Deutsche Rück

Annual Report 2012

Key figures of Deutsche Rück AG

2008 – 2012 financial years

in €m	2012	2011	2010	2009	2008
Gross premiums written	744.3	683.6	664.3	712.3	660.5
Net premiums earned	393.5	359.1	344.0	368.1	351.1
Net loss ratio* (as a % of net premiums earned)	70.1	73.8	70.6	61.9	69.4
Expense ratio – net* (as a % of net premiums written)	30.1	30.1	30.6	31.0	25.4
Combined ratio – net* (as a % of net premiums earned)	100.3	103.8	101.4	93.2	94.4
Underwriting result – net (after change to the equalization reserves)	–19.8	–16.2	– 12.2	–26.7	5.8
Result of general business	29.9	36.3	28.2	31.0	5.9
Operating result before tax	10.2	20.1	16.0	4.3	11.7
as a % of net premiums earned	2.6	5.6	4.6	1.2	3.3
Net profit for the year (after tax) in €m	3.0	7.5	7.7	5.9	3.0
as a % of net premiums earned	0.8	2.1	2.2	1.6	0.9
Investments incl. deposits retained	1,140.4	1,109.0	1,113.1	1,079.2	1,028.8
as a % of net premiums earned	289.8	308.8	323.6	293.1	293.0
Average interest rates as a %	3.2	3.5	4.4	2.9	3.6
Net technical provisions (excl. equalization reserves)	681.8	691.3	668.9	644.9	632.4
as a % of net premiums earned	173.3	192.5	194.4	175.2	180.1
Equity capital	445.5	442.8	445.6	438.2	399.5
as a % of net premiums earned	113.2	123.3	129.5	119.0	113.8
thereof:					
Balance sheet equity	159.2	159.2	154.7	147.8	144.9
as a % of net premiums earned	40.5	44.3	45.0	40.1	41.3
Hybrid capital	50.0	50.0	50.0	50.0	50.0
as a % of net premiums earned	12.7	13.9	14.5	13.6	14.2
Equalization reserves	236.3	233.6	240.9	240.4	204.6
as a % of net premiums earned	60.1	65.0	70.0	65.3	58.3

** excl. life reinsurance*

Deutsche Rückversicherung AG

Annual Report 2012

Together with the German Association of Public-law Insurers, Deutsche Rückversicherung AG has become established as a leading reinsurer in its domestic market. In this capacity, we offer our stakeholders a high strategic benefit. Our excellent financial standing, consistent market behaviour and distinct client orientation also makes Deutsche Rück a preferred partner. We have also been able to enlarge our client base in the target markets of Central and Eastern Europe.

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Report of the Chief Executive Officer

Dear Shareholders and Clients,
Ladies and Gentlemen,

The ongoing tension on capital markets continued to have significant impact in the financial year 2012. Meanwhile, the competitive environment in the markets relevant to Deutsche Rück was both fierce and promising. Against this background, we are pleased to inform our shareholders and business partners of a satisfactory financial year. Faced with a challenging environment, Deutsche Rück's stable capital base and financial strength provided the pillars to continue increasing its volume of business and improving its market position as one of the leading reinsurers on the German-speaking market.

In 2012, we were able to raise our volume of business appreciably both in gross and net terms. Though the year saw the lowest level of natural catastrophe losses for over a decade, Deutsche Rück faced a high claims burden in the fire and business interruption business. The net combined ratio for the financial year was nonetheless lower than in the previous year. We were able to boost our equalization reserves on balance. Affected by the resultant deterioration in the underwriting result and a low investment result, the operating result before tax amounted to about €10 million. The net profit for the year after tax expenditure comes to around €3 million. Deutsche Rück thus concluded a satisfactory financial year on the whole, achieving a result healthy enough to pay yet another attractive dividend to our shareholders on the eligible capital.

In the year under review, Deutsche Rück consistently pursued its strategy to expand its activities in Europe. We were once again able to further expand our client base in Germany as well as in other countries, despite the limited scope for growth afforded by a prudent underwriting policy geared towards sustainable and risk-commensurate earnings. We increased the number of business relationships with insurers outside the group of public-law insurers while also boosting our volume of business with our shareholder cedants. In the year under review, we grew our premium volume by 8.9% to €744 million in gross terms and by 10.9% to €393 million in net terms. Our increasing success in generating a growing share of our premium volume outside the group of our shareholder cedants is particularly satisfying. We managed to boost this share considerably from 32% of our net premium volume in non-life business in 2011 to around 37% in the year under review, thereby further improving the diversification of our portfolio.

Our life business developed as expected in the year under review. The scheduled reduction in a quota share treaty had a slight dampening effect on the volume of premiums written, but this was more than offset by an increase in existing client relationships and the forging of new ones.

Deutsche Rück came through the financial year largely unaffected by major losses due to natural catastrophe events. Participations in major market-wide losses in fire and business interruption business were covered by our retrocession covers, greatly alleviating the claims burden. Our net loss ratio in non-life business dropped from 73.8% to 70.1%. Our administration expense ratio – which is low compared to that of other reinsurers – also remained stable.

On balance, we increased our equalization reserves by almost €3 million. The claims expenditure in fire/business interruption and our cautious reserving policy for new policies in the liability, accident and motor lines resulted in a technical loss of around €20 million. The net underwriting result thus dropped by €3.6 million, year on year.

In view of the difficult situation on international markets, we are satisfied with the development of our investments. Regular investment income dipped only slightly compared with the previous year. Extraordinary investment income was down on the previous year's level so that the non-technical account closed with earnings of just under €30 million.

Our operating result thus comes to around €10 million. The discrepancy between the accounts prepared for financial reporting purposes and those prepared for tax purposes is becoming increasingly marked due to the growing number of tax law provisions concerning the insurance industry. Tax expenditure hence exceeded €7 million in the financial year under review, leaving a net profit for the year after tax of €3 million. This result not only leaves room for our shareholders to participate in the success of our company, but also permits us to continue pursuing our equity-base-oriented corporate policy. Operating from this solid position, our company can continue to step up its activities in other markets, under no growth pressure and with a clear focus on sustainable, risk-commensurate earnings. In the light of these developments, we entered the year 2013 optimistically. After very successful renewals, we are expecting further growth along with risk-commensurate prices and conditions. We have further expanded our business relationships and acquired new clients, particularly in Germany. We are confident of maintaining our results and equity base in the financial year 2013. Needless to say, this will only be possible if major claims remain within the anticipated range and extraordinary effects do not impact our investment result.

On behalf of my colleagues on the Board of Executive Directors, I would like to thank the shareholders, clients and partners of Deutsche Rück for the trust they have placed in us. We look forward to continuing our long-term partnership with you. In our business relationships, we continue to set great store by continuity, client-orientation and consistency. These principles are upheld by all the employees of Deutsche Rück. Their competent and dedicated work is deeply appreciated. Working together to ensure the successful and sustainable development of Deutsche Rück, we will remain on track in 2013.

Yours sincerely,

Dr Arno Junke
Chief Executive Officer

Bodies

Supervisory Board Advisory Board Board of Executive Directors Superv
Board Advisory Board Board of Executive Directors Supervisory Board

Supervisory Board

Dr Frank Walthes, Munich (since 27 June 2012)
– Chairman –
CEO Versicherungskammer Bayern

Ulrich-Bernd Wolff von der Sahl, Stuttgart
– Deputy Chairman
(since 27 June 2012, before: Chairman) –
CEO SV SparkassenVersicherung

Friedrich Schubring-Giese, Munich
– Deputy Chairman (until 27 June 2012) –
CEO Versicherungskammer Bayern

Michael Doering, Braunschweig
CEO Öffentliche Versicherungen Braunschweig

Paulo Fernandes, Essen (until 27 June 2012)
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CEO Provinzial Rheinland Versicherungen

Hermann Kasten, Hanover (since 27 June 2012)
CEO VGH Versicherungen

Thomas Millhoff, Düsseldorf
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Representative of the employees

Dr Robert Pohlhausen, Hanover
(until 27 June 2012)
CEO VGH Versicherungen

Ulrich Rüther, Münster
CEO Provinzial NordWest Versicherungsgruppe

Katharina Staffe, Leverkusen (since 27 June 2012)
Business administration graduate
Representative of the employees

Anne Trümper, Bonn
Legal expert
Representative of the employees

Advisory Board

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– Chairman –
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CEO SV SparkassenVersicherung

Friedrich Schubring-Giese, Munich
– Deputy Chairman (until 27 June 2012) –
CEO Versicherungskammer Bayern

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CEO ÖSA – Öffentliche Versicherungen
Sachsen-Anhalt

Michael Doering, Braunschweig
CEO Öffentliche Versicherungen Braunschweig

Ulrich Jansen, Düsseldorf (until 2 November 2012)
CEO Provinzial Rheinland Versicherungen

Hermann Kasten, Hanover (since 27 June 2012)
CEO VGH Versicherungen

Heinz Ohnmacht, Karlsruhe
CEO Badischer Gemeinde-Versicherungs-Verband

Dr Robert Pohlhausen, Hanover (until 27 June 2012)
CEO VGH Versicherungen

Ulrich Rüther, Münster
CEO Provinzial NordWest Versicherungsgruppe

Friedrich Scholl, Dresden
Member of the Board of Executive Directors
Sparkassen-Versicherung Sachsen

Franz Thole, Oldenburg
CEO Öffentliche Versicherungen Oldenburg

Board of Executive Directors

Dr Arno Junke, Chief Executive Officer
Frank Schaar, Deputy Chief Executive Officer
Dr Achim Hertel
Michael Rohde

From the left: Michael Rohde, Dr Achim Hertel,
Dr Arno Junke (CEO), Frank Schaar (Deputy CEO)

Management Report

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We were able to further expand our position as a profit-oriented reinsurer in the financial year 2012. The rise of almost 10% in net earned premiums was essentially attributable to business with clients outside the group of public-law insurers. Our diversification strategy is bearing fruit both as regards the geographic distribution of our business and with regard to the structure of our portfolio. Our underwriting policy once again focused on the European markets, as well as on our domestic German market in the financial year 2012. We therefore remained unaffected by loss events in countries outside Europe. Our investments yielded sound results. This solidity is also reflected in our capital base, as confirmed by the A+ rating which was once again accorded us by the rating agency Standard & Poor's.

Economic environment

As an export nation, Germany was not unaffected by the difficult situation prevailing in other countries of the euro zone: after getting off to a good start at the beginning of the year, economic growth slowed further with each successive quarter. Despite this, however, Germany is in a better position than the euro zone as a whole, which moved into a recession around mid-year. In the fifth year of crisis on financial markets, gross domestic product nevertheless increased by 0.7%.

The German labour market remained robust in a difficult global economic environment. While unemployment dropped to its lowest level since 1991, the economy is clearly slowing down. Although unemployment decreased further at the start of the year, the trend waned appreciably in the course of the year.

Insurance market

Private households' demand for insurance products remained stable, due essentially to the favourable trend on the German labour market. German insurers once again posted higher premium income in 2012, following the first decline in the history of the Federal Republic in 2011. Gross premium income over all classes rose 2% to €181.7 billion, proving the industry's stability despite the euro crisis. This trend was primarily fuelled by property and casualty insurance, which recorded the highest growth since 1994. Health insurance also grew yet again. Life insurance companies were occupied with the introduction of unisex pricing at year-end. In 2012, Solvency II and the persistently low interest rate were – and will remain – further important factors influencing the industry's development.

In Germany, the individual lines of insurance developed as follows in the year under review:

Gross premium income written in life insurance increased 0.6% to €87.3 billion. Policies with regular premiums rose slightly, by 1.1%, to €64.6 billion, while lump-sum premiums were 0.7% lower, at roughly €22.7 billion. A shift away from unit-linked products towards classical life insurance can be observed overall. Despite the financial market crisis, policyholders are not relinquishing their provision for old age: the lapse rate remained stable at 3.5%. Life insurers paid out benefits totalling roughly €76.5 billion to their clients in 2012. While premium income in private health insurance rose 2.9% to €35.7 billion, this was offset by a rise of 2.3% in benefit expenditure.

Property and casualty insurance posted higher figures in all classes: gross premium income as a whole increased strongly by 3.7%, to €58.7 billion. With an increase of 5.4%, motor insurance reported higher premiums for the third year in succession. Property insurance also reported clear growth of 3.9%. Homeowners' insurance grew most strongly here, with a rise of 6%.

Benefits paid out in property and casualty insurance reached a record level in 2012. Although there were no outstanding natural hazard events, the insurers paid out €44.4 billion to their clients, 1.4% more than in the previous year. The combined ratio in motor insurance amounted to 103%. Expenditure increased considerably, especially in property insurance, where the combined ratio was 98%. This development was due, on the one hand, to a period of frost at the start of the year and the continuing struggle for market shares in homeowners' comprehensive insurance. At the same time, industrial property insurance sustained the highest fire/business interruption loss in Germany for several years.

Premium income in Austria, the second most important insurance market for Deutsche Rück, declined for the second consecutive year. Income dropped 0.9%, to €16.3 billion here. In life insurance, gross premium income fell to €6.5 billion, a major drop of 6.7%. Benefits were also lower, but they only dropped 5.1%, to €6.3 billion. With a rise of 3.4%, to €1.8 billion, health insurance grew at the same rate as in previous years. Gross premiums in property and casualty insurance were 3.4% higher, at €8.0 billion. Benefits paid out totalled €5.4 billion, a rise of 6.6% over the previous year.

Capital market trends

The European financial crisis dominated the stock markets in 2012, too. Although many observers were sceptical at the start of the year, the stock markets generally developed positively. Among the established markets, the German stock exchange index DAX increased most strongly, with a rise of 29%, while the Eurostoxx50 and the MSCI World index grew at a more moderate pace, rising by just under 9% and 14% respectively.

Flanked by European Central Bank (ECB) measures, the German stock market grew by one fifth, to around 7,150 points, in the first quarter. In the wake of negative corporate pronouncements and pessimistic economic forecasts, it then dropped back in early summer to its level at the start of the year. A sustainable turnaround was only achieved in the third quarter, following statements by ECB boss Mario Draghi concerning the Central Bank's guarantee to buy up European government bonds. The DAX index ended the year with 7,612 points.

The euro developed similarly, reaching its lowest value of US$1.21 in July 2012. During the course of the year, it was able to recover by 2%, to US$1.32. Bond markets in particular profited from the central banks' interest rate policy. The return on 10-year federal government bonds consequently fell considerably, from 1.72% to 1.14%. Interest rates declined throughout the world. In the US, 10-year US government bonds yielded a return of only 1.76% at the end of 2012, as compared to 1.88% in 2011. Risk loadings for corporate bonds, peripheral European countries and the emerging markets declined at the same time. This clearly shows that investors looking for a profitable return are increasingly prepared to accept these groups of issuers. Fears of inflation were fuelled by the central banks' policy of keeping interest rates low, leading to a rise in the price of gold. At US$1,675, the price of one fine ounce was 7% higher at year-end than in the previous year.

Business performance

Deutsche Rück operates in the following classes:

- life
- motor
- liability
- accident
- homeowners' comprehensive
- fire
- extended coverage
- windstorm
- business interruption
- engineering
- householders' comprehensive
- burglary and theft
- hail
- water damage
- transit
- credit
- glass
- health
- miscellaneous property insurance

Deutsche Rück was able to expand its volume of business in 2012. The extremely pleasing rise in premiums was essentially due to business with clients outside the group of public-law insurers. Due to a large number of major losses in fire and business interruption insurance, the technical account before change to the equalization reserves posted a loss which, however, is lower than that of the previous year. Investment performance in 2011 was characterized by high gains on disposal. As expected, this same level was not reached in the financial year under review. The year 2012 consequently ended with a lower net profit.

Developments in detail

In the year under review, we were able to establish new business relations and further expand our existing relations. Rising premium income is reported in almost all operating segments. Gross premiums written increased from €683.6 million to €744.3 million, a rise of €60.7 million or 8.9%. Since a large share of the business assumed was retained for own account, the net premiums written rose by 10.9% from €356.9 million to €395.7 million. Net premiums earned also increased from €359.1 million to €393.5 million, a rise of €34.4 million or 9.6%.

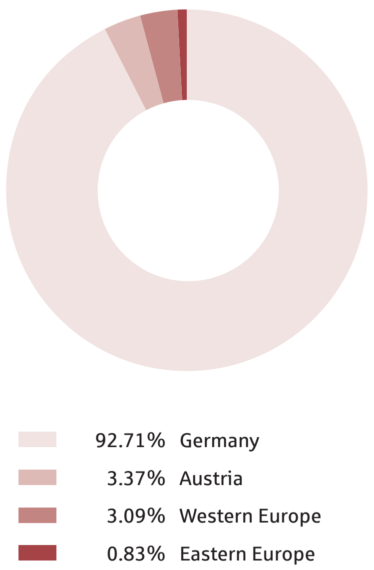
The year 2012 was characterized by a larger incidence of claims in industrial and large-scale commercial fire business. Both the number of reported single claims and the gross claims expenditure in the financial year under review were higher than in any other year to date. At the same time, there were virtually no major losses due to severe weather events. IBNR reserves were once again set up, as in the past, for the proportional liability, accident and motor insurance business written. Gross claims expenditure rose €44.0 million to €456.9 million in the year under review, the gross loss ratio increasing from 61.1% to 62.3%.

Relief was obtained from retrocession schemes covering part of the assumed claims expenditure. The formation of additional reserves for liability, accident and motor claims incurred but not reported also impacted the net result, as this business is retained. Net claims expenditure increased from €244.6 million to €260.4 million, a rise of €15.8 million. Due to the higher net premium volume, however, the net loss ratio over all classes declined from 68.1% to 66.2%.

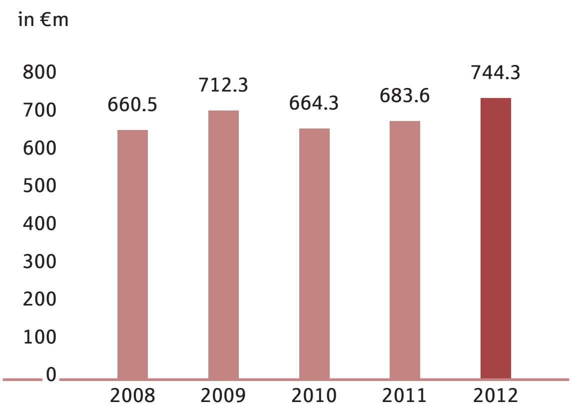
As a result of higher premium income, gross operating expenses rose by €28.5 million to €248.2 million. Expenses for own account rose by €18.8 million to €126.7 million. At 30.1%, the net expense ratio excluding life reinsurance remained at the previous year's level. The net loss ratio in non-life business dropped 3.7 percentage points to 70.1%. The combined loss ratio non-life declined from 103.8% to 100.3%.

The technical account closed with a loss of €17.0 million, which is €6.5 million less than the previous year's loss of €23.5 million. A higher claims burden led to a withdrawal from the claims equalization

Geographic distribution of gross premiums



Development of GPE 2008–2012



reserve in the fire classes, while corresponding allocations could be made due to the absence of major burdens in the natural hazard classes. On balance, €2.8 million were allocated to the equalization reserves and similar provisions. After change to the equalization reserves and similar provisions, the technical account closed with a loss of €19.8 million (previous year: loss of €16.2 million).

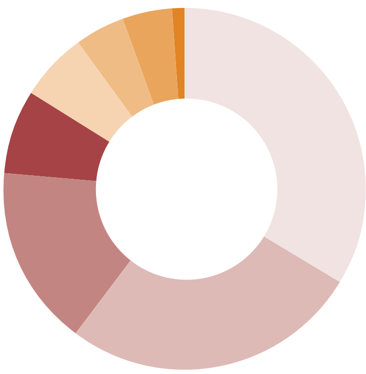
In the financial year under review, regular income from investments managed by the company itself totalled €1.1 million less than in the previous year. This is attributable to lower dividends from participating interests on the one hand, and to lower interest income from overnight and term money on the other. Considerably higher income was earned from variable-interest securities and mortgages. The scheduled reduction of a quota share treaty in the life insurance class resulted in lower deposits retained and consequently lower interest income from the deposits retained.

The high gain on disposal of our real estate holdings in the previous year had a major impact on that year's result. There was no such special effect in the financial year just ended. Our investment result before deduction of interest income on technical provisions totalled €38.0 million overall (previous year: €46.8 million). After deduction of the interest income on technical provisions and including the deficit resulting from other income and other expenses, the non-technical account closed with earnings of €29.9 million (previous year: €36.3 million).

The operating result before tax is posted as a profit of €10.2 million, as compared to €20.1 million in the previous year. After tax, a net profit of €3.0 million remains for the year (previous year: €7.5 million). Due to the steadily growing number of tax regulations pertaining exclusively to the insurance industry, the results shown in the accounts prepared for financial reporting purposes and those prepared for tax purposes diverge more and more strongly with each successive year. Tax expenditure therefore totalled €7.1 million in the financial year under review. Together with the net profit brought forward, a dividend of 12% can be paid out on the share capital paid up.

Technical business

Portfolio structure for 2012



Premium income by class of business for 2012	gross		net	
	€m	Difference to 2011 %	€m	Difference to 2011 %
Fire/BI/EC	250.6	+2.8	117.0	+2.4
Liability insurance	32.1	+13.7	32.0	+13.8
Accident insurance	8.3	–4.5	8.3	–4.5
Motor insurance	56.9	+41.8	56.3	+43.6
Homeowners' comprehensive insurance	198.1	+6.6	82.6	+9.5
Windstorm insurance	32.9	+5.7	12.8	+6.4
Life insurance	45.3	+11.6	36.1	–3.1
Other lines of insurance	120.1	+13.9	50.6	+21.0
Total	**744.3**	**+8.9**	**395.7**	**+10.9**

Fire, business interruption and extended coverage insurance
In 2012, industrial property and business interruption insurance in Germany was dominated by a higher number of claims and by higher claims amounts. Three market-wide losses exceeded the limit of €100 million. Particular mention must be made of a fire in a chemical plant in Marl which destroyed a production facility owned by Evonik Industries, a manufacturer of speciality chemicals. The business interruption loss was several times higher than the loss due to fire. The loss is expected to be as high as €360 million. It will be further augmented by interdependent and contingent business interruption losses. The most notable feature in all three cases is that relatively small property losses led to considerable loss of income due to business interruption.

In the fire, business interruption and extended coverage classes, Deutsche Rück boosted its gross premiums by €7.0 million in the financial year, from €243.6 million to €250.6 million, with the fire class accounting for almost 70% of this total. As a result of the higher volume of net earned premiums, the net loss ratio dropped 1.3 percentage points to 76.3%. A technical loss of €11.7 million was posted in total, following a loss of €14.7 million in the previous year. In total, €12.4 million were withdrawn from the equalization reserves for fire and BI claims, while €3.8 million were allocated to the equalization reserves for EC.

Fire/BI/EC	2012	2011
Gross premiums written €m	250.6	243.6
Loss ratio (net) %	76.3	77.6
Expense ratio (net) %	27.3	28.0
Technical result (net) €m	–11.7	–14.7

Homeowners' comprehensive insurance
Gross premium income in German homeowners' comprehensive insurance increased by 6% throughout the industry. Some insurers are even terminating policies in order to restructure their portfolios. The cold spell at the beginning of 2012 resulted in a considerable claims burden. The combined ratio improved from 106% to 103%. A gradual decrease in premiums is evident in this class. Profitable business is therefore unlikely.

Deutsche Rück was able to obtain considerably higher premiums in homeowners' comprehensive insurance than in the previous year. Premium volume rose €12.2 million to €198.1 million. Claims expenditure for own account increased at roughly the same rate as the net premiums. The combined ratio was 3.4 percentage points higher at 67.0 %. The net technical account closed with a loss of €0.5 million, as compared with a profit of €1.9 million in the previous year. €6.3 million were allocated to the claims equalization reserve.

Homeowners' comprehensive insurance	2012	2011
Gross premiums written €m	198.1	185.9
Loss ratio (net) %	67.0	63.6
Expense ratio (net) %	31.7	32.5
Technical result (net) €m	–0.5	1.9

Windstorm insurance

On balance, 2012 was a year with relatively low burdens for this class. On 5 January 2012, an intense low-pressure system dubbed ANDREA passed over Germany, bringing a market-wide loss of less than €200 million. NADINE was the first noteworthy major storm event of the summer. On 30 June 2012, it struck Bavaria, Berlin and Brandenburg in particular. Other severe weather events with storm gusts, hail and torrential rain caused considerably less damage overall than the severe summer storms BERT and FRANK in the previous year.

Deutsche Rück collected gross premiums of €32.9 million in windstorm insurance (previous year: €31.1 million). Claims expenditure was also considerably lower due to the absence of major loss events. The net loss ratio equalled 33.7% as compared to 58.7% in the previous year. The technical account closed with a pleasing profit of €3.7 million (previous year: profit of €0.3 million). €4.1 million were allocated to the claims equalization reserve.

Windstorm insurance	2012	2011
Gross premiums written €m	32.9	31.1
Loss ratio (net) %	33.7	58.7
Expense ratio (net) %	37.3	38.6
Technical result (net) €m	3.7	0.3

Liability insurance

The German liability insurance market reported a rise of 2.5% to €7.1 billion in gross premium income from liability insurance. The combined ratio was slightly higher at 92%. In commercial general liability insurance, rising claims expenditure and unduly low prices in the past led to a shortage in capacity for covering hospital risks. In private liability, there is a continuing trend towards high limits of indemnity with insured sums of up to €50 million. Liability business in the markets of Central and Eastern Europe has grown, although its share of the insurance market as a whole remains relatively small. The Russian liability market grew in particular, albeit due more to the introduction of long-term care insurance rather than private demand.

In the financial year under review, Deutsche Rück was able to increase premiums in liability business to €32.1 million, a rise of €3.9 million that was exclusively attributable to business outside the group of public-law insurers. The net claims burden decreased despite strengthening the claims provisions. Following a net technical loss of €2.4 million in the previous year, the liability class closed with a profit of €0.9 million. €1.7 million were allocated to the claims equalization reserve.

Liability insurance	2012	2011
Gross premiums written €m	32.1	28.2
Loss ratio (net) %	54.8	66.8
Expense ratio (net) %	42.4	42.1
Technical result (net) €m	0.9	–2.4

Accident insurance

With 1% growth industry-wide, gross premium income in accident insurance remained at the previous year's level of €6.6 billion. The number of policies in force was 1% lower at 27 million. The combined ratio rose marginally by 0.4 percentage points to 80.0% in 2012.

Most of Deutsche Rück's premium income in the accident class stems from clients outside the group of public-law insurers. The premium volume dropped €0.4 million to €8.3 million. A considerably lower net claims burden than in the previous year also led to a significantly lower net loss ratio: it declined from 102.0% in the previous year to 67.1% in the financial year under review. Costs were slightly higher. In total, the class posted a technical profit of €0.6 million as compared to the previous year's loss of €2.1 million. The sum of €0.6 million was allocated to the equalization reserves, yielding a break-even result for the accident class.

Accident insurance

	2012	2011
Gross premiums written €m	8.3	8.7
Loss ratio (net) %	67.1	102.0
Expense ratio (net) %	25.1	20.2
Technical result (net) €m	0.6	–2.1

Motor insurance

German primary insurers' gross premium income increased to €22.0 billion in 2012, a major rise of 5.4% continuing the trend in previous years. Claims expenditure dropped 0.8% to €20.3 billion. The combined ratio dropped from 107.4% to 103%. Motor insurers have been making a loss in their underwriting since 2008. For the first time, a slight positive technical result is once again expected for 2013. Motor business accounts for more than half the non-life business in the markets of Central and Eastern Europe. Although gross premium income declined in 2012, first signs indicate that the price war slightly abates. Claims expenditure also declined in the first half of 2012.

Deutsche Rück's motor business has grown most satisfactorily in recent years. A further rise of €16.8 million or 41.8% to €56.9 million was achieved in the financial year under review. Of this total, €5.9 million were earned through foreign business. This is equivalent to a rise of €2 million. All in all, motor insurance achieved the highest percentage increase in all classes. In conjunction with a distinctly higher net premium volume, the net loss ratio decreased from 113.0% in the previous year to 92.5% in the financial year under review. IBNR reserves for new business have once again been strengthened considerably. The net technical account closed with a loss of €3.9 million, which was considerably less than the previous year's loss of €11.2 million. €1.1 million were allocated to the claims equalization reserve.

Motor insurance

	2012	2011
Gross premiums written €m	56.9	40.1
Loss ratio (net) %	92.5	113.0
Expense ratio (net) %	14.9	16.3
Technical result (net) €m	–3.9	–11.2

Life insurance

Although the maximum actuarial interest rate was reduced to 1.75% as from 1 January 2012, new business flourished in life insurance. 6.3 million new life insurance policies were purchased altogether. Gross premiums written in life insurance rose to €87.3 billion, an increase of 0.6% over the previous year. Few product innovations were launched on the market in 2012, as the changeover to unisex pricing on 21 December 2012 tied up considerable capacity in the companies.

Despite the fairly troubled overall market environment, Deutsche Rück was once again able to boost its premiums by €4.7 million to €45.3 million.

A higher net claims burden and higher operating expenses due to taking over a share of the new business costs resulted in a higher net technical loss of €6.7 million as compared to a loss of €1.4 million in the previous year. At the same time, the portfolio value increased by almost 25% in the period under review.

Life insurance

	2012	2011
Gross premiums written €m	45.3	40.6
Loss ratio (net) %	26.3	18.9
Expense ratio (net) %	51.2	31.2
Technical result (net) €m	–6.7	–1.4

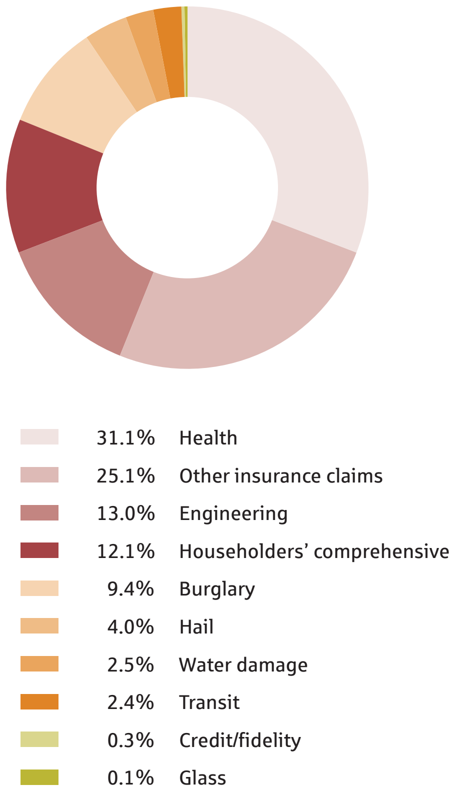
Other lines of insurance

Transit, householders' comprehensive, credit/fidelity, burglary, water damage, glass, the engineering classes of insurance, hail, health and other non-life insurance have been subsumed under the heading Other lines of insurance.

In 2012, gross premium income in the engineering classes of insurance increased by 8% throughout the market to roughly €1.8 billion. Claims expenditure was only marginally higher, with the result that the loss ratio declined from 68% to 65%. Although the market in householders' comprehensive insurance grew by 1.5%, the insured values increased more strongly. Many insurance companies are also continuously expanding their insurance cover in order to win further market shares. The claims burden rose by 4% in the same year, due among other things to the higher number of residential burglaries. The combined ratio rose to 81%.

In the year under review, gross premiums in the other lines of insurance rose by €14.7 million to €120.1 million, due above all to the increase in payment protection business for loans which was posted in the

Other lines of insurance



classes health and other insurance claims. Since a large portion of this business is retroceded, however, the net increase is distinctly smaller.

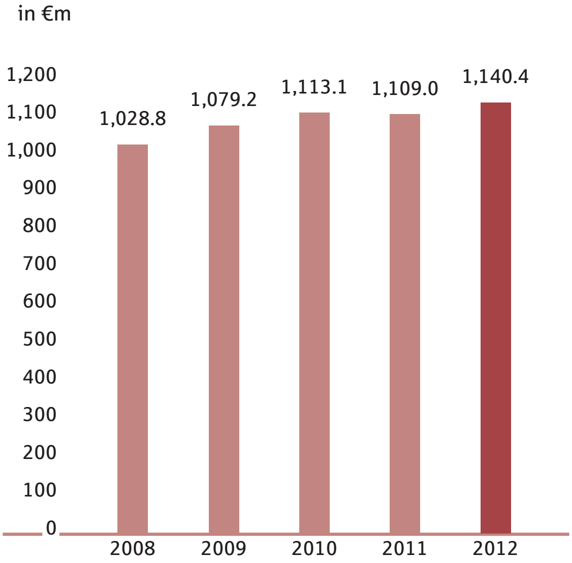
The loss ratio for own account was 5.6 percentage points higher at 54.6%, due to higher burdens in the engineering classes of insurance and other insurance claims. The net expense ratio also rose from 36.4% in the previous year to 42.1% in the financial year under review as a result of higher costs in the classes health and other insurance claims.

These additional burdens made it impossible to repeat the previous year's pleasing technical profit of €6.2 million. With a profit of €0.5 million, however, the other lines of insurance remain profitable.

Other lines of insurance

	2012	2011
Gross premiums written €m	120.1	105.4
Loss ratio (net) %	54.6	49.0
Expense ratio (net) %	42.1	36.4
Technical result (net) €m	0.5	6.2

Investment performance 2008 – 2012



Non-technical business

Net assets

Investments (excluding deposits retained) grew by €74.0 million or 8.2% to €972.9 million in the 2012 financial year. Gross additions totalling €526.3 million were offset by disposals in the amount of €454.2 million. The portfolio of bearer bonds and other fixed-interest securities increased most strongly, with net additions in the amount of €34.2 million, followed by registered bonds with net growth of €20.0 million. Deposits retained declined by €42.6 million through the scheduled reduction of a quota share treaty in the life insurance class. Overall, the investment portfolio grew by €31.4 million or 2.8% to €1,140.4 million.

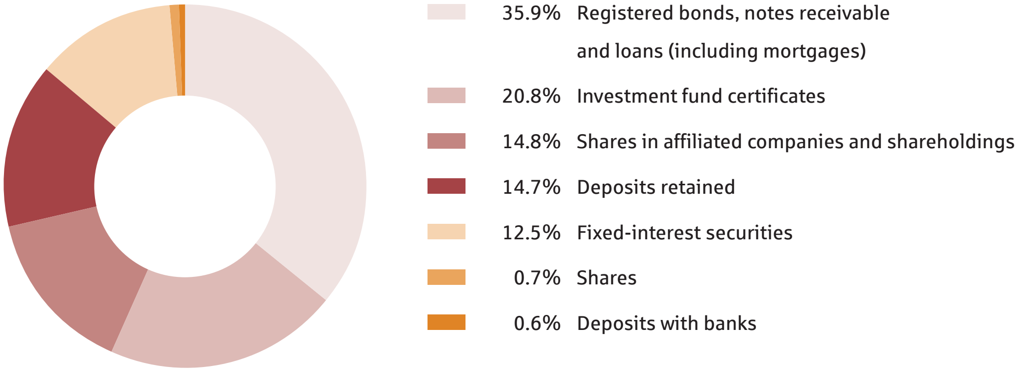
Investment income

Investment income in the financial year totalled €38.0 million, which was €8.8 million less than in the previous year. The development in detail: Regular income from investments managed by the company itself (excluding deposits retained) totalled €32.2 million in the year under review. This was €1.1 million less than in the previous year. The decline is attributable to lower income from participating interests and lower interest income from bank deposits. Income from variable-interest securities and mortgages, on the other hand, increased considerably. As expected, interest income from the deposits retained declined with the scheduled reduction of a quota share treaty in life insurance. After adjustment for these effects, however, the regular income achieved is higher than in the previous year. Due to the generally very good investment performance, most of the income from investment funds was reinvested and not paid out. The gross interest rate amounted to 3.4% in the year under review (previous year: 3.8%).

Gains in the amount of €1.1 million were realized from the disposal of investments. These were only offset by a marginal loss. Income from write-ups totalled €2.2 million and were offset by write-downs in the amount of just €42,000.

Investment income totalled €33.6 million (previous year: €40.4 million) after deduction of the interest income on technical provisions and administration costs associated with investments. The current average interest yield which takes into account not only regular income, but also regular expenses,

Investment structure as at 31 December 2012



Investment portfolio structure

	2012		2011	
	€m	%	€m	%
Registered bonds, notes receivable and loans (including mortgages)	409.2	35.9	393.4	35.5
Investment fund certificates	236.8	20.8	236.8	21.4
Shares in affiliated companies and shareholdings	168.4	14.8	153.0	13.8
Deposits retained	167.5	14.7	210.0	18.9
Fixed-interest securities	143.3	12.5	108.7	9.8
Shares	8.3	0.7	7.1	0.6
Real estate	0.0	0.0	0.0	0.0
Deposits with banks	6.9	0.6	0.0	0.0
Total	**1,140.4**	**100.0**	**1,109.0**	**100.0**

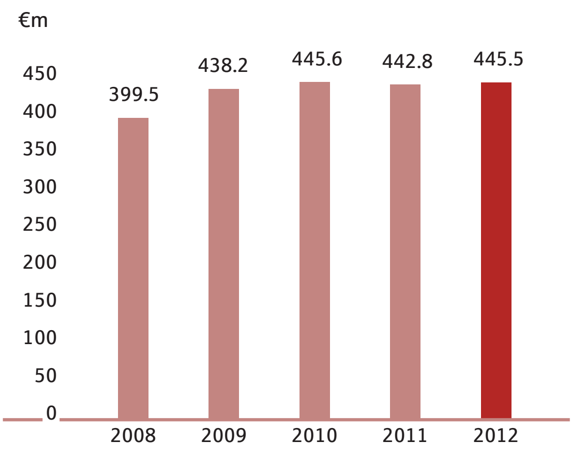
amounted to 3.3% (previous year: 3.5%). The market value added, which additionally includes changes in valuation reserves, equals 7.1% (previous year: 3.9%).

At €–3.7 million, a negative balance resulted from other income and other expenses as expected in the year under review, as it includes interest expenditure for subordinated liabilities. The previous year's balance was €–4.1 million due to higher expenditure.

Security

Due to an allocation of €2.8 million to the equalization reserves and similar provisions, the level of security rose to €445.5 million in the financial year under review. In relation to the net premiums earned, this equates to a ratio of 113.2% (previous year: 123.3%).

Development of security 2008–2012



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

Rating: A+

The A+ rating scored by Deutsche Rück and its "stable" outlook were confirmed in an interactive rating by the rating agency Standard & Poor's in 2012. Deutsche Rück's capital base is considered to be "very strong". According to the agency, our very good, stable rating is also due to our unique competitive position and our strong operating results.

Report on subsequent events

At present and with due regard for current business trends, there are no currently identifiable developments which could have a significant negative impact on the net assets, financial position and results of operations of Deutsche Rück in the long term.

Risk report

Risk management: strategic parameters
The risk strategy, which is derived from the business strategy, details the risk tolerance which is set out by the Board of Executive Directors and checked on an annual basis. Our risk strategy defines the risks which are deemed acceptable in the context of business operations. It is based on the risk-bearing resources of the company as well as fundamental strategic considerations.

Our company is taking an active part in the development of the new regulatory requirements as part of Solvency II, and is involved as a reinsurer, for instance, in the corresponding studies for its introduction, namely the Quantitative Impact Studies (QIS).

Risk management process: an integral component of business operations

Identification of risks and risk management organization
All risks within Deutsche Rück are classified in a risk map which is structured to reflect the divisions of the Board of Executive Directors and management structures. Responsibility is clearly defined for each identified risk and each risk category is assigned to a divisional Board member or to the full Board of Executive Directors.

All risks are systematically listed on an annual basis by the Chief Risk Officer in a centrally managed process. All risks which, in terms of loss amount and probability of occurrence, could have a major impact on the company's net assets, financial or earnings position are filtered out as a result of this stocktaking process. The risks are inventoried in risk workshops which include not only structured discussions, but also open and objective elements for recognizing new risks. The workshops for each identified risk or risk area are held with the officers in charge of the risk, as well as other specialists and executives where necessary.

Measurement and evaluation of risks
The core task of risk management is to analyse the overall risk situation of Deutsche Rück on a regular basis from different risk perspectives. These are:

- Solvency II (QIS 6)
- Solvency I
- Rating
- Balance sheet result (German Commercial Code)

The projection of key risk indicators and the analyses on development of the risk situation from different perspectives are regularly summarized in a risk report. In addition to key risk indicators at the overall corporate level, the major risks of Deutsche Rück in conjunction with underwriting and investment are controlled by means of additional processes. The monthly Investment Committee meetings and their reports constitute the central elements of the investment risk management process. Ad-hoc reporting is in place for exceptional developments concerning major or accumulation losses. In addition, the reported major losses are summarized each month in comparison to the same period of the preceding year.

Investment strategy
The strategic asset allocation is set out and a minimum yield defined by the Board of Executive Directors as part of an annual process involving the Investment Committee.

Risk reporting and risk transparency

Risk report
Since 2005, Deutsche Rück has reported to the Board of Executive Directors and Supervisory Board, not only with regard to the overall risk situation but also on exposures to potential individual risks. The reporting process is geared towards the three meetings held by the Supervisory Board of Deutsche Rück. In its current edition, the report ensures the transparency of the risk situation of Deutsche Rück, Deutsche Rückversicherung Schweiz AG (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 for change and the effects of risk management measures.

Risk information system
Deutsche Rück has developed a risk information system. It supports the integrated risk management process and promotes risk transparency as well as the risk culture in the company. The risk management organization and results of the risk workshops are documented in the risk information system. For each identified individual risk the person in charge, the risk-specific analysis and control methods as well as scenarios with probability of occurrence and the associated impact in gross and net terms are saved in the system. Risks pertaining to the corporate risk capital are specified 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 centrally incorporated into the system.

The risk information system is available to all employees of Deutsche Rück for research purposes.

Risk control functions as part of the risk management process

The following functions play a major part in Deutsche Rück's risk controlling process.

Supervisory Board
The task of the Supervisory Board is to monitor the Board of Executive Directors with regard to their management functions including risk management. The Supervisory Board is regularly informed of developments in the annually revised risk strategy.

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

Chief Risk Officer/risk control function
The Chief Risk Officer (CRO) exercises the risk management function for Deutsche Rückversicherung AG. He is responsible for identifying, evaluating and analysing risks on an aggregate level. In addition, he is responsible for developing processes and methods of risk management.

Investment Committee
The Investment Committee (IC) is responsible for investment controlling. Its members include the CEO, Divisional Board Member for Investment, Head of Investments, Head of Investment Controlling, Head of Strategic Asset Allocation, Chief Risk Officer (Head of Group Controlling and Integrated Risk Management) and the Chief Financial Officer (Head of Accounting). The main tasks of the IC are monitoring investment management and controlling market and liquidity risks.

Central Underwriting Management
Central Underwriting Management (ZUM) is assigned to the department of the Chief Underwriting Officer (CUO). The basic task of ZUM is to manage the underwriting of our non-life business and hence to continuously monitor and assess the portfolio as regards utilization of the risk capital, diversification and profitability. ZUM develops the rating instruments and formulates the underwriting guidelines. Its work is based on the internal risk model non-life (RATech) which measures Deutsche Rück's premium risks and catastrophe risks. The results of its risk analyses serve as the basis for the company's essential management instruments.

Underwriting Committee
The Underwriting Committee gives advice in defined cases on the procedure to be adopted for major business transactions when decisions are required for underwriting. Its constant members include: the Divisional Board Member for Market, the Divisional Board Member for Underwriting, the relevant Head of the Market unit and the Head of Central Underwriting Management. At the request of one of the aforementioned Committee members, other members of staff can be called in on a case-by-case basis to advise the Underwriting Committee.

Actuarial Reserve Services/actuarial function
Actuarial Reserve Services is assigned to the Group Controlling and Integrated Risk Management department. The unit is responsible for the economic evaluation of Deutsche Rück Group's claims provisions. It develops and defines appropriate analytical tools and undertakes the evaluation processes in consultation with ZUM. This collaboration also serves to promote a common understanding of the data and results. In future, Actuarial Reserve Services will exercise the actuarial functions as defined by Solvency II.

Compliance Officer (compliance function)
As part of the Legal department, the Compliance Office is responsible for monitoring corporate compliance with the statutory regulations governing the business operations of Deutsche Rück. Compliance with the law forms the basis of all the company's business activities. In future, the Compliance Office will exercise the actuarial functions as defined by Solvency II.

Internal Auditing
Internal Auditing carries out regular checks in the business units, verifying the structures and processes, adherence to internal regulations and legal provisions, as well as the correct nature of work flows. It performs its tasks autonomously, is process-independent and risk-oriented. Deutsche Rück has outsourced its internal auditing to external auditors whose activities are monitored by the Internal Audit Officer and his deputy.

Significant risks

Risks can basically 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** comprises the risk that costs or benefits due may be higher than was assumed when the premiums were calculated.

The **reserve risk** describes the risk which emerges when the provision for outstanding claims is not adequate, as losses incurred are not yet known or insufficient reserves were 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.

On the one hand, the **retrocession risk** comprises the risk of purchasing inefficiently structured retrocession cover, so that the company has to bear an above-average loss. In addition, it also comprises the risk of insufficient retrocession cover, with the result that the portion of claims not covered may threaten the survival of the company in the case of an extreme event, such as accumulation losses or terrorist attacks.

NatCat/accumulation risks, such as windstorms, floods, earthquakes or hail, pose the greatest risks to Deutsche Rück. Risk exposure in this area is therefore actively managed as part of the underwriting and retrocession process. As far as the company's risk situation is concerned, the risk of a 200-year storm is applied to the key risk indicators as a special risk buffer or stress test.

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 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** comprises the risk that costs or benefits due may be higher than was assumed when the premiums were calculated. Claims payment calculations may have made insufficient allowance, or no allowance at all, for such extraordinary events as accumulation losses or terrorist attacks.

The term **reserve risk** refers to risks where the reserves set up may not suffice to run-off claims.

Interest rate guarantee risks and lapse risks are merely of secondary importance to Deutsche Rück as a reinsurance company. The interest rate guarantee risk does not apply, as Deutsche Rück 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

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

Underwriting guidelines and limits

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

Retrocession

This is an essential tool for limiting risks. Our company has adequate retrocession cover, special emphasis being placed on covering major and accumulation losses. As a result of extensive analyses and a retrocession scheme tailored to our individual needs, we ensure that, on the one hand, there is always sufficient cover for extreme events and that the costs of retrocession remain economical on the other.

Monitoring technical provisions

The provisions for uncertain liabilities stemming from obligations assumed are regularly checked using recognized actuarial methods. The run-off is monitored on an ongoing basis.

Loss ratios and run-off results

The results of systematic checks 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 for Deutsche Rück's non-life

Loss ratios and run-off results of Deutsche Rück non-life

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Loss ratios as a % of earned premiums	70.1	73.8	70.6	61.9	69.4	71.8	58.0	59.9	53.1	60.1
Run-off results as a % of provision for outstanding claims	7.1	3.6	6.6	9.9	9.6	12.0	8.6	9.4	9.8	5.9

business over the last ten years. A comparison of the figures also shows Deutsche Rück's heavy claims burden due to NatCat risks in 2007.

3. Investment and credit risks

The following investment and credit risks are attributable to the investment and retrocession of insurance transactions:

Market price risks: These may arise from the potential loss due to adverse changes in market prices, especially on equity, property and interest markets. In economic terms, changes in interest rate affect not only the asset side but also the liabilities side of the balance sheet. The mismatch in maturity structures of assets and liabilities gives rise to an economic risk.

The following summary shows the market value of our investment portfolio in government bonds from countries whose development has come under financial market scrutiny.

in €m	As at 31.12.2012
Portugal	0.0
Ireland	5.1
Italy	0.0
Greece	0.0
Spain	10.8

Credit and creditworthiness risks: Changes in the assessment of issuers' or contractual partners' creditworthiness can lead to a drop in the value of existing receivables. Besides credit risks resulting from the purchase of investments, the risk of default by retrocessionaires also plays an important part.

Liquidity risks: Inflows and outflows of liquidity at the wrong times may make unscheduled disposals of investments necessary. Depending on the tradability of the various investments, this may result in opportunity costs of varying magnitude due to reductions in price or losses.

Currency risks: Changes in exchange rates can give rise to losses due to mismatches between investments and technical obligations with respect to currencies. Even with a congruent investment strategy, risks may still exist on account of incorrect assessments of the magnitude of claims provisions.

Tools for controlling and monitoring investment and credit risks

Our investment management is based on the principles of adequate profitability in conjunction with a high degree of security. Sufficient liquidity of the investments must be maintained at all times, in addition to spreading risks to the extent required. These principles are monitored by continually updated reporting with regular appraisal of the portfolios. Our portfolio managers work in accordance with investment guidelines which are regularly reviewed and brought into line with the changing environment. Moreover, the investment and payment transaction functions are handled by separate organizational units.

Stress tests and value at risk analyses for assessing market risks

Market price risks on annuity portfolios and equities are measured by means of stress tests simulating the effects of unexpected fluctuations in the market. In addition to the stress tests prescribed by the regulatory authority, Deutsche Rück analyses historical events and maps their development on its current investment portfolio. The market risks of all assets and of all liabilities which are subject to market risks are additionally assessed and managed with the aid of value at risk analyses based on an economic scenario generator.

Minimum rating for the containment of credit risks

In the case of fixed interest-bearing investments, credit assessments of the issuer/issue are based, for example, on the ratings of recognized rating agencies. The minimum limit of a rating for reinvestments in a direct investment is in all cases "A–". If an official rating is not available, hedging an issue through special funds, such as in the case of mortgage bonds, can serve as alternative criteria for assessing fixed interest-bearing investments.

Issuer risks are also widely spread and upper limits observed for each issuer at the same time. These limits are continually monitored and adjusted taking into account the capital base in each case.

Choice of reinsurer (retrocessionaire)

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

Liquidity planning

Risks due to unforeseen liquidity requirements are countered with a well-balanced maturity structure of the investments. Expected inflows and outflows of liquidity are reflected in the ongoing investment planning.

Investment policy

Falling interest rates lead to increases in the market value of fixed-interest securities, while rising rates lead to a loss of market value. Deutsche Rück is always exposed to this risk on account of the large proportion of fixed-interest securities in the portfolio. Controlling investments in line with their maturities allows us to hold the securities until maturity, thus avoiding losses on the balance sheet. Foreign currency items on the liabilities side are matched on the assets side of the balance sheet.

4. Operational risks

Operational risks are risks occurring in business systems or processes as a result of human error, technical failures or external factors. Compliance risks are risks arising from non-compliance with contractual agreements or basic legal requirements. Deutsche Rück distinguishes between the following operational risks:

- Risks associated with operational workflows and IT security
- Risks associated with human resources and occupational safety
- Compliance risks
- Risks associated with processes and models

Instruments for controlling operational risks

These risks are managed and controlled through an internal control system and a reporting procedure for operational risks which form part of the overall risk report. The Internal Auditing unit supplements the internal risk analyses of the organization and processes with independent investigations.

IT security concepts and emergency plans
Security in data processing is ensured by an extensive security concept. The availability and integrity of all systems and programs are assured by modern hardware and software. Regular checks of network security, continual further development of the security concept and emergency plans ensure constant availability and data security of the systems used. Organized communication in an emergency is assured by a crisis communications concept.

Cartel law-compliance guideline
Deutsche Rück has issued a cartel law-compliance guideline which defines the conduct of employees with respect to cartel law issues and stipulates the procedure to be followed in unclear or difficult cases. All relevant members of staff are trained accordingly.

Powers of attorney
The powers of attorney of all employees have been set out and communicated individually by the head of department or section together with the relevant divisional Board member. Compliance with the respective powers of attorney is monitored by the Business Organization department.

Various rules of procedure serve to control and limit operational risks in underwriting and investment. They stipulate not only the employees' individual powers of attorney, but also the tools used and their limitations.

5. Other risks

Strategic risks
Strategic risks may arise as a result of inadequate business policy decisions and jeopardize the continuation of business operations in the long term. Fundamental business policy decisions are reached in consultation with the Supervisory Board as required by the Articles of Association. Major strategic issues are regularly discussed with the second-tier executives.

Reputation risk
This term refers to the risk of an impairment of the company's image in the eyes of clients, the general public, shareholders or other parties involved, such as regulatory bodies or rating agencies.

Instruments for controlling other risks

To control the reputation risk, all contacts with the media are centrally managed through the Communications and Press Relations department, which acts in close consultation with the CEO. Principles for communication in standard situations and crises were implemented in 2012 in order to optimize the communication processes and prepare communication in the event of a crisis. In addition, media reports are monitored on a daily basis so that reports capable of damaging the company's reputation can be identified and countermeasures initiated.

Summary of the risk situation

The paragraphs above describe a closely meshed system of controls which Deutsche Rück has developed to manage its risks. Potentially, these can 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 Deutsche Rück's risks. Based on current findings, we cannot detect any risks capable of jeopardizing Deutsche Rück's survival or causing a major or lasting impairment of its net assets, financial position and results of operations.

HR report

Furtherance of executive development
Deutsche Rück continued its efforts with regard to executive development for new and experienced executives in 2012. Activities included the introduction of an instrument for peer counselling, seminars on management topics and legal principles, as well as a coaching pool. We also prepared a seminar on modern tools for everyday management. We are confident that this will help us to meet the rising demands imposed on executives and will continue to adapt our personnel development instruments in line with the constantly changing management environment.

Findings backed by action
The results of our staff survey in 2011 show that 86% of our employees are satisfied with their jobs, a value well above the average of 70% for other financial service providers. In 2012, we continued our efforts to improve on this good value, as the survey had also revealed areas with potential for optimization, such as our corporate mission and corporate culture, development opportunities and collaboration between departments.

These findings were jointly evaluated by the HR department and executives, who also developed and promptly implemented individual measures for the various areas. Among other things, these included departmental workshops, additional regular information meetings and personal development plans for the employees.

In the year under review, the Board of Executive Directors specifically promoted collaboration between the divisions. In addition to a workshop for the market departments and central actuarial services on “responsibilities, competences and processes”, the life and non-life segments now regularly meet to discuss approaches for cross-selling and client specificities.

Setting new goals
Motivated and profit-oriented employees who think in entrepreneurial terms are essential so that future challenges can be mastered. Target agreements and variable remuneration are important tools for our corporate management.

These tools now apply not only to our Executive Committee, but also to our senior specialist staff. In this way, we can strengthen our employees’ ties with the company and make Deutsche Rück more attractive to new employees.

HR marketing, applicant management and talent pool
HR marketing is an increasingly important matter in view of the shortage of skilled staff and demographic change. In the year under review, we not only updated our image at exhibitions and trade fairs, but also successfully attended new university staff-recruitment fairs. Our new image film introduces the company to interested graduates and provides a deeper insight into the world of reinsurance.

The management of our job applicants has also been brought technically up to date and the process improved with the aid of new software. Job applicants can now launch their applications quickly and easily. Direct access to their profile allows them to change this at any time and apply for various positions. Applicants who cannot be offered an adequate job at the moment may be included in a pool for future reference. In this way, our recruitment staff can specifically check the suitability of these applicants as job requirements change. Internally too, the new software has helped to speed up processes and make them leaner and more user-friendly.

Key HR figures

In the year under review, Deutsche Rück employed 110 men and women on average.

At 2.5%, times of absence were considerably lower than in the previous year (3.4%) and well below the industry average.

The fluctuation rate rose from 2.93% in the previous year to 4.66%. Vacancies were filled within three months on average, more than 50% being filled internally by members of our staff and graduates from among the students working for us as temporary employees. This also confirms that our employees are highly qualified and that our company offers alternative routes for development. With the aid of suitable personnel development measures and instruments boosting staff loyalty, we will continue our efforts to keep the fluctuation rate low.

Thanks to our staff

The Board of Executive Directors thanks all employees for their commitment in the past year: they fully identified with the company's objectives at all times and displayed great motivation in helping to implement them. Our thanks are also due to the employees' representatives for their collaboration in a spirit of trust and confidence.

Outlook for 2013

The negotiations on renewals for the 2013 financial year proved highly successful. We have continuously pursued our goal of a profit-oriented underwriting policy. Business outside the group of public-law insurers has expanded further, mainly in Germany, but also in Central and Eastern Europe. Attention continues to focus on liability, accident and motor insurance business as a means of diversifying our large property insurance portfolio. On the basis of our prognosis, we expect a significantly larger volume of premiums in motor and liability insurance.

The expected rise in premiums in liability, accident and motor insurance business, which is mostly written for own account, will also lead to higher growth in net premiums. Further expansion of our payment protection business for loans will also contribute considerably to the rise in gross premium volume. Since a large portion of this business is retroceded, however, the net premium increase is distinctly smaller here.

Renewals in fire/BI/EC are showing first signs of a hardening in the market. However, the fact that premiums in industrial property insurance in Germany will still not suffice to cover the claims burden in future remains worrisome. The consequences of years of declining premiums are now becoming evident. There are virtually no signs of higher premiums in the classes homeowners' comprehensive insurance and windstorm with their exposure to natural hazards.

Premiums in life reinsurance are currently expected to decline, due to the scheduled reduction of a major quota share treaty. A definitive appraisal of the developments is difficult, however, as treaty negotiations are also conducted during the year.

At the time of writing this report, our company has not suffered any major losses due to natural hazards. Depending on the magnitude of a storm or other natural catastrophe, however, such events can have a major impact on the technical result, even in the present financial year, as our business focuses on underwriting the exposure to natural hazards. Through our retrocession scheme which is designed for such catastrophes and the formation of adequate provisions for such losses, we are better able to assess the result for own account.

Our level of security has been steadily reinforced in recent years and our capital base is well above that required by solvency regulations and rating agencies. We are confident that our company's solid foundations can be strengthened still further in the present financial year so that they continue to meet equity requirements in the future, too.

However, these assumptions remain highly tentative in view of continuing uncertainty over the future development of the global economy.

Association membership

Deutsche Rück is a member of the Association of German Insurers (GDV – Gesamtverband der Deutschen Versicherungswirtschaft e. V.), Berlin, and of the Association of Public-law Insurers (Verband öffentlicher Versicherer), Berlin and Düsseldorf.

Annual Financial Statements

Balance Sheet as at 31 December 2012

Assets

in €	2012		2011	
A. Intangible assets				
Concessions, industrial property rights and similar rights, as well as licences to such rights which have been acquired in return for a fee		683,493		608,105
B. Investments				
I. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	86,013,246		84,164,218	
2. Participating interests	82,354,308		68,811,494	
	168,367,554		**152,975,712**	
II. Other investments				
1. Shares, investment fund certificates and other non-fixed-interest securities	245,103,724		243,894,202	
2. Bearer bonds and other fixed-interest securities	143,282,340		108,692,582	
3. Receivables from mortgages, land charge and annuity land charge claims	28,890,139		12,887,805	
4. Other loans				
a) Registered bonds	128,000,000		108,000,000	
b) Loans and promissory notes	249,483,444		269,539,680	
c) Other loans	2,929,180		2,929,180	
	380,412,624		380,468,860	
5. Deposits with banks	6,850,000		0	
	804,538,827		**745,943,449**	
III. Deposits retained on assumed reinsurance	**167,491,307**	**1,140,397,688**	**210,042,076**	**1,108,961,237**
C. Receivables				
I. Accounts receivable on reinsurance business	**47,535,343**		**45,140,013**	
thereof to: participating interests €3,661,545 (2011: €1,375,628)				
II. Other receivables	**6,398,448**	**53,933,791**	**3,063,830**	**48,203,843**
thereof to: affiliated companies €12,998 (2011: €12,353)				
companies in which a participating interest is held €0 (2011: €0)				
D. Other assets				
I. Tangible assets and inventories	**699,704**		**729,754**	
II. Cash at banks, cheques and cash in hand	**1,070,110**		**58,186,935**	
III. Miscellaneous assets	**21,065,814**	**22,835,628**	**13,455,986**	**72,372,675**
E. Deferred items				
I. Accrued interest and rent	**9,300,101**		**9,769,150**	
II. Other deferred items	**162,600**	**9,462,701**	**313,902**	**10,083,052**
Total assets		**1,227,313,301**		**1,240,228,912**

Equity and liabilities

in €	2012		2011	
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	127,823		127,823	
2. Other retained earnings	110,129,780		105,629,780	
	110,257,603		**105,757,603**	
IV. Balance sheet profit/loss	**3,134,147**	**162,209,363**	**7,612,606**	**162,187,822**
B. Subordinated liabilities		**50,000,000**		**50,000,000**
C. Technical provisions				
I. Unearned premiums				
1. Gross amount	86,196,437		74,902,456	
2. less: share for retroceded business	53,476,084		44,431,040	
	32,720,353		**30,471,416**	
II. Provision for future policy benefits				
1. Gross amount	160,466,207		204,764,456	
2. less: share for retroceded business	2,354,659		658,603	
	158,111,548		**204,105,853**	
III. Provision for outstanding claims				
1. Gross amount	680,269,596		615,896,355	
2. less: share for retroceded business	193,532,001		163,316,862	
	486,737,595		**452,579,493**	
IV. Provision for premium refunds				
1. Gross amount	2,500,547		2,096,464	
2. less: share for retroceded business	1,027,022		725,537	
	1,473,525		**1,370,927**	
V. Equalization reserves and similar provisions	**236,335,705**		**233,573,133**	
VI. Other technical provisions				
1. Gross amount	4,750,094		3,580,432	
2. less: share for retroceded business	1,954,199		838,454	
	2,795,895	**918,174,621**	**2,741,978**	**924,842,800**
D. Other accrued liabilities				
I. Provision for employees' pensions and similar commitments	**14,197,813**		**13,421,561**	
II. Tax provisions	**1,338,411**		**12,589,695**	
III. Other provisions	**2,574,517**	**18,110,741**	**2,892,831**	**28,904,087**
E. Deposits retained to retroceded business		**2,531,019**		**733,020**
F. Other liabilities				
I. Accounts payable on reinsurance business	**74,412,636**		**72,531,453**	
Thereof accounts due to companies in which a participating interest is held: €18,671,972 (2011: €29,518,681)				
II. Other liabilities	**1,798,678**	**76,211,314**	**957,651**	**73,489,104**
Thereof accounts due to companies in which a participating interest is held: €16,954 (2011: €57,951) Thereof from taxes: €923,162 (2011: €31,788)				
G. Deferred items		**76,243**		**72,079**
Total equity and liabilities		**1,227,313,301**		**1,240,228,912**

Income statement
for the period from 1 January 2012 to 31 December 2012

Items				
in €	2012		2011	
I. Technical account				
1. Premiums earned for own account				
a) Gross premiums written	744,318,276		683,622,861	
b) Retroceded premiums	348,602,529		326,771,388	
	395,715,747		**356,851,473**	
c) Change in gross unearned premiums	–11,294,009		–8,341,773	
d) Change in retroceded share of unearned premiums	–9,045,044		–10,608,484	
	–2,248,965	**393,466,782**	**2,266,711**	**359,118,184**
2. Interest on technical provisions for own account		**4,378,612**		**6,435,683**
3. Other underwriting income for own account		**792,050**		**66,542**
4. Claims incurred for own account				
a) Payments for insured events				
aa) Gross amount	392,520,409		338,969,219	
bb) Retroceded amount	166,220,504		146,597,628	
	226,299,905		**192,371,591**	
b) Change in provision for outstanding claims				
aa) Gross amount	64,354,378		73,913,214	
bb) Retroceded amount	30,215,139		21,679,561	
	34,139,239	**260,439,144**	**52,233,653**	**244,605,244**
5. Change in other technical provisions for own account				
a) Net provisions for future policy benefits	46,001,080		28,696,291	
b) Other net technical provisions	–72,543	**45,928,537**	–1,071,213	**27,625,078**
6. Expenses for premium refunds for own account		**356,205**		**721,454**
7. Operating expenses for own account				
a) Gross operating expenses	248,195,837		219,677,411	
b) less: commissions and profit commissions received on retroceded business	121,473,897	**126,721,940**	111,766,199	**107,911,212**
8. Other underwriting expenses for own account		**74,059,075**		**63,533,628**
9. Subtotal		**–17,010,383**		**–23,526,051**
10. Change in equalization reserves and similar provisions		**–2,762,572**		**7,352,000**
11. Underwriting result for own account		**–19,772,955**		**–16,174,051**

Items				
in €	2012		2011	
Amount brought forward (Technical result for own account)		**–19,772,955**		**–16,174,051**
II. Non-technical account				
1. Investment income				
a) Dividends from participating interests thereof from affiliated companies: €3,746,878 (2011: €4,162,213)	6,155,332		7,045,026	
b) Income from other investments thereof from affiliated companies: €0 (2011: €0)				
aa) Rents from land, land rights and buildings, including buildings on third-party land	1,164		392,601	
bb) Income from other investments	30,140,179		31,939,083	
	30,141,343		32,331,684	
c) Income from write-ups	2,288,643		1,634,319	
d) Realised gains on the disposal of investments	1,098,406	**39,683,724**	8,212,090	**49,223,119**
2. Investment expenses				
a) Management expenses, interest charges and other expenses on investments	1,612,645		1,887,116	
b) Write-downs on investments	42,073		46,880	
c) Realised losses on the disposal of investments	6,218	**1,660,936**	497,187	**2,431,183**
3. Interest income on technical provisions		**4,392,255**		**6,435,682**
		33,630,533		**40,356,254**
4. Other income	994,206		1,278,028	
5. Other expenses	4,695,806	**–3,701,600**	5,353,430	**–4,075,402**
6. Operating result before tax		**10,155,978**		**20,106,801**
7. Taxes on income	7,131,945		12,555,692	
8. Other taxes	2,492	**7,134,437**	43,297	**12,598,989**
9. Profit/loss for the year		**3,021,541**		**7,507,812**
10. Profit carried forward from previous year		**112,606**		**104,794**
11. Balance sheet profit/loss		**3,134,147**		**7,612,606**

Notes

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Accounting principles

The annual financial statements and management report have been prepared in accordance with the German Commercial Code (HGB), the German Accounting Regulations for Insurance Companies (RechVersV), the German Insurance Supervisory Act (VAG) and the German Stock Companies Act (AktG).

Intangible assets
Intangible assets are recognized at acquisition cost and depreciated on a straight-line basis in accordance with their expected useful life.

Investments
Shares in affiliated companies and participating interests are carried at acquisition cost plus incidental acquisition expenses or the lower value on the balance sheet date. To this end, the current financial circumstances of the shareholdings were analysed and the planning for coming financial years included in the measurement where available. Write-downs are made in the case of impairments.

The units in investment funds, a large portion of the shares and roughly half the fixed-interest securities are held as fixed assets. They are recognized at acquisition cost and measured in accordance with the provisions governing assets as required by Section 341 b (2) of the German Commercial Code (HGB). Write-downs are made in the case of impairments, with due regard for the requirement to reverse write-downs where the reasons for them no longer exist. The remaining shares and other variable-income securities, as well as bearer bonds and other fixed-interest securities are measured at acquisition cost less depreciation and amortization in accordance with the strict lowest value principle, taking into account the requirement to reverse write-downs where the reasons for them no longer exist.

Receivables from mortgages and land charge claims exclusively comprise loans which are secured through land charges and which are recognized in the balance sheet at face value less any repayments made.

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

Notes receivable and loans as well as other loans are recognized in the balance sheet at acquisition cost using the effective interest rate method, in accordance with Section 341c (3) of the German Commercial Code (HGB). Cumulative amortization of the difference between acquisition cost and redemption amount is added to or deducted from the acquisition cost.

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

Receivables
Accounts receivable on reinsurance business, other receivables and cash at banks, cheques and cash in hand are carried at their nominal value less appropriate value adjustments.

The corporation tax credit pursuant to the Act on Fiscal Measures Accompanying the Introduction of the Societas Europaea and on Amending Further Tax Provisions (SEStEG) is discounted at a rate of 4.0%.

Other assets
Property, plant and equipment are measured at cost and amortized in accordance with their nominal useful life.

Minor-value assets with a value of between €150 and €1,000 which were purchased in the financial years 2008 and 2009 and for which a compound item had been formed are depreciated over five years. Minor-value assets with a value of between €150 and €410 which were purchased since the 2010 financial year are written off in full in the year of acquisition. Write-downs are made in the case of lasting impairment. The item included in the heading Other assets is part of a valuation unit.

Together with the underlying transactions, hedging transactions by Deutsche Rückversicherung AG form a valuation unit in accordance with Section 254 of the German Commercial Code (HGB). The purpose of the hedging relationship, the tools employed, the underlying transactions and the type of risk to be hedged, as well as the validity of the relationship are documented when it commences.

The currency risk arising from our participation in the subsidiary Deutsche Rückversicherung Schweiz AG, Zurich, as an underlying transaction with a carrying amount of €80.7 million corresponding to a total paid-up equity of CHF127.5 million, is durably hedged through regular currency forwards (hedging transactions) in the amount of CHF127.5 million in each case, as part of a fair-value micro-hedge. The efficacy of the hedging relationship for the currency risk results from the congruence between essential conditions of the underlying and hedging transactions (critical term match). In this way, changes in the value of the foreign currency for the underlying transaction are compensated 100% by changes in the value of the foreign currency for the hedging transaction in the financial year and at the balance sheet date. Opposing trends in the value of the foreign currency for underlying and hedging transactions will also be fully compensated in the future, too.

The currency risk arising from our participation in U.S. Property Fund V GmbH & Co. KG, Munich, as an underlying transaction with a total paid-up equity of US$1,569,309 is durably hedged through regular currency forwards (hedging transactions) in the amount of currently US$785,000 as part of a fair-value micro-hedge and reported in the annual financial statements using the “net method”.

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, an excess of deferred tax assets results on balance, due above all to measurement of the claims provisions, re-invested income from investment funds and pension provisions. An average tax rate of 31.225% was applied for calculating deferred taxes in the year under review. Deutsche Rück has exercised its right pursuant to Section 274 (1), second sentence, of the German Commercial Code (HGB) and opted to waive recognition of deferred tax assets in the balance sheet.

Technical provisions
The technical provisions (unearned premiums, provisions for outstanding claims, provisions for future policy benefits and other provisions) were generally set up in accordance with the instructions of the cedants. Where instructions were not given, the provisions were estimated on the basis of the contractual terms and the business to date. Appropriate increases were made in the case of several claims provisions by our cedants which our experience has shown to be too low. Due provision was also made for claims burdens expected in the future.

The retrocessionaires’ shares were determined in accordance with the contractual agreements. The equalization reserves and similar provisions are set up in accordance with Section 341h of the German Commercial Code (HGB), taking into account the permissible maximum amounts in accordance with Section 29 et seq. of the German Accounting Regulations for Insurance Companies (RechVersV).
A provision for accumulation losses is set up for natural hazards.

Pension provisions
The provisions for employer and employee-financed pensions and similar obligations are set up in accordance with actuarial principles using the projected unit credit method. Annual salary increases are taken into account at 2.75% per annum and pension rises at 1.90% per annum. The biometric accounting principles were taken from the Heubeck mortality tables 2005G by Dr Klaus Heubeck. Provisions were discounted at the average market interest rate of 5.0% resulting from an assumed remaining term of 15 years as at the balance sheet date, as permitted by exercising the option pursuant to Section 253 (2), second sentence, of the German Commercial Code (HGB).

The employee-financed pension obligations resulting from the waived salary are based on individual commitments. Capital-based pension obligations concern a security-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 was set off against pension obligations. As at 31 December 2012, the pension provisions total €163k before setting off against the entitlement from reinsurance in the same amount.

Other provisions
The provisions for semi-retirement obligations and the provision for anniversary expenses were calculated according to actuarial principles with an interest rate of 5.0% and an assumed annual salary increase of 2.75%. The calculations are based on the Heubeck mortality tables 2005G by Dr Klaus Heubeck.

Other provisions are recognized on the basis of anticipated requirements (including future increases in costs and prices) according to reasonable commercial judgement. Provisions with a remaining term of more than one year are discounted at the average market interest rate of the past seven financial years corresponding to their remaining term on the balance sheet date.

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

Liabilities
Deposits retained on retroceded business and accounts payable on reinsurance business are recognized at the amounts shown in the reinsurers' statements of account. The other liabilities are shown at their redemption amounts. An existing pension obligation is recognized at the present value. Deferred items are measured at face value.

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

Notes to the balance sheet

Development of asset items A., B. I. to II. in the 2012 financial year

€ '000

Asset items
A. Intangible assets
1. Concessions, industrial property rights and similar rights, as well as licences to such rights which have been acquired in return for a fee
Sum A.
B. Investments
I. Investments in affiliated companies and participating interests
1. Shares in affiliated companies
2. Participating interests
Sum B. I.
II. Other investments
1. Shares, investment fund certificates and other variable-income securities
2. Bearer bonds and other fixed-interest securities
3. Mortgages, land charges and annuity land charges
4. Other loans
a) Registered bonds
b) Notes receivable and loans
c) Other loans
5. Deposits with banks
Sum B. II.
Total

The intangible assets concern software purchased in return for a fee.

The fair value of investments (excluding deposits retained) amounted to €1,075.8 million in total at the end of the 2012 financial year, corresponding to a total carrying amount of €972.9 million. Different valuation methods were applied when determining the fair value, depending on the type of investment concerned.

Shares in affiliated companies and participating interests were calculated using the capitalized earnings method or net asset value and in individual instances also at acquisition cost. For the assessment, the corporate valuation standard IDW S1 was applied in conjunction with IDW RS HFA 10. The property valuation directive was additionally applied in the calculation of the discounted earnings for the fair value of Hansapark Verwaltungs GmbH & Co. KG and Hansapark 2 GmbH & Co. KG.

	Carrying amounts (2011)	Additions	Disposals	Write-ups	Write-downs	Carrying amount for financial year
	608	375	0	0	300	683
	608	375	0	0	300	683
	84,164	0	0	1,849	0	86,013
	68,812	14,738	1,195	0	0	82,355
	152,976	14,738	1,195	1,849	0	168,368
	243,894	1,490	238	0	42	245,104
	108,692	431,662	397,512	440	0	143,282
	12,888	29,098	13,096	0	0	28,890
	108,000	27,000	7,000	0	0	128,000
	269,540	15,088	35,144	0	0	249,484
	2,929	0	0	0	0	2,929
	0	6,850	0	0	0	6,850
	745,943	511,188	452,990	440	42	804,539
	899,527	**526,301**	**454,185**	**2,289**	**342**	**973,590**

Receivables from mortgages are shown at the carrying amounts. The fair values of other loans are measured using yield curves plus an individual risk loading.

Other investments (shares and investment fund units as well as fixed-interest securities) have been recognized according to Section 56 of the German Accounting Regulations for Insurance Companies (RechVersV). Stock market prices or redemption rates on the balance sheet date have been taken as the fair value here.

Fair values of investments as at 31.12.2012

in €	Carrying amounts	Fair values	Valuation reserves
I. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	86,013,246	95,563,319	9,550,073
2. Participating interests	82,354,308	85,936,264	3,581,956
	168,367,554	181,499,583	13,132,029
II. Other investments			
1. Shares, investment fund certificates and other variable-income securities	245,103,724	300,755,522	55,651,798
2. Bearer bonds and other fixed-interest securities	143,282,340	150,066,165	6,783,825
3. Receivables from mortgages	28,890,139	29,092,203	202,064
4. Other loans			
a) Registered bonds	128,000,000	138,255,637	10,255,637
b) Loans and promissory notes	249,483,444	266,300,302	16,816,858
c) Remaining loans	2,929,180	2,938,806	9,626
5. Deposits with banks	6,850,000	6,850,000	0
	804,538,827	894,258,635	89,719,808
Total	**972,906,381**	**1,075,758,218**	**102,851,837**

Participating interests

A write-up in the amount of €1,849k was made on the acquisition cost of Deutsche Rück UK.

Shares in affiliated companies and participating interests (disclosures in accordance with Section 285 No. 11 of the German Commercial Code (HGB))

Name and head office of the company	Share in equity	Total equity	Result
	%	€ '000	€ '000
Affiliated companies			
Deutsche Rückversicherung Schweiz AG, Zurich (included in the consolidated financial statements)	75.00	146,333.9	6,206.8
Deutsche Rückversicherung UK Reinsurance Company Ltd., London	100.00	12,603.3	83.0
Participating interests			
Hansapark Verwaltungs GmbH, Düsseldorf	50.00	85.5	7.7
Hansapark Verwaltungs GmbH & Co. KG, Düsseldorf	50.00	9,510.8	2,153.8
Hansapark 2 GmbH & Co. KG, Düsseldorf	50.00	21,896.6	1,845.4
Immobiliengesellschaft Burstah Hamburg GmbH & Co. KG, Düsseldorf	50.00	12,391.4	–16.5
OEV Equity Trust GmbH, Düsseldorf	50.00	170.1	20.3
ecosenergy Zweite Betriebsgesellschaft mbH & Co. KG, Greven	44.44	–	–
Kurfürstendamm 188–189 Immobilienbeteiligung GmbH, Frankfurt am Main	40.00	5,879.6	–1,645.4
Objekt Warstein Max-Planck-Straße GmbH, Frankfurt am Main	40.00	–	–
USPF IV Beteiligungsgesellschaft mbH & Co. KG, Düsseldorf	33.33	20,108.6	–275.8
Reha Assist Deutschland GmbH, Meschede	26.00	244.9	–73.5
RFR Bienenkorbhaus Beteiligung GmbH, Frankfurt am Main	24.00	–	–
ASPF II Beteiligungs GmbH & Co. KG, München	20.00	7,235.8	277.6

Residual commitments in the amount of €8,156.8k exist in conjunction with the participating interests

Undisclosed burdens in the amount of €1,777k apply in the case of the participating interests. Impairment losses in accordance with Section 253 (3), 4th sentence, of the German Commercial Code (HGB) did not occur, as the impairments are expected to be temporary.

Shares, investment fund units and other variable-income securities

Shares in the amount of €7,466k and investment fund units totalling €236,793k are allocated to fixed assets, in accordance with Section 341b (2) of the German Commercial Code (HGB).

Impairment losses on the shares held as long-term assets amounted to no more than €42k in the financial year. There were no undisclosed burdens as at 31 December 2012.

As at 31 December 2012, the company holds shares of more than 10% in a German investment fund in accordance with Section 314 sentence 1 No. 18 of the German Commercial Code (HGB).

in €	Stock market value	Carrying amount	Hidden reserve	Dividend received in 2012
Mixed fund	284,167,901	234,477,428	49,690,473	2,913,486

Bearer bonds and other fixed-interest securities
Of the bearer bonds, €74,326k are held as long-term assets.

Write-ups totalling €440k were required in the financial year.

There were no undisclosed burdens on the balance sheet date.

Other loans
Face-value recognition of registered bonds was continued.

The effective interest rate method was applied to borrower's note loans, in accordance with Section 341c (3) of the German Commercial Code (HGB).

Other loans in the amount of €19,798k are recognized at their fair value of €19,209k on the balance sheet date. Undisclosed burdens total €589k.

Since it is planned to hold these securities to final maturity and on the basis of market assessments for these securities, Deutsche Rück presumes that this impairment will merely be of a temporary nature. A write-down due to lasting impairment has not been made in this context.

Deferred items
Outstanding redemption premiums from registered bonds were written back in the amount of €4,295 in the financial year. There were consequently no further redemption premiums from the investment portfolio as at 31 December 2012.

Shareholders' equity
I. Issued capital
The issued capital totals €25,000,000.00 as at 31 December 2012 and is divided into 488,958 no-par-value shares.

II. Capital reserve
The capital reserve remains the same as in the previous year, at €23,818k.

III. Retained earnings
In accordance with the resolution of the Supervisory Board, €4,500k from the 2011 balance sheet profit were allocated to the other retained earnings. As at 31 December 2012, these totalled €110,257.6k and include the legal reserve totalling DM 250,000.00 (€127,822.97).

IV. Balance sheet profit
A profit of €113k carried forward from the previous year remains after disbursement of the dividend for 2011 in the amount of €3,000k.

Subordinated liabilities
Registered bonds subordinated in priority and without final maturity were issued in the amount of €50,000 as at 1 November 2006.

Other provisions		
€ '000	2012	2011
a) Provisions to cover expenses associated with preparation of the annual financial statements	452	471
b) Provisions associated with human resources	2,000	1,813
c) Provision for incidental tax expenses	0	478
d) Provisions for other administration costs	123	131
Total	**2,575**	**2,893**

Pension provisions

Pension provisions totalled €14.2 million at 31 December 2012 and were consequently €4.7 million higher than permitted by tax laws.

Other liabilities

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

Deferred items

Discounts on registered bonds totalled €76k (previous year: €70k) as at the balance sheet date.

Contingent liabilities and commitments

As a member of the pharmaceutical reinsurance community 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 in the German Nuclear Reactor Insurance Pool (DKVG). Due to our membership in the German Association of Public-law Insurers, we are liable for the Association's liabilities up to €180k.

Other financial commitments

There were no commitments from the investment portfolio as at the balance sheet date.

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

Notes to the income statement

Gross premiums written

€ '000	2012	2011
Property and casualty business	699,030	643,032
Life insurance business	45,288	40,591
Total	**744,318**	**683,623**

Technical interest income on own account

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

Claims expenditure for own account

The run-off of the provision for outstanding claims assumed from the previous year generated a gross profit of 6.0% of gross earned premiums and a net profit of 7.8% of net earned premiums.

Commissions and other remuneration for insurance agents, personnel expenses

€ '000	2012	2011
1. Commissions of every kind for insurance agents as defined by Section 92 HGB for primary insurance business	–	–
2. Other remuneration for insurance agents in accordance with Section 92 HGB	–	–
3. Wages and salaries	9,018	8,681
4. Social security contributions and employee assistance	1,234	1,188
5. Expenses for employees' pensions	1,141	927
Total	**11,393**	**10,796**

Other income

Other income includes income in the amount of €232k (previous year: €111k) from currency conversions.

Other expenses

The other expenses include expenditure in the amount of €718k (previous year: €679k) from the addition of accrued interest to the pension provisions and similar commitments. Expenditure from currency conversion totalled €247k (previous year: 0k) in the financial year.

Other items

Deutsche Rück had an average workforce of 110 full-time employees in the year under review.

In the year under review, total remuneration of the Supervisory Board amounted to €74,166 and the Advisory Board earned €34,199. Members of the Investment Committee and Audit Committee received €29,420.

Remuneration for the Board of Executive Directors totalled €633,209.

Total remuneration for former members of the Board of Executive Directors or their surviving dependents came to €364,973. Provisions set up for this total €5,141,508.

The members of the company's Board of Executive Directors, Supervisory Board and Advisory Board (Section 285 No. 10 of the German Commercial Code (HGB)) are listed on pages 6 and 7.

Information on the auditors' fee is provided with discharging effect in Deutsche Rück's consolidated financial statements.

Düsseldorf, 3 April 2013

Deutsche Rückversicherung
Aktiengesellschaft

Board of Executive Directors

Dr Junke	Schaar	Dr Hertel	Rohde

Auditor’s Report

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The following is a translation of the auditor’s opinion with regard to the original German financial statements and management report:

We have audited the financial statements comprising the balance sheet, income statement and notes, and including the accounting and management report of Deutsche Rückversicherung Aktiengesellschaft, Düsseldorf and Berlin, for the financial year commencing on 1 January and ending on 31 December 2012. The accounting and preparation of the financial statements and management report in accordance with German commercial law as well as the supplementary provisions of the articles of association are the responsibility of the company’s Board of Executive Directors. Our responsibility is to express an opinion, based on our audit, on the financial statements including the accounting and on the management report.

We have conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code (HGB) and the German generally accepted standards for auditing financial statements promulgated by the Institute of German Certified Accountants (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the company’s net assets, financial position and results of operations in the financial statements in accordance with the applicable financial reporting framework and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the accounting, annual financial statements and management report are examined primarily on a spot check basis within the framework of the audit. The audit includes assessment of the accounting principles used and of the main appraisals made by the Board of Executive Directors, as well as evaluation of the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with legal provisions as well as the supplementary provisions of the articles of association and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with generally accepted accounting standards. The management report is consistent with the financial statements, as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

Cologne, 10 April 2013

KPMG AG
Auditors

Dr. Dahl	Kulms
Wirtschaftsprüfer	Wirtschaftsprüfer
(Certified public accountant)	(Certified public accountant)

Report of the Supervisory Board

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Obligations, committees and appointments
To discharge its obligations, the Supervisory Board has set up a Personnel Committee, as well as an Investment Committee and a Balance Sheet Auditing Committee.

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.

Mr Friedrich Schubring-Giese and Dr Robert Pohlhausen retired from the Supervisory Board on 27 June 2012, together with Mr Paulo Fernandes as employee representative, following the regular Supervisory Board elections. Mr Ulrich Jansen also retired from the Supervisory Board on 2 November. Our thanks are due to them all for their commitment and efforts.

The former Chairman of the Supervisory Board Mr Ulrich-Bernd Wolff von der Sahl took over as Vice-Chairman on 27 June 2012. He held the post of Chairman for six years and guided Deutsche Rück through the expansion of its business with responsibility and foresight. We owe him our particular thanks.

Collaboration with the Board of Executive Directors
The Board of Executive Directors informed the Supervisory Board regularly and comprehensively with regard to the company's position and development. In the 2012 financial year, this was done in a total of three meetings. In addition, the Investment Committee met twice and the Balance Sheet Auditing Committee once, while the Personnel Committee met three times.

At the respective meetings, the Supervisory Board received and discussed the verbal and written reports of the Board of Executive Directors and adopted the applicable resolutions. A resolution to participate in a real estate company was adopted in a written procedure. The Supervisory Board was additionally kept abreast of business developments and the company's position in quarterly reports from the Board of Executive Directors in accordance with Section 90 of the German Stock Companies Act (AktG).

The Chief Executive Officer additionally informed the Chairman of the Supervisory Board of all major developments, forthcoming decisions and the company's risk position outside of these meetings.

We acquired detailed explanations of the position and development of the company at the meetings of the Supervisory Board. The regular reports focused above all on the company's corporate planning and anticipated results, its risk situation and risk management, as well as its financial situation. We were also actively informed of the progress made in systematically developing the company's market business in Central and Eastern Europe.

The appropriateness of the existing remuneration scheme was reviewed as required by Section 64b of the German Insurance Supervisory Act (VAG) in combination with Section 3 (1), second sub-paragraph of the German regulation on supervisory law requirements for remuneration schemes in the insurance sector (VersVergV). We also established the degree to which corporate objectives had been achieved for the 2011 financial year and approved both the corporate and the individual objectives for the 2012 financial year.

The company's internal risk model was discussed in detail. The Supervisory Board agreed to the model's implementation as the fourth risk perspective in corporate management.

Inspection measures in accordance with Section 111 (2) of the German Stock Companies Act (AktG) were not required in the year under review.

Adoption of the annual financial statements
The auditors for the 2012 audit were elected by the Supervisory Board. The actual audit order was placed by the Chairman of the Supervisory Board. The accounts, financial statements and management report for the 2012 financial year were audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Cologne, and did not give rise to any objections; they consequently met with the full approval of the auditors. The auditors attended both the meeting of the Balance Sheet Auditing Committee and the balance sheet meeting held by the Supervisory Board and reported on the key results of the audit.

Following the definitive result of the checks conducted by the Balance Sheet Auditing Committee and by the Supervisory Board, and after discussing both the annual financial statements and the management report, we have no further comments to make on the auditor's report. We concur with the auditor's findings and approve the financial statements prepared by the Board of Executive Directors.

The annual financial statements 2012 are herewith adopted. The Supervisory Board furthermore approves of the proposal for appropriation of the balance sheet profit for 2012.

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

Düsseldorf, 26 April 2013

Supervisory Board

Dr Frank Walthes
Chairman

Appropriation of the profit

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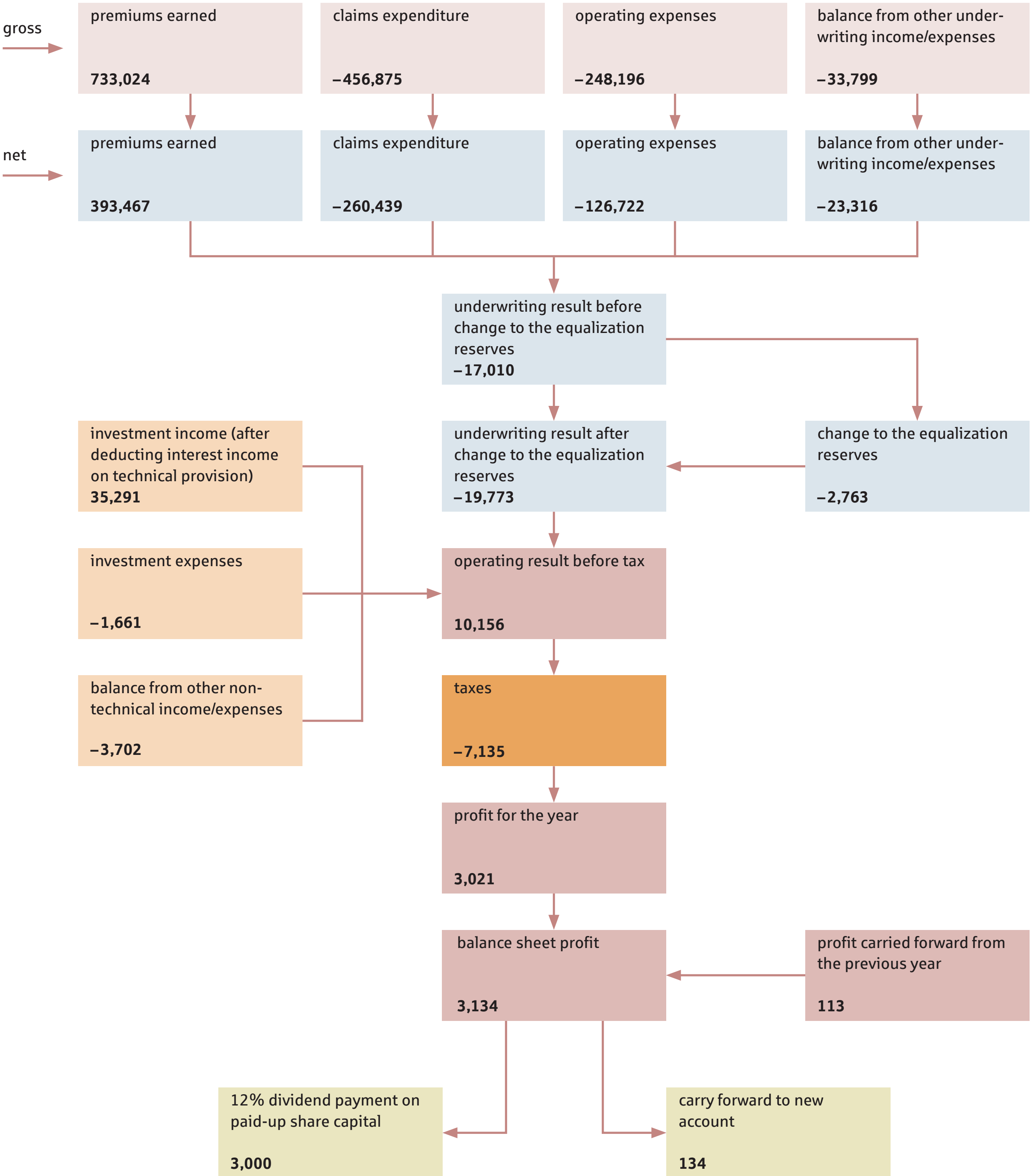
We propose to the Annual General Meeting that the balance sheet profit of € 3,134k be used as follows:

Proposal for appropriation of the balance sheet profit

€ '000	
12% dividend on the paid-up share capital	3,000
Carry forward to new account	134

Generation and appropriation of profits in the 2012 financial year

€'000



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Hansaallee 177, 40549 Düsseldorf
Postfach 290110, 40528 Düsseldorf
Germany
Phone + 49 211. 4554-01
Fax + 49 211. 4554-202
info@deutscherueck.de
www.deutscherueck.com

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Deutsche Rückversicherung Aktiengesellschaft

Hansaallee 177, 40549 Düsseldorf, Germany
Phone +49 211 4554-01
Fax +49 211 4554-202
info@deutscherueck.de
www.deutscherueck.com

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