Deutsche Rück

Deutsche Rückversicherung AG

ANNUAL REPORT

2017

Deutsche Rückversicherung AG

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Deutsche Rückversicherung AG occupies a leading position on its domestic market. This allows us to offer our shareholders significant strategic benefits. Our excellent long-term financial standing, systematic underwriting policy and consistent market approach make us a preferred partner in our target markets of Germany, Austria and Central and Eastern Europe.

Key figures of Deutsche Rückversicherung AG

2013 – 2017 FINANCIAL YEARS in €m	2017	2016	2015	2014	2013
Gross premiums written	962.4	925.2	863.4	839.5	763.8
Net premiums earned	466.9	469.5	451.7	430.3	412.9
Net loss ratio [1] (as % of net premiums earned)	61.8	63.5	68.5	76.7	91.8
Expense ratio – net [1] (as % of net premiums written)	29.2	29.0	29.1	28.8	29.6
Combined ratio – net [1] (as % of net premiums earned)	91.1	92.5	97.7	106.0	121.8
Underwriting result – net (after change to the equalisation reserves)	–0.4	–2.9	–17.9	–25.4	–30.6
Result of general business	28.7	23.4	31.6	28.6	32.9
Operating result before tax	28.2	20.5	13.8	3.3	2.3
as % of net premiums earned	6.0	4.4	3.0	0.8	0.6
Net profit for the year (after tax)	7.5	13.9	14.7	3.0	3.0
as % of net premiums earned	1.6	3.0	3.3	0.7	0.7
Investments incl. deposits retained	1,330.0	1,233.4	1,144.8	1,109.2	1,079.4
as % of net premiums earned	284.9	262.7	253.4	257.8	261.4
Average interest rates as %	2.9	2.6	3.4	3.8	3.8
Return on market value of investments (total as %)	3.7	4.5	2.4	6.0	3.3
Return on market value of investments (total excl. deposits retained as %)	3.8	4.6	2.4	6.3	3.5
Net technical provisions (excl. equalisation reserves)	841.7	839.6	821.4	778.8	715.4
as % of net premiums earned	180.3	178.8	181.8	181.0	173.3
Equity capital	478.2	449.9	403.7	379.8	387.1
as % of net premiums earned	102.4	95.8	89.4	88.3	93.8
thereof: **Balance sheet equity**	186.3	181.8	170.9	159.2	159.2
as % of net premiums earned	39.9	38.7	37.8	37.0	38.6
Hybrid capital	61.8	61.8	50.0	50.0	50.0
as % of net premiums earned	13.2	13.2	11.1	11.6	12.1
Equalisation reserves	230.1	206.4	182.8	170.6	178.0
as % of net premiums earned	49.3	43.9	40.5	39.7	43.1

1) Excl. life reinsurance

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Report of the Chief Executive Officer

DEAR SHAREHOLDERS AND CLIENTS, LADIES AND GENTLEMEN,

Deutsche Rückversicherung AG continued its rock-solid performance in 2017. We were pleased with the positive development of key business figures in the year under review and the further improvement in our underwriting result before equalisation reserves. In conjunction with another positive result for investment income, this led to an increase of over one-third in the operating result before tax. After taking into account tax expenses, which were significantly higher as a result of changes in the tax discounting system, net profit for the year was lower than in the previous year. We nevertheless managed to strengthen our assets once again in 2017, and can offer our shareholders an attractive dividend on capital entitled to a dividend.

Overall conditions for our business continued to be shaped by surplus reinsurance capacity and a highly competitive market in 2017. Deutsche Rück benefited from its good competitive position and excellent market penetration in German-speaking markets in this challenging environment. Deutsche Rück's gross premium income rose by around 4 % to €962 million in 2017. As only a small portion of newly generated business remained in the retention, net premiums remained stable year on year at €470 million.

In terms of claims, the positive trend from previous years continued in 2017. The liability, accident and motor insurance and natural hazards lines and our fire business all played a part in the reduction of around 3.5 % in claims expenditure. The net loss ratio in our non-life business improved further to 61.8 %. We continued the previous year's good performance with a combined ratio (in non-life business) of 91.1 % in net terms, while maintaining our policy of very conservative allocations to provisions.

Expenses for insurance operations, which depend on the development of business, rose in line with higher gross premiums. An almost unchanged net expense ratio in non-life business and low administrative expenses helped to reinforce our company's competitiveness, which remains very good compared with other reinsurers.

Life reinsurance business also performed well in 2017. Our services, including those protecting against biometric risks, provided impetus for growth, which we were able to exploit in order to expand our business volume. Deutsche Rück thus increased its gross premium volume in life reinsurance business by around 20 % to €56 million.

The technical account before changes to the equalisation reserves closed with a profit of €23.4 million, higher than in the previous year. This allowed us to significantly strengthen the equalisation reserves for the first time in the liability, accident and motor insurance lines and once again in the natural hazards lines by a net sum of €23.8 million. After changes in equalisation reserves and similar provisions, the technical account closed at €–0.4 million.

In view of persistently low interest rates, we are highly satisfied with our investment income. We once again achieved very solid investment income, which exceeded our forecast with regular income of over €36 million.

The operating result before tax improved to more than €28 million. This positive result, combined with the higher tax expenses already mentioned, led to a net profit for the year of €7.5 million. As expected, our company can also pay an attractive dividend again for the 2017 financial year. The Board of Executive Directors and Supervisory Board intend to propose to the Annual General Meeting that a dividend of 12 % be paid on the paid-up share capital.

We expect our business performance to remain stable in the current financial year, with little change in premium volume. During renewals as at 1 January 2018, we were largely able to offset increases in our cedants' retentions through increases in our share and natural growth. We expect a slight increase in premiums in fire/property insurance and a satisfactory technical profit following successful restructuring measures in recent years. In business with losses due to natural hazards, we anticipate moderate premium growth on the one hand and on the other expect the technical result to be burdened by storms in the spring of 2018, although this will be in line with expectations.

Frank Schaar

For the 2018 financial year as a whole, we expect the performance of our underwriting business to enable us to further strengthen our provisions, based on the information available. We expect investment income to be higher than in the previous year, provided that there are no disruptions in the capital markets. Overall, we expect to report a balance sheet profit that will allow us to pay a similar dividend to the previous year.

We will maintain our profit-oriented underwriting policy in 2018. At the same time, we want to further strengthen our position in a challenging market environment. Deutsche Rück is in a good position to do this, with its excellent financial strength, high market penetration and sound understanding of risk.

On behalf of my colleagues on the Board of Executive Directors, I would like to sincerely thank our shareholders and business partners for their trust. We will continue to attach great importance to continuity and reliability in our relations with you. These principles are upheld by all employees of Deutsche Rück, whom I would like to thank sincerely for their excellent work in the last year.

Yours sincerely,

Frank Schaar
Chief Executive Officer

Board of Executive Directors

Dr Arno Junke, Chief Executive Officer (until 31 December 2017)
Frank Schaar, Deputy Chief Executive Officer (Chief Executive Officer since 21 February 2018)
Dr Katrin Burkhardt
Michael Rohde

From left: Dr Katrin Burkhardt, Michael Rohde, Frank Schaar

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Management Report

Deutsche Rückversicherung AG can look back on a successful 2017 financial year. We further consolidated our market position in Germany, Austria and Central and Eastern Europe. Gross premium income once again exceeded the previous year's level. The absence of major natural hazard events led to a pleasing technical profit in the natural hazards lines, while the upward trend of previous years continued in assumed fire business. Results improved considerably in the general liability and motor liability lines, owing to high run-off profits. Our investments generated much higher income. We significantly strengthened our assets once again in the 2017 financial year, which is reflected in our strong capital base at AAA level. The rating agency Standard & Poor's once again awarded us a rating of "A+" with a stable outlook in 2017. As we are bringing forward the preparation of our annual financial statements each year, statements of account that are not yet available must be estimated. Reconciliation of these estimates with the statements of account recorded in the following year leads to discrepancies in estimates (true-up), which had a positive effect on the technical result in the 2017 financial statements.

ECONOMIC ENVIRONMENT

The German economy and labour market remained extremely sound in 2017. The year was characterised by strong economic growth. Gross domestic product grew by 2.2 %, the strongest growth in the German economy since 2011.

Most of the impetus for this growth came from within Germany. Consumer spending rose by 2.0 % in 2017, while gross investment in plant and equipment grew strongly by 3.0 %. Investment in construction was up 2.6 %, while investment in machinery, equipment and vehicles rose by 3.5 %. Exports of goods and services also grew by 4.7 % year on year.

The buying power of private households was driven by the ongoing phase of low interest rates, low inflation and ongoing low oil prices, as well as the positive situation on the labour market. The average number of people registered as unemployed during the year fell for the fourth consecutive year to around 2.5 million, with employment subject to social insurance contributions and economic activity both rising strongly. According to the Federal Statistical Office, about 44.3 million people were employed on average in 2017, the highest level since German reunification.

DEVELOPMENTS IN THE INSURANCE MARKET

Overall, the German insurance sector significantly surpassed the previous year's result with growth of 1.7 % across all lines to €197.7 billion (+0.2 %). While premium income remained more or less stable year on year in life insurance, it grew significantly in property and casualty insurance, as in the previous year. Private health insurance grew more strongly again following a moderate increase in 2016, particularly in private long-term care insurance.

German property and casualty insurers recorded growth in premiums in almost all lines. In total, premiums grew by 2.9 % (previous year: +2.9 %) to €68.2 billion. Motor insurance and property insurance in particular contributed to this positive development. Benefits paid out rose moderately by 3.2 % to €50.8 billion, partly owing to slightly below-average natural hazards in the year. 2017 was thus a good year overall for property and casualty insurers.

The combined ratio in property and casualty insurance came to 95 %, the same level as in the two previous years, and therefore remained perfectly adequate. In total, German property and casualty insurers expect to achieve a technical profit of €3.4 billion (previous year: €3.5 billion).

German life insurers recorded a minimal decline in premium income (excluding provisions for premium refunds) of 0.1 % to €90.7 billion. New life insurance business with lump-sum premiums fell by only 0.5 % in the last financial year, following the expected drops in the two previous years. Gross premiums written came to €26.1 billion. In contrast, new business with regular premiums fell more sharply by 4.6 % to €5.2 billion. Company pension schemes have increased in importance. Business with lump-sum premiums grew here by 21.2 % to €4.5 billion, while new business with regular premiums was up 2.3 % at €1.58 billion. According to initial estimates, the cancellation rate will be at the same low level as in the previous year, at 2.8 %.

Private health insurers increased their premium income significantly by 4.3 % to €38.8 billion in the last financial year. Of this sum, €36.5 billion related to private health insurance (+4.1 %) and €2.3 billion to private long-term care insurance (+6.1 %). As in the previous year, insurance benefits paid out grew by 1.6 % to €27.0 billion.

CAPITAL MARKET TRENDS

There was unusually little fluctuation in the financial markets in 2017. The apparently carefree attitude among market participants can be explained by positive fundamental data for last year. In contrast to previous years, there were no major negative exogenous factors. Instead, the economic environment became increasingly favourable as the year went on. Economic development was unexpectedly positive in Europe and the euro zone in particular, with the result that growth forecasts were being raised almost continuously. However, positive economic signals also predominated in other economic regions such as the USA, Japan and many emerging countries. For the first time in a long period, many countries entered an economic upturn or at least a stabilisation phase at more or less the same time. As a result, the global economy grew by around 3.5 % last year, following growth of about 3.1 % in the previous year.

These positive macroeconomic conditions boosted equity markets in 2017, with US stock market indices in particular reaching new highs. The market-wide S&P 500 index gained 19.4 % in net terms. European equities were initially unable to keep up with their US counterparts, as the outcome of forthcoming elections was uncertain. Only after Emmanuel Macron won the French election did the DAX also reach a new record high. Good company reports provided additional tailwinds, driving the DAX up to around 12,800 points by mid-May. However, a phase of greater fluctuation in prices then set in, causing the DAX to drop back down to just below 12,000 points by the end of August. As well as the North Korea crisis, this was due to speculation that the ECB could soon change its monetary policy in the wake of the "Sintra speech" by ECB president Mario Draghi on 27 June and – boosted by this – the euro's significant appreciation against the US dollar. The debate about emissions also had a negative impact on the automotive sector. It was not until these negative factors began to weaken from September onwards that there was another significant recovery on European stock markets. The DAX reached a new record high of around 13,500 points in early November and closed the year at 12,917 points, up 12.5 %.

There were generally no surprises in the monetary policy of central banks in the USA and the euro zone in 2017. The US central bank had announced three interest rate hikes for 2017 and implemented these. The ECB had announced at an early stage that it would reduce its monthly bond purchases from €80 billion to €60 billion per month from March 2017, but that it would continue the bond-buying programme itself until the end of the year. The yield on ten-year US treasuries fell slightly to 2.41 %, while the yield on ten-year German government bonds rose from 0.21 % to 0.42 %. The euro appreciated significantly against the US dollar, climbing 13.8 % year on year. It temporarily reached an annual high of over USD 1.20 in August. Although the euro later ceded some of its gains owing to corrections on both sides of the Atlantic, it came close to its annual high again at the end of the year.

With regard to commodities, the price of oil began the year at a high level of around USD 57 per barrel of Brent, owing to an agreement on reducing production between OPEC and some non-OPEC oil-producing countries (NOPEC). The oil price had dropped to around USD 46 by halfway through the year. A stable upward trend only got under way in the second half of the year. Factors that contributed to this included unexpected discipline of OPEC and NOPEC members in cutting production, as well as the very slow expansion of production of the US shale oil industry and a growing global economy, which tended to boost demand for crude oil. Prices were then boosted again towards the end of 2017 when the agreement to cut production was extended until the end of 2018. The oil price had risen to around USD 67 by the end of the year, a net gain of 17.5 %.

The price of gold proved volatile in 2017. While actual demand from the gold-processing industry was relatively weak, the precious metal temporarily benefited from growing risk aversion among market participants. This was the case in the context of European elections in the spring, but particularly at the height of the North Korea crisis, which pushed up the gold price to an annual high of around USD 1,350 per fine ounce in mid-September. Year on year, the price of gold climbed around 13.1 % to USD 1,303.

BUSINESS PERFORMANCE

Deutsche Rück recorded positive growth in gross premiums in the 2017 financial year. In terms of claims, the burden increased in natural hazards lines, although this segment still generated a profit. The technical profit in assumed fire lines rose again significantly year on year. The general liability and motor liability lines closed the financial year with positive results, following technical losses in the previous year.

The technical account before changes to the equalisation reserves showed a profit for the financial year. As a result we were able to strengthen our equalisation reserves significantly, particularly in natural hazards lines. After changes in equalisation reserves and similar provisions, a small technical loss remained. In view of the situation on the capital markets, which remains unsatisfactory, we are very pleased with our investment income, which improved significantly year on year. Owing to a one-off effect in the tax account (change in the basis of assessment for the discounting of claims provisions), Deutsche Rück closed the 2017 financial year with a net profit after tax that was lower than in the previous year.

Our company's earnings depend on premium income, the loss and expense ratio, the technical result and investment income. These are regarded as the most important performance indicators and are explained below.

DEVELOPMENTS IN DETAIL

Gross premiums written, which come primarily from the German market, grew by 4.0 % or €37,134K to €962,377K (previous year: €925,243K) in the 2017 financial year. Residual credit business assumed by public insurers and allocated to various lines in accordance with risk accounted for the largest share of this growth. As only a small portion of this business remained in the retention, **net premiums written** came to €469,821K, only €537K or 0.1 % above the previous year's figure of €469,284K. **Net premiums earned** declined by €2,681K or 0.6 % from €469,549K to €466,868K.

The claims burden fell for the fourth consecutive year. Gross claims expenditure dropped by €20,216K from €494,120K to €473,904K in the year under review. The liability, accident and motor insurance lines performed well, generating a technical profit in the financial year following a gross loss for the previous year. The general liability line accounted for the lion's share of this improvement. In addition to the reserves posted by our cedants for claims, IBNR reserves were also set up in line with requirements in liability, accident and motor insurance business in 2017. The natural hazards lines also generated a technical profit in the year under review, although this was below the previous year's profit as natural hazard events were smaller. Intensive dialogue with our cedants has enabled us to implement long-term restructuring measures in recent years. As a result, our fire business closed the year with a positive technical result that once again surpassed the previous year's profit.

We limited our risk positions where reasonable through retrocession. The claims burden for own account fell by €9,750K from €286,932K to €277,181K in the year under review. The **net loss ratio** for overall business declined from 61.1 % to 59.4 %. The processing of loss reserves led to a net run-off profit of €67,380K. The combined ratio improved significantly from 92.3 % to 90.6 %.

Expenses for insurance operations, which depend on the development of business, rose by €24,963K to €321,008K in line with higher gross premiums. However, expenses for own account declined slightly from €146,361K in the previous year to €146,016K in the year under review. The **net expense ratio** for overall business stood at 31.1 %, down slightly on the previous year's figure of 31.2 %.

The **technical account** before changes to the equalisation reserves closed with a profit of €23,378K, following a profit of €20,637K in the previous year. The improvement in results in the year under review led to further allocations to equalisation reserves in the natural hazards lines. Allocations were also made to equalisation reserves in the liability, accident and motor insurance lines, following a large withdrawal in the previous year. In net terms, €23,791K was allocated to equalisation reserves and similar provisions (previous year: €23,508K). After this, the technical account closed with a slight loss of €413K (previous year: loss of €2,871K).

Regular income from investments managed by the company itself rose by a total of €5,709K in the last financial year to €36,280K. Income from participating interests and from mortgages, land charges and annuity land charges made a significant contribution to this encouraging growth. On the other hand, interest on deposits retained fell. Gains on the disposal of investments were higher than in the previous year, owing to the winding-up of our British subsidiary DR UK. Losses on the disposal of investments were negligible. The balance of write-backs and write-downs was negative in the year under review, owing to risk provisioning. Despite being allocated to fixed assets, fixed-income securities were reported at the lower of cost or market. In total, we achieved investment income before deduction of the interest income on technical provisions of €34,906K (previous year: €31,314K). After deduction of the **interest income** on technical provisions and including the negative balance of other expenses and income, the non-technical account closed with a profit of €28,658K (previous year: €23,393K).

Reserves on investments managed by the company itself (without taking into account premiums and discounts) rose by 11.6 % to €179,225K, which contributed to a return on market value of 3.7 %.

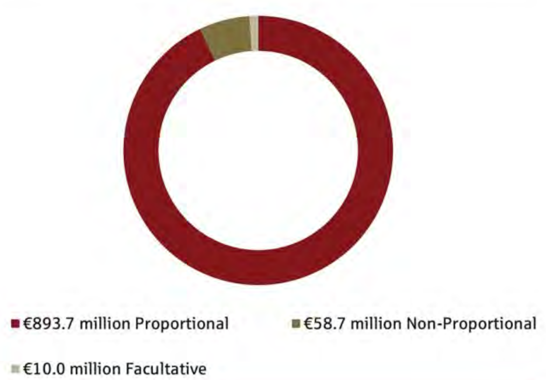
The operating result before tax showed a profit of €28,245K (previous year: €20,522K). After taking into account tax expenses, which were significantly higher as a result of changes in the tax discounting system at €20,760K (previous year: €6,620K), net profit for the year came to €7,485K (previous year: €13,902K). Taking into account the profit carried forward and allocations to retained earnings of €3,700K, the balance sheet profit amounts to €3,889K (previous year: €7,054K). The proposal for the appropriation of the profit provides for payment of a dividend of 12 % on the paid-up share capital.

TECHNICAL BUSINESS

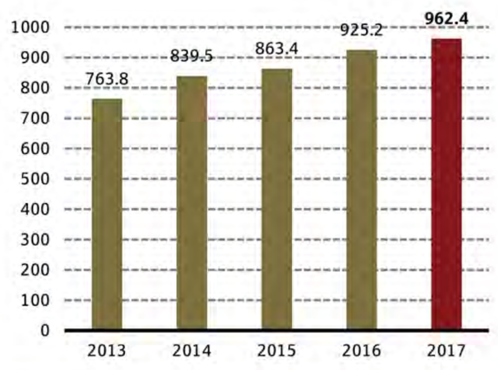
The structure of our portfolio has essentially remained unchanged. With a share of 30.0 %, fire remained the largest class of business, followed by homeowners and the other classes of business.

GROSS PREMIUM INCOME BY CLASS OF BUSINESS FOR 2017	GROSS		NET	
		Difference to 2016		Difference to 2016
	in € '000	in %	in € '000	in %
Fire/BI/EC	288,244	+1.4	138,412	+2.4
Liability insurance	38,700	–4.0	38,593	–4.0
Accident insurance	12,715	–4.8	12,715	–4.8
Motor insurance	77,033	+2.0	73,915	+0.9
Homeowners' comprehensive insurance	230,189	–0.2	85,324	–3.1
Windstorm insurance	44,033	+1.7	16,344	+1.8
Life insurance	56,040	+20.4	26,209	–9.8
Other lines of insurance	215,421	+12.7	78,311	+5.6
Total	**962,377**	**+4.0**	**469,821**	**+0.1**

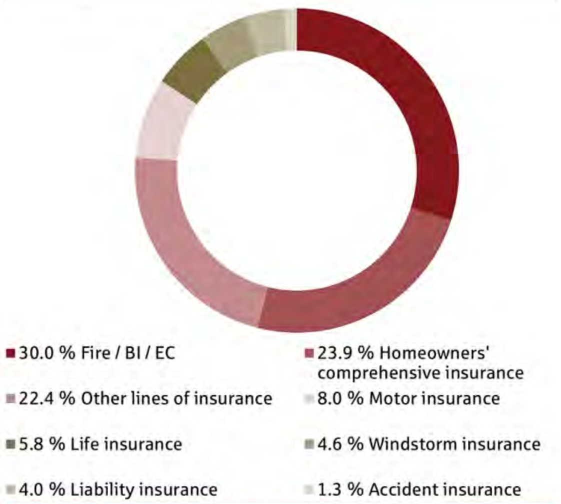
DISTRIBUTION OF GROSS PREMIUMS BY TYPE OF TREATY
in €m



DEVELOPMENT OF GPE 2013 – 2017
in €m



PORTFOLIO STRUCTURE 2017
Share in gross premiums in %



Fire, business interruption and extended coverage insurance

Ongoing intense competition in key segments of German industrial property business meant that the market as a whole once again faced tough requirements in terms of underwriting and risk selection in the 2017 financial year, as only very limited price adjustments were possible. The contrasting effects of a below-average burden of major losses and the increased frequency of medium-sized claims led to a moderate improvement in the combined ratio to 100 % for Industry/Trade/Agriculture (previous year: 106.6 %). If the volume of major losses recognised had been average, we could expect to have sustained another significant technical loss.

Deutsche Rück's combined ratio is better than average for the market, but deteriorated by 6 percentage points compared with the previous year. Deutsche Rück will continue to benefit in the long term from the underwriting policy of key cedants that focus strictly on generating a profit and whose business is underwritten on a proportional basis. These portfolio strategies, which span several years and aim to improve income in underwriting, will continue to be implemented.

Intensive talks are being held with the respective cedants with regard to this. Cedants' portfolio measures continue to be closely monitored in dialogue with the cedants, and are assessed with regard to their impact on reinsurance treaties.

We were once again very pleased with growth in gross premiums, which came to €3,875K or around 1.3 %. In the last five years we have achieved continuous premium growth with a steady improvement in gross profits. The gross loss ratio improved by almost 11 percentage points in the year under review. Owing to two major fire losses in the Eastern European market, which remained in the retention, the net loss ratio rose from 65.8 % to 71.3 %. This resulted in an underwriting result for own account of €–2,685K (previous year: profit of €4,523K).

FIRE / BI / EC	2017	2016
Gross premiums written in € '000	288,244	284,369
Loss ratio (net) in %	71.3	65.8
Expense ratio (net) in %	25.3	24.8
Technical result in € '000	–2,685	4,523

Homeowners' comprehensive insurance

Homeowners' comprehensive insurance in Germany covers the perils of fire, mains water damage and windstorm damage, as well as extended natural hazards insurance, for which, according to the German Insurance Association (GDV), the rate of combined policies increased to around 40 % market-wide in the period under review, compared with 37 % in 2016. The sector once again recorded significant premium growth of 5.5 % (previous year: 7.1 %) in Germany in the 2017 financial year. The market-wide combined ratio nevertheless increased again year on year to a three-digit figure, most likely 100 % (previous year: 96 %).

Although total claims expenditure for 2017 was within the long-term average range, it was up significantly compared with the previous year, as there was an exceptionally low volume of claims in 2016 compared with the long-term average. Losses due to natural hazards in 2017 were also average in a long-term context, despite the absence of major events. Instead, several moderately large events combined resulted in total losses of approximately €2 billion market-wide.

Germany's ageing building stock and modern construction techniques led to a further increase in the frequency and volume of mains water damage in homeowners' comprehensive insurance, even though there were no lasting periods of winter frost. The fact that the combined ratio remains high in homeowners' insurance is currently due mainly to mains water damage.

Deutsche Rück's portfolio continues to be dominated by cessions relating to the risks of fire, windstorm, hail and extended natural hazards insurance. We had already divested mains water business that was not performing well in previous years. Deutsche Rück thus achieved a combined ratio of 95.0 % in homeowners' comprehensive insurance, which was better than average for the market. This caused the net loss ratio to deteriorate from the previous year's exceptionally good level of 51.0 % to 64.4 %. The technical result came to €2,891K, compared with €14,125K in 2016. Gross premiums fell by €490K year on year.

HOMEOWNERS' COMPREHENSIVE INSURANCE	2017	2016
Gross premiums written in € '000	230,189	230,679
Loss ratio (net) in %	64.4	51.0
Expense ratio (net) in %	30.8	31.6
Technical result in € '000	2,891	14,125

Windstorm insurance

The windstorm line of business covers commercial insurance for loss events due to storms and natural hazards. The claims burden in windstorm and natural hazards insurance remained at a moderate level throughout the sector. On the whole, this line of business performed largely in line with expectations in Germany in 2017.

Deutsche Rück recorded gross premiums of €44,033K in windstorm insurance, up slightly on the previous year's figure of €43,318K. The net loss ratio improved slightly from 48.1 % in the previous year to 46.4 %. The net expense ratio improved by around one percentage point to 32.3 %. The technical account closed with a profit of €3,507K, compared with €2,898K in the previous year.

WINDSTORM INSURANCE	2017	2016
Gross premiums written in € '000	44,033	43,318
Loss ratio (net) in %	46.4	48.1
Expense ratio (net) in %	32.3	33.3
Technical result in € '000	3,507	2,898

Liability insurance

German liability insurers recorded growth of 1.5 % in gross premium income in the 2017 financial year to a total of €7.8 billion. The combined ratio was 93.0 %, above the previous year's figure of 90.9 %, and was thus still at an adequate level.

Competition over premiums in the German liability insurance market, which has been ongoing for many years and at times has become fierce, declined in intensity in 2017 but still left no scope for increases in premiums. In this context, market-wide gross premium growth was primarily due to continuing positive economic development and rising sales.

Discussions in the market during the last financial year were dominated by various legislative initiatives. It remains to be seen, for example, how new legislation introducing an entitlement to benefits for surviving dependants, reforming the law on building contracts and amending liability for defects under the sale of goods law will affect claims expenditure in liability business in the medium term.

Deutsche Rück's gross premium income in liability business for the 2017 financial year came to €38,700K, slightly below the previous year's figure. In contrast, the run-off result improved considerably, causing the loss ratio to drop from 70.1 % in the previous year to 30.0 % in the 2017 financial year. Accordingly, this line of business closed the year with a technical profit of €5,639K, following a loss of €6,642K in the previous year.

LIABILITY INSURANCE	2017	2016
Gross premiums written in € '000	38,700	40,309
Loss ratio (net) in %	30.0	70.1
Expense ratio (net) in %	42.8	42.1
Technical result in € '000	5,639	–6,642

Accident insurance

Gross premium income in general accident insurance stagnated across the sector at €6.5 billion in the 2017 financial year. The combined ratio deteriorated slightly to around 79 %, which was mainly attributable to higher claims expenditure.

General accident insurance continued to be shaped by a decline in the number of policies. However, the associated drop in premiums was offset by the dynamic nature of the policies. Within the structure of the portfolio, the shift towards higher age groups is continuing. This development is reflected in the expansion of assistance services, such as the inclusion of rehabilitation management at no extra premium.

The trend towards the expansion of benefits is also continuing. Increasingly high progressive scales, improved rates for loss of limbs and immediate benefits are leading to higher claims expenditure. With regard to conditions, clauses on participation are being relaxed, while the extended concept of accidents is being used beyond basic products.

Deutsche Rück's gross premiums in accident business came to €12,715K in the last financial year (previous year: €13,355K). Deutsche Rück strengthened its IBNR reserves, which, as expected, led to a significant rise in the net loss ratio from 55.8 % to 94.6 % and resulted in a technical loss of €3,201K, following a profit of €1,235K in the previous year.

ACCIDENT INSURANCE	2017	2016
Gross premiums written in € '000	12,715	13,355
Loss ratio (net) in %	94.6	55.8
Expense ratio (net) in %	29.5	30.6
Technical result in € '000	–3,201	1,235

Motor insurance
The German motor insurance market recorded significant growth of 4.1 % in gross premium income to €27.0 billion in 2017. At the same time, however, expenses for claims during the financial year rose by 4.1 % to €23.7 billion. This is expected to result in a combined ratio of 98 % for the sector as a whole after settlement.

While motor own damage insurance (both fully comprehensive and partial coverage) performed well, motor liability insurance closed the year with a technical loss of €100 million. The reasons for this included further significant price increases for replacement parts for typical accident repairs, which were due in particular to increasingly complex light and assistance technology in vehicles. In terms of property damage due to natural events, storms XAVIER and HERWART in the autumn resulted in particularly high expenditure. The number and severity of cases of personal injury barely changed year on year, but at the same time there was a disproportionately large increase in payments for serious injuries, owing to higher expenses for care costs and technical aids.

Deutsche Rück recorded growth in gross premiums written in motor insurance to €77,033K. Following a drop in the previous year, they have thus returned to the level of the 2015 financial year. Owing to an improvement in the run-off result, the loss ratio once again dropped significantly to 74.3 % (previous year: 86.7 %), which led to a correspondingly positive technical result of €6,858K.

MOTOR INSURANCE	2017	2016
Gross premiums written in € '000	77,033	75,490
Loss ratio (net) in %	74.3	86.7
Expense ratio (net) in %	16.5	16.7
Technical result in € '000	6,858	–2,685

Life insurance
Gross premium income in life insurance fell by 0.1 % to €90.7 billion. A decline of –0.5 % had been forecast. In particular, new business with lump-sum premiums performed better than expected, at €26.1 billion. Income from new policies with regular premiums dropped to €5.2 billion (-4.6 %). Pensions and protection against biometric risks through life insurers remain very important in Germany. The sector is constantly adapting its product range to changes in overall conditions, particularly low interest rates. The publication of Solvency and Financial Condition Reports (SFCR) in May 2017 confirmed that the vast majority of German providers are in a stable solvency situation.

Deutsche Rück increased its gross premium volume by around 20.4 % year on year to €56,040K in the 2017 financial year. In particular, we further expanded our business with existing clients. The net loss ratio was at a very favourable level at 19.3 %, 5.7 percentage points lower than in the previous year. The expense ratio remained more or less unchanged at 63.5 %. The technical result came to €–1,866K.

LIFE INSURANCE	2017	2016
Gross premiums written in € '000	56,040	46,554
Loss ratio (net) in %	19.3	25.0
Expense ratio (net) in %	63.5	63.9
Technical result in € '000	–1,866	–50

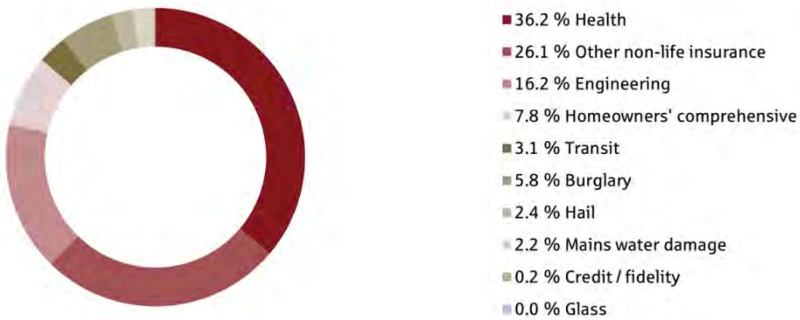
Other lines of insurance

Transit, home contents, credit/fidelity, burglary, mains 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".

Deutsche Rück's gross premiums in other lines of insurance grew by €24,252K to €215,421K. This was largely due to growth in the health insurance (€16,190K) and other non-life insurance (€15,271K) lines. In contrast, there was a decline of €6,399K in transit insurance. We were pleased with the reduction of 9.3 percentage points to 42.6 % in the loss ratio for the year under review. This was due to lower claims expenditure in the transit and engineering classes of insurance. The technical result improved accordingly by €5,000K to a profit of €12,233K.

OTHER LINES OF INSURANCE	2017	2016
Gross premiums written in € '000	215,421	191,169
Loss ratio (net) in %	42.6	51.9
Expense ratio (net) in %	38.9	37.7
Technical result in € '000	12,233	7,233

OTHER LINES OF INSURANCE
in %



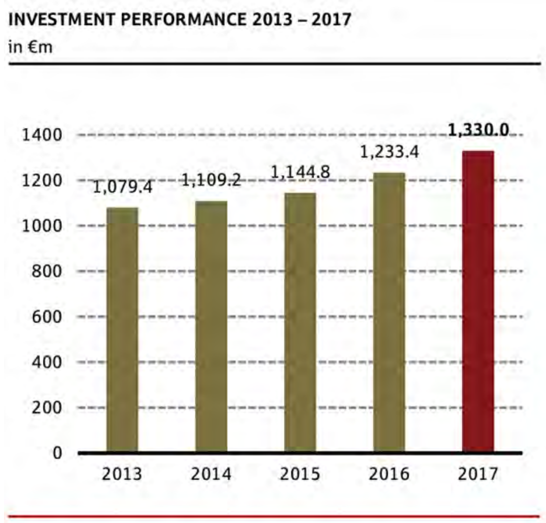
NON-TECHNICAL BUSINESS

Investment income

Deutsche Rück's regular investment income in the financial year totalled €37,945K, up €4,790K compared with the previous year's figure of €33,155K. Increased granting of loans secured by land charges as an alternative to conventional asset classes generated income of €8,390K in the year under review, up €3,345K on the previous year's figure. Our participating interests – which mainly comprise real estate investments – also grew significantly in the year under review. Investment income from these rose by €3,430K year on year to €4,142K. Income from other loans fell slightly. Interest from the deposits retained, most of which came from life insurance business, declined in the year under review owing to changes in contractual conditions. Deposits with banks generated income despite negative interest rates. The gross interest rate amounted to 3.0 % in the year under review (previous year: 2.8 %).

We realised a gain of €2,148K on the disposal of investments (previous year: €177K), most of which came from the liquidation of our British subsidiary DR UK. Losses on disposal were negligible. Income from write-backs totalled €281K, while write-downs on investments came to €3,231K. Most of the write-downs related to one strategic participating interest.

Investment income totalled €40,374K (previous year: €33,618K). After deduction of the interest income on technical provisions and the costs associated with investments, the total came to €32,653K (previous year: €27,694K). The current average interest yield, which takes into account not only regular income, but also regular expenses, amounted to 2.8 % (previous year: 2.6 %). The return on market value, which also takes into account the change in reserves and which has priority in investment management, was 3.7 %.



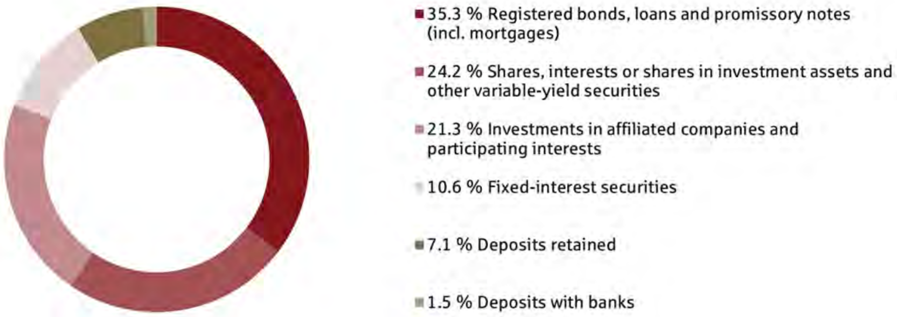
Other income
As expected, the balance of other income and other expenses was negative in the year under review, at €–3,995K (previous year: €–4,301K).

Net assets
Investments (excluding deposits retained) increased by €90,621K from €1,145,671K to €1,236,292K in the year under review. Gross additions totalled €370,207K. These were offset by disposals totalling €276,635K. The asset class of receivables from mortgages, land charge and annuity land charge claims recorded the largest increase in holdings of €134,698K. At the same time, this asset class recorded the biggest disposal of €114,558K. Investments in affiliated companies and participating interests achieved the strongest growth in net terms of €62,861K. The steepest decline of €50,133K was recorded by the asset class of bearer bonds and other variable-yield securities. Deposits retained, most of which came from life reinsurance business, grew by €5,985K in the year under review following a decline in the previous year. Overall, the investment portfolio including deposits retained grew from €1,233,397K in the previous year to €1,330,003K in the year under review.

Unrealised gains from investments (excluding premiums and discounts) increased by €18,615K to €179,225K in the period under review. This increase resulted primarily from the item shares, interests or shares in investment assets and other variable-yield securities (€+18,088K) and from investments in affiliated companies and participating interests (€+8,987K).

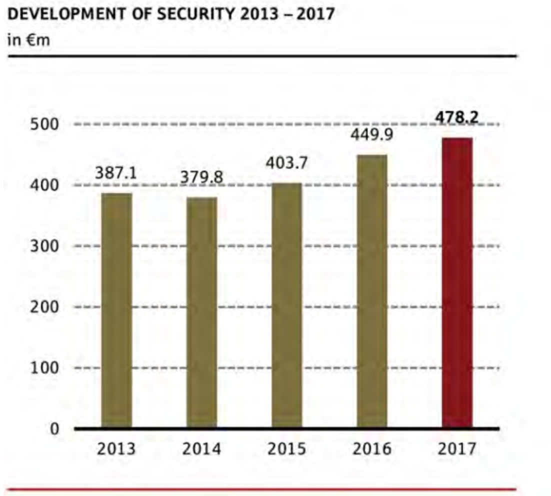
INVESTMENT PORTFOLIO STRUCTURE	2017		2016	
	in € '000	in %	in € '000	in %
Registered bonds, loans and promissory notes (incl. mortgages)	469,008	35.3	399,754	32.5
Shares, interests or shares in investment assets and other variable-yield securities	322,124	24.2	303,464	24.6
Shares in affiliated companies and paricipating interests	283,618	21.3	220,757	17.9
Deposits retained	93,711	7.1	87,726	7.1
Fixed-interest securities	141,541	10.6	191,674	15.5
Deposits with banks	20,001	1.5	30,022	2.4
Total	**1,330,003**	**100.0**	**1,233,397**	**100.0**

INVESTMENT STRUCTURE AS AT 31 DECEMBER 2017
in %



SECURITY

A net allocation to equalisation reserves and similar provisions in the amount of €23,791K and an allocation to retained earnings led to a rise in security to €478,157K in the year under review. In relation to the net premiums earned, this equates to a ratio of 102.4 % (previous year: 95.8 %).



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

RATING: A+

The rating agency Standard & Poor's once again confirmed its financial strength rating of "A+" with a stable outlook for Deutsche Rück in 2017. Standard & Poor’s has noted Deutsche Rück’s extremely strong capital base and secure earnings situation, paired with a conservative policy on the recognition of reserves. In this context, and given Deutsche Rück’s unique competitive position as one of the leading reinsurers in its home market, the rating agency expects this positive performance to continue.

RISK REPORT

RISK MANAGEMENT: STRATEGIC FRAMEWORK

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

RISK MANAGEMENT PROCESS: AN INTEGRAL COMPONENT OF BUSINESS OPERATIONS

Identification of risks and risk management organisation
All risks are recorded in the form of a risk map. This is based on management structures, which means that responsibility is clearly defined for each identified risk. Each risk category is assigned to a divisional Board member or to the full Board of Executive Directors.

All risks are systematically reviewed once a year in a risk inventory as part of a process managed by the Chief Risk Officer and are assessed based on different scenarios with regard to the loss amount and probability of occurrence. The rest of the risk management process focuses on those risks that could have a major impact on the company's net assets and financial or earnings position. The inventory is compiled in risk workshops, which include not only structured discussions but also open and objective elements for identifying new risks. The workshops are held with the officers in charge of risk, as well as other specialists and executives where necessary, together with employees from the compliance function. At the end of the process, the Risk Committee brings together the results of the risk workshops and assesses correlations and dependencies between risks. The risk inventory is part of the ORSA process.

Measurement and evaluation of risks

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

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

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

Investment strategy

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

The ORSA report was submitted to BaFin in December 2017. It documents the results of the entire risk management process and assesses them in the context of corporate planning for the next three years. The required content of the ORSA report is specified by the regulatory authority, and the report is a fundamental component of the regulatory Solvency II process.

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

RISK CONTROL FUNCTIONS AS PART OF THE RISK MANAGEMENT PROCESS

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

Supervisory Board
As part of its duties, the Supervisory Board is responsible for reviewing the business strategy and the associated risk strategy. Within the framework of internal ORSA and risk reports, the Supervisory Board ensures that appropriate systems, methods and processes have been set up for implementing the risk strategy and assesses the reports on the company's risk exposure that are submitted to the Supervisory Board.

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

Chief Risk Officer (risk management function)

The Chief Risk Officer performs the function of risk management for Deutsche Rück in accordance with Solvency II. He is responsible for identifying, evaluating and analysing risks at an aggregate level. He is also in charge of reporting to BaFin in accordance with Solvency II and disclosures to the public. In addition, he is responsible for developing risk management processes and methods.

Investment Committee

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

Central Underwriting Management (CUM)

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

Underwriting Committee

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

Actuarial Reserve Services (actuarial function)

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

Compliance function

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

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 the workflows. It performs its tasks autonomously and is process-independent and risk-oriented. The Audit Officer performs the corresponding function for Deutsche Rück in accordance with Solvency II and reports to management in this role. The company makes use of external expertise when conducting audits.

SIGNIFICANT RISKS

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

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

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

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

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

Natural hazard/accumulation risks, such as windstorms, floods, earthquakes or hail, pose the greatest risks to Deutsche Rück. Risk exposure in this area is therefore actively managed as part of the underwriting and retrocession process. Deutsche Rück has developed an internal risk model for optimum analysis of risks.

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

2. Life reinsurance risks

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

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

The term **reserve risk** refers to the risk that the reserves set up may not suffice to settle all claims.

Interest rate guarantee risks and lapse risks are merely of secondary importance to 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 tools are summarised below:

Underwriting guidelines and limits

Underwriting guidelines specify exactly which responsible unit may underwrite which reinsurance treaties and up to which amounts throughout the Group. The underwriting guidelines also stipulate that the double-checking principle must be applied throughout. Limits of indemnity are also specified and monitored regularly. Moreover, ongoing profitability measurements and accumulation checks ensure that risks remain limited.

Retrocession

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

Monitoring technical provisions

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

Loss ratios and run-off results

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

LOSS RATIOS AND RUN-OFF RESULTS OF DEUTSCHE RÜCK NON-LIFE

in %	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Loss ratios as % of earned premiums	61.8	63.5	68.5	76.7	91.8	70.1	73.8	70.6	61.9	69.4
Run-off results as % of provision for outstanding claims	9.7	3.1	6.7	3.7	8.3	7.1	3.6	6.6	9.9	9.6

3. Investment and credit risks

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

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

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

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

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

Tools for controlling and monitoring investment and credit risks

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

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

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

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

Minimum rating for the containment of credit risks

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

Choice of reinsurers (retrocessionaires)

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

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

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

4. Operational risks
Operational risks are risks occurring in business systems or processes as a result of human error, technical failures or external factors. 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
Operational risks are controlled and managed using an internal control system and through a specific reporting procedure that forms part of the overall risk report. Internal Auditing carries out independent investigations to supplement internal risk analyses of the organisation and processes.

IT security concepts and emergency plans
A comprehensive security concept ensures security in IT. Modern hardware and software helps to ensure the availability and integrity of all systems and programs. Regular checks on network security, constant refinement of the security concept and emergency plans ensure that the systems used are available at all times and protect data security. A crisis communications concept ensures efficient communication in an emergency.

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 appropriate procedures. All employees whose activities are subject to cartel law 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 Organisation department. Various rules of procedure serve to control and limit operational risks in underwriting and investment. They stipulate not only employees' individual powers of attorney, but also the tools used and their limitations.

5. Other risks

Strategic risks

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

Reputation risk

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

Instruments for controlling other risks

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

Summary of the risk situation

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

OPPORTUNITIES REPORT

Deutsche Rück is a leading reinsurer in the German market and a sought-after partner in Austria and in Central and Eastern Europe. We provide reinsurance cover for many different lines of insurance. In view of the key role we play as a leading reinsurer for public insurers in Germany and our strong market position among medium-sized insurance companies in Germany, Austria and selected Central and Eastern European markets, we focus on existing client relationships and on gradually expanding these connections.

This means that opportunities and risks for our business are correspondingly diverse. We provide a forecast for the development of our business based on realistic assumptions about general conditions in the section "Outlook for 2018". This takes account of both short-term developments and long-term trends.

Developments on financial markets and hedge transactions in conjunction with natural catastrophes remain fraught with uncertainty. Based on our underwriting policy in German fire business, we expect the quality of our portfolio to stabilise in our proportional reinsurance business.

As a medium-sized reinsurer, Deutsche Rück has the necessary flexibility and stability to react to unforeseen developments and seize them as an opportunity for the company. The value of our business model, which is based on long-term relations – with an approach based on continuity, ensuring that the burden balances out over time, and with terms and conditions commensurate with the risk – is most clearly evident in years with an extremely high claims burden.

In the long term, Deutsche Rück expects the number of weather-related natural catastrophes and the resultant claims burden to increase. We are therefore constantly refining our risk management and adjusting the risk models. However, increasing weather-related risks cannot be countered solely with needs-based insurance concepts, but also call for appropriate and sustainable sociopolitical measures. Technological developments with regard to the use of renewable energies and digitalisation in all economic sectors entail new risks, but also offer new opportunities for our business.

In liability, accident and motor insurance business we are focusing on widening our expertise in the areas of cover concepts, underwriting and advice, with the aim of expanding our business activities, particularly in motor insurance, in our domestic market as well as selected neighbouring countries and thereby helping to diversify our portfolio. We also want to strengthen our position as a reliable and competent partner in this regard in Central and Eastern European countries.

Our excellent level of security is accorded high priority. Overall, we therefore believe we will have a good chance of further strengthening our company's assets on a lasting basis in the current financial year.

HR REPORT

Remuneration
The introduction of target agreements in conjunction with variable remuneration components for further groups of employees was rewarded with good results in 2017. As a result, we have decided to use these tools not only for management and senior consultants, but also at consultant level from the year under review onwards. By linking pay more closely to the company's performance, we are reflecting developments in our sector and in other industries and fulfilling the expectations of many key players.

Personnel development
Deutsche Rück extended its comprehensive staff development programme with another important component in the year under review. In "project workshops", our employees learn project management skills from their own working environment in interdisciplinary teams based on a current company theme and have the chance to apply them directly there. Different forms of learning are needed in project management. In the context of digitalisation, knowledge and skills in this area, such as networked thinking and collaboration across divisions, will become increasingly important in future. Two teams

dealt with their themes very successfully in their respective project workshops in 2017. Based on these experiences, we have decided to hold further workshops in the coming years.

First vocational training

In view of the skills shortage and demographic development, Deutsche Rück changed its first vocational training programmes in 2015 to focus specifically on training to become a management assistant in insurance and finance in combination with a degree course in insurance (integrated degree programme). In 2017 we decided to extend first vocational training to include a new component. In view of the difficult situation on the labour market and as we regularly need to attract talented graduates for the company, Deutsche Rück will offer young graduates from mathematical disciplines the opportunity to enter the company through a two-year trainee programme. The integrated degree programme and the trainee programme serve to ensure the targeted development of new recruits and are geared towards the specific requirements of our company.

Key HR figures

As at 31 December 2017, the total number of staff corresponded to 113.4 full-time equivalents (previous year: 114.3). The actual number of employees was 122 (previous year: 124). Of this total, 20.5 % (previous year: 24.0 %) worked part-time, while 18.6 % (previous year: 17.7 %) performed some of their duties through teleworking.

The average age of all employees was 44.8 (previous year: 44.7) years, while the average period of service was 12.9 (previous year: 12.4) years. Women made up 44.3 % of the workforce (previous year: 45.4 %).

The Board of Executive Directors stipulated its target for the percentage of women in senior levels of management below the Board of Executive Directors in a resolution dated 19 June 2017, which will remain effective until 30 June 2022. The proportion of women in first-tier management ("Head of section/departmental director") is meant to be 5.9 %; in second-tier management ("Departmental management"), it is meant to be 26.7 %. These figures correspond to the status quo as at the date of the resolution.

At its meeting on 10 July 2017, the Supervisory Board adopted the following resolution on the target for the number of women pursuant to Section 111 (5) of the German Stock Corporation Act (AktG) with effect from 1 July 2017: in the 2017 financial year, the proportion of women on the Supervisory Board was 22.2 %, while on the Board of Executive Directors it was 25 %. These quotas will also be stipulated as targets and will apply until 30 June 2022.

Thanks to our staff

All our employees once again contributed to the achievement of our corporate goals with great dedication, know-how and success in the year just ended. The Board of Executive Directors would like to thank all employees for their efforts. We also wish to thank the employee representatives for their constructive collaboration in a spirit of trust and confidence.

OUTLOOK FOR 2018

General economic development

The Kiel Institute for the World Economy (IfW) sees signs of a lasting economic recovery in the euro zone. Economic researchers expect gross domestic product to grow by 2.1 % in 2018 and 1.9 % in 2019. Factors that the IfW expects to stimulate the economy include the continuing fall in unemployment, the fact that interest rates are still low and the success of more moderate candidates in recent elections in various European countries. At the same time, the forthcoming negotiations on the UK's departure from the EU are regarded as a political risk that has the potential to put the brakes on the European economy.

The economic environment in Germany is of particular importance to our company. The IfW expects economic momentum in Germany to continue apace, and anticipates growth of 2.5 % in gross domestic product in 2018 and 2.2 % in the following year. It does not believe that delays in forming a government at national level have had a critical effect on the economy. Instead, the institute warns of overheating, pointing out that over-utilisation of production capacity is increasing and coming close to the peak reached in the boom year of 2007. It says that the German economy has left the path of sustainable growth, which increases the risk of an economic trend reversal.

Insurance industry

The German insurance sector significantly surpassed the previous year's result with growth of 1.7 % across all lines to €197.7 billion in 2017. The German Insurance Association (GDV) anticipates stable business development for the current financial year, with premium growth of at least 1.3 % across all classes of insurance on the German primary insurance market.

Prices for reinsurance cover have risen, particularly in markets affected by natural catastrophes. The competitive pressure of previous years has also subsided in other markets and classes of insurance. Prices here were stable or rose slightly. Despite large losses from natural catastrophes in 2017, the supply of reinsurance capital remained high. As a profit-oriented reinsurance company focused mainly on German-speaking countries, we are concentrating on selective, profit-oriented underwriting and on reviewing existing client relations.

German market

Renewals for 2018 indicate that premium income from the German market will continue to account for the largest share of our business as a whole. As in the previous year, however, some of our cedants will increase their retentions in 2018, which will reduce premium volume. Increases in our share and natural growth will largely offset this decline. The change in the business model in residual credit business will lead to a significant overall reduction in gross premiums. However, this will have no effect on net premiums.

In **fire/property insurance**, we anticipate a stable premium volume for 2018. Our performance over the last few years has shown that our extensive restructuring measures have been effective. We expect to achieve a satisfactory technical profit in this segment again in 2018.

In **natural hazards business**, we anticipate a premium volume at the previous year’s level. At the time of writing this report, two major storms, BURGLIND and FRIEDERIKE, had already had a negative impact on our company's results. We had significantly strengthened equalisation reserves in natural hazards lines in the last few years, in which losses were low. Along with the relief provided by our retrocession instruments, we expect withdrawals from the equalisation reserves to limit the impact on results for the 2018 financial year.

We anticipate a further increase in premium volume in **liability, accident and motor insurance business** for 2018. By setting up IBNR reserves, we will build up sufficient security for possible future burdens in these lines of business, which have a long claims settlement process.

We anticipate a slight decline in **life insurance business** in 2018 due to the change in the business model in residual credit business, following significant premium growth in the last financial year.

European market

We continue to selectively underwrite business that meets our requirements in terms of margins in European markets. We anticipate a slight decline in premiums from client relationships in the Austrian market in the current financial year, and expect a moderate increase in premium volume from our Central and Eastern European client relationships.

Overall business

Losses due to natural hazards will have an impact on the gross technical result. We limit the general exposure of our property insurance portfolio through a specific retrocession scheme and by setting up adequate reserves, which ensures that our result for own account remains calculable at all times. We nevertheless expect the net loss ratio as well as the net expense ratio to increase.

We expect underwriting business to stabilise in other segments, provided that claims remain within the anticipated range and within our budget for major claims, which will allow us to replenish equalisation reserves and similar provisions. We expect investment income to exceed the previous year's level. Overall, we expect a net profit for the year, enabling us to pay a dividend.

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

ASSOCIATION MEMBERSHIP

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

Düsseldorf, 28 March 2018

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Annual Financial Statements

BALANCE SHEET AS AT 31 DECEMBER 2017

ASSETS

in €	2017		2016	
A. Intangible assets				
Concessions, industrial property rights and similar rights and assets, as well as licences to such rights and assets, that have been acquired in return for a fee		**458,553**		**283,826**
B. Investments				
I. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	80,747,640		86,013,246	
2. Loans to affiliated companies	30,000,000		0	
3. Participating interests	172,870,029		134,743,223	
	283,617,669		**220,756,469**	
II. Other investments				
1. Shares, interests or shares in investment assets and other variable-yield securities	322,123,863		303,463,676	
2. Bearer bonds and other fixed-interest securities	141,540,844		191,674,311	
3. Receivables from mortgages, land charge and annuity land charge claims	116,519,183		96,378,954	
4. Other loans				
a) Registered bonds	160,000,000		127,000,000	
b) Loans and promissory notes	191,560,130		175,446,094	
c) Other loans	929,180		929,180	
	352,489,310		303,375,274	
5. Deposits with banks	20,001,135		30,022,069	
	952,674,335		**924,914,284**	
III. Deposits retained on assumed reinsurance	93,711,295	**1,330,003,299**	87,725,798	**1,233,396,551**
C. Receivables				
I. Accounts receivable on reinsurance business	44,783,881		90,009,811	
thereof affiliated companies: €3,980 (2016: €3,244)				
thereof participating interests: €1,016 (2016: €1,016)				
II. Other receivables	6,818,014	**51,601,895**	10,751,697	**100,761,508**
thereof affiliated companies: €30,799 (2016: €5,580)				
thereof participating interests: €1,390,966 (2016: €352,400)				
D. Other assets				
I. Tangible assets and inventories	566,607		473,027	
II. Cash at banks, cheques and cash in hand	93,540,841		77,740,699	
III. Miscellaneous assets	35,181,588	**129,289,036**	32,241,064	**110,454,790**
E. Deferred items				
I. Accrued interest and rent	7,155,604		8,054,108	
II. Other deferred items	227,569	**7,383,173**	202,863	**8,256,971**
Total assets		**1,518,735,956**		**1,453,153,646**

EQUITY AND LIABILITIES

in €	2017		2016	
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	136,429,780		128,779,780	
	136,557,603		**128,907,603**	
IV. Balance sheet profit / loss	3,888,701	**189,263,917**	7,053,786	**184,779,002**
B. Subordinated liabilities		**61,750,000**		**61,750,000**
C. Technical provisions				
I. Unearned premiums				
1. Gross amount	195,277,233		165,158,479	
2. less: share for retroceded business	145,973,427		118,833,682	
	49,303,806		**46,324,797**	
II. Provision for future policy benefits				
1. Gross amount	86,715,442		96,009,814	
2. less: share for retroceded business	13,080,134		8,703,718	
	73,635,308		**87,306,096**	
III. Provision for outstanding claims				
1. Gross amount	966,364,443		970,296,083	
2. less: share for retroceded business	263,667,360		275,732,881	
	702,697,083		**694,563,202**	
IV. Provision for premium refunds				
1. Gross amount	2,388,167		2,075,874	
2. less: share for retroceded business	1,018,477		805,785	
	1,369,690		**1,270,089**	
V. Equalisation reserves and similar provisions	230,142,798		206,352,213	
VI. Other technical provisions				
1. Gross amount	15,606,512		11,411,811	
2. less: share for retroceded business	961,943		1,254,702	
	14,644,569	**1,071,793,254**	**10,157,109**	**1,045,973,506**
D. Other accrued liabilities				
I. Provision for employees' pensions and similar commitments	23,886,538		21,349,744	
II. Tax provisions	16,780,740		3,924,800	
III. Other provisions	4,003,912	**44,671,190**	3,391,198	**28,665,742**
E. Deposits retained on retroceded business		**13,325,828**		**8,906,252**
F. Other liabilities				
I. Accounts payable on reinsurance business	126,532,135		114,693,904	
thereof accounts due to companies in which a participating interest is held: €57,490,842 (2016: €29,851,639)				
II. Liabilities to banks	8,190,000		0	
III. Other liabilities	1,931,043	**136,653,178**	8,012,749	**122,706,653**
thereof accounts due to affiliated companies: €0 (2016: €7,045,077)				
thereof accounts due to companies in which a participating interest is held: €79,942 (2016: €53,026)				
thereof from taxes: €23,982 (2016: €21,077)				
G. Deferred items		**1,278,589**		**372,491**
Total equity and liabilities		**1,518,735,956**		**1,453,153,646**

INCOME STATEMENT
FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

ITEMS in €	2017		2016	
I. Technical account				
1. Premiums earned for own account				
a) Gross premiums written	962,377,359		925,243,444	
b) Retroceded premiums	492,555,861		455,959,089	
	469,821,498		**469,284,355**	
c) Change in gross unearned premiums	–30,092,780		–20,867,498	
d) Change in retroceded share of unearned premiums	–27,139,745		–21,132,112	
	–2,953,035		**264,614**	
		466,868,463		**469,548,969**
2. Interest on technical provisions for own account		**2,153,207**		**3,530,802**
3. Other underwriting income for own account		**3,871,498**		**2,135,784**
4. Claims incurred for own account				
a) Payments for insured events				
aa) Gross amount	477,900,328		453,018,480	
bb) Retroceded amount	208,853,313		187,045,820	
	269,047,015		**265,972,660**	
b) Change in provision for outstanding claims				
aa) Gross amount	–3,996,832		41,101,510	
bb) Retroceded amount	–12,131,300		20,142,291	
	8,134,468		**20,959,219**	
		277,181,483		**286,931,879**
5. Change in other technical provisions for own account				
a) Net provisions for future policy benefits	13,478,137		4,612,408	
b) Other net technical provisions	–4,487,460		–2,068,187	
		8,990,677		**2,544,221**
6. Expenses for premium refunds for own account		**663,977**		**627,479**
7. Operating expenses for own account				
a) Gross operating expenses	321,007,649		296,044,976	
b) less: commissions and profit commissions received on retroceded business	174,992,086		149,683,269	
		146,015,563		**146,361,707**
8. Other underwriting expenses for own account		**34,645,300**		**23,201,770**
9. Subtotal		**23,377,522**		**20,636,941**
10. Change in equalisation reserves and similar provisions		**–23,790,585**		**–23,507,818**
11. Underwriting result for own account		**–413,063**		**–2,870,877**

ITEMS

in €	2017		2016	
Amount brought forward (Technical result for own account):		**–413,063**		**–2,870,877**
II. Non-technical account				
1. Investment income				
a) Dividends from participating interests, thereof from affiliated companies: €3,670,644 (2016: €3,603,789)	7,812,567		4,315,981	
b) Income from other investments, thereof from affiliated companies: €0 (2016: €0)	30,132,877		28,839,157	
c) Income from write-backs	281,185		285,226	
d) Realised gains on the disposal of investments	2,147,503		177,258	
		40,374,132		**33,617,622**
2. Investment expenses				
a) Management expenses, interest charges, and other expenses on investments	2,214,562		1,825,029	
b) Write-downs on investments	3,231,484		461,505	
c) Realised losses on the disposal of investments	21,759		17,120	
		5,467,805		**2,303,654**
3. Interest income on technical provisions		**2,253,443**		**3,620,224**
		32,652,884		**27,693,744**
4. Other income	753,542		1,397,918	
5. Other expenses	4,748,271		5,698,407	
		–3,994,729		**–4,300,489**
6. Operating result before tax		**28,245,092**		**20,522,378**
7. Taxes on income	20,754,429		6,614,628	
8. Other taxes	5,748		5,472	
		20,760,177		**6,620,100**
9. Profit / loss for the year		**7,484,915**		**13,902,278**
10. Profit carried forward from previous year		**103,786**		**101,508**
11. Transfers to retained earnings				
a) to other retained earnings		**3,700,000**		**6,950,000**
12. Balance sheet profit / loss		**3,888,701**		**7,053,786**

Notes to the Financial Statements

ACCOUNTING PRINCIPLES

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

Intangible assets
Intangible assets are recognised at acquisition cost and amortised on a straight-line basis over 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 situation of the companies in which investments are held is analysed and, to the extent available, budgets for subsequent financial years are taken into account in the measurement. Write-downs are made for any impairments that are expected to be permanent.

Units held in a master fund and a real estate bond fund and a large portion of the shares (approximately 93 %) and of the fixed-interest securities (around 93 %) are held as fixed assets. They are recognised at acquisition cost and measured in accordance with the provisions governing assets as required by Section 341b (2) of the German Commercial Code (HGB). Write-downs are made for any impairments that are expected to be permanent, with due regard to the requirement to reverse write-downs where the reasons for them no longer exist.

The remaining fund units, shares, bearer bonds and other fixed-interest securities are held as current assets and are measured at acquisition cost less any write-downs 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 in part comprise loans that are secured through land charges. These are recognised in the balance sheet at the amortised cost of acquisition less any repayments made.

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

Loans and promissory notes, a portion of the land charge claims and other loans are recognised 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). The accumulated amortisation 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 assumed reinsurance business are reported at their nominal amounts.

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

Other assets
Property, plant and equipment are recognised at cost and depreciated over their expected useful lives.

Minor-value assets with a value of between €150 and €410 are written off in full in the year of purchase.

The item included in the heading "Other assets" is part of a valuation unit.

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

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

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

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

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

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

Balance sheet item	**Type of valuation unit**	**Hedged risk**	**Amount of hedged risks**
Shares in affiliated companies Carrying amount: EUR 80,670K	Micro-hedge	Risk of change in value Currency risk Swiss franc (CHF)	CHF 127,500K EUR 108,956K
Participating interests Carrying amount: EUR 10,555K	Micro-hedge	Risk of change in value Currency risk US dollar (USD)	USD 11,808K EUR 9,846K
Bearer bonds and other fixed-interest securities Carrying amount: EUR 13,622K	Micro-hedge	Risk of change in value Currency risk Danish krone (DKK)	DKK 100,504K EUR 13,500K

As at the balance sheet date, risks of a change in value (currency risks) with a total volume of €132,302K have been hedged using valuation units.

Deferred tax assets

Corresponding tax burdens and tax reliefs have been calculated for temporary differences between the accounts prepared for financial reporting purposes and those prepared for tax purposes. Overall, netting the two results in an excess of deferred tax assets, due predominantly to the determination of the claims provision, reinvested income from investment funds and the valuation of pension provisions. An average tax rate of 31.225 % was applied for calculating deferred taxes in the year under review. Deutsche Rück has exercised its right pursuant to Section 274 (1) Sentence 2 of the German Commercial Code (HGB) and opted to waive recognition of deferred tax assets in the balance sheet.

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

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

Pension provisions
Provisions for pensions and similar obligations have been established in accordance with actuarial principles using the projected unit credit method. Annual salary increases are taken into account at 2.75 % p.a. and pension rises at 1.9 % p.a. The biometric accounting principles were obtained from the Heubeck mortality tables 2005G by Prof. Klaus Heubeck. Provisions were discounted at the average market interest rate of 3.7 % (average ten-year interest rate) based on an assumed remaining term of 15 years as at the balance sheet date, as permitted by exercising the option pursuant to Section 253 (2) Sentence 2 of the German Commercial Code (HGB).

In accordance with Section 253 (6) HGB, amounts of €3,961K are blocked from dividend payouts; these are offset by adequate retained earnings of €136,558K.

The employee-financed pension obligations resulting from salary waivers are based on individual commitments. Capital-based pension obligations relate to a securities-based pension commitment, where the insured persons have an unlimited and irrevocable right to the maturity benefits, including the allocated profit shares. The current policy reserve of the associated congruent reinsurance coverage constitutes a plan asset as defined by Section 246 (2) of the German Commercial Code (HGB) and is offset against pension obligations. As at 31 December 2017, the pension provision totals €175K before offsetting against the claim arising from reinsurance in the same amount.

Other provisions
The provisions for semi-retirement obligations and for long-service award expenses are calculated in accordance with actuarial principles using an interest rate of 2.8 % and an assumed annual salary increase of 2.75 %. The calculations are based on the Heubeck mortality tables 2005G by Prof. Klaus Heubeck.

Other provisions are recognised on the basis of amounts anticipated to be required for settlement of the obligation (including future increases in costs and prices), applying reasonable commercial judgement. Provisions with a remaining term of more than one year are discounted at the average market interest rate over the past seven financial years corresponding to their remaining term on the balance sheet date.

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

Liabilities

Deposits retained on retroceded business and accounts payable from reinsurance business are recognised at the amounts shown in the reinsurers' statements of account. Other liabilities are shown at their settlement amounts. Deferred items are measured at nominal value.

Foreign currencies

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

NOTES TO THE BALANCE SHEET

DEVELOPMENT OF ASSET ITEMS A. AND B. I. TO II. IN THE 2017 FINANCIAL YEAR in € '000	Carrying amount (previous year)	Additions	Disposals	Write-backs	Write-downs	Carrying amount for financial year
Asset items						
A. Intangible assets						
1. Concessions, industrial property rights and similar rights and assets, as well as licences to such rights and assets, that have been acquired in return for a fee	284	267	0	0	92	459
Sum A.	**284**	**267**	**0**	**0**	**92**	**459**
B. Investments						
I. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies	86,013	78	5,343	0	0	80,748
2. Loans to affiliated companies	0	35,000	5,000	0	0	30,000
3. Participating interests	134,743	43,624	3,185	0	2,312	172,870
Sum B. I.	**220,756**	**78,702**	**13,528**	**0**	**2,312**	**283,618**
II. Other investments						
1. Shares, interests or shares in investment assets and other variable-yield securities	303,464	19,321	133	209	737	322,124
2. Bearer bonds and other fixed-interest securities	191,674	20,188	70,211	72	182	141,541
3. Mortgages, land charges and annuity land charges	96,379	134,698	114,558	0	0	116,519
4. Other loans						
a) Registered bonds	127,000	68,000	35,000	0	0	160,000
b) Loans and promissory notes	175,446	49,298	33,184	0	0	191,560
c) Other loans	929	0	0	0	0	929
5. Deposits with banks	30,022	0	10,021	0	0	20,001
Sum B. II.	**924,914**	**291,505**	**263,107**	**281**	**919**	**952,674**
Total	**1,145,954**	**370,474**	**276,635**	**281**	**3,323**	**1,236,751**

The intangible assets relate to software purchased in return for a fee.

The fair value of investments (excluding deposits retained) amounted to €1,415,517K in total at the end of the 2017 financial year, corresponding to a carrying amount of €1,236,292K. When determining the fair value, different valuation methods were employed depending on the type of investment concerned.

The fair value of shares in affiliated companies and participating interests was calculated using the capitalised earnings method or net asset value and in individual instances also using acquisition cost. The corporate valuation standard IDW S1 in conjunction with IDW RS HFA 10 was applied for the assessment. In addition, when determining the fair value of property companies, the provisions of the Ordinance Regarding the Principles for the Determination of the Fair Value of Properties (Immobilienwertermittlungsverordnung – ImmoWertV) were applied when calculating capitalised earnings.

The fair values of loans secured by land charges and other loans are generally measured on the basis of appropriate yield curves plus an individual risk premium.

The remaining investments (shares and investment fund units as well as fixed-interest securities) have been recognised in accordance with Section 56 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV). For these items, stock market prices or redemption prices on the balance sheet date have been taken as the fair value.

FAIR VALUES OF INVESTMENTS AS AT 31 DECEMBER 2017

in € '000	Carrying amounts	Fair values	Valuation reserves
I. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	80,748	90,110	9,362
2. Loans to affiliated companies	30,000	29,999	–1
3. Participating interests	172,870	200,661	27,791
	283,618	**320,770**	**37,152**
II. Other investments			
1. Shares, interests or shares in investment assets and other variable-yield securities	322,124	424,659	102,535
2. Bearer bonds and other fixed-interest securities	141,541	157,320	15,779
3. Receivables from mortgages	116,519	117,113	594
4. Other loans			
a) Registered bonds[1]	160,000	168,879	8,879
b) Loans and promissory notes	191,560	205,846	14,286
c) Other loans	929	929	0
5. Deposits with banks	20,001	20,001	0
	952,674	**1,094,747**	**142,073**
Total	**1,236,292**	**1,415,517**	**179,225**

1) Premiums and discounts have not been taken into account when calculating the carrying amounts of registered bonds.

Investments in affiliated companies and participating interests
The liquidation of the subsidiary DR UK, London, was concluded in the year under review. After offsetting the carrying amounts, the gain on disposal came to €1,582K.

Two subsidiaries were established in Luxembourg at the end of the year under review. The total capital paid in as at the balance sheet date came to €78K. One company with a carrying amount of €66K had a negative fair value of €49K, owing to the fact that it was in the start-up phase. In total, this resulted in an unrealised loss of €115K.

A loan was granted to the subsidiary Deutsche Rückversicherung Switzerland Ltd, Zurich, in the 2017 financial year, which came to €30,000K as at the balance sheet date. As at 31 December 2017, there was an unrealised loss of €1,526.

Participating interests increased further in the year under review. As well as capital payments into existing participating interests, eight new participating interests were acquired.

Owing to risk provisioning, a write-down of €2,313K was carried out on a strategic participating interest. No further write-downs were recorded, even though the fair value of some participating interests as at 31 December 2017 came to €45,998K, below the carrying amount of €48,154K. In accordance with Section 253 (3) Sentence 4 of the German Commercial Code (HGB), no write-downs for impairment losses were booked in these cases, as the impairments are expected to be only temporary. In total, this resulted in an unrealised loss of €2,156K.

Residual payment commitments totalling €81,325K exist in relation to shares in affiliated companies and participating interests.

SHARES IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS (SECTION 285 NO 11 OF THE GERMAN COMMERCIAL CODE – HGB)	Share in equity	Total equity	Result	Financial statements as at
Name and head office of the company	in %	in € '000	in € '000	
Affiliated companies				
DR Sachwerte SCS SICAV-RAIF, Senningerberg (incl. in the consolidated financial statements)	100.00	–49.1	–115.1	31 Dec. 2017
DRVB GP S.à r.l., Senningerberg	100.00	1)	1)	1)
Deutsche Rückversicherung Switzerland Ltd, Zurich (incl. in the consolidated financial statements)	75.00	153,143.9	29.4	31 Dec. 2017
Participating interests				
DRVB Invest Beteiligungs GmbH, Düsseldorf	50.00	9,583.2	201.9	31 Dec. 2016
Hansapark Verwaltungs GmbH, Düsseldorf	50.00	94.5	2.2	31 Dec. 2017
Hansapark Verwaltungs GmbH & Co. KG, Düsseldorf	50.00	10,063.0	2,554.5	31 Dec. 2017
Hansapark 2 GmbH & Co. KG, Düsseldorf	50.00	22,423.3	1,728.3	31 Dec. 2017
Immobiliengesellschaft Burstah Hamburg GmbH & Co. KG, Düsseldorf	50.00	15,409.6	213.6	31 Dec. 2017
OEV Equity Trust GmbH, Düsseldorf	50.00	216.2	39.2	31 Dec. 2016
Objekt Aachen, Großkölnstraße GmbH, Düsseldorf	50.00	4,854.8	–28.2	31 Dec. 2017
Objekt Karlsruhe Kaiserstraße GmbH, Düsseldorf	50.00	22,794.3	332.9	31 Dec. 2017
Objekt Leipzig Katharinenstraße GmbH, Düsseldorf	50.00	4,269.9	352.4	31 Dec. 2017
Ecosenergy Zweite Betriebsgesellschaft mbH & Co. KG, Nordhorn	44.44	13,714.7	652.5	31 Oct. 2016
DRVB Wohnen Beteiligungs-GmbH, Düsseldorf	40.00	12,698.6	–19.2	31 Dec. 2017
Objekt Düsseldorf an der Kaserne GmbH & Co. KG, Düsseldorf	40.00	12,710.1	315.1	31 Dec. 2017
Objekt Düsseldorf Couvenstraße GmbH & Co. KG, Düsseldorf	40.00	6,946.6	175.1	31 Dec. 2017
Objekt Leipzig Nordstraße GmbH, Düsseldorf	40.00	4,775.2	214.5	31 Dec. 2017
Objekte Nürnberg GmbH & Co. KG, Düsseldorf	40.00	18,658.5	523.0	31 Dec. 2017
Objekt Warstein Max-Planck-Straße GmbH & Co. KG, Frankfurt am Main	40.00	50.2	-10.3	31 Dec. 2016
Objekt Minoritenstraße Köln GmbH & Co. KG, Düsseldorf	37.96	–1,762.9	128.5	31 Dec. 2016
USPF IV Beteiligungsgesellschaft mbH & Co. KG, Düsseldorf	33.33	56.8	1,023.9	30 Sept. 2017
MF 1. THA 70 – 74 GmbH, Frankfurt am Main	31.00	1,645.2	–10.2	31 Dec. 2016
MF 2. THA 70 – 74 GmbH, Frankfurt am Main	31.00	2,598.0	4.1	31 Dec. 2016
RFR 1. THA 70 – 74 GmbH, Frankfurt am Main	31.00	7,180.7	–1,049.7	31 Dec. 2016
RFR 2. THA 70 – 74 GmbH, Frankfurt am Main	31.00	31,341.8	–385.8	31 Dec. 2016
Reha Assist Deutschland GmbH, Arnsberg	26.00	101.1	–176.1	31 Dec. 2016
MAGNUM EST Digital Health GmbH, Berlin	25.52	248.5	–493.9	31 Dec. 2016
LP JV GmbH & Co. KG, Grünwald	24.00	1)	1)	1)
ASPF II Beteiligungs GmbH & Co. KG, Munich	20.00	787.6	399.8	31 Dec. 2016

1) Newly founded in 2017, financial statements not yet available.

Shares, interests or shares in investment assets and other variable-yield securities
Shares in the amount of €9,297K and investment fund units totalling €298,777K are allocated to fixed assets, in accordance with Section 341b (2) of the German Commercial Code (HGB).

During the financial year, write-backs of €129K were booked on shares held as fixed assets. No write-downs were required on shares held as either fixed or current assets.

Write-downs were booked on units in investment funds held as current assets in the amount of €530K and on a real estate bond fund held under fixed assets in the amount of €207K. Write-backs of €80K were carried out on an investment fund held under current assets. There were no unrealised losses as at 31 December 2017.

As at 31 December 2017, the company holds more than 10 % of the units in a domestic investment fund in accordance with Section 285 Sentence 1 No. 26 of the German Commercial Code (HGB). There are no restrictions on the option to return the units on any day.

in € '000	Fair value	Carrying amount	Unrealised gains	Dividend received in 2017
Mixed fund	381,422	288,984	92,438	2,543

Bearer bonds and other fixed-interest securities
Of the bearer bonds, €126,557K are held as fixed assets and €14,984K as current assets.

Write-downs totalling €182K were booked in the financial year. Of this sum, €165K related to fixed assets and €17K to current assets. A write-back of €72K was booked on a security held under fixed assets.

There were no unrealised losses as at the balance sheet date.

Mortgages, land charges and annuity land charges
There were unrealised losses of €237K on some loans secured by land charges. The market values of the loans concerned came to €48,748K, below the carrying amounts of €48,985K.

Other loans
Registered bonds continued to be recognised at par value.

The effective interest rate method is applied to promissory notes, in accordance with Section 341c (3) of the German Commercial Code (HGB).

Other loans are reported in the amount of €42,000K as at the balance sheet date, above their fair value of €41,339K. Unrealised losses total €661K.

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

Deferred items

Premiums on registered bonds totalled €84K as at the balance sheet date (previous year: €89K).

Shareholders' equity

I. Issued capital

The issued capital totals €25,000K as at 31 December 2017. It is divided into 488,958 no-par-value shares.

II. Capital reserves

Capital reserves remain unchanged from the previous year, at €23,818K.

III. Retained earnings

Retained earnings increased by a total of €7,650K. Firstly, €3,950K from the net profit for 2016 was allocated to retained earnings in accordance with a resolution of the Annual General Meeting on 26 April 2017; at the same time, €3,700K from the net profit for 2017 was transferred to retained earnings in advance. Overall, retained earnings have thus increased from €128,908K to €136,558K.

IV. Balance sheet profit

The total net profit for the financial year amounts to €7,485K. Taking into account profits brought forward of €104K and allocations to retained earnings of €3,700K, balance sheet profit amounts to €3,889K.

Subordinated liabilities

Subordinated registered bonds in the amount of €61,750K were issued on 1 November 2016 with a fixed-interest period until 31 October 2026.

OTHER PROVISIONS

in € '000	2017	2016
a) Provisions to cover expenses related to preparation of the annual financial statements	528	573
b) Provisions related to human resources	3,419	2,773
c) Provisions for other administration costs	57	45
Total	**4,004**	**3,391**

Liabilities to banks

Liabilities to banks (€8,190K) were reported for the first time as at the balance sheet date. These have arisen in the course of collateral management due to cash collateral received for forward purchases, which must be repaid by the time the transactions mature at the latest.

Other liabilities

In connection with the liquidation of Deutsche Rück UK, London, liquidity in the amount of €7,045K was paid out in the previous year and was reported as a liability. The winding up of this company was concluded in the year under review, and the liquidity was offset against the carrying amount of the company.

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 €936K as at the balance sheet date (previous year: €34K).

Contingent liabilities and commitments

As a member of the German Pharmaceutical Reinsurance Association (Pharma-Rückversicherungs-Gemeinschaft), we are required to assume the benefit obligations of any other member of the pool if one of them drops out. Our obligation applies in relation to our quota share. Similar obligations exist as a result of our membership of the German Nuclear Reactor Insurance Association (Deutsche Kern-reaktor-Versicherungsgemeinschaft – DKVG). Due to our membership of the Association of German Public Insurers (Verband öffentlicher Versicherer), we are liable for the Association's liabilities up to €180K. We estimate that the probability of occurrence is extremely low.

Other financial commitments

From the investment portfolio, commitments in the amount of €118,664K existed as at the balance sheet date in relation to forward purchases of promissory notes, registered securities and bearer bonds with interest rates of between 1.125 % and 3.625 % and terms to maturity of between 5 and 30 years. Forward purchases are measured using the cost of carry. Taking into account the market value of the underlying instruments at the balance sheet date, the total fair value of the forward purchases is €8,343K.

There are also four optional purchase obligations (short put options) as at the balance sheet date arising from a registered bond issued by the IBRD (World Bank), each of which amounts to €5,000K, with interest rates of 2.26 % and terms up to 6 July 2037. The purchase obligations have a combined market value of €−1,116K based on the Libor market model. It is not necessary to recognise provisions for anticipated losses from pending transactions, as there is no impairment to the underlying instrument that is expected to be permanent.

There are also financial commitments in the amount of €2,134K arising from loans secured by land charges that have not yet been paid out in full, the payment of which is linked to progress with the construction of the properties against which the loans are secured. The interest rates are 3 %, 3.75 % and 12.5 % respectively.

There is an investment restriction resulting from an agreement with a borrower relating to the repayment of a loan secured by land charges. As the lender, Deutsche Rück has promised to leave an amount of €6,115K in the loan account until 30 June 2018 and not to access it.

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

NOTES TO THE INCOME STATEMENT

GROSS PREMIUMS WRITTEN

in € '000	2017	2016
Property and casualty insurance	906,337	878,689
Life insurance business	56,040	46,554
Total	**962,377**	**925,243**

Technical interest income for own account

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

Releases to the provision for outstanding claims assumed from the previous year generated a gross profit of 12.2 % of gross earned premiums and a net profit of 14.4 % of net earned premiums.

COMMISSION AND OTHER REMUNERATION FOR INSURANCE AGENTS, PERSONNEL EXPENSES			
in € '000		2017	2016
1.	Commission of every kind for insurance agents as defined by Section 92 HGB for primary insurance business	-	-
2.	Other remuneration for insurance agents as defined by Section 92 HGB	-	-
3.	Wages and salaries	11,392	10,632
4.	Social security contributions and employee assistance expenses	1,439	1,423
5.	Expenses for employees' pensions	2,472	880
Total		**15,303**	**12,935**

Other income

Other income includes exchange rate gains amounting to €104K (previous year: €486K).

Other expenses

Other expenses include interest for the annual servicing of the registered bonds we have issued in the amount of €1,871K (previous year: €2,482K). Interest allocated to provisions for employees' pensions, semi-retirement and long-service award expenses comes to €885K (previous year: €839K). Exchange rate gains were offset by exchange rate losses in the amount of €178K (previous year: €418K).

OTHER DISCLOSURES

We propose to the Annual General Meeting that the balance sheet profit of €3,889K be used as follows:

PROPOSAL FOR APPROPRIATION OF THE BALANCE SHEET PROFIT	
in € '000	
12 % dividend on the paid-up share capital	3,000
Transfers to retained earnings	0
Carry forward to new account	889

On average for the year under review, the company employed a full-time workforce of 113 employees. Please refer to the HR report in the management report for disclosures going beyond the scope of Section 285 No. 7 of the German Commercial Code (HGB).

Total remuneration of the Supervisory Board amounted to €110,486 in the year under review, while the Advisory Board earned €17,649. Members of the Investment Committee and Audit Committee received €18,280 in total.

Remuneration for the Board of Executive Directors amounted to €1,425,094. Unlike in the previous year, remuneration included a provision in connection with the early departure of a member of the Board of Executive Directors.

Total remuneration for former members of the Board of Executive Directors and their surviving dependants came to €408,525. Provisions recognised in this regard amount to €5,738,309.

The members of the company’s Board of Executive Directors and Supervisory Board (Section 285 No. 10 of the German Commercial Code – HGB) are listed on pages 65 and 63.

Deutsche Rück is registered with the district court of Düsseldorf under the number HRB 24729.

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

At the present time and taking into account current business performance, there have been no major events that could have a significant and lasting negative impact on Deutsche Rück's net assets, financial position and results of operations.

Bodies

SUPERVISORY BOARD

Dr Frank Walthes, Munich
– Chairman –
CEO Versicherungskammer Bayern

Ulrich-Bernd Wolff von der Sahl, Stuttgart
– Deputy Chairman –
CEO SV SparkassenVersicherung

Dr Wolfgang Breuer, Münster
CEO Provinzial NordWest
Versicherungsgruppe

Michael Doering, Braunschweig
(until 31 December 2017)
CEO Öffentliche Versicherungen
Braunschweig

Hermann Kasten, Hanover
CEO VGH Versicherungen

Thomas Millhoff, Düsseldorf
Business mathematician
Representative of the employees

Katharina Staffe, Leverkusen
Business administration graduate
Representative of the employees

Dr Walter Tesarczyk, Düsseldorf
(until 31 December 2017)
CEO Provinzial Rheinland Versicherungen

Anne Trümper, Bonn
Legal expert
Representative of the employees

ADVISORY BOARD

Peter Ahlgrim, Magdeburg
CEO ÖSA – Öffentliche Versicherungen
Sachsen-Anhalt

Dr Ulrich Knemeyer, Oldenburg
CEO Öffentliche Versicherungen Oldenburg

Heinz Ohnmacht, Karlsruhe
CEO Badischer Gemeinde-Versicherungs-Verband

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

Thomas Weiss, Aurich
CEO Ostfriesische Landschaftliche Brandkasse

Jörg Wiesner, Düsseldorf
(until 14 February 2017)
Chairman of the Works Council of Deutsche Rück-versicherung AG

BOARD OF EXECUTIVE DIRECTORS

Dr Arno Junke, Chief Executive Officer (until 31 December 2017)
Frank Schaar, Deputy Chief Executive Officer (Chief Executive Officer since 21 February 2018)
Dr Katrin Burkhardt
Michael Rohde

Düsseldorf, 28 March 2018

Deutsche Rückversicherung Aktiengesellschaft

Board of Executive Directors

Schaar	Dr Burkhardt	Rohde

Independent auditor’s report

To Deutsche Rückversicherung AG, Düsseldorf

NOTE ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT

Audit opinion

We have audited the annual financial statements of Deutsche Rückversicherung AG, comprising the balance sheet as at 31 December 2017, the income statement for the financial year from 1 January 2017 to 31 December 2017 and the notes, including the presentation of the accounting policies.

We have also audited the management report of Deutsche Rückversicherung AG for the financial year from 1 January 2017 to 31 December 2017.

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

- the enclosed annual financial statements comply with the provisions of German, commercial and regulatory law in all key respects and give a true and fair view, in accordance with German generally accepted accounting standards, of the company's net assets and financial position as at 31 December 2017 and of its results of operations for the financial year from 1 January 2017 to 31 December 2017, and
- the enclosed management report gives a true and fair overall view of the company's position. In all key respects, this management report is consistent with the annual financial statements, complies with the provisions of German law and accurately presents the opportunities and risks associated with future development.

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

Basis for our audit opinion

We have conducted our audit of the annual financial statements and the management report in accordance with Section 317 of the German Commercial Code (HGB) and Regulation (EU) No. 537/2014 on audits, taking into account generally accepted German standards for auditing financial statements as promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer - IDW). Our responsibility in accordance with these regulations and standards is described in more detail in the section "Auditor's responsibility for auditing the annual financial statements and the management report" within our auditor's report. We are independent of the company in accordance with the provisions of European law and German commercial law as well as German rules of professional conduct, and have fulfilled the rest of our professional duties under German law in accordance with these requirements. We also declare, in accordance with Article 10 (2) sub-paragraph f) of Regulation (EU) No. 537/2014, that we have not provided any prohibited services not related to auditing in accordance with Article 5 (1) of Regulation (EU) No. 537/2014. We believe that the audit evidence we have obtained provides a sufficient and appropriate basis for our audit opinion on the annual financial statements and the management report.

Facts of particular importance in the audit of the annual financial statements
Facts of particular importance in the audit are those facts that, based on our judgement, are the most relevant in our audit of the annual financial statements for the financial year from 1 January to 31 December 2017. These facts have been taken into account in connection with our audit of the annual financial statements as a whole and in forming our audit opinion; we shall not provide a separate audit opinion on these facts.

Assessment of the gross provision for outstanding claims
With regard to the accounting policies, please refer to the information provided in the company's notes to the financial statements. The company's management report contains information about risk.

Risks relating to the financial statements
Gross provisions for outstanding claims come to €966.4 million, 63.6 % of total assets.

The assessment of the provision for outstanding claims is in principle subject to uncertainty with respect to the expected amounts of losses and is therefore heavily dependent on judgement. In accordance with the principles of commercial law, this may not be assessed as risk-neutral by giving an equal weighting to opportunities and risks; instead, the principle of prudence in accordance with accounting law must be observed (Section 341e (1) Sentence 1 of the German Commercial Code (HGB)).

Deutsche Rück generally recognises provisions in accordance with the instructions of cedants. If no instructions are available at the time of preparing the financial statements, provisions are estimated. These estimates are replaced when the actual statements of account are received and entered in the following year. The difference between the estimate and the actual statement of account results in a true-up, which has an impact on the accounts in the following year.

Deutsche Rück also makes additional provisions based on past experience for unknown claims that have not yet been reported by the cedants, by increasing the reported provisions. These are determined by applying actuarial methods.

The risk lies in the possibility that the estimated amounts or additional increases in provisions for claims that are known but have not yet been settled may not be adequate.

Our approach in the audit
In auditing the provision for known and unknown claims, we performed the following audit procedures:

We recorded the process for determining provisions, identified key checks and tested these with regard to their appropriateness and effectiveness. We satisfied ourselves that the checks to ensure that cedants' statements of account are recorded correctly and to determine increases in reserves and estimates, which are intended to ensure that assessments are correct, are appropriately structured and are being carried out effectively.

We carried out our own actuarial reserve calculations for selected segments, which we selected based on risk considerations. In each case, we made a points-based estimate and determined a reasonable range with the aid of statistical probabilities and compared these with the company's calculations.

By comparing the figures over time, particularly the loss ratios for each financial year and in the accounts, we analysed the development of claims provisions in the respective lines of business.

We analysed the actual development of the provision for outstanding claims recognised in the previous year based on run-off results. On the basis of a deliberate selection of contracts, we also traced the estimates for the year under review and the true-up for the previous year in each case. We carried out interviews and inspections in the event of significant deviations.

Our conclusions
The assessment of the provision for known and unknown claims is appropriate overall.

Other information
The Board of Executive Directors is responsible for other information. Other information includes:

- the annual report, with the exception of the audited annual financial statements and management report and our auditor's report.

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

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

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

Responsibility of the Board of Executive Directors and the Supervisory Board for the annual financial statements and the management report
The Board of Executive Directors is responsible for preparing the annual financial statements, which must comply in all key respects with the provisions of German commercial law that apply to insurance companies, and is responsible for ensuring that the annual financial statements give a true and fair view of the company's net assets, financial position and results of operations in accordance with German generally accepted accounting standards. Furthermore, the Board of Executive Directors is responsible for the internal checks that it has deemed necessary, in accordance with German generally accepted accounting standards, to ensure that it is possible to prepare annual financial statements that are free from any material misstatements, either intentional or unintentional.

When preparing the annual financial statements, the Board of Executive Directors is responsible for assessing the company's ability to continue its activities. Moreover, it has a responsibility to disclose any facts in connection with the continuation of the company's activities where relevant. It also has a responsibility to draw up the accounts on the basis of the going concern principle, unless actual or legal conditions prevent this.

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

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

Responsibility of the auditor for auditing the annual financial statements and the management report

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

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

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

- identify and assess the risks of material misstatements, either intentional or unintentional, in the annual financial statements and the management report, plan and implement audit procedures in response to these risks and obtain adequate and appropriate audit evidence to serve as the basis for our audit opinion. The risk that material misstatements may not be discovered is higher in the case of irregularities than in the case of inaccuracies, as irregularities may include collusion for fraudulent purposes, forgery, intentional omissions, misleading representations and the invalidation of internal checks.

- gain an understanding of the internal control system that is relevant to the audit of the annual financial statements and the precautions and measures that are relevant to the audit of the management report, in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of issuing an audit opinion on the effectiveness of these company systems.
- assess the appropriateness of the accounting methods applied by the Board of Executive Directors and the validity of the estimates presented by the Board of Executive Directors and associated disclosures.
- draw conclusions about the appropriateness of the going concern principle applied by the Board of Executive Directors and, on the basis of the audit evidence obtained, about whether there is any significant uncertainty in connection with events or circumstances that could raise significant doubts about the company's ability to continue its activities. If we conclude that there is significant uncertainty, we have an obligation to draw attention in our auditor's report to the associated disclosures in the annual financial statements and the management report or, if these disclosures are inadequate, to amend our respective audit opinion. We draw our conclusions on the basis of the audit evidence we have obtained up to the date of our auditor's report. However, future events or circumstances may mean that the company is no longer able to continue its activities.
- assess the overall presentation, structure and content of the annual financial statements, including the disclosures, and assess whether the annual financial statements present the underlying business transactions and events in such a way that the annual financial statements give a true and fair view of the company's net assets, financial position and results of operations in accordance with German generally accepted accounting standards.
- assess whether the management report is consistent with the annual financial statements and whether it complies with the law, and assess the view it presents of the company's situation.
- conduct audit procedures with respect to the forward-looking statements presented by the Board of Executive Directors in the management report. On the basis of adequate and appropriate audit evidence, we trace in particular the key assumptions underlying the forward-looking statements made by the Board of Executive Directors and assess whether the forward-looking statements have been appropriately derived from these assumptions. We do not provide a separate audit opinion on the forward-looking statements or the underlying assumptions. There is a substantial and unavoidable risk that future events could deviate significantly from the forward-looking statements.

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

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

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

OTHER STATUTORY AND LEGAL REQUIREMENTS

Other disclosures in accordance with Article 10 of Regulation (EU) No. 537/2014 on audits
We were elected as the auditor by the Supervisory Board on 26 April 2017. The Supervisory Board instructed us on 30 November 2017 to perform an audit. We have acted as auditor to Deutsche Rückversicherung AG every year since 1985.

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

We provided the following service that is not stated in the annual financial statements or the management report in addition to the audit of the financial statements. As well as auditing the annual financial statements of Deutsche Rückversicherung AG, we provided advice in connection with the accounting and regulatory impact of a life insurance product at a cedant.

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Christine Voß.

Cologne, 12 April 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Voß	Bramkamp
Wirtschaftsprüferin	Wirtschaftsprüfer
(Certified public accountant)	(Certified public accountant)

Report of the Supervisory Board

Obligations, committees and appointments
To discharge its obligations, the Supervisory Board is assisted by an Investment Committee and a Balance Sheet Auditing Committee, as well as a Personnel 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.

Michael Doering and Dr Walter Tesarczyk have retired and stepped down from the Supervisory Board with effect from 31 December 2017. Dr Arno Junke also left the Board of Executive Directors with effect from 31 December 2017.

Collaboration with the Board of Executive Directors
The Board of Executive Directors informed the Supervisory Board regularly and comprehensively of the company's position and development. A total of three meetings were held in the 2017 financial year. Of the committees set up by the Supervisory Board, the Investment Committee met twice (meetings in person), the Balance Sheet Auditing Committee met once and the Personnel Committee met three times. At these meetings, the Supervisory Board received and discussed verbal and written reports from the Board of Executive Directors and adopted the applicable resolutions. Two resolutions were adopted in a written procedure.

The Supervisory Board was also kept abreast of business developments and the company's position in written quarterly reports from the Board of Executive Directors in accordance with Section 90 of the German Stock Corporation Act (AktG).

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

Detailed explanations of the company's economic position and development in accordance with the German Commercial Code (HGB) and Solvency II were provided at meetings of the Supervisory Board. 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. The holders of all four key functions in accordance with Solvency II presented their annual reports and answered questions from the Supervisory Board in the year under review. Regulatory requirements in accordance with Solvency II and other laws were also discussed and corresponding resolutions were adopted.

We determined the extent to which targets had been achieved for the 2016 financial year and agreed on targets and their weighting for 2017.

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

Adoption of the annual financial statements

The Supervisory Board elected the auditor for the 2017 audit. The actual audit order was placed by the Chairman of the Supervisory Board. The accounts, financial statements and management report for the 2017 financial year were audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Cologne, and did not give rise to any objections; an unqualified auditor's opinion was thus issued. 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 their audit.

Following the definitive result of the checks conducted by the Balance Sheet Auditing Committee and 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 for 2017 are herewith adopted. The Supervisory Board approves the Board of Executive Directors' proposal for appropriation of the balance sheet profit for 2017.

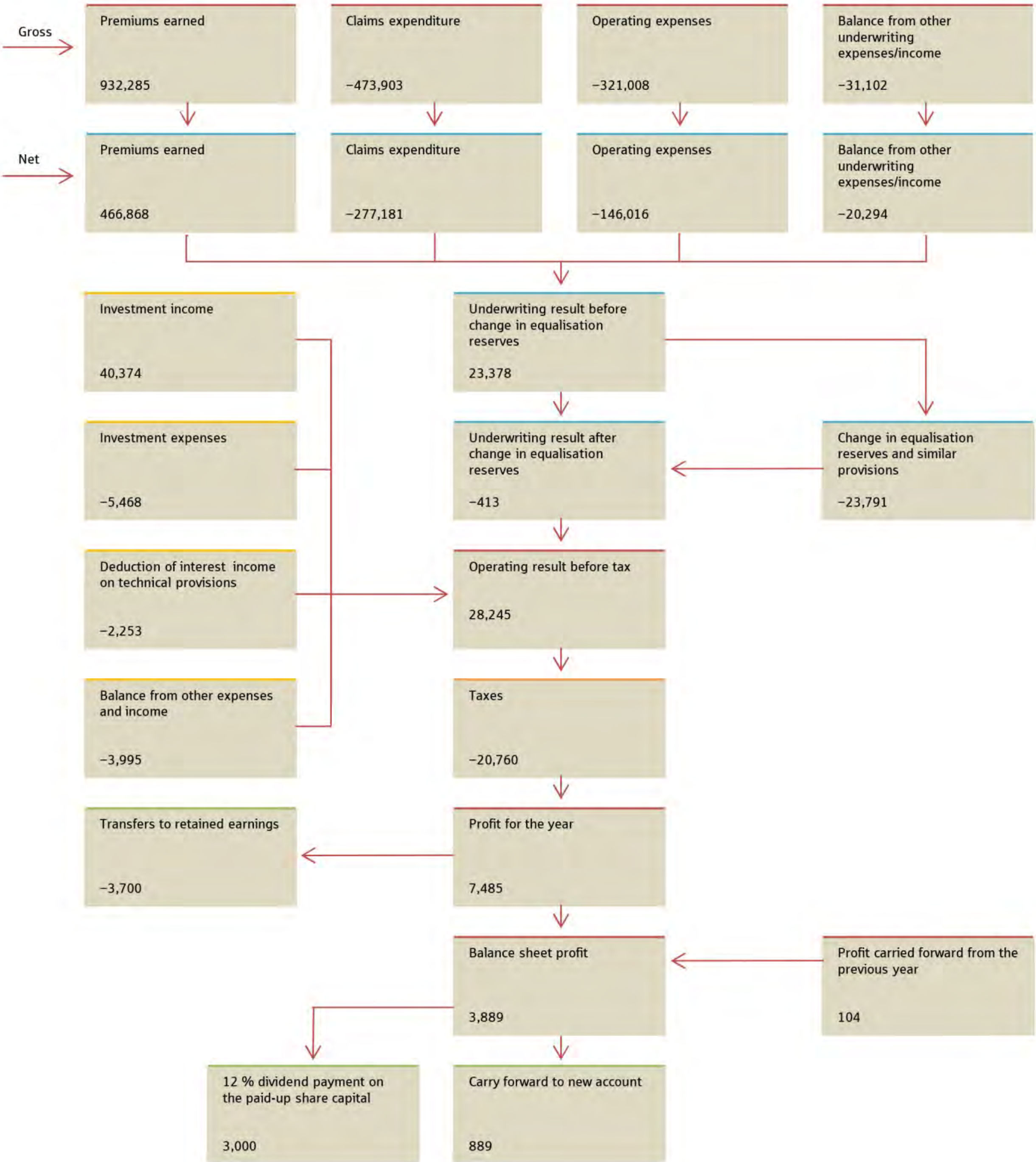
On behalf of all members of the Supervisory Board, I would like to thank the Board of Executive Directors and all employees of Deutsche Rück for their close collaboration with the supervisory bodies and their great dedication in promoting Deutsche Rück's successful further development.

Düsseldorf, 26 April 2018

Dr Frank Walthes
Chairman

GENERATION AND APPROPRIATION OF THE PROFIT IN THE 2017 FINANCIAL YEAR

in €'000



COMPANY DETAILS

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