR 2020

General economic development

According to the Kiel Institute for the World Economy (IfW), growth in the euro zone economy is currently muted. Economic researchers expect gross domestic product to grow by 1.2 % in 2020 and 1.5 % in 2021. Although the unemployment rate is not expected to fall as sharply as in previous years, it is predicted that by 2021 it will drop below the historic low reached before the global financial crisis. The IfW estimates that consumer prices will rise only moderately in the euro zone and says that there are still no signs of an interest rate reversal.

Subdued economic development in the euro zone has largely been attributed to a lack of impetus from the global economy and a resulting drop in industry. The IfW nevertheless sees indications that overall economic production could continue to expand at a moderate pace, while the economy will continue to be boosted by low interest rates and slightly expansionary fiscal policy measures. At the same time, foreign trade may make a moderate contribution to economic growth in the euro zone once again, provided that Europe does not become the focus of the trade disputes that are currently simmering and that the UK can avoid a disorderly departure from the European single market.

The economic environment in Germany is of particular importance to our company. After the German economy grew by only 0.6 % last year, the IfW expects the downturn to slow this year, although it does not anticipate any noticeable economic revival until 2021 at the earliest. The IfW predicts that gross domestic product will increase by 1.1 % this calendar year and 1.5 % in 2021. It says that the current economic downturn is being driven by the recession in industry, which is now having an impact on business services. However, it points out that the downward trend is slackening and that a slight upturn is already discernible in international business. The IfW says that the domestic economy is counteracting the industrial recession, with the construction sector continuing to be boosted by extremely favourable financing conditions. At the same time, private households are benefiting from numerous forms of income support provided by government and the ongoing positive performance of the labour market, which means that consumer spending is likely to increase further over the next few years.

Insurance industry

Gross premium income in the German insurance industry grew by 6.7 % across all lines to €216.0 billion in 2019. Companies recorded better results than in the previous year both in property and casualty insurance and in life and private health insurance. However, the German Insurance Association (GDV) expects premium growth to return to normal levels of 1.5 % to 2 % in the current financial year. While life insurers are anticipating growth of around 1 %, property and casualty insurers expect premium growth of 2.5 %. In general, the industry association expects the weaker economy and ongoing low interest rates to noticeably dampen growth in the insurance sector.

Reinsurance industry
Within the global reinsurance sector, renewals as at 1 January 2020 varied much more widely between regions than in the past. The global retrocession market has hardened, as it depends more heavily on capacity for insurance-linked securities. The latter are influenced by catastrophe losses from previous years, for which there is still some uncertainty with regard to the size of the claims that will ultimately be settled. Contrary to expectations, however, the reinsurance market has on the whole not been excessively influenced by the retrocession market and remains tense.

German market
The German market will continue to account for the largest share of the Deutsche Rück Group's overall business. The winding-up of residual credit business will continue to have an impact on the development of premiums in 2020. We nevertheless expect a moderate rise in gross premium volume from the German market.

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

In **fire/property insurance**, we anticipate a slight increase in premium volume for 2020. Our performance over the last few years shows that our extensive restructuring measures have had an effect, even if the 2018 financial year did not live up to our expectations, owing to higher loss amounts at the parent company. As we are continuing with restructuring measures, we expect to achieve a technical profit in this segment again in 2020.

We are also anticipating slight premium growth in **natural hazards business** in the current year, most of which will come from business with public insurers. At the time of writing this report we expect to achieve a technical profit, although it will be lower than in the last financial year owing to losses that had already occurred at the time of reporting, including those caused by storm CIARA (also known as SABINE). We will be able to obtain relief through our retrocession instruments for any further claims in natural hazards business. Withdrawals from our equalisation reserves, to which ample funds have been allocated, can also provide relief.

We anticipate a further increase in premium volume in **liability, accident and motor insurance business** for 2020. By setting up IBNR reserves, we will build up sufficient security for possible future burdens in these lines of business, which have a long claims settlement process.

We expect overall premium volume to fall in **life insurance business** in 2020, following a significant increase in premiums in the last financial year, owing to a decline in premiums in residual credit business.

International markets

We selectively underwrite business that meets our requirements in terms of margins in international markets. In the current financial year, we anticipate premium increases in various European markets from client relationships of our subsidiary in Switzerland.

Overall business

The Deutsche Rück Group expects premium growth to increase significantly in 2020. Losses due to natural hazards will have an impact on the gross technical result. We limit the general exposure of our property insurance portfolio through a specific retrocession scheme and by setting up adequate reserves, which ensures that our result for own account remains calculable at all times. Overall, we expect the net loss ratio to remain at the previous year's level in the current financial year. At the same time, we anticipate a lower net expense ratio.

We expect to further replenish the equalisation reserves and similar provisions, which will lead to a negative technical result. The tense situation on capital markets is likely to cause investment income to fall year on year. Overall, we expect the net profit for the year to be lower than in the previous year.

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

Düsseldorf, 16 March 2020

Board of Executive Directors

Consolidated Financial Statements

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Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2019

ASSETS in €	2019		2018	
A. Intangible assets				
I. Concessions, industrial property rights and similar rights and assets, as well as licences to such rights and assets, that have been acquired in return for a fee	474,033		483,753	
		474,033		**483,753**
B. Investments				
I. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	12,000		12,000	
2. Participating interests	113,545,837		83,977,976	
3. Loans to companies in which a participating interest is held	659,075		0	
4. Shareholdings in associated companies	138,470,453		133,700,602	
	252,687,365		217,690,578	
II. Other investments				
1. Shares, interests or shares in investment assets and other variable-yield securities	577,398,638		487,117,364	
2. Bearer bonds and other fixed-interest securities	657,504,371		678,546,880	
3. Receivables from mortgages, land charge and annuity land charge claims	255,156,593		175,196,035	
4. Other loans				
a) Registered bonds	110,000,000		120,092,467	
b) Loans and promissory notes	159,778,960		173,019,801	
c) Other loans	975,000		1,000,000	
	270,753,960		294,112,268	
5. Deposits with banks	31,000,350		11,000,000	
	1,791,813,911		1,645,972,547	
III. Deposits retained on assumed reinsurance	132,896,466		134,501,957	
		2,177,397,742		**1,998,165,082**
C. Receivables				
I. Accounts receivable on reinsurance business	58,678,531		56,259,366	
thereof participating interests: €1,016 (2018: €43,601)				
II. Other receivables	14,051,153		13,388,336	
thereof participating interests: €6,894,754 (2018: €4,995,320)				
		72,729,684		**69,647,702**
D. Other assets				
I. Tangible assets and inventories	677,809		793,964	
II. Cash at banks, cheques and cash in hand	155,959,808		215,199,946	
		156,637,617		**215,993,910**
E. Deferred items				
I. Accrued interest and rent	11,464,107		11,587,810	
II. Other deferred items	392,519		362,571	
		11,856,625		**11,950,381**
Total assets		**2,419,095,701**		**2,296,240,828**

EQUITY AND LIABILITIES

in €	2019		2018	
A. Shareholders' equity				
I. Issued capital	25,000,000		25,000,000	
II. Capital reserve	23,817,613		23,817,613	
III. Retained earnings				
1. Legal reserve	6,410,796		5,897,543	
2. Other retained earnings	146,408,731		140,049,250	
	152,819,527		145,946,793	
IV. Consolidated balance sheet profit	50,844,497		47,273,376	
V. Minority interests	48,313,841		38,794,585	
		300,795,478		**280,832,368**
B. Subordinated liabilities		**61,750,000**		**61,750,000**
C. Technical provisions				
I. Unearned premiums				
1. Gross amount	128,419,854		169,215,413	
2. less: share for retroceded business	77,020,425		107,737,505	
	51,399,429		61,477,908	
II. Provision for future policy benefits				
1. Gross amount	84,514,858		84,536,009	
2. less: share for retroceded business	23,652,216		18,368,605	
	60,862,642		66,167,404	
III. Provision for outstanding claims				
1. Gross amount	1,640,155,458		1,598,483,202	
2. less: share for retroceded business	303,948,094		335,434,019	
	1,336,207,365		1,263,049,183	
IV. Provision for premium refunds				
1. Gross amount	2,404,449		2,210,539	
2. less: share for retroceded business	892,457		816,456	
	1,511,992		1,394,083	
V. Equalisation reserves and similar provisions	276,683,663		261,526,734	
VI. Other technical provisions				
1. Gross amount	47,859,475		57,529,623	
2. less: share for retroceded business	802,972		913,989	
	47,056,502		56,615,634	
		1,773,721,593		**1,710,230,946**
D. Other accrued liabilities				
I. Provision for employees' pensions and similar commitments	29,087,456		27,176,207	
II. Tax provisions	14,638,632		17,691,697	
III. Other provisions	4,848,217		4,097,110	
		48,574,305		**48,965,014**
E. Deposits retained on retroceded business		**24,083,485**		**18,594,888**
F. Other liabilities				
I. Accounts payable on reinsurance business	164,071,107		137,094,099	
thereof accounts due to companies in which a participating interest is held: €49,183,788 (2018: €33,856,971)				
II. Liabilities to banks	12,380,000		7,710,000	
III. Other liabilities	32,459,486		29,898,975	
thereof accounts due to companies in which a participating interest is held: €167,972 (2018: €147,369)				
thereof from taxes: €184,220 (2018: €2,981,027)				
		208,910,592		**174,703,074**
G. Deferred items		**1,260,248**		**1,164,538**
Total equity and liabilities		**2,419,095,701**		**2,296,240,828**

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

ITEMS in €	2019		2018	
I. Technical account				
1. Premiums earned for own account				
a) Gross premiums written	1,107,910,793		1,108,391,878	
b) Retroceded premiums	381,968,631		374,845,702	
	725,942,162		**733,546,176**	
c) Change in gross unearned premiums	41,003,386		33,475,305	
d) Change in retroceded share of unearned premiums	30,717,081		38,235,922	
	10,286,306		**–4,760,617**	
		736,228,468		**728,785,559**
2. Interest on technical provisions for own account		**1,772,829**		**1,914,378**
3. Other underwriting income for own account		**2,875,696**		**1,421,971**
4. Claims incurred for own account				
a) Payments for insured events				
aa) Gross amount	665,913,787		576,669,137	
bb) Retroceded amount	232,685,581		204,788,395	
	433,228,206		**371,880,742**	
b) Change in provision for outstanding claims				
aa) Gross amount	36,988,014		175,572,529	
bb) Retroceded amount	–31,487,613		71,778,833	
	68,475,627		**103,793,696**	
		501,703,833		**475,674,438**
5. Change in other technical provisions for own account				
a) Net provisions for future policy benefits	5,392,361		7,555,830	
b) Other net technical provisions	9,898,024		–1,593,777	
		15,290,386		**5,962,053**
6. Expenses for premium refunds for own account		**463,614**		**482,199**
7. Operating expenses for own account				
a) Gross operating expenses	359,699,156		343,093,630	
b) less: commissions and profit commissions received on retroceded business	116,843,838		110,678,747	
		242,855,318		**232,414,883**
8. Other underwriting expenses for own account		**16,985,490**		**19,266,055**
9. Subtotal		**–5,840,875**		**10,246,386**
10. Change in equalisation reserves and similar provisions		**–15,156,929**		**–19,683,936**
11. Underwriting result for own account		**–20,997,804**		**–9,437,550**

ITEMS in €	2019		2018	
Amount brought forward (Technical result for own account):		**–20,997,804**		**–9,437,550**
II. Non-technical account				
1. Investment income				
a) Dividends from participating interests	5,827,440		3,331,764	
b) Income from associated companies	2,497,846		1,939,721	
c) Income from other investments				
aa) Income from other investments	43,259,851		50,982,442	
d) Income from write-backs	4,443,063		652,254	
e) Realised gains on the disposal of investments	1,999,023		41,732,428	
		58,027,223		**98,638,609**
2. Investment expenses				
a) Management expenses, interest charges, and other expenses on investments	5,382,561		4,589,947	
b) Write-downs on investments	1,915,246		3,432,737	
c) Realised losses on the disposal of investments	316,199		2,082,002	
		7,614,006		**10,104,686**
3. Interest income on technical provisions		**1,925,833**		**2,033,240**
		48,487,385		**86,500,683**
4. Other income	5,310,641		9,786,250	
5. Other expenses	7,803,337		8,608,843	
		–2,492,697		**1,177,407**
6. Operating result before tax		**24,996,884**		**78,240,540**
7. Taxes on income	11,175,752		21,925,828	
8. Other taxes	341,105		317,994	
		11,516,858		**22,243,822**
9. Profit for the year		**13,480,026**		**55,996,718**
10. Minority interests in profit/loss for the year		**–721,802**		**–5,512,098**
11. Profit/loss brought forward (–) from previous year		**41,445,268**		**–10,267,567**
12. Minority interests in the loss brought forward from previous year		**3,141,004**		**7,056,323**
13. Transfers to retained earnings				
a) to other retained earnings	6,500,000		0	
		6,500,000		**0**
14. Consolidated balance sheet profit		**50,844,497**		**47,273,376**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY AS AT 31 DECEMBER 2019

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

Group equity increased by €19,963K in the year under review to €300,795K.

Our subsidiary DR Swiss issued new shares above nominal value in the year under review at a total price of €8,934K. As the parent company, Deutsche Rück did not take part in this capital increase, which led to a reduction in its stake in DR Swiss from 75.0 % to 71.25 %. The transaction has been reported in the consolidated financial statements as a capital transaction.

Additions to equity from the profit for the year of €13,480K and positive currency effects of €1,686K were offset by a reduction owing to dividend payments of €4,136K.

in € '000	Equity of the parent company										Non-controlling interests				Group equity
	(Corrected) issued capital	Reserves					Difference in equity due to currency translation	Profit carried forward	Consolidated net profit/loss for the year attributable to the parent company	Total	Non-controlling interests before difference in equity due to currency translation and net profit for the year	Difference in equity due to currency translation attributable to non-controlling interests	Profit/loss attributable to non-controlling interests	Total	Total
	Issued capital	Capital reserves	Retained earnings			Total									
	Ordinary shares	in accordance with Section 272 (2) No. 1-3 HGB	Legal reserve	Other retained earnings	Total										
As at 31 Dec. 2018	**25,000**	**23,818**	**5,898**	**134,368**	**140,266**	**164,084**	**5,681**	**–9,903**	**57,176**	**242,038**	**25,735**	**10,862**	**2,197**	**38,794**	**280,832**
Issue of shares					0	0				0	7,112			7,112	7,112
Allocation to/withdrawal from reserves			844	6,500	7,344	7,344		–7,344		0	1,822			1,822	1,822
Dividends paid					0	0		–3,000		–3,000	–1,136			–1,136	–4,136
Currency translation					0	0	–2,471	1,157		–1,314		3,000		3,000	1,686
Other changes			–331	2,329	1,999	1,999				1,999	–1,999			–1,999	0
Consolidated net profit/loss for the year					0	0			12,758	12,758			722	722	13,480
As at 31 Dec. 2019	**25,000**	**23,818**	**6,411**	**143,197**	**149,609**	**173,427**	**3,210**	**–19,090**	**69,934**	**252,480**	**31,533**	**13,862**	**2,919**	**48,314**	**300,795**

CONSOLIDATED CASH FLOW STATEMENT FOR THE 2019 FINANCIAL YEAR

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

The cash fund (cash and cash equivalents) corresponds to balance sheet item “D. II. Cash at banks, cheques and cash in hand”. In the 2019 financial year, it fell from €215,200K to €155,960K at year-end.

Following a cash inflow of €81,688K in the previous year, the Group recorded a substantial cash outflow of €64,799K from operating activities in the year under review. Cash inflows from an increase in net technical provisions and in deposits retained and accounts payable were offset in particular by cash outflows for investments, which are recorded under the change in other balance sheet items.

Cash flow from investment activities fell from €–458K in the previous year to €–354K in the year under review. This reflects investment in tangible and intangible assets and is not material to the change in cash and cash equivalents at the Group.

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

CONSOLIDATED CASH FLOW STATEMENT

in € '000		2019	2018
	Result for the period (profit / loss for the year incl. minority interests)	13,480	55,997
+/-	Net increase / decrease in technical provisions	42,640	102,991
-/+	Increase / decrease in deposits retained and accounts receivable	1,117	–44
+/-	Increase / decrease in deposits retained and accounts payable	29,877	–29,758
-/+	Increase / decrease in other receivables	–627	–4,484
+/-	Increase / decrease in other liabilities	9,945	–18,295
+/-	Change in other balance sheet items not related to investment or financing activities	–171,005	–33,839
+/-	Other income / expenses without impact on cash flow and adjustments to the result for the period	19,852	10,687
-/+	Gain / loss on the disposal of investments and tangible and intangible assets	–1,701	–6,990
+/-	Income tax expense / income	11,176	21,926
-/+	Income tax paid	–19,553	–16,503
=	**Cash flow from operating activities**	**–64,799**	**81,688**
+	Inflows from disposal of tangible assets	18	34
-	Outflows for investment in tangible assets	168	291
-	Outflows for investment in intangible assets	204	201
=	**Cash flow from investment activities**	**–354**	**–458**
+	Inflows from additions of equity from other shareholders	8,923	0
-	Dividends paid to shareholders in the parent company	3,000	3,000
-	Dividends paid to other shareholders	1,136	0
=	**Cash flow from financing activities**	**4,787**	**–3,000**
	Change in cash and cash equivalents with an impact on cash flow	–60,367	78,230
+/-	Changes in cash and cash equivalents due to exchange rates and valuation	1,127	2,749
+	Cash and cash equivalents at the beginning of the period	215,200	134,221
=	**Cash and cash equivalents at the end of the period**	**155,960**	**215,200**

Notes to the Consolidated Financial Statements

GENERAL INFORMATION ON CONTENT AND LAYOUT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

CONSOLIDATION

Scope of consolidation

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

COMPANY NAME AND REGISTERED HEAD OFFICE	Share in equity in %	Shareholders' equity in €'000	Result in €'000	Financial statements as at
Subsidiaries fully consolidated				
DR Sachwerte SCS SICAV-RAIF, Senningerberg	100.00	116,788.6	25,787.9	30 Sept. 2019
Deutsche Rückversicherung Switzerland Ltd, Zurich	71.25	181,848.9	6,538.2	31 Dec. 2019
Subsidiaries not consolidated (Section 296 (2) German Commercial Code (HGB))				
DRVB GP S.à r.l., Senningerberg	100.00	5.0	–7.0	30 Sept. 2018

COMPANY NAME AND REGISTERED HEAD OFFICE	Share in equity in %	Shareholders' equity in €'000	Result in €'000	Financial statements as at
Associated companies consolidated at equity				
DRVB Invest Beteiligungs GmbH, Düsseldorf	50.00	21,149.9	–38.0	31 Dec. 2019
Hansapark 2 GmbH & Co. KG, Düsseldorf	50.00	19,884.5	1,914.8	31 Dec. 2019
Hansapark Verwaltungs GmbH & Co. KG, Düsseldorf	50.00	9,788.5	3,083.0	31 Dec. 2019
Immobiliengesellschaft Burstah Hamburg GmbH & Co. KG, Düsseldorf	50.00	13,092.8	356.9	31 Dec. 2019
Objekt Aachen, Großkölnstraße GmbH, Düsseldorf	50.00	3,945.3	–1,594.0	31 Dec. 2019
Objekt Karlsruhe Kaiserstraße GmbH, Düsseldorf	50.00	21,023.2	83.4	31 Dec. 2019
Objekt Leipzig Katharinenstraße GmbH, Düsseldorf	50.00	2,544.6	430.6	31 Dec. 2019
VonWerth Grundbesitz GmbH, Cologne 3)	50.00	12.5	0	16 Oct. 2018
Ecosenergy Zweite Betriebsgesellschaft mbH & Co. KG, Nordhorn	44.44	14,548.4	936.6	31 Oct. 2018
DC Values Karl-Marx GmbH & Co. KG, Grünwald	40.00	1)	1)	1)
DC Values MKH GmbH & Co. KG, Grünwald 3)	40.00	1.0	0	19 Jun. 2019
DRVB Wohnen Beteiligungs-GmbH, Düsseldorf	40.00	5,763.0	160.6	31 Dec. 2019
Objekt Düsseldorf An der Kaserne GmbH & Co. KG, Düsseldorf	40.00	12,058.1	324.2	31 Dec. 2019
Objekt Düsseldorf Couvenstraße GmbH & Co. KG, Düsseldorf	40.00	6,214.8	198.3	31 Dec. 2019
Objekt Leipzig Nordstraße GmbH, Düsseldorf	40.00	5,071.8	305.1	31 Dec. 2019
Objekt Warstein Max-Planck-Straße GmbH & Co. KG, Frankfurt am Main	40.00	40.6	–6.9	31 Dec. 2018
Objekte Nürnberg GmbH & Co. KG, Düsseldorf	40.00	16,646.0	511.6	31 Dec. 2019
Objekt Minoritenstraße Köln GmbH & Co. KG, Düsseldorf	37.96	1,838.7	–203.2	31 Dec. 2019
MF 1. THA 70 – 74 GmbH, Frankfurt am Main	31.00	2,635.6	1.3	31 Dec. 2018
MF 2. THA 70 – 74 GmbH, Frankfurt am Main	31.00	3,488.9	–378.6	31 Dec. 2018
RFR 1. THA 70 – 74 GmbH, Frankfurt am Main	31.00	23,025.5	–1,080.1	31 Dec. 2018
RFR 2. THA 70 – 74 GmbH, Frankfurt am Main	31.00	53,658.1	–306.2	31 Dec. 2018
MAGNUM EST Digital Health GmbH, Berlin	25.52	120.3	–1,135.2	31 Dec. 2018
Lintgasse 14 GmbH, Cologne	25.00	1)	1)	1)
ASPF II Beteiligungs GmbH & Co. KG, Munich	20.00	12.6	67.9	31 Dec. 2018
MBS Beteiligungs GmbH, Frankfurt am Main 2)	16.67	31,404.2	740.2	31 Dec. 2018
Associated companies not consolidated (Section 311 (2) German Commercial Code (HGB))				
Hansapark Verwaltungs GmbH, Düsseldorf	50.00	116.8	10.4	31 Dec. 2019
OEV Equity Trust GmbH, Düsseldorf	50.00	235.3	13.4	31 Dec. 2018
Reha Assist Deutschland GmbH, Arnsberg	26.00	257.7	102.5	31 Dec. 2018

1) Newly founded in 2019, financial statements not yet available
2) Associated company owing to material influence through joint venture agreement
3) Newly founded, opening balance sheet available as at the stated balance sheet date

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

The associated companies listed below were included in the consolidated financial statements for the first time at equity in the 2019 financial year in accordance with the revaluation method:

- DC Values Karl-Marx GmbH & Co. KG
  Difference: €0K
- DC Values MKH GmbH & Co. KG
- Difference: €0K
- Lintgasse 14 GmbH
  Difference: €0K
- VonWerth Grundbesitz GmbH
  Difference: €0K

For companies included at equity, the differences between the carrying amount and the equity of the associated companies as at the balance sheet date came to €13,221K. This included goodwill of €847K. There were no mandatory disclosures with regard to associated companies with a material influence on the Group’s net assets, financial position and results of operations in the year under review.

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

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

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

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

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

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

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

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

ACCOUNTING PRINCIPLES

Intangible assets
Intangible assets acquired in return for a fee are recognised at acquisition cost and amortised on a straight-line basis over their expected useful life.

Investments
Any shares in affiliated companies and associated companies that have not been included in the consolidated financial statements, as permitted by Section 296 (2) HGB or Section 311 (2) HGB, as well as the other participating interests, are valued as fixed assets in accordance with the mitigated lowest value principle pursuant to Section 341b (1) HGB in conjunction with Section 253 (3) Sentence 5 HGB. Write-downs are made for any impairments that are expected to be permanent.

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

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

Shares, interests or shares in investment assets and other variable-yield securities and bearer bonds and other fixed-interest securities are valued in accordance with the rules on current assets pursuant to Section 341b (2) HGB in conjunction with Section 253 (4) HGB. If these investments are intended to serve the company’s business operations on an ongoing basis, they will be valued in accordance with the rules on fixed assets pursuant to Section 341b (2) second half-sentence HGB in conjunction with

Section 253 (3) Sentence 5 and 6 HGB. Shares worth €9,344K, investment fund units totalling €369,827K and bearer bonds worth €652,504K are allocated to fixed assets.

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

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

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

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

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

Receivables

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

Other assets

Property, plant and equipment are recognised at cost and depreciated over their expected useful lives. Minor-value assets with a value of between €250 and €800 are written off in full in the year of purchase, in accordance with the limits that have applied since 1 January 2018 (between €150 and €410 until 31 December 2017). Inventories are recognised at acquisition cost or at their value as at the balance sheet date if lower.

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

Deferred items

Accrued interest and rent, which is recognised at nominal value, relates to the year under review but was not yet due as at 31 December 2019. Accrued premiums on registered bonds are spread over the term of the bond.

Valuation units

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

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

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

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

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

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

Balance sheet item	Type of valuation unit	Hedged risk	Amount of hedged risks
Participating interests Carrying amount: EUR 12,503K	Micro-hedge	Risk of change in value Currency risk US dollar (USD)	USD 13,083K EUR 11,646K
Bearer bonds and other fixed-interest securities Carrying amount: EUR 7,156K	Micro-hedge	Risk of change in value Currency risk Danish krone (DKK)	DKK 53,149K EUR 7,114K

As at the balance sheet date, risks of a change in value (currency risks) with a total volume of €18,760K have been hedged using valuation units.

Deferred tax assets

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

Subordinated liabilities

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

Technical provisions

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

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

Provision for employees' pensions and similar commitments
Provisions for pensions and similar obligations have been established in accordance with actuarial principles using the projected unit credit method. Annual salary increases are taken into account at 2.75 % p.a. and pension rises at 1.9 % and 1.0 % p.a. The biometric accounting principles were obtained from the Heubeck mortality tables 2018G. Provisions were discounted at the average market interest rate of 2.71 % (average ten-year interest rate) based on an assumed remaining term of 15 years as at the balance sheet date, as permitted by exercising the option pursuant to Section 253 (2) Sentence 2 of the German Commercial Code (HGB).

In accordance with Section 253 (6) HGB, amounts of €4,037K (previous year: €4,627K) are blocked from dividend payouts in the separate financial statements of the parent company Deutsche Rückversicherung AG; these are offset by adequate retained earnings of €142,930K.

The employee-financed pension obligations resulting from salary waivers are based on individual commitments. Capital-based pension obligations relate to a securities-based pension commitment, where the insured persons have an unlimited and irrevocable right to the maturity benefits, including the allocated profit shares. The current policy reserve of the associated congruent reinsurance coverage constitutes a plan asset as defined by Section 246 (2) of the German Commercial Code (HGB) and is offset against pension obligations. As at 31 December 2019, the pension provision totals €181K before offsetting against the claim arising from reinsurance in the same amount.

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

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

Liabilities

Deposits retained on retroceded business and accounts payable from reinsurance business are recognised at the amounts shown in the reinsurers' statements of account. Liabilities to banks and other liabilities are shown at their settlement amounts. Liabilities to banks arise in the course of collateral management due to cash collateral received for forward purchases, which must be repaid by the time the transactions mature at the latest.

Deferred items

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

Foreign currencies

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

NOTES TO THE CONSOLIDATED BALANCE SHEET

DEVELOPMENT OF ASSET ITEMS A. AND B.I. IN THE 2019 FINANCIAL YEAR in €'000	Carrying amount (previous year)	Changes in the exchange rate	Additions	Disposals	Write-backs	Write-downs	Carrying amount for financial year
Asset items							
A. Intangible assets							
1. Concessions, industrial property rights and similar rights and assets, as well as licences to such rights and assets, that have been acquired in return for a fee	484	0	205	0	0	215	474
Sum A.	**484**	**0**	**205**	**0**	**0**	**215**	**474**
B.I. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	12	0	0	0	0	0	12
2. Participating interests	83,978	0	38,759	9,191	0	0	113,546
3. Loans to companies in which a participating interest is held	0	0	659	0	0	0	659
4. Shareholdings in associated companies	133,701	0	9,721	4,189	0	762	138,470
Sum B.I.	**217,691**	**0**	**49,140**	**13,381**	**0**	**762**	252,687
Total	**218,175**	**0**	**49,345**	**13,381**	**0**	**977**	**253,162**

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

FINANCIAL INSTRUMENTS CLASSED AS FINANCIAL ASSETS THAT ARE RECOGNISED AT MORE THAN THEIR FAIR VALUE

in €'000	Carrying amount	Fair value	Unrealised loss
Shareholdings in associated companies	10,537	9,676	861
Participating interests	17,077	16,120	957
Shares, interests or shares in investment assets and other variable-yield securities	1,466	1,090	376
Receivables from mortgages, land charge and annuity land charge claims	32,015	31,830	185
Other loans	10,000	9,749	251
Total	**71,095**	**68,465**	**2,630**

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

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

As at 31 December 2019, the Group holds more than 10 % of the units in a domestic investment fund in accordance with Section 314 Sentence 1 No. 18 of the German Commercial Code (HGB). There are no restrictions on the option to return the units on any day.

in €'000	Fair value	Carrying amount	Unrealised gains	Dividend received in 2019
Mixed fund	443,117	343,234	99,884	2,688

Remaining terms of receivables

There are no receivables with a remaining term of more than one year.

Deferred items

Premiums on registered bonds totalled €74K as at the balance sheet date (previous year: €79K).

Shareholders' equity

Deutsche Rück's issued capital totals €25,000K and is made up of 488,958 no-par-value shares. A sum of €6,500K was transferred from the profit for 2019 to retained earnings. The consolidated balance sheet profit of €50,844K includes a consolidated profit carry forward of €41,445K. Changes in equity are shown in the consolidated statement of changes in shareholders' equity in accordance with DRS 22.

OTHER PROVISIONS in €'000	2019	2018
a) Provisions to cover expenses related to preparation of the annual financial statements	465	566
b) Provisions related to human resources	3,807	3,449
c) Provisions for other administration costs	576	82
Total	**4,848**	**4,097**

Other liabilities

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

Deferred items

Discounts on registered bonds totalled €942K as at the balance sheet date (previous year: €847K).

NOTES TO THE CONSOLIDATED INCOME STATEMENT

GROSS PREMIUMS WRITTEN in €'000	2019	2018
Property and casualty business	1,017,045	1,036,099
Life insurance business	90,866	72,293
Total	**1,107,911**	**1,108,392**

Technical interest income for own account

Technical interest income transfers the interest income listed in Section 38 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV) to the technical income statement and is calculated from the 2.25 % interest allocated to the annuity provision and the deposit interest on the deposit for provisions for future policy benefits.

Claims expenditure for own account

Releases to the provision for outstanding claims assumed from the previous year generated a gross profit of 2.3 % (previous year: 15.8 %) of gross earned premiums and a net loss of 2.5 % (previous year: profit of 18.3 %) of net earned premiums.

PERSONNEL EXPENSES

in €'000		2019	2018
1.	Wages and salaries	15,098	12,963
2.	Social security contributions and employee assistance expenses	2,051	1,728
3.	Expenses for employees' pensions	2,908	3,869
Total		**20,057**	**18,560**

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

Unscheduled write-downs on fixed assets owing to impairment that was expected to be permanent were carried out in the year under review in the amount of €186K (previous year: €130K). Write-downs were also carried out on financial assets in the amount of €451K owing to impairments that were not expected to be permanent (previous year: €340K).

Other income

Other income includes exchange rate gains amounting to €3,974K (previous year: €7,447K).

Other expenses

Interest allocated to provisions for employees' pensions, semi-retirement and long-service award expenses comes to €876K (previous year: €911K). Exchange rate losses of €534K (previous year: €145K) were recorded.

OTHER DISCLOSURES

The company employed an average of 149 staff in the 2019 financial year, of whom 86 were male and 63 female.

Members of the Supervisory Board received total remuneration of €113,288 for performing their duties at the parent company, while the Board of Executive Directors received total remuneration of €657,805.

Total remuneration for former members of the Board of Executive Directors and their surviving dependants came to €557,130. Provisions recognised in this regard amount to €9,030,495.

Contingent liabilities and commitments
As a member of the German Pharmaceutical Reinsurance Association (Pharma-Rückversicherungs-Gemeinschaft), we are required to assume the benefit obligations of any other member of the pool if one of them drops out. Our obligation applies in relation to our quota share. Similar obligations exist as a result of our membership of the German Nuclear Reactor Insurance Association (Deutsche Kernreaktor-Versicherungsgemeinschaft – DKVG). Due to our membership of VöV Rückversicherung KöR, we are liable for the company's liabilities up to the level of non-paid-up share capital of €184K. We estimate that the probability of occurrence is extremely low.

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

Other financial commitments
There are payment obligations relating to open commitments to associated companies in the amount of €402K, participating interests in the amount of €84,695K and shares or units in investment funds totalling €74,084K.

From the investment portfolio, commitments in the amount of €163,036K existed as at the balance sheet date in relation to forward purchases of promissory notes, registered securities and bearer bonds with interest rates of between 1.125 % and 3.625 % and terms to maturity of between 3 and 28 years. Forward purchases are measured using the cost of carry. Taking into account the market value of the underlying instruments at the balance sheet date, the total fair value of the forward purchases is €27,183K.

There are also four optional purchase obligations (short put options) as at the balance sheet date arising from two registered bonds issued by the IBRD (World Bank), each of which amounts to €5,000K, with interest rates of 2.26 % and 2.40 % respectively and terms up to 6 July 2037 and 16 February 2038 respectively. The purchase obligations have a combined market value of €–198K and €–224K respectively based on the shifted Libor market model. It is not necessary to recognise provisions for anticipated losses from pending transactions, as there is no impairment to the underlying instrument that is expected to be permanent.

We plan to purchase further shares in a non-listed company up to 31 March 2022. A convertible loan has been awarded in connection with this, which contains an embedded American call option for us. This is a separable derivative financial instrument that is not recognised at fair value. Because of the way that the option is structured (variable strike of 80 % of the pre-money valuation in the funding round), its fair value lies within a range of €0 to €100K. The option cannot give rise to any balance sheet obligations, as the fair value is not negative.

Deutsche Rück has granted loans secured by land charges in the last two financial years, which have not yet been fully disbursed. The outstanding payments are linked to progress with construction of the properties serving as security. The total loan amounts still to be disbursed come to €28,960K. The interest rates are between 1.85 % and 12 %.

Further disclosures

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

Total fees in the amount of €150K were paid or set aside for the Group's statutory auditor, Ernst & Young GmbH, in the 2019 financial year. All of the fees relate to the audit of the consolidated and annual financial statements and of the solvency overview of the parent company as at 31 December 2019.

Cover requirements in accordance with Solvency II were once again fulfilled in the year under review.

At the time of reporting on the consolidated financial statements for 2019, coronavirus is spreading rapidly around the world and is having a massive impact on the economy and on public life. We cannot yet predict with certainty what the consequences for the insurance sector will be. BaFin estimates that German insurers currently have relatively little cause for concern and sees no systemic risk to the industry as a whole at present. We do not currently expect this to depress earnings significantly in our Group's reinsurance business. The pandemic's influence on capital markets is also expected to have only a minor impact on our results from today's perspective.

The parent company proposes to the Annual General Meeting that the balance sheet profit of €6,690K be used as follows:

PROPOSAL FOR APPROPRIATION OF THE BALANCE SHEET PROFIT

in €'000

12 % dividend on the paid-up share capital	3,000
Transfers to retained earnings	3,600
Carry forward to new account	90

Düsseldorf, 16 March 2020

Deutsche Rückversicherung Aktiengesellschaft

Board of Executive Directors

Schaar Bosch Rohde

Independent auditor's report

To Deutsche Rückversicherung AG, Düsseldorf

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

Audit opinion

We have audited the consolidated financial statements of Deutsche Rückversicherung AG and its subsidiaries (the Group), comprising the consolidated balance sheet as at 31 December 2019, the consolidated income statement, the consolidated statement of changes in shareholders' equity and the consolidated cash flow statement for the financial year from 1 January 2019 to 31 December 2019, and the notes to the consolidated financial statements, including a summary of the main accounting methods. We have also audited the Group management report of Deutsche Rückversicherung AG for the financial year from 1 January 2019 to 31 December 2019.

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

- the enclosed consolidated financial statements comply with the provisions of German legal regulations as applicable to insurance companies in all key respects and give a true and fair view, in accordance with these regulations, of the Group's net assets and financial position as at 31 December 2019 and of its results of operations for the financial year from 1 January 2019 to 31 December 2019 and
- the enclosed Group management report gives a true and fair overall view of the Group's position. In all key respects, this Group management report is consistent with the consolidated financial statements, complies with the provisions of German law and accurately presents the opportunities and risks associated with future development.

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

Basis for our audit opinion

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

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

Facts of particular importance in the audit of the consolidated financial statements
Facts of particular importance in the audit are those facts that, based on our judgement, are the most relevant in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These facts have been taken into account in connection with our audit of the consolidated financial statements as a whole and in forming our audit opinion; we shall not provide a separate audit opinion on these facts.

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

Assessment of partial provisions for known and unknown claims included in gross provisions for outstanding claims
Reasons for classification as facts that are of particular importance in the audit
Gross provisions for outstanding claims can be divided into various partial provisions, which are valued in accordance with the provisions of Section 341g HGB.

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

The company estimates the gross partial provision for unknown claims based on past experience using actuarial methods.

This is a fact that is of particular importance in the audit, as the calculation of partial provisions for known and unknown claims included in gross provisions for outstanding claims is based to a large extent on estimates and assumptions and there is therefore a risk that the calculated figures may be inadequate, both overall and in the individual lines of insurance. Furthermore, partial provisions for known and unknown claims included in gross provisions for outstanding claims account for a large proportion of total assets.

Our approach in the audit
As part of our audit of the financial statements, we examined the process used for the cedants' statements of account and the procedures, methods and control mechanisms that are applied there. By tracing the processing of individual cedants' statements of account, we investigated the reinsurance settlement process as far as its presentation in the annual financial statements and tested the main controls. We also investigated, through our own calculations and analyses, whether adequate gross provisions

have been calculated for known outstanding claims. In addition, we traced the estimates for the year under review and the true-up for the previous year in each case, both overall and at the level of individual lines of business. We carried out interviews in the event of significant deviations and conducted audits of the individual cases.

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

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

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

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

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

Reference to associated disclosures
Information about the valuation of gross provisions for outstanding claims is provided in the “Accounting principles” section of the notes.

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

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

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

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

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

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

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

The legal representatives are responsible for preparing the consolidated financial statements, which must comply in all key respects with the provisions of German legal regulations that apply to insurance companies, and are responsible for ensuring that the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations in accordance with these regulations. Furthermore, the legal representatives are responsible for the internal checks that they have deemed necessary to ensure that it is possible to prepare consolidated financial statements that are free from any material misstatements, either intentional or unintentional.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue its activities. Moreover, they have a responsibility to disclose any facts in connection with the continuation of the company's activities where relevant. They also have a responsibility to draw up the accounts on the basis of the going concern principle, unless the intention is to liquidate the Group or to cease business operations or unless there is no realistic alternative to this.

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

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

Auditor's responsibility for auditing the consolidated financial statements and the Group management report

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

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

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

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

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

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

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

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

Other statutory and legal requirements

Other disclosures in accordance with Article 10 of Regulation (EU) No. 537/2014 on audits

We were elected as the auditor for the financial statements at the Supervisory Board meeting on 2 April 2019. The Supervisory Board instructed us on 3 May 2019 to perform an audit. We acted as auditor of the consolidated financial statements of Deutsche Rückversicherung AG for the first time for the 2019 financial year.

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

Responsible auditor

The auditor responsible for the audit is Dr Markus Horstkötter.

Cologne, 1 April 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

Report of the Supervisory Board

Obligations, committees and appointments

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

The Supervisory Board appointed Mr Achim Bosch to the Board of Executive Directors with effect from 1 January 2019.

Collaboration with the Board of Executive Directors

The Board of Executive Directors informed the Supervisory Board regularly and comprehensively of the Group's position and development. A total of three meetings were held in the 2019 financial year.

At these meetings, the Supervisory Board received and discussed verbal and written reports from the Board of Executive Directors. The Supervisory Board was also kept abreast of business developments and the Group's position in written quarterly reports from the Board of Executive Directors in accordance with Section 90 of the German Stock Corporation Act (AktG). Business developments at the main subsidiaries were also considered. Harmonised underwriting practices at the two Group companies, Deutsche Rückversicherung AG and Deutsche Rückversicherung Switzerland Ltd, have been ensured since the beginning of 2019 by having the same Chief Underwriting Officer at both companies.

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

Detailed explanations of the companies' economic position and development were provided at meetings of the Supervisory Board. Regular reports focused above all on the companies' corporate planning and anticipated results, their risk situation and risk management, as well as their financial situation. The Supervisory Board was also informed of findings and of action taken in connection with the on-site audit by BaFin. Strategic considerations were presented to the Supervisory Board and discussed with the Board of Executive Directors.

The holders of all four key functions in accordance with Solvency II presented their annual reports and answered questions from the Supervisory Board in the year under review as part of governance. The solvency overview and regulatory requirements in accordance with Solvency II and other laws were also discussed and corresponding resolutions were adopted. Ernst & Young was appointed as the new auditor for the 2019 consolidated financial statements.

Adoption of the consolidated financial statements

The Supervisory Board elected the auditor for the 2019 audit. The actual audit order was placed by the Chairman of the Supervisory Board. The consolidated financial statements and Group management report for the 2019 financial year were audited by Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Cologne, and did not give rise to any objections; an unqualified auditor's opinion was thus issued. The auditors attended the balance sheet meeting held by the Supervisory Board and reported on the key results of their audit.

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

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

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

Düsseldorf, 1 April 2020

Dr Frank Walthes
Chairman

COMPANY DETAILS

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