Deutsche Rück

Deutsche Rückversicherung Group

ANNUAL REPORT

2017

Deutsche Rückversicherung Group

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Deutsche Rückversicherung AG and its subsidiary Deutsche Rückversicherung Switzerland Ltd offer reinsurance cover on the European insurance market. In this capacity, we offer our shareholders significant strategic benefits, while our excellent long-term financial standing, consistent market approach and strong client focus make us a preferred partner. Together with the Association of German Public Insurers, the Deutsche Rück Group has established itself as one of the leading reinsurers on the German market.

Key figures of the Deutsche Rück Group

2013 – 2017 FINANCIAL YEARS in €m	2017	2016	2015	2014	2013
Gross premiums written	1,201.6	1,175.0	1,077.4	1,038.3	994.5
Net premiums earned	705.8	720.7	661.1	628.3	644.2
Net loss ratio [1] (as % of net premiums earned)	66.9	66.0	69.6	75.3	86.1
Expense ratio – net [1] (as % of net premiums earned)	29.3	35.0	29.1	29.4	28.1
Combined ratio – net [1] (as % of net premiums earned)	96.4	100.9	99.0	105.0	114.4
Underwriting result – net (after change to the equalisation reserves)	–20.0	–14.0	–25.2	–35.1	–39.7
Result of general business	44.0	37.0	42.2	44.8	41.8
Operating result before tax	24.0	23.1	17.0	9.7	2.2
as % of net premiums earned	3.4	3.2	2.6	1.5	0.3
Net profit for the year (after tax)	3.0	14.5	14.3	7.8	1.0
as % of net premiums earned	0.4	2.0	2.2	1.2	0.1
Investments incl. deposits retained	1,936.7	1,861.7	1,742.3	1,665.5	1,659.4
as % of net premiums earned	274.4	258.3	263.5	265.1	257.6
Average interest rates as %	3.2	2.6	2.9	3.4	3.4
Net technical provisions (excl. equalisation reserves)	1,345.1	1,293.3	1,256.9	1,194.8	1,133.5
as % of net premiums earned	190.6	179.4	190.1	190.2	175.9
Equity capital (before appropriation of profit)	529.2	511.9	498.9	470.1	472.8
as % of net premiums earned	75.0	71.0	75.5	74.8	73.4
thereof: **Balance sheet equity** (before appropriation of profit)	225.6	232.1	221.1	206.5	202.6
as % of net premiums earned	32.0	32.2	33.4	32.9	31.4
Hybrid capital	61.8	61.8	85.0	85.0	85.0
as % of net premiums earned	8.7	8.6	12.9	13.5	13.2
Equalisation reserves	241.8	218.1	192.8	178.6	185.2
as % of net premiums earned	34.3	30.3	29.2	28.4	28.8

1 Excl. life reinsurance

Contents

Report of the Chief Executive Officer

**DEAR SHAREHOLDERS AND CLIENTS,
LADIES AND GENTLEMEN,**

The Deutsche Rück Group continued its rock-solid performance in 2017. We improved our operating result before tax and once again achieved a positive result for investment income. However, changes in tax legislation led to a significant increase in the tax burden, resulting in a much lower net profit than in the previous year. The Deutsche Rück Group nevertheless consolidated its good position in its target markets in 2017 and further strengthened its assets.

Overall conditions for our business continued to be shaped by surplus reinsurance capacity and a highly competitive market in 2017. In this challenging environment the Deutsche Rück Group benefited from its good competitive position and excellent market penetration, particularly in German-speaking markets. The Group's gross premium income rose by 2.3 % to €1.2 billion in 2017. This growth came from both non-life and life reinsurance and was attributable to connections in both Group and market business. Net premiums written fell by 1.4 % owing to our retention policy.

In terms of claims, the positive trend from previous years continued in 2017. In particular, our liability, accident and motor insurance business and our fire business played a part in the reduction of around 2.2 % in claims expenditure. The net loss ratio in our non-life business remained almost unchanged with an increase of less than one percentage point, at 66.9 %.

Expenses for insurance operations remained stable at the parent company and fell significantly at DR Swiss. This is reflected in the improvement of almost 6 percentage points in the net expense ratios for our business as a whole (to 30.6 %) and non-life business (to 29.3 %). The Deutsche Rück Group thus remains highly competitive in relation to other reinsurers.

We continued the good performance of previous years with a combined ratio in non-life business of 96.4 % in net terms, while maintaining our policy of very conservative allocations to provisions.

The technical account before changes to the equalisation reserves closed with a profit of €3.8 million, lower than in the previous year. We significantly strengthened our equalisation reserves by a net sum of €23.8 million. After changes in equalisation reserves and similar provisions, the technical account closed at €–20 million.

In view of persistently low interest rates, we are highly satisfied with our investment income. We once again achieved very positive investment income of €57.2 million, well above the previous year's figure of €41.3 million.

The operating result before tax improved slightly to €24 million. After deduction of tax expenses, which, as already mentioned, had almost doubled, this positive result led to a net profit for the year of €3 million.

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. The change in the business model in residual credit business will lead to a significant reduction in gross premiums. This will have no effect on net premiums. In addition, some of our cedants will increase their retentions in 2018, which will lead to a reduction in premium volume. However, increases in our share and natural growth will be able to offset most of this decline.

The negative impact on our technical result due to storms in the spring of 2018 was in line with our expectations. Provided that overall claims remain within the anticipated range and within our budget for major claims in 2018, we expect the performance of our underwriting business in the current financial year to enable us to further strengthen our provisions, based on the information available.

We expect investment income to be lower than in the previous year. On the whole, however, we anticipate that the net profit will be up year on year.

Frank Schaar

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. The Deutsche Rück Group 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 business partners and shareholders 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 the Deutsche Rück Group, whom I would like to thank sincerely for their excellent work in the last year.

Yours sincerely,

Frank Schaar
Chief Executive Officer

Group Management Report

Group Management Report

The Deutsche Rück Group's performance was satisfactory in the 2017 financial year. The technical result was shaped by a slight decline in the net premium volume, a lower claims and cost burden and high allocations to equalisation reserves and similar provisions. We were very pleased with our investment income, which significantly exceeded the previous year's figure. The operating result before tax was up year on year. However, changes in tax legislation led to a significant increase in the tax burden, resulting in a considerably lower net profit than in the previous year. The Group once again strengthened its assets significantly, which is reflected in its strong capital base at AAA level. The rating agency Standard & Poor's once again awarded us a rating of "A+" with a stable outlook in 2017.

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 €1.6 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 %). 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

The Deutsche Rück Group recorded gross premium growth in 2017. The volume of premiums for own account was down year on year, while net claims expenditure declined slightly. The technical account before changes to equalisation reserves closed with a profit, although it was not as high as in the previous year. We further strengthened our equalisation reserves and similar provisions. Investment income was up significantly compared with the previous year, despite the ongoing difficult situation on the market. Changes in German tax legislation led to an increase in tax expenses, resulting in a lower net profit than in the previous year.

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

DEVELOPMENTS IN DETAIL

Gross premiums in the Group rose by €26,613K or 2.3 % to €1,201,628K in the year under review. This growth came mainly from business connections with public insurers. Our subsidiary DR Swiss recorded a decline in premium income in the year under review, following growth in the previous year. For our retrocessions, we recorded growth in premiums of 8.0 % or €36,596K to €492,580K. **Premiums earned for own account** fell by €14,978K or 2.1 % to €705,759K.

The Group's claims burden continued to develop positively, with a reduction in claims expenditure in both gross and net terms. The most substantial improvement was in liability, accident and motor insurance lines. The claims burden also fell in fire insurance business, in the engineering classes of insurance and in the transit, mains water damage and life lines, although claims expenditure rose in other lines of insurance and in homeowners' insurance. 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. DR Swiss faced additional expenses due to the decision by the British Lord Chancellor to cut the discount rate used to calculate reserves for recurring benefits for all personal injury claims still being processed (Ogden Table) from 2.5 % to –0.75 %. This affected non-proportional motor liability business in the United Kingdom. There was a further increase in the burden in industrial criminal defence insurance. Overall gross claims expenditure fell by €14,957K from €671,075K to €656,118K in the year under review. The **gross loss ratio** improved from 58.1 % to 56.0 %.

After retrocessions, the Group's net claims burden came to €459,396K, compared with €463,887K in the previous year. In relation to the lower net premiums earned, the **net loss ratio** increased from 64.4 % to 65.1 %.

Expenses for insurance operations, which increased year on year at the parent company, fell overall in gross terms by €17,358K to €392,041K owing to a significant drop in expenses at DR Swiss. There was an even larger decline in expenses for own account, which fell by €42,667K from €259,716K to €217,049K. In relation to the net premiums written, the **net expense ratio** for all classes improved from 36.1 % to 30.6 %.

Other technical expenses, which relate mainly to life insurance business, rose from €23,944K to €35,418K and thus had a considerable impact on the income statement. Following a profit of €11,231K in the previous year, the technical account closed with a profit of €3,788K in the year under review. In net terms, €23,791K was allocated to equalisation reserves and similar provisions, compared with €25,208K in the previous year. The **technical account** closed with a loss of €20,003K after allocations (previous year: loss of €13,977K).

Regular income from investments totalled €61,476K, well above the previous year's income of €46,034K. This was largely attributable to the increase of €14,607K in income from associated companies, which totalled €17,462K.

Income from write-backs and realised gains on the disposal of investments were up €1,748K year on year. Investment expenses increased by €2,617K to €8,368K owing to higher write-downs.

Total investment income after deduction of interest income on technical provisions came to €57,219K (previous year: €41,279K).

As expected, the balance from other income and expenditure, which also includes the interest for our subordinated liabilities, showed a deficit of €–13,204K (€–4,245K). Overall, the non-technical account posted earnings before tax of €44,014K, an improvement on the previous year's figure of €37,034K.

Including the technical loss, the Deutsche Rück Group achieved an operating result before tax of €24,011K (previous year: €23,058K).

Tax expenses increased by €12,532K in the year under review to €21,047K, largely owing to the impact of changes in the tax discounting system for claims provisions in Germany.

After tax, the net profit for the year came to €2,964K (previous year: €14,543K).

TECHNICAL BUSINESS

Premium income

Gross premiums in the Group rose by €26,613K or 2.3 % to €1,201,628K in the year under review. **Net premiums written** fell by €9,982K or 1.4 % to €709,048K.

There was a change in the geographical origin of premiums compared with the previous year. The percentage of premiums from Germany dropped to 87.1 % (previous year: 89.5 %). The remaining 12.9 % were distributed across almost all European countries.

Residual credit business assumed by public insurers and allocated to various lines in accordance with risk accounted for the largest share of premium growth. Life insurance business and liability, accident and motor insurance lines recorded further growth, while there was a decline in fire and transit insurance lines.

At €251,917K, liability, accident and motor insurance business accounted for more than one-fifth of total premium volume. Growth in this segment came from motor liability business, which grew by €10,278K. General liability, accident and other motor insurance business declined. Since liability, accident and motor insurance business is predominantly retained for own account, net premiums were only marginally lower than gross premiums, at €248,667K.

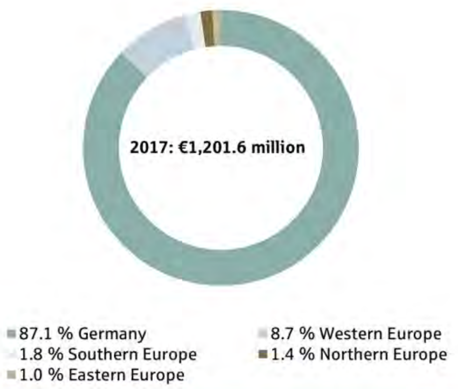
In property business, which accounts for over half of our total gross premiums, premium income fell by €18,893K or 2.6 % to €698,746K. The fire (€–7,378K) and transit (€–7,243K) lines were responsible for the largest share of this decline. Business interruption insurance recorded the highest premium growth of €1,102K. As a large portion of the parent company's property portfolio is retroceded, the remaining premium volume for own account comes to €345,193K, down €18,060K on the previous year.

Gross premiums in life reinsurance, which is operated exclusively by Deutsche Rück, grew by €9,486K or 20.4 % to €56,041K. As a large proportion of this increase was attributable to residual credit business, which continues to be retroceded, a volume of €26,209K (previous year: €29,045K) remains in net terms.

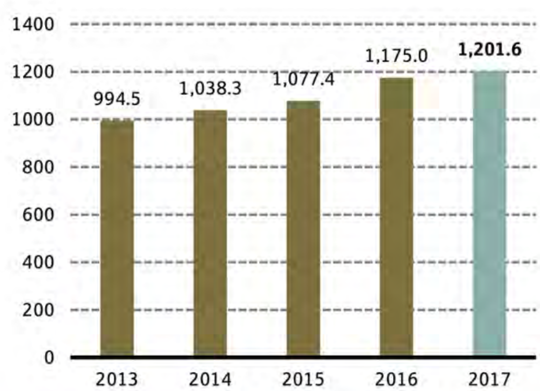
Growth in gross premium income in other lines of insurance also came primarily from residual credit business. Premium volume rose from €164,245K in the previous year to €194,924K (+18.7 %). Growth in premium volume for own account was weaker. Premium income rose by €6,461K or 7.8 % from €82,518K in the previous year to €88,979K in the year under review.

GROSS PREMIUM INCOME BY CLASS OF BUSINESS FOR 2017	GROSS		NET	
		Difference to 2016		Difference to 2016
	in € '000	in %	in € '000	in %
Property	698,746	– 2.6	345,193	– 5.0
Liability, accident, motor	251,917	+ 2.2	248,667	+ 1.8
Life	56,041	+ 20.4	26,209	– 9.8
Other lines of insurance	194,924	+ 18.7	88,979	+ 7.8
Total	**1,201,628**	**+ 2.3**	**709,048**	**– 1.4**

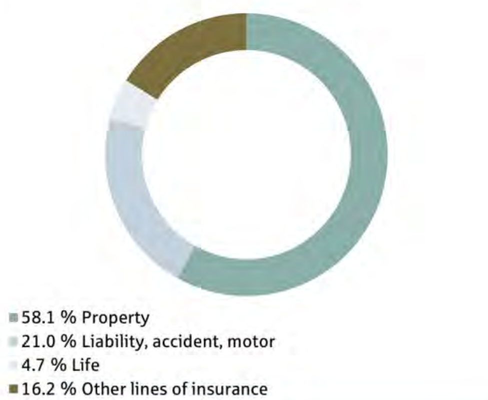
GEOGRAPHIC DISTRIBUTION OF GROSS PREMIUMS
in %



DEVELOPMENT OF GPE 2013 – 2017
in €m



PORTFOLIO STRUCTURE 2017
in %



Claims expenditure

The gross claims burden was lower in the 2017 financial year than in the previous year. Claims expenditure fell by a total of €14,957K from €671,075K to €656,118K. The gross loss ratio improved from 58.1 % to 56.0 %, while in net terms it rose slightly from 64.4 % to 65.1 %.

In fire business, which consists primarily of proportional covers ceded by our cedants in the fire, business interruption and extended coverage lines, the gross claims burden fell by €28,028K and the gross loss ratio declined from 70.3 % in the previous year to 64.2 % in the year under review.

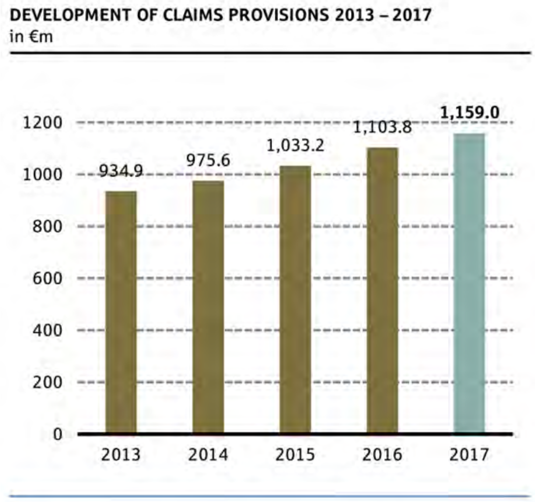
In contrast, the claims burden in the homeowners' comprehensive and windstorm lines, which have been hit hard by natural hazard events, increased again in the year under review following a drop in the previous year. Gross claims expenditure in both lines was up €18,384K compared with the previous year's burden. The gross loss ratio increased from 43.3 % in the previous year to 49.9 % in the year under review.

In liability, accident and motor insurance business, the gross claims burden fell by €7,184K from €186,363K in the previous year to €179,179K in the year under review. The gross loss ratio was 71.5 %, below the previous year's level of 74.9 %. Since most of this business is retained for own account, this also roughly reflects the development in business for own account (net loss ratio of 69.8 %). The reduction in the claims burden was solely due to the general liability line, in which the claims burden was down €14,877K compared with the previous year. In contrast, the burden increased in motor liability insurance (€+10,618K) and accident insurance (€+4,726K). As in previous years, we calculated claims provisions in line with the actuarial risk and serviced them as required by strengthening our IBNR reserves, which also contributed to the rise in claims expenditure.

Claims expenditure in the "Other insurance segments" was up significantly year on year in both gross and net terms. In particular, a one-off effect in industrial criminal defence insurance at our subsidiary DR Swiss accounted for a large portion of the increase in claims expenditure. The gross loss ratio increased to 46.4 % and the net loss ratio to 67.1 %.

The net loss ratio for non-life business rose by 0.9 percentage points from 66.0 % to 66.9 %.

The net loss ratio in life insurance business was 19.3 %, which was once again well below the previous year's level of 25.0 %.



Technical result
The net technical account before changes to equalisation reserves closed with a profit of €3,788K, down €7,443K on the previous year's figure of €11,231K. Substantial allocations to equalisation reserves and similar provisions were once again required. In net terms, however, the amount of €23,791K that was allocated was down €1,417K on the previous year's figure of €25,208K. The overall technical loss after changes to equalisation reserves and similar provisions came to €20,003K, which represented a year-on-year increase of €6,026K (previous year: loss of €13,977K).

NON-TECHNICAL BUSINESS

The Deutsche Rück Group's total investment income in the financial year amounted to €57,219K, which represented a significant increase of €15,939K compared with the previous year's figure of €41,279K. This was due in particular to regular income, which rose by €15,442K from €46,034K to €61,476K in the year under review. At the same time, investment expenses increased by €2,617K to €8,368K (previous year: €5,751K).

The significant increase in regular income from investments was mainly due to income from associated companies, which rose by €14,607K from €2,855K to €17,462K in the year under review. Income from participating interests (€875K) and from other investments (€43,138K) was up slightly overall year on year.

Investment expenses totalled €8,368K and increased mainly owing to a rise of €2,830K in write-downs. Expenses for investment management came to €4,188K, up €374K on the previous year.

We realised gains of €4,803K on the disposal of investments (previous year: €2,714K), which were offset by a small loss of €79K (previous year: €666K).

Total investment income before deduction of interest income on technical provisions improved by €14,573K to €59,472K. Interest income on technical provisions fell by €1,367K in the year under review to €2,253K, but there was nevertheless an improvement in investment income after interest income on technical provisions, which totalled €57,219K.

The balance of other income and expenses was negative in the year under review, as expected. Net expenses came to €13,204K, up €8,959K compared with the previous year. These items include gains and losses from exchange rates, which arise as a result of the reconciliation of DR Swiss' financial statements with German accounting regulations. The expenses also include interest for servicing subordinated liabilities.

The operating result before tax totalled €24,011K, an increase of €953K compared with the previous year.

Tax expenses came to €21,047K in the year under review, up €12,532K year on year. This was due in particular to changes in the tax discounting system for claims provisions in Germany.

After tax, the Group achieved a net profit for the year of €2,964K (previous year: €14,543K). This is increased to €6,691K (previous year: €14,131K) by the external shareholder's share of €3,726K in the net loss of DR Swiss (previous year: reduction of €412K).

After taking into account the consolidated loss carry forward of €3,534K and the external shareholder's share in the loss carry forward of DR Swiss, and after allocations of €3,700K to retained earnings, our Group achieved a total balance sheet profit of €2,037K (previous year: €6,649K).

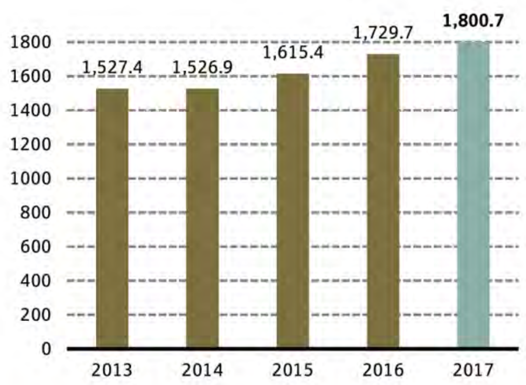
Net assets

At €1,800,670K, the investment portfolio excluding deposits retained was up €70,936K compared with the previous year's level of €1,729,734K. Other than a decline in holdings of fixed-income securities (€–84,483K) and deposits with banks (€–10,021K), growth was recorded in all asset classes. The asset class of "Shares in affiliated companies and participating interests" achieved the strongest growth of €64,314K, followed by other loans with an increase of €49,114K.

INVESTMENT PORTFOLIO STRUCTURE	2017		2016	
	in € '000	in %	in € '000	in %
Shares in affiliated companies and shareholdings	205,359	11.4	141,045	8.2
Shares, interests or shares in investment assets and other variable-yield securities	481,471	26.8	449,600	26.0
Fixed-interest securities	624,830	34.7	709,313	41.0
Registered bonds, loans and promissory notes (incl. mortgages)	469,009	26.0	399,754	23.1
Deposits with banks	20,001	1.1	30,022	1.7
Total	**1,800,670**	**100.0**	**1,729,734**	**100.0**

INVESTMENT STRUCTURE AS AT 31 DECEMBER 2017
in %

INVESTMENT PERFORMANCE 2013 – 2017
in €m

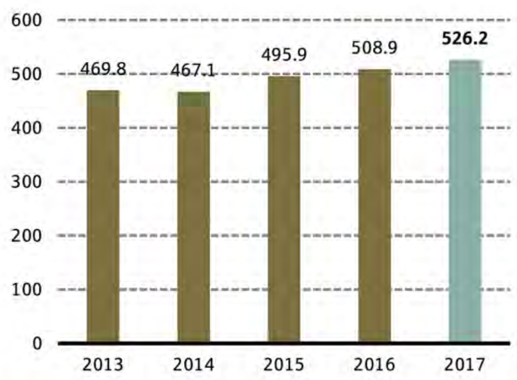


SECURITY

Balance sheet equity fell by €6,469K in the year under review to €225,649K. This was attributable in particular to the reduction of €8,695K in minority interests to €31,689K. Allocations to equalisation reserves and similar provisions came to €23,791K in the year under review, bringing them to a total of €241,843K. Hybrid capital (subordinated liabilities) remained unchanged at €61,750K. Taking into account the balance sheet profit after appropriation of profit (dividend of €3,000K), our equity capital came to €526,242K in the year under review, up €17,322K compared with the previous year. In relation to the net premiums earned, this equates to a ratio of 74.6 % (previous year: 70.6 %).

The Deutsche Rück Group's security continues to be very good and remains at a very high level even under the current solvency requirements.

DEVELOPMENT OF EQUITY 2013 – 2017
in €m



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 the Deutsche Rück Group in 2017. Standard & Poor’s has noted the Deutsche Rück Group’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 the Group to remain profitable in the long term.

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 risk-bearing resources of the companies and the Group and on fundamental strategic considerations.

RISK MANAGEMENT PROCESS: AN INTEGRAL COMPONENT OF BUSINESS OPERATIONS

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

Measurement and evaluation of risks
The core task of risk management is to analyse the overall risk situation on a regular basis from different risk perspectives. The most important element is the internal risk model underlying our risk and business management. 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, Swiss Solvency Test
- Rating
- Balance sheet result (German Commercial Code)

Multi-year projection and forecasts of key risk indicators and 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 in the Group companies. Risk management in underwriting is based on the integrated budget process during the renewals phase.

Investment risk management is based on monthly analysis and reporting processes. Ad-hoc reporting is carried out for extraordinary developments relating to major or accumulation losses in the property insurance divisions. In addition, the reported major losses are summarised each month in comparison with the same period of the preceding year.

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

RISK REPORTING AND RISK TRANSPARENCY

Risk report and ORSA report

The risk report keeps the Board of Executive Directors and Supervisory Board informed of the overall risk situation as well as 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 Rück), 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 forms a key part of the basis for the regulatory Solvency II process.

Risk information system

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

RISK CONTROL FUNCTIONS AS PART OF THE RISK MANAGEMENT PROCESS

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

Supervisory boards

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

Board of Executive Directors

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

Chief Risk Officer (Group risk management function)
The Chief Risk Officer performs the function of risk management for the Deutsche Rück Group in accordance with Solvency II. He is responsible for identifying, evaluating and analysing risks at an aggregate level. In addition, he is responsible for developing processes and methods of risk management at Group level.

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

Underwriting Committee (UWC)
An Underwriting Committee has been set up at each Group company. The Underwriting Committee gives advice in defined cases on the procedure to be adopted for major business transactions when decisions are required on underwriting.

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

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

Internal Auditing
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. Deutsche Rück and DR Swiss make use of external expertise when conducting audits. The Internal Audit Officer at DR Swiss/Deutsche Rück and his deputy are responsible for and monitor the internal auditing process.

SIGNIFICANT RISKS

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

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

1. Non-life reinsurance risks

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

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

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

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

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

2. Life reinsurance risks

Biometric risks are of major importance in life insurance. We are guided not only by our own analyses and statistical evaluations, but also by the accounting principles of our cedants and the probability tables of the German Association of Actuaries (DAV). A review of the mortality 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 the Deutsche Rück Group as a reinsurance company. The interest rate guarantee risk does not apply, as the Group only shares in mortality and disability risks, but not in the cedants' investment risk. The lapse risk is taken into account through appropriate cancellation clauses in the quotation and in the terms of the treaty. In this way, the impact on the technical result is limited, even in the event of negative deviations from the expected development.

Tools for limiting risks

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

Underwriting guidelines and limits

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

Retrocession

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

Monitoring technical provisions

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

Loss ratios and run-off results

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

NET NON-LIFE LOSS RATIOS AND RUN-OFF RESULTS

in %	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Loss ratios as % of earned premiums	66.9	66.0	69.6	75.3	86.1	72.0	73.7	73.8	67.8	68.6
Run-off results as % of provision for outstanding claims	9.1	9.3	13.1	6.4	15.4	14.8	10.9	13.3	21.5	12.6

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 the creditworthiness of issuers or contractual partners. 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 stress tests that are prescribed by the regulator, Group companies analyse historic events and map their development on their current investment portfolios. In addition, market risks for all assets and all liabilities that are subject to market risks are assessed and managed by means of value-at-risk analyses based on an economic scenario generator.

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

Minimum rating for the containment of credit risks

For fixed-income investments, the company carries out a credit assessment of the issuers/issues – based on ratings from recognised rating agencies, for example – and its own additional assessment of their creditworthiness. If no external rating information is available, the company calculates its own internal rating based on suitable documents or existing hedge tools, such as available cover funds or guarantee and warranty commitments. The minimum limit for new direct investments is generally a rating of "A-". 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 prerequisites.

Liquidity planning

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

Investment policy

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

4. Operational risks

Operational risks are risks 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

5. Other risks

Strategic risks

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

Reputation risk

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

Emerging risks

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

Instruments for controlling other risks

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

Summary of the risk situation

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

OPPORTUNITIES REPORT

As a leading reinsurer in the German market and a sought-after partner in Austria and selected European markets, 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 a provider of reinsurance solutions for medium-sized insurers in Germany, Austria and Europe, we focus on continuity in 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".

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, although this does not rule out the possibility of fluctuations in major losses.

As a medium-sized reinsurer, Deutsche Rück has the necessary flexibility and financial stability to react to unforeseen developments and seize opportunities that arise for the company. The value of our business model, which is based on long-term relations – i.e. on offering our cedants 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 overall 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.

OUTLOOK

COMPARISON OF FORECAST AND ACTUAL DEVELOPMENTS IN 2017

Expectations that restructuring measures and further improvements in conditions in fire business would have a positive impact on technical results were largely fulfilled, which was reflected in an improvement in the gross loss ratio. The net loss ratio deteriorated slightly by 0.4 percentage points owing to an increased burden from Eastern European business for own account.

Further premium growth had been anticipated in natural hazards business for 2017, although this turned out to be very slight (€225K). It is particularly difficult to provide a forecast of how results will develop in this segment, as the severity and frequency of losses due to natural hazards cannot be predicted with accuracy. Several medium-sized claims occurred in the 2017 financial year, which had more of a negative impact on results than we had expected.

We surpassed our forecast of stable premiums in liability, accident and motor insurance business, with a slight increase of 2.2 % in premiums. Our performance enabled us to further strengthen our IBNR reserves.

We had anticipated a slight decline in premiums in life insurance business. This forecast proved incorrect with respect to gross premiums, which rose by 20.4 %. As a large proportion of growth came from residual credit business, most of which is retroceded, net premiums fell by 9.8 % and thus more strongly than expected.

Expectations that we would strengthen our assets by further replenishing the equalisation reserves and similar provisions were entirely fulfilled. Our forecast of growth in investment income also proved well-founded.

FORECAST 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 reduction in gross premiums in the other insurance segments and in life insurance and will thus result in lower overall premium volume. However, this will have no effect on net premiums.

We expect the premium volume in **fire/property insurance** to remain stable in 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.

We expect premium volume to remain stable year on year in **natural hazards business**. At the time of writing this report, we anticipate that the negative impact on our company's technical result due to the two large spring storms BURGLIND and FRIEDERIKE will be within the expected range.

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 decline in **life insurance business** in 2018 owing to the change in the business model for residual credit insurance, 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 premium volume from our European client relationships to remain the same.

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 to increase. At the same time, we anticipate a lower net expense ratio.

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 be lower than in the previous year. On the whole, we anticipate that the net profit will be up year on year.

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

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, 9 April 2018

Board of Executive Directors

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

Consolidated Financial Statements

Consolidated Financial Statements

CONSOLIDATED 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		**470,767**		**300,264**
B. Investments				
I. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	12,000		5,343,606	
2. Participating interests	61,248,546		30,594,775	
3. Shareholdings in associated companies	144,098,827		105,106,294	
	205,359,373		**141,044,675**	
II. Other investments				
1. Shares, interests or shares in investment assets and other variable-yield securities	481,471,311		449,599,755	
2. Bearer bonds and other fixed-interest securities	624,829,580		709,312,974	
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	
	1,595,310,519		**1,588,689,026**	
III. Deposits retained on assumed reinsurance	136,005,317	**1,936,675,209**	131,977,938	**1,861,711,639**
C. Receivables				
I. Accounts receivable on reinsurance business	52,727,646		97,778,016	
thereof: participating interests: €1,016 (2016: €1,016)				
II. Other receivables	19,262,913	**71,990,559**	11,502,421	**109,280,437**
thereof: affiliated companies: €0 (2016: €3,522)				
thereof: companies in which a participating interest is held: €1,390,966 (2016: €352,400)				
D. Other assets				
I. Tangible assets and inventories	866,959		689,705	
II. Cash at banks, cheques and cash in hand	134,220,979	**135,087,938**	92,264,880	**92,954,585**
E. Deferred items				
I. Accrued interest and rent	11,272,914		13,196,133	
II. Other deferred items	281,682	**11,554,596**	223,997	**13,420,130**
Total assets		**2,155,779,069**		**2,077,667,055**

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	5,892,821		4,929,695	
2. Other retained earnings	137,212,279		131,336,953	
	143,105,100		136,266,648	
IV. Consolidated balance sheet profit / loss	2,036,868		6,649,132	
V. Minority interests	31,689,285	**225,648,866**	40,384,154	**232,117,547**
B. Subordinated liabilities		**61,750,000**		**61,750,000**
C. Technical provisions				
I. Unearned premiums				
1. Gross amount	202,760,961		172,595,250	
2. less: share for retroceded business	145,973,427		118,833,681	
	56,787,534		53,761,569	
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	1,422,680,933		1,379,524,626	
2. less: share for retroceded business	263,667,360		275,732,880	
	1,159,013,573		1,103,791,746	
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	241,842,798		218,052,213	
VI. Other technical provisions				
1. Gross amount	55,278,169		48,434,113	
2. less: share for retroceded business	961,943		1,254,702	
	54,316,226	**1,586,965,129**	47,179,411	**1,511,361,124**
D. Other accrued liabilities				
I. Provision for employees' pensions and similar commitments	23,886,538		21,349,744	
II. Tax provisions	16,780,740		4,395,693	
III. Other provisions	4,329,413	**44,996,691**	3,759,013	**29,504,450**
E. Deposits retained on retroceded business		**13,325,829**		**8,906,252**
F. Other liabilities				
I. Accounts payable on reinsurance business	170,074,579		222,563,363	
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	43,492,218	**221,756,797**	10,329,992	**232,893,355**
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		**1,335,757**		**1,134,327**
Total equity and liabilities		**2,155,779,069**		**2,077,667,055**

CONSOLIDATED 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	1,201,628,034		1,175,014,508	
b) Retroceded premiums	492,580,365		455,984,035	
	709,047,669		**719,030,473**	
c) Change in gross unearned premiums	–30,427,764		–19,425,217	
d) Change in retroceded share of unearned premiums	–27,139,745		–21,132,112	
	–3,288,019		**1,706,895**	
		705,759,650		**720,737,368**
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	608,101,622		577,063,960	
bb) Retroceded amount	208,853,313		187,045,820	
	399,248,309		**390,018,140**	
b) Change in provision for outstanding claims				
aa) Gross amount	48,016,535		94,011,071	
bb) Retroceded amount	–12,131,300		20,142,291	
	60,147,835		**73,868,780**	
		459,396,144		**463,886,920**
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	–8,947,281		28,389,970	
		4,530,856		**33,002,378**
6. Expenses for premium refunds for own account		**663,977**		**627,479**
7. Operating expenses for own account				
a) Gross operating expenses	392,041,471		409,399,435	
b) less: commissions and profit commissions received on retroceded business	174,992,086		149,683,269	
		217,049,385		**259,716,166**
8. Other underwriting expenses for own account		**35,417,907**		**23,944,485**
9. Subtotal		**3,787,798**		**11,231,282**
10. Change in equalisation reserves and similar provisions		**–23,790,584**		**–25,207,819**
11. Underwriting result for own account		**–20,002,786**		**–13,976,537**

ITEMS in €	2017		2016	
Amount brought forward (Technical result for own account):		**–20,002,786**		**–13,976,537**
II. Non-technical account				
1. Investment income				
a) Dividends from participating interests	875,455		608,692	
b) Income from associated companies	17,461,796		2,855,005	
c) Income from other investments	43,138,488		42,570,440	
d) Income from write-backs	1,561,013		1,903,115	
e) Realised gains on the disposal of investments	4,803,488		2,713,549	
		67,840,240		**50,650,801**
2. Investment expenses				
a) Management expenses, interest charges and other expenses on investments	4,188,229		3,813,966	
b) Write-downs on investments	4,100,831		1,271,189	
c) Realised losses on the disposal of investments	79,149		666,302	
		8,368,209		**5,751,457**
3. Interest income on technical provisions		**2,253,443**		**3,620,223**
		57,218,588		**41,279,121**
4. Other income	**876,406**		**3,533,031**	
5. Other expenses	**14,080,880**		**7,777,577**	
		–13,204,474		**–4,244,546**
6. Operating result before tax		**24,011,328**		**23,058,038**
7. Tax on income	**20,763,754**		**8,212,139**	
8. Other taxes	**283,196**		**302,557**	
		21,046,950		**8,514,696**
9. Profit / loss for the year		**2,964,378**		**14,543,342**
10. Minority interests in profit / loss for the year		**3,726,208**		**–412,070**
11. Profit / loss brought forward (–) from previous year		**–3,534,281**		**–2,083,596**
12. Minority interests in the loss brought forward from previous year		**2,580,563**		**1,551,456**
13. Transfers to retained earnings				
a) to other retained earnings		**3,700,000**		**6,950,000**
14. Consolidated balance sheet profit / loss		**2,036,868**		**6,649,132**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2017

The consolidated statement of changes in shareholders' equity has been drawn up for the first time in accordance with the provisions of German Accounting Standard No. 22 – Group Equity – (DRS 22), application of which is mandatory from the 2017 financial year onwards.

Group equity fell by €6,469K year on year to €225,649K. This change is the result of a consolidated net profit for the year of €2,964K, dividend payments of €4,204K and a negative balance from currency translation in the amount of €5,229K.

in € '000	Equity of the parent company										Non-controlling interests				Group equity
	(Corrected) issued capital	Reserves					Difference in equity due to currency translation	Profit carried forward	Consolidated net profit / loss for the year attributable to the parent company	Total	Non-controlling interests before difference in equity due to currency translation and net profit for the year	Difference in equity due to currency translation attributable to non-controlling interests	Profit/loss attributable to non-controlling interests	Total	Total
	Issued capital	Capital reserves	Retained earnings			Total									
	Ordinary shares	in accordance with Section 272 (2) No. 1-3 HGB	Legal reserve	Other retained earnings	Total										
As at 31 Dec. 2016	**25,000**	**23,818**	**4,930**	**126,718**	**131,648**	**155,466**	**4,619**	**6,649**	**0**	**191,734**	**26,939**	**13,033**	**412**	**40,384**	**232,118**
Allocation to / withdrawal from reserves			963	7,650	8,613	8,613		–8,613		0					0
Dividends paid								–3,000		–3,000	–1,204			–1,204	–4,204
Currency translation							–1,775	310		–1,465		–3,764		–3,764	–5,229
Consolidated net profit / loss for the year									6,691	6,691			–3,727	–3,727	2,964
As at 31 Dec. 2017	**25,000**	**23,818**	**5,893**	**134,368**	**140,261**	**164,079**	**2,844**	**–4,654**	**6,691**	**193,960**	**25,735**	**9,269**	**–3,315**	**31,689**	**225,649**

CONSOLIDATED CASH FLOW STATEMENT FOR THE 2017 FINANCIAL YEAR

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

The cash fund (cash and cash equivalents) corresponds to balance sheet item "D. II. Cash at banks, cheques and cash in hand". In the 2017 financial year, it rose from €92,265K to €134,221K at year-end.

Operating activities resulted in a positive cash flow of €52,106K in the year under review, following a cash inflow of €11,524K in the previous year. In particular, cash inflows came from an increase in net technical provisions, a reduction in deposits retained and accounts receivable and an increase in other liabilities. These were primarily offset by cash outflows from a reduction in deposits retained and accounts payable and from the change in other balance sheet items, which also included incoming and outgoing payments for investments.

Investment activities gave rise to a cash flow of €–795K in the year under review, compared with €–337K in the previous year, which was due to investment in tangible and intangible assets and was of only minor importance to the change in cash and cash equivalents for the Group.

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

CONSOLIDATED CASH FLOW STATEMENT

in € '000		2017	2016
	Result for the period (profit / loss for the year incl. minority interests)	2,964	14,543
+/–	Net increase / decrease in technical provisions	118,538	57,400
–/+	Increase / decrease in deposits retained and accounts receivable	36,610	–36,126
+/–	Increase / decrease in deposits retained and accounts payable	–42,110	77,240
–/+	Increase / decrease in other receivables	2,549	11,143
+/–	Increase / decrease in other liabilities	67,017	7,211
+/–	Change in other balance sheet items not related to investment or financing activities	–91,073	–121,725
+/–	Other income / expenses without impact on cash flow and adjustments to the result for the period	–42,010	11,160
–/+	Gain / loss on the disposal of investments and tangible and intangible assets	–7,418	–2,580
+/–	Income tax expense / income	20,764	8,212
–/+	Income tax paid	–13,725	–14,954
=	**Cash flow from operating activities**	**52,106**	**11,524**
+	Inflows from disposal of tangible assets	54	50
–	Outflows for investment in tangible assets	574	260
–	Outflows for investment in intangible assets	275	127
=	**Cash flow from investment activities**	**–795**	**–337**
–	Dividends paid to shareholders in the parent company	3,000	3,000
–	Dividends paid to other shareholders	1,204	1,229
=	**Cash flow from financing activities**	**–4,204**	**–4,229**
	Change in cash and cash equivalents with an impact on cash flow	47,107	6,958
+/–	Changes in cash and cash equivalents due to exchange rates and valuation	–5,151	571
+	Cash and cash equivalents at the beginning of the period	92,265	84,736
=	**Cash and cash equivalents at the end of the period**	**134,221**	**92,265**

Notes to the Consolidated Financial Statements

CONSOLIDATION

Scope of consolidation
Along with Deutsche Rückversicherung AG ("Deutsche Rück"), the consolidated financial statements continue to include the subsidiary Deutsche Rückversicherung Switzerland Ltd ("DR Swiss").

During the year under review, Deutsche Rück acquired all shares in DR Sachwerte SCS, SICAV-RAIF, Senningerberg, Luxembourg (DR Sachwerte), an alternative investment fund in the form of a simple Luxembourgian limited partnership. The company's sole purpose is to invest its assets and to pass on the income from investment management to shareholders. The company was included in the consolidated financial statements for the first time on the date that it was acquired, 8 December 2017.

Deutsche Rück also acquired all shares in DRVB GP S.à r.l. in the year under review. DRVB GP S.à r.l. owns an interest as a general partner in DR Sachwerte SCS, SICAV-RAIF and in VB Sachwerte SCS, SICAV-RAIF. In line with Section 296 (2) of the German Commercial Code (Handelsgesetzbuch – HGB), DRVB GP S.à r.l. is not consolidated in the financial statements because the company does not actively operate any business beyond fulfilling the function of a general partner and is not material to providing a true and fair view of the Group's net assets, financial position and results of operations.

The associated companies that are included in the consolidated financial statements at equity on the basis of the book value method in accordance with Sections 311 (1) and 312 (1) of the German Commercial Code (HGB) are presented in the corresponding category in the summary of Group companies. Companies not included in the consolidated financial statements pursuant to Section 311 (2) of the German Commercial Code (HGB) are also identified accordingly in the summary. These companies have not been included because the shareholdings are not material to providing a true and fair view of the Group's net assets, financial position and results of operations.

The companies listed below were included in the consolidated financial statements for the first time at equity in the year under review in accordance with the book value method as at the date of acquisition:

- Objekt Leipzig Nordstraße GmbH, Düsseldorf
  Asset-side balancing item: €2,649K, of which goodwill €922K
- Objekt Minoritenstraße Köln GmbH & Co. KG, Düsseldorf
  Asset-side balancing item: €3,594K, of which goodwill €532K
- MAGNUM EST Digital Health GmbH, Berlin
  Asset-side balancing item: €287K, of which goodwill €287K
- LP JV GmbH & Co. KG, Grünwald
- MBS Beteiligungs GmbH, Frankfurt am Main
  Asset-side balancing item: €1K, of which goodwill €1K

Goodwill is amortised on a straight-line basis over a period of five years.

For companies included at equity, the differences between the carrying amount and the equity of the associated companies as at the balance sheet date came to €13,871K. This included goodwill of €1,769K. There were no mandatory disclosures with regard to associated companies with a material influence on the Group's net assets, financial position and results of operations in the year under review.

Commitments for capital contributions in relation to consolidated companies exist in the amount of €40,436K.

Consolidation principles

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

USPF IV Beteiligungsgesellschaft mbH & Co. KG prepares its annual financial statements as at 30 September, and ecosenergy Zweite Betriebsgesellschaft mbH & Co. KG prepares its annual financial statements as at 31 October.

The annual financial statements of DR Swiss and DR Sachwerte, which are included in the scope of consolidation, are converted into financial statements that comply with German group accounting regulations.

The following companies were included in the consolidated financial statements:

COMPANY NAME AND REGISTERED HEAD OFFICE	Share in equity in %	Shareholders' equity in € '000	Result in € '000	Financial statements as at
Subsidiaries fully consolidated				
DR Sachwerte SCS SICAV-RAIF, Senningerberg (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	75.00	153,143.9	29.4	31 Dec. 2017
Associated companies consolidated at equity				
ASPF II Beteiligungs GmbH & Co. KG, Munich	20.00	787.6	399.8	31 Dec. 2016
DRVB Invest Beteiligungs GmbH, Düsseldorf	50.00	21,423.7	11,840.5	31 Dec. 2017
DRVB Wohnen Beteiligungs-GmbH, Düsseldorf	40.00	12,698.6	–19.2	31 Dec. 2017
Ecosenergy Zweite Betriebsgesellschaft mbH & Co. KG, Nordhorn	44.44	13,714.7	652.5	31 Oct. 2016
Hansapark 2 GmbH & Co. KG, Düsseldorf	50.00	22,423.3	1,728.3	31 Dec. 2017
Hansapark Verwaltungs GmbH & Co. KG, Düsseldorf	50.00	10,063.0	2,554.5	31 Dec. 2017
Immobiliengesellschaft Burstah Hamburg GmbH & Co. KG, Düsseldorf	50.00	15,409.6	213.6	31 Dec. 2017
LP JV GmbH & Co. KG, Grünwald	24.00	1)	1)	1)
MAGNUM EST Digital Health GmbH, Berlin	25.52	248.5	–493.9	31 Dec. 2016
MBS Beteiligungs GmbH, Frankfurt am Main 2)	16.67	1)	1)	1)
MF 1. THA 70 – 74 GmbH, Frankfurt am Main	31.00	2,690.4	1,045.2	31 Dec. 2017
MF 2. THA 70 – 74 GmbH, Frankfurt am Main	31.00	3,919.8	1,321.8	31 Dec. 2017
Objekt Aachen, Großkölnstraße GmbH, Düsseldorf	50.00	4,854.8	–28.2	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 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
Objekt Leipzig Nordstraße GmbH, Düsseldorf	40.00	4,775.2	214.5	31 Dec. 2017
Objekt Minoritenstraße Köln GmbH & Co. KG, Düsseldorf	37.96	–1,762.9	128.5	31 Dec. 2016
Objekt Warstein Max-Planck-Straße GmbH & Co. KG, Frankfurt am Main	40.00	50.2	–10.3	31 Dec. 2016
Objekte Nürnberg GmbH & Co. KG, Düsseldorf	40.00	18,658.5	523.0	31 Dec. 2017
RFR 1. THA 70 – 74 GmbH, Frankfurt am Main	31.00	25,085.8	17,905.2	31 Dec. 2017
RFR 2. THA 70 – 74 GmbH, Frankfurt am Main	31.00	54,776.9	23,435.1	31 Dec. 2017
USPF IV Beteiligungsgesellschaft mbH & Co. KG, Düsseldorf	33.33	56.8	1,023.9	30 Sept. 2017
Associated companies not consolidated (Section 311 (2) German Commercial Code (HGB))				
Hansapark Verwaltungs GmbH, Düsseldorf	50.00	94.5	2.2	31 Dec. 2017
OEV Equity Trust GmbH, Düsseldorf	50.00	216.2	39.2	31 Dec. 2016
Reha Assist Deutschland GmbH, Arnsberg	26.00	101.1	–176.1	31 Dec. 2016

1) Newly founded in 2017, no financial statements available as yet 2) Associated company owing to significant influence through a joint venture agreement

First-time capital consolidation of DR Swiss was carried out according to the book value method. In this process, the acquisition cost of the shareholding is offset against the amount of the subsidiary's equity attributable to these shares. The liabilities-side balancing item resulting from the difference between the exchange rate at the time the subsidiary was established and the exchange rate on the balance sheet date is included in retained earnings.

Alongside Deutsche Rück, VHV Beteiligungs-Aktiengesellschaft, Hanover, has a 25 % stake in DR Swiss. The shares held by this other shareholder are shown separately under equity capital in accordance with Section 307 (1) of the German Commercial Code (HGB). The other shareholder participates in the net profit or loss for the year and the profit or loss carry forward of DR Swiss in proportion to its stake in the company.

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

The dividend paid out by DR Swiss to Deutsche Rück amounting to €3,671K (previous year: €3,604K) was eliminated in the consolidated financial statements, with an impact on the income statement.

Information on the recognition of shareholdings in associated companies is included in the notes on accounting policies.

GENERAL INFORMATION ON CONTENT AND LAYOUT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements and Group management report have been prepared in accordance with the German Commercial Code (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).

ACCOUNTING PRINCIPLES

Intangible assets

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

Investments

Any shares in affiliated companies and associated companies that have not been included in the consolidated financial statements, as permitted by Sections 296 (2) or 311 (2) of the German Commercial Code (HGB), as well as the other 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.

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

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 by Deutsche Rück as fixed assets. The bearer bonds of DR Swiss are likewise recognised in the consolidated financial statements as fixed assets. They are recognised at acquisition cost and measured subsequent to initial recognition in accordance with the provisions governing fixed 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 variable-interest securities that are held by Deutsche Rück as current assets, as well as the investment funds held by DR Swiss, 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, current accounts at banks, cheques and cash in hand 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.

Valuation units

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

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

Accordingly, Deutsche Rück calculates the changes in fair value of underlying and hedging transactions for each valuation unit as at the balance sheet date. When doing so, a distinction is made between changes in fair value for hedged risks and changes in fair value for risks that are not hedged. The changes in fair value for hedged risks (effective part) are offset using the net hedge presentation method and are not recognised in the financial statements. Any unrealised profit that arises from the ineffective part in relation to the hedged risk will not be taken into account. If any loss results from the ineffective part in relation to the hedged risk, a corresponding provision is booked.

Changes in fair value that are not attributable to hedged risks are reported without being netted in accordance with the general accounting policies applied to the underlying transactions.

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

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

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

Balance sheet item	Type of valuation unit	Hedged risk	Amount of hedged risks
Participating interests Carrying amount: EUR 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 €23,346K 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 items results in an excess of deferred tax assets, predominantly comprising the determination of the claims provision, reinvested income from investment funds and the pension provision. An average tax rate of 31.225 % was applied for calculating deferred taxes in the year under review. The Group has exercised its right pursuant to Section 274 (1) Sentence 2 of the German Commercial Code (HGB) and opted to waive recognition of deferred tax assets in the balance sheet. There were likewise no deferred taxes resulting from application of Section 306 of the German Commercial Code (HGB) to be recognised in the consolidated financial statements as at 31 December 2017.

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 in the separate financial statements of the parent company Deutsche Rückversicherung AG; 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 spot exchange rates at the balance sheet date. Income and expense items are converted into euros, the reporting currency, using the average exchange rates for the year.

NOTES TO THE CONSOLIDATED BALANCE SHEET

DEVELOPMENT OF ASSET ITEMS A. AND B. I. IN THE 2017 FINANCIAL YEAR in € '000	Carrying amounts (previous year)	Changes in the exchange rate	Additions	Re-classifications	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	300	0	274	0	0	0	103	471
Sum A.	300	0	274	0	0	0	103	471
B. Investments								
I. Investments in affiliated companies and participating interests								
1. Shares in affiliated companies	5,344	0	12	0	5,344	0	0	12
2. Participating interests	30,595	0	36,118	0	3,151	0	2,313	61,249
3. Shareholdings in associated companies	105,106	0	40,101	0	608	0	501	144,098
Sum B.	141,045	0	76,231	0	9,103	0	2,814	205,359
Total	**141,345**	**0**	**76,505**	**0**	**9,103**	**0**	**2,917**	**205,830**

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

Notes in accordance with Section 54 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV)
The fair value of investments (excluding deposits retained) amounted to €2,009,668K in total at the end of the 2017 financial year, corresponding to a carrying amount of €1,800,670K. When determining the fair value, different valuation methods were employed depending on the type of investment concerned.

The fair values of any shares in affiliated companies and associated companies that have not been included in the consolidated financial statements, as permitted by Sections 296 (2) or 311 (2) of the German Commercial Code (HGB), as well as the other participating interests, were 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, interests or shares in investment funds 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.

Shares in affiliated companies, participating interests and shareholdings in associated companies
Shares in non-consolidated affiliated companies fell from €5,344K to €12K. The disposal of the subsidiary DR UK, London, the liquidation of which was concluded in the year under review, was offset by the acquisition of DRVB GP S.à r.l., Senningerberg, Luxembourg. This company has not been included in the consolidated financial statements, as permitted by Section 296 (2) of the German Commercial Code (HGB).

Participating interests and shareholdings in associated companies rose once again during the year under review. As well as capital payments into existing participating interests, nineteen new participating interests were acquired. Changes in valuation resulted in write-downs of €2,814K.

Participating interests and shareholdings in associated companies with a carrying amount of €67,006K and a fair value of €63,363K result in unrealised losses totalling €3,643K.

On the basis of market appraisals for these participating interests and shareholdings, Deutsche Rück anticipates that this impairment will be only temporary in nature. As such, no write-down due to permanent impairment need be recognised.

Residual payment commitments amounting to €52,850K exist in relation to participating interests and shareholdings in associated companies.

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).

Write-backs of €129K were booked on shares held as fixed assets, while a real estate bond fund held under fixed assets was written down by €207K as at the balance sheet date. Write-backs totalling €1,355K and write-downs totalling €1,320K were booked on shares and units in investment funds held as current assets during the year under review.

Commitments for capital contributions in relation to shares or units in investment funds were entered into in the amount of €48,205K.

There were no unrealised losses as at 31 December 2017.

As at 31 December 2017, the Group holds more than 10 % of the units in a domestic investment fund in accordance with Section 314 Sentence 1 No. 18 of the German Commercial Code (HGB). There are no restrictions on the option to return the units on any day.

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

Bearer bonds and other fixed-interest securities
Bearer bonds are allocated to fixed assets in the amount of €609,846K in accordance with Section 341b (1) of the German Commercial Code (HGB) and to current assets in the amount of €14,984K.

Write-downs of €261K were booked in the financial year. Of this sum, €244K related to fixed assets and €17K to current assets. A write-back of €77K was booked on securities held under fixed assets.

Bearer bonds and other fixed-interest securities held as fixed assets with a carrying amount of €11,179K and a fair value of €10,896K result in unrealised losses totalling €283K.

No write-down due to permanent impairment of the fair value has been recognised for these items, as the impairment is considered to be temporary and it is both possible and the intention to hold these investments on a long-term basis or until final maturity.

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.

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	12	12	0
2. Participating interests	61,249	70,243	8,994
3. Shareholdings in associated companies	144,099	147,768	3,670
Sum I	205,359	218,023	12,664
II. Other investments			
1. Shares, interests or shares in investment assets and other variable-yield securities	481,471	610,876	129,404
2. Bearer bonds and other fixed-interest securities	624,830	668,000	43,170
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
Sum II	1,595,311	1,791,645	196,334
Total	**1,800,670**	**2,009,668**	**208,998**

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

Deferred items

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

Shareholders' equity

Shareholders' equity comprises issued capital and the capital reserve of Deutsche Rück as well as earnings retained by the Group.

Deutsche Rück's issued capital totals €25,000K and is made up of 488,958 no-par-value shares. Capital reserves remain unchanged at €23,818K.

As part of the appropriation of profit for the 2016 financial year, €3,950K was allocated to retained earnings. A further €3,700K from the result for the 2017 financial year was transferred to retained earnings. After consolidation of withdrawals from the organisation fund, DR Swiss increased its legal reserves from the previous year's profit to a total of CHF 9,031K (€7,687K) in the financial year, a rise of CHF 1,400K (€1,284K). In accordance with Deutsche Rück's 75 % share, retained earnings from DR Swiss increased to €5,765K (previous year: €4,802K). The 25 % stake owned by VHV Beteiligungs-Aktiengesellschaft is included in minority interests in the amount of €1,922K. After taking into account the balancing item of €2,844K (previous year: €4,619K) resulting from currency translation, retained earnings total €143,105K (previous year: €136,267K).

The Group reported a net profit of €2,964K for the year (previous year: €14,543K). After offsetting the consolidated loss brought forward in the amount of €3,534K (previous year: €2,083K) and taking into account minority interests of €6,307K (previous year: €1,139K), and after allocations to retained earnings of €3,700K (previous year: €6,950K), the consolidated balance sheet profit came to €2,037K (previous year: €6,649K).

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	589	631
b) Provisions related to human resources	3,575	3,073
c) Provisions for other administration costs	165	55
Total	**4,329**	**3,759**

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 method. 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.

Rental commitments amounted to €1,873K as at 31 December 2017 (previous year: €2,666K).

There are no leasing commitments.

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 CONSOLIDATED INCOME STATEMENT

GROSS PREMIUMS WRITTEN

in € '000	2017	2016
Property and casualty business	1,145,588	1,128,461
Life insurance business	56,040	46,554
Total	**1,201,628**	**1,175,015**

PERSONNEL EXPENSES

in € '000	2017	2016
1. Wages and salaries	13,878	13,123
2. Social security contributions and employee assistance expenses	1,727	1,719
3. Expenses for employees' pensions	2,851	1,285
Total	**18,456**	**16,127**

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 12.5 % of gross earned premiums and a net profit of 14.2 % of net earned premiums.

Other income

Other income includes income of €104K (previous year: €2,773K) from currency conversions.

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). Expenses arising from currency conversion totalled €9,101K in the financial year under review (previous year: €418K).

OTHER DISCLOSURES

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

The parent company proposes to the Annual General Meeting that the balance sheet profit of €3,889K shown in the annual financial statements 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, the Group employed 127 full-time staff during the year under review (previous year: 126). Of these, 113 were based in Germany and 14 abroad.

Total remuneration of the Supervisory Board amounted to €110K in the year under review (previous year: €110K), while the Advisory Board earned €18K (previous year: €22K). Members of the Investment Committee and Audit Committee received €18K (previous year: €18K).

Remuneration for the Board of Executive Directors amounted to €1,425K. 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 €409K. Provisions recognised in this regard amount to €5,738K.

Fees in the amount of €148K were paid or set aside for the Group's statutory auditors in the 2017 financial year. Of this sum, €147K related to the audit of the annual financial statements for 2017 and €1K to the audit of the previous year's annual 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 the Group's net assets, financial position and results of operations.

Düsseldorf, 9 April 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 CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT

Audit opinion

We have audited the consolidated financial statements of Deutsche Rückversicherung AG and its subsidiaries (the Group), comprising the consolidated balance sheet as at 31 December 2017, the consolidated income statement, the consolidated statement of changes in shareholders' equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2017, and the notes to the consolidated financial statements, including a summary of the main accounting methods.

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

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

- the enclosed consolidated financial statements comply with the provisions of German commercial law as applicable to insurance companies in all key respects and give a true and fair view, in accordance with German generally accepted accounting standards, of the Group'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 Group management report gives a true and fair overall view of the Group's position. In all key respects, this Group management report is consistent with the consolidated financial statements, complies with the provisions of German law and accurately presents the opportunities and risks associated with future development.

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

Basis for our audit opinion

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

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

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

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.

<u>Risks relating to the financial statements</u>
Gross provisions for outstanding claims come to €1,422.7 million, 66.0 % 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)).

The Group 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.

The Group 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 gross provision for outstanding claims, we performed the following main audit procedures:

We recorded the process for determining provisions at Deutsche Rückversicherung Aktiengesellschaft, 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 using recognised actuarial methods to assess the level of security in provisions for outstanding claims.

We analysed the actual development of the provision for outstanding claims recognised in the previous year for Deutsche Rückversicherung Aktiengesellschaft 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 methods used and the underlying assumptions applied in assessing provisions for known and unknown claims are appropriate overall.

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

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

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

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

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

Responsibility of the Board of Executive Directors and the Supervisory Board for the consolidated financial statements and the Group management report

The Board of Executive Directors is responsible for preparing the consolidated 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 consolidated financial statements give a true and fair view of the Group'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 to ensure that it is possible to prepare consolidated financial statements that are free from any material misstatements, either intentional or unintentional.

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

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

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

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

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

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

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

- assess whether the Group management report is consistent with the consolidated financial statements and whether it complies with the law, and assess the view it presents of the Group's situation;
- conduct audit procedures with respect to the forward-looking statements presented by the Board of Executive Directors in the Group management report. On the basis of adequate and appropriate audit evidence, we trace in particular the key assumptions underlying the forward-looking statements made by the 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 consolidated financial statements for the current reporting period and that therefore constitute particularly important audit facts. We describe these facts in our auditor's report, unless laws or other legal regulations prevent these facts from being publicly disclosed.

OTHER STATUTORY AND LEGAL REQUIREMENTS

Other disclosures in accordance with Article 10 of Regulation (EU) No. 537/2014 on audits
We were elected as the auditor for the consolidated financial statements at the Supervisory Board meeting on 26 April 2017. The Supervisory Board instructed us on 15 December 2017 to perform an audit. We have acted as auditor for the consolidated financial statements of Deutsche Rückversicherung AG every year since 2000.

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

We provided the following services for Group companies that are not stated in the consolidated financial statements or the Group management report in addition to the audit of the financial statements. As well as auditing the annual/consolidated 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, 16 April 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

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

Report of the Supervisory Board

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

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 Group's position and development. A total of three meetings were held in the 2017 financial year.

At these meetings, the Supervisory Board received and discussed verbal and written reports from the Board of Executive Directors and adopted the applicable resolutions. The Supervisory Board was also kept abreast of business developments and the Group's position in written quarterly reports from the Board of Executive Directors in accordance with Section 90 of the German Stock Corporation Act (AktG). Business developments at the main subsidiaries were also considered.

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

At these meetings, the Supervisory Board received detailed explanations of the companies' economic position and development. Regular reports focused above all on the companies' corporate planning and anticipated results, their risk situation and risk management, as well as their financial situation. The 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.

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 consolidated financial statements and Group 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 the balance sheet meeting held by the Supervisory Board and reported on the key results of their audit.

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

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

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

Düsseldorf, 26 April 2018

Dr Frank Walthes
Chairman

COMPANY DETAILS

Published by
Deutsche Rückversicherung Aktiengesellschaft

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Translation
BBi (Scotland) Ltd, Glasgow, UK

Picture credits
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