Annual Report 2018

DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.
Betriebliche Sozialeinrichtung der Deutschen Bahn

DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft - DEVK RE

DEVK Allgemeine Versicherungs-Aktiengesellschaft

DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.
Betriebliche Sozialeinrichtung der Deutschen Bahn
Group

GESAGT. GETAN. GEHOLFEN.

DEVK

Business development 1948/49 to 2018

in the non-life / HUKR, health insurance and pension funds division of DEVK Versicherungen

	Portfolio (in 000s)						
Year	Motor vehicle	Non-life[1]	Liability	Accident[2]	Legal protection	Health[3]	Premiums in € millions
1948/49	-	283	-	-	-	-	0.6
1954	-	450	242	37	-	-	1.7
1960	24	558	532	83	-	-	7.3
1965	196	629	651	94	-	-	23.6
1970	293	700	752	128	-	-	47.0
1975	509	819	913	201	-	-	130.8
1976	568	852	937	215	-	-	151.5
1977	625	882	947	231	-	-	182.3
1978	669	912	912	249	-	-	203.6
1979	699	948	926	276	-	-	233.6
1980	715	1,003	937	304	2	-	244.6
1981	710	1,052	954	306	65	-	262.0
1982	720	1,084	961	326	85	-	277.2
1983	740	1,135	969	340	101	-	298.6
1984	760	1,182	972	356	123	-	321.7
1985	782	1,227	992	369	141	-	351.7
1986	810	1,292	1,009	380	161	-	371.0
1987	845	1,370	1,019	394	183	-	404.7
1988	883	1,476	1,033	412	204	-	449.4
1989	923	1,569	1,049	434	223	-	488.6
1990	959	1,632	1,115	453	245	-	517.2
1991	1,269	1,740	1,183	490	278	-	592.9
1992	1,333	1,880	1,259	518	309	-	663.7
1993	1,437	1,988	1,314	547	346	-	753.2
1994	1,518	2,072	1,353	569	377	31	877.7
1995	1,635	2,155	1,388	585	403	158	953.3
1996	1,775	2,228	1,439	861	433	252	981.9
1997	1,872	2,289	1,467	879	457	362	1,019.3
1998	1,940	2,333	1,498	886	480	457	1,041.9
1999	1,971	2,370	1,514	880	504	515	1,065.1
2000	1,978	2,406	1,530	872	530	581	1,111.6
2001	2,013	2,435	1,535	864	550	630	1,158.2
2002	2,060	2,480	1,544	868	575	685	1,222.1
2003	2,107	2,527	1,554	877	596	717	1,273.1
2004	2,193	2,562	1,572	879	621	747	1,329.6
2005	2,235	2,586	1,584	889	650	777	1,349.1
2006	2,282	2,612	1,604	912	678	826	1,363.5
2007	2,293	2,636	1,616	950	702	885	1,383.6
2008	2,465	2,673	1,634	988	724	967	1,394.2
2009	2,617	2,730	1,658	1,022	754	1,041	1,566.2
2010	2,741	2,563	1,689	1,068	781	1,100	1,594.9
2011	2,755	2,584	1,715	1,105	800	1,150	1,679.8
2012	2,748	2,596	1,732	1,127	814	1,190	1,794.1
2013	2,762	2,604	1,745	1,145	829	1,309	1,956.3
2014	2,896	2,620	1,759	1,157	846	1,345	2,137.2
2015	2,911	2,649	1,778	1,164	866	1,378	2,295.0
2016	2,961	2,688	1,798	1,176	894	1,414	2,394.3
2017	3,002	2,705	1,811	1,186	922	1,471	2,512.7
2018	**3,045**	**2,735**	**1,833**	**1,197**	**958**	**1,506**	**2,659.1**

[1] revised method of counting from 2010 [2] from 1996 incl. motor vehicle accident [3] number of tariff insured

Foreword

Dear Readers,

During 2018, the German insurance industry as a whole recorded 2.1 % growth in premium receipts. In the life insurance segment (excluding pension funds), business grew by 1.9 %. In contrast, we witnessed a slight fall during the previous year. Single premiums also rose in 2018, by 3.7 %. Furthermore, according to the German Insurance Association non-life and accident insurance premium receipts were upon the previous year by 3.3 %.

2018 was a successful year for DEVK Versicherungen. Gross premium receipts for the group as a whole rose by 3.5 % to € 3.45 billion. New business premiums of € 808 million (+ 3.6 %) meant that the sales result was thoroughly satisfactory. With premium growth in German primary insurance of 1.7 %, DEVK was able to assert its market position in domestic direct business. In non-life and accident insurance, as well as health insurance, we increased our market share and strengthened our position in the German primary insurance industry.

Our life insurance companies experienced a slight weakening of new business in 2018. The new the basic abilities insurance cover introduced during the second half of the year has already started a trend reversal. Particularly in demand are our products for covering biometric risks. The gross premiums written in DEVK's life insurance division declined strictly speaking by 3.4 % during 2018 in comparison to the previous year's figure. In contrast, DEVK Pensionsfonds-AG registered a 6.0 % rise in premium receipts in comparison to the previous period.

The **consolidated financial statements** of DEVK Sach- und HUK-Versicherungsverein's make encouraging reading. As well as DEVK's German primary insurers, these also incorporate the results of our foreign subsidiaries, our active reinsurance operations and other Group companies.

In the non-life and accident insurance segment the ratio of claims expenses and costs to premium receipts improved to 93.9 %, from 95.4 % in the previous year. After an allocation to the equalisation provision of € 25.0 million (previous year € 20.4 million), the underwriting result for non-life and accident insurance improved to € 107.3 million (previous year € 29.4 million). This strong rise is also due to special income of around € 59 million, which resulted from the end of group-internal reinsurance contracts.

At € 161.9 million, the non-technical account **investment result** was below the level in the previous year (€ 201.6 million), in particular due to high write-downs on investments.

To sum up, the DEVK insurance group recorded an overall profit from ordinary activities of € 191.4 million (previous year € 148.1 million). After taxes, the net profit for the year stood at a highly satisfactory € 82.2 million (previous year € 71.0 million).

Gottfried Rüßmann
Chairman of the Management Board DEVK Versicherungen

Financial year 2018

Company bodies

Board of Members

Helmut Diener
Marktredwitz
Spokesperson for the Board of Members

Karl de Andrade-Huber
Frankfurt am Main

Werner Balschun
Wesseling

Uwe Bertram
Ilsede

Heinz Bodammer
Friedrichshafen

Dirk Bohlmann
Bremen

Jörgen Boße
Wolgast

Jens Brenner
Reichenbach

Otto Brunner
Munich

Sandra Bühler
Bruchsal

Detlef Clever
Hamm

Manuela Dittmann
Linden

Dirk Dupré
Frechen

Gunter Ebertz
Berlin

Arnold Fischer
Neustadt (Wied)

Katrin Fröchtenicht
Kalefeld

Jenny Gliese
Tübingen

Frank-Michael Hänel
Freiburg

Christoph Henrich
Ehringshausen

Berthold Hillebrand
Kassel

Ralf Ingwersen
Hamburg

Manfred John
Stadtbergen

Axel Kleich
Leipzig

Ina Knecht-Hoyer
Berlin

Christine Knerr
Hamm

Hanka Knoche
Idstein

Dr Siegfried Krause
Berlin

Günter Leckel
Bad Endorf
(to 31 January 2019)

Manfred Leuthel
Nuremberg

Christian Magiera
Minden

Dr Ludwig Mandelartz
Aachen

Michelle Mauritz
Sonsbeck

Dörte Meier
Fürstenwalde/Spree
(from 1 June 2018)

Hans-Joachim Möller
Aschersleben

Regina Müller
Berlin

Frank Nachtigall
Frankfurt (Oder)

Mario Noack
Erfurt

Jessica Nohren
Rösrath

Hartmut Petersen
Bargteheide

Thomas Pfeifer
Reichelsheim

Dieter Pielhop
Wietzen

Hans Pieper
Düsseldorf

Heiner Reichert
Mannheim

Ada Reinhardt
Essen

Raimund Reinhart
Fulda

Ulrich Rötzheim
Idstein

Georg Sautmann
Greven

Andreas Schäfer
Schwalmstadt

Carola Schein
Sachsenbrunn
(from 1 February 2019)

Maike Schlott
Sylt

Sven Schmitte
Wesel

Ulrike Schuldt
Grünberg

Günter Staaden
Eschenburg

Christiana Tinneberg
Aschaffenburg
(to 30 May 2018)

Olaf Tinz
Duisburg

Uta Trusch
Frankfurt (Oder)

Rita Tüshelmann
Düsseldorf

Harald Vorhauer
Dortmund

Sylvia Weigel
Guntersblum

Ute Weyl-Thieme
Dillenburg

Cindy Winter-Thiel
Wurzen

Joachim Ziekau
Stendal

Supervisory Board

Alexander Kirchner
Runkel
Chairman
Chairman of Eisenbahn- und
Verkehrsgewerkschaft (EVG)

Jörg Hensel
Hamm
First Dept. Chairman
Chairman of the European
Works Council of Deutsche Bahn AG
Chairman of the General Works Council
DB Cargo AG and Chair of the
Business Unit Works Council (GF-BR)

Helmut Petermann*
Essen
Second Deputy Chairman
Chairman of the General Works Council,
DEVK Versicherungen

Christian Bormann
Weimar
Chairman of the Works Council
DB Netz AG, Wahlbetrieb Erfurt
Member of the General Works Council
DB Netz AG

Doris Fohrn*
Wesseling
Chairman of the Works Council
DEVK Versicherungen, Cologne head office
Deputy Chair of the General
Works Council of DEVK Versicherungen

Martin Hettich
Stuttgart
CEO of the board
Sparda-Bank Baden-Württemberg eG

Klaus-Dieter Hommel
Großefehn-Felde
Deputy Chairman of the Eisenbahn-
und Verkehrsgewerkschaft (EVG)

Dr Richard Lutz
Berlin
CEO of the board
Deutsche Bahn AG

Wolfgang Müller*
Zülpich
Member of the Works Council
DEVK Versicherungen, Cologne head office

Ralf Poppinghuys
Berlin
Group Officer for Tariff and
Co-management of Transdev GmbH

Martin Seiler
Unkel
Director of Personnel and Legal Affairs
Deutsche Bahn AG
(from 30 May 2018)

Andrea Tesch*
Zittow
Deputy Group Manager
Sach/HU-Betrieb and
Head of SHU Unit DEVK Versicherungen,
Schwerin Regional Management Unit

Ulrich Weber
Krefeld
Member of the board
Deutsche Bahn AG ret.
(to 30 May 2018)

* Employees’ representative

Management Board

Gottfried Rüßmann
Cologne
Chairman

Rüdiger Burg
Frechen

Michael Knaup
Cologne

Dietmar Scheel
Bad Berka

Bernd Zens
Königswinter

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Bad Friedrichshall
- Honorary Chairman -
Chairman of the German
Railway Workers

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Hamburg
Management Spokesperson
of S-Bahn Hamburg GmbH

Caner Cengiz
Nuremberg
Chairman of the General Works Council,
DB Service GmbH

Ulrich Gliem
Cologne
Head of West Office
Federal Office for Railway Assets

Peter Grothues
Castrop-Rauxel
Director, Deutsche Rentenversicherung
(German statutory pension insurance scheme)
Knappschaft-Bahn-See ret.

Horst Hartkorn
Hamburg
Chairman of the Regional Committee of
Eisenbahn- und Verkehrsgewerkschaft
(EVG) ret.

Dr Christian Heidersdorf
Kleinmachnow
Management Spokesperson
DVA Deutsche Verkehrs-Assekuranz-
Vermittlungs-GmbH

Klaus Koch
Paderborn
Deputy Chair of the General
Works Council, DB Fahrzeuginstand-
Works Council, DB Fahrzeuginstand-
haltung GmbH

Konstantin Küttler
Berlin
Chairman of the General Works Council
DB Engineering & Consulting GmbH

Matthias Laatsch
Berlin
Chairman of the Works Council
Deutsche Bahn AG

Hans Leister
Berlin
Future Workshop Rail Transport

Dr Kristian Loroch
Altenstadt
Departmental Manager at Eisenbahn-
und Verkehrsgewerkschaft (EVG)

Ronald R. F. Lünser
Holzwickede
Board Spokesperson
Verkehrsverbund Rhein-Ruhr (VRR)

Rolf Lutzke
Berlin

Heike Moll
Munich
Deputy Chair of the Group Works Council,
Deutsche Bahn AG
Chairman of the General Works Council
DB Station & Service AG

Jürgen Niemann
Berlin
CEO of betterHR GmbH

Ute Plambeck
Hamburg
Personnel Director, DB Netz AG

Stefan Schindler
Nuremberg
CEO of the board
Sparda-Bank Nürnberg eG

Dirk Schlömer
Hennef
Departmental Manager at Eisenbahn- und
Verkehrsgewerkschaft (EVG)

Heino Seeger
Bad Wiessee
CEO of Tegernsee Bahn
Betriebsgesellschaft mbH

Martin Selig
Ulm
Regional Manager of Production and
Engineering, Region Baden-
Württemberg DB Regio AG

Klaus Vögele
Ettenheim
Chairman of the General Works
Council, Schenker AG ret.

Josef Vogel
Hechingen
Director, Landes-Bau-Genossenschaft
Württemberg eG

Ulrich Weber
Krefeld
Director of Personnel and Legal Affairs
Deutsche Bahn AG ret.

Management report

Company foundations

Business model

DEVK Sach- und HUK-Versicherungsverein a.G. offers its members, who are predominantly railway workers and other transport sector employees, comprehensive bespoke, economically priced insurance cover. DEVK Sach- und HUK-Versicherungsverein a.G.'s inception was as a self-help organisation for railway workers, and today it is recognised as a company welfare scheme by Deutsche Bahn and the Federal Office for Railway Assets (Bundeseisenbahnvermögen).

The Organisation exclusively undertakes direct non-life and accident insurance operations as well as direct foreign travel health insurance operations in Germany. Details of this can be found in the notes to the management report.

The bulk of the Organisation's sales is made by our field sales force, which comprises both our own salaried field sales agents and self-employed representatives. We also engage in a variety of sales cooperation arrangements. Of particular importance in this connection are our collaborations with Sparda Bank and with the Forum für Verkehr und Logistik (Forum for Traffic and Logistics). Our central direct sales operation and corresponding links with brokers round off our sales channel mix.

Throughout Germany, the DEVK Group runs 19 subsidiaries and has around 1,220 branch offices.

Affiliated companies and participating interests

DEVK Sach- und HUK-Versicherungsverein a.G. and DEVK Lebensversicherungsverein a.G. are not affiliated companies within the meaning of section 271 paragraph 2 HGB. Details of our company's direct and indirect shareholdings in principal affiliated companies and participating interests can be found in the notes.

Delegation of functions and organisational cooperation

Under the existing general agency contracts with other DEVK insurance companies, our company has been assigned overall responsibility for all DEVK insurance brokerage operations and associated tasks.

The general operational areas of accountancy, collection, EDP, asset management, personnel, auditing and general administration are centrally organised for all DEVK companies. Furthermore, our portfolio management and claims management are merged with those of DEVK Allgemeine Versicherungs-AG. However, each company has separate lease contracts and its own inventory and equipment based on its own needs.

Under the existing joint contracts and service contracts, we provide the necessary internal staff for the Group companies DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE, DEVK Allgemeine Versicherungs-AG, DEVK Rechtsschutz-Versicherungs-AG, DEVK Krankenversicherungs-AG,

Please note that rounding may lead to differences from the mathematically exact figures (monetary units, percentages, etc.).

The sections of this report marked with [1] contain details which have not been checked by the auditor.

DEVK Allgemeine Lebensversicherungs-AG, DEVK Pensionsfonds-AG, DEVK Vermögensvorsorge- und Beteiligungs-AG and DEVK Service GmbH, as well as various smaller Group companies.

Business performance

Economic conditions generally and in the industry

Political risks remained the prevailing factor on the financial markets in 2018. Added to this came economic concerns at the end of 2018. The US president remained uncompromising with regards to trade with China, and also in relation to the European automotive industry. The increasing escalation in trade disputes and the strength of the US Dollar led in particular to problems in some of the emerging market nations. Alongside Turkey and Argentina, this included in particular countries such as South Africa and Indonesia. All in all, investors were acting with significantly greater risk aversion by the end of 2018 than at the start of the year.

Inside the Euro zone, a high degree of uncertainty prevailed during 2018 regarding the budgetary policy of the new Italian government, which refused to comply with the agreements concluded between the former government and the EU regarding new borrowing. At the same time various economic indicators showed downturns, for example the Purchasing Managers Index, in the manufacturing industry for Italy, which stood below the 50-point threshold at the end of 2018 following a significant decline over the course of the year. Overall, during 2018 this development led to a significant expansion in the spread of Italian government bonds to German government bonds.

With regards to the topic of Brexit, 2018 was characterised by mixed messages. In the interim, it appeared that a common exit agreement was not possible. Nonetheless, in November 2018 the EU and the UK drew up such an agreement. However, this agreement was subsequently rejected by the UK parliament and must now be amended and approved in 2019 with no clear prospects of success. By the end of 2018, both a hard and soft Brexit were possible, as well as a new Brexit referendum. This uncertainty continues to prevail in 2019. By the time of reporting no end to the Brexit uncertainty is in sight, with its associated risks on the currency and stock markets, and also to the economy in Europe in general.

During the second half of 2018, there were also signs of the economy in Germany weakening. As such, incoming orders to German industry from abroad declined, the IFO Business Climate Index fell sharply and GDP growth was actually negative during the third quarter of 2018. It would appear that the 2018 economic peak in the Euroland has passed. Economists surveyed by Bloomberg reduced their forecasts for German GDP growth during 2018. Last year, German GDP ultimately grew by 1.5 %, following on from 2.2 % in the previous year. In 2019, GDP growth of 1.3 % is expected.

The monetary policy also had a major influence on the capital markets in 2018. At its meeting in June 2018, the ECB expressed an expectation that the current interest rates would endure until the end of summer 2019 as a minimum. From October, the bond purchases were halved to € 15 billion, and ended entirely from December 2018. However, the ECB's portfolio of mature bonds was reinvested. In contrast, in 2018 the American Fed further increased the key interest rate a total of four times, to a corridor of 2.25 % to 2.50 %.

Despite an at least temporary rise in inflation within the Euroland, returns on the Euro fixed-interest market reduced slightly in 2018, as seen for example with the 10-year Euro swap rate, from approx. 0.9 % to just over 0.8 % by 31 December 2018. However, the figure stood at almost 1.2 % on occasions. The rear section of the yield curve in the Euro swaps area remains very level, and is in fact partially lightly inverse. The risk premiums on corporate bonds rose again significantly in 2018 due to the economic situation.

In particular from the third quarter of 2018, the value of the DAX fell considerably and closed at 10,558.96 points at the end of 2018, not far off the all-year low witnessed on 27 December 2018. Decisive in this regard were a manifestation of the political risks and an economic downturn. Striking was that the decline was initially comparatively slow and without a significant increase the volatility of the stock markets. This was followed by a steep rise in volatility in December 2018. Overall, 2018 witnessed a DAX downturn of around 18.3 % and with it the first annual decline since 2011.

Following an initial rise in value in 2018, the Euro decreased in value against most currencies. A decisive contribution to this was made by the interest rate differential due to the different monetary policies and the economic situation between Europe and the USA. In 2018, the EUR/USD exchange rate fluctuated between 1.12 and 1.25 (year's-end rate: 1.15). Meanwhile, depending on the news on Brexit, the UK pound moved between 0.86 to the Euro at the start of the year and 0.91 (year's-end rate: 0.90).

At its annual press conference at the end of January 2019, the German Insurance Association (GDV) announced that it anticipated a rise in gross non-life and accident insurance premium receipts of 3.3 % for 2018. The combined ratio (the ratio of claims expenses and costs to premium receipts) is estimated to lie close to 96 % (previous year 93.2 %). Thus, profitability of the non-life and accident sector has deteriorated in comparison to the previous year, although it just remained satisfactory.

In the motor vehicle insurance segment, 2018 premium receipts growth came to +3.2 %, which was below the figure in the previous year (+4.0 %). According to the GDV's estimate, at roughly 98 % the combined ratio should be virtually unchanged from the previous year (98.0 %).

Business trends

During the financial year, the overall portfolio of DEVK Sach- und HUK-Versicherungsverein a.G., measured in terms of numbers of policies, fell by 1.4 % to 2,649,487 policies. The risks in motor vehicle liability insurance, comprehensive and third-party, fire and theft motor insurance were counted separately here. Moped insurance policies were not taken into account.

At +1.2 %, premium growth did not quite reach the level forecast in last year's management report (+1.8 %). This was chiefly due to results in the motor vehicle insurance segment. In conjunction with a disproportionate rise in the outward reinsurance premiums, the technical income once again remained almost unchanged in comparison to the previous year, whereby a rise had been predicted. In return, the technical charges fell in comparison to the previous year due to a favourable claims experience and higher run-off gains. Once again, an increase had been forecast here. Before changes to the equalisation provision, in contrast to the predicted technical loss in the single-digit millions, this therefore resulted in technical gains of € 13.3 million. Due to this pleasing development, an allocation of € 9.8 million was made to the equalisation provision rather than a withdrawal. Even after this allocation, a technical result net of reinsurance of € 3.5 million was generated contrary to expectations.

In line with expectations, at € 30.8 million the investment income was significantly down on the previous year (€ 43.3 million). The decline was due in particular to higher depreciation. As forecast, at 1.9 % the net interest rate fell short of the level witnessed in the previous year (2.7 %).

Due to the better than expected technical result, the profit from ordinary activities of € 30.3 million exceeded the forecast figure (€ 20 million to € 25 million).

After taxes, the net profit for the year stood at a satisfactory € 23.7 million (previous year € 23.0 million).

Net assets, financial position and results of operations

Results of operations

	Financial year € 000s	Previous year € 000s	Change € 000s
Technical account	3,514	2,542	972
Investment result	30,768	43,282	-12,514
Other result	-3,952	-10,248	6,296
Profit from ordinary activities	**30,330**	35,576	-5,246
Taxes	6,630	12,576	-5,946
Net profit for the year	**23,700**	23,000	700
Allocation to other retained earnings	23,700	23,000	700
Net retained profit	-	-	-

Underwriting result, net of reinsurance

DEVK Sach- und HUK-Versicherungsverein a.G.'s gross premiums rose by 1.2 % to € 374.4 million. At € 310.1 million, the earned premiums net of reinsurance reflected the figures in the previous year. Claims expenses net of reinsurance fell by 8.6 % to € 209.5 million. Their ratio of the earned net premiums therefore declined to 67.6 % (previous year 74.0 %). At 26.3 %, the ratio of expenses for insurance business net of reinsurance to earned premiums net of reinsurance was up on the previous year figure (24.8 %).

Gross claims expenses for the financial year were 4.6 % down on the 2017 figure (previous year +6.8 %). The previous year was affected by one major claim in the motor vehicle liability insurance segment and comparatively poor weather conditions. Additionally, profits from the settlement of previous years' claim increased by 33.2 % in comparison to the previous year. As a result, gross claims expenses were 11.2 % lower than in the previous year. The gross claims ratio improved to 66.4 % (previous year 75.7 %).

Gross operating expenses rose by 5.4 % to € 94.6 million (previous year € 89.7 million).

After expenses for bonuses and rebates of € 4.1 million (previous year € 0.1 million) and an allocation to the equalisation provision of € 9.8 million (previous year € 0.9 million withdrawal), the underwriting result net of reinsurance stood at € 3.5 million (previous year € 2.5 million).

The individual insurance segments performed as follows:

Underwriting result, net of reinsurance

Figures in € 000s	Gross premiums written			Change to the equalisation provision		Technical result net of reinsurance	
Insurance class	Financial year	Previous year	Change	Financial year	Previous year	Financial year	Previous year
Accident	48,771	47,651	2.4 %	-	-	10,430	3,447
Liability	33,230	33,875	-1.9 %	426	1,655	3,168	7,182
Motor vehicle liability	102,754	103,314	-0.5 %	-6,083	-837	-4,924	-3,967
Other motor vehicle	79,746	78,962	1.0 %	-5,023	-1,215	-5,642	-4,954
Fire and non-life	108,112	104,310	4.0 %	1,028	1,547	388	738
of which:							
Fire	700	754	-7.2 %	-534	-318	-902	-753
Household contents	40,708	39,764	2.4 %	-	-	6,670	6,823
Homeowners' building	54,651	51,429	6.3 %	1,767	940	-2,843	-3,383
Other non-life	12,053	12,363	-2.5 %	-205	925	-2,537	-1,949
Other	1,789	1,729	3.5 %	-183	-247	94	95
Total	**374,402**	369,841	1.2 %	**-9,834**	904	**3,514**	2,541

The technical losses in the motor vehicle segment, in the homeowners' building insurance segment and in other non-life were more than offset by the results of the other segments.

In liability insurance, € 4.0 million was allocated to the provision for bonuses.

Investment result

At € 54.7 million, investment income was up slightly on the previous year's figure (€ 53.1 million). DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE's dividend payment came to € 15.0 million (previous year € 10.0 million). Also included were € 6.8 million in profits from disposals of investments (previous year € 6.4 million), as well as € 0.2 million in write-ups (previous year € 1.4 million).

At € 23.9 million, the investment expenses were significantly higher than in the previous year (€ 9.8 million), which was attributable in particular to the significant rise in depreciation (€ 18.2 million following on from € 4.3 in the previous year). Losses from disposals of investments came to € 0.8 million in comparison to € 1.3 million in the previous year.

On balance, our net investment income was down on the previous year's figure at € 30.8 million (previous year € 43.3 million).

Other result

The "Other" result, including the technical interest income, improved to € -4.0 million due to higher interest income from tax returns (previous year € -10.2 million).

Tax expenditure

Tax expenditure reduced to € 6.6 million (previous year € 12.6 million).

Operating result and appropriation of retained earnings

At € 23.7 million, the underwriting result was slightly higher than in the previous year (€ 23.0 million). Pursuant to section 193 of the German Insurance Supervision Act (VAG), € 4.7 million of the net profit was allocated to the loss reserve and € 19.0 million to other retained earnings.

Return on sales

A key company management figure we use is the "adjusted return on sales" in relation to our direct insurance operations.[1] This is defined as the ratio between the net pre-tax profit, less bonus and rebate expenses and the reinsurance balance, as well as changes to the equalisation provision and the DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE dividend payment in relation to the booked gross premium receipts.

The 2018 return on sales came to 11.1 % (previous year 5.7 %).

Financial position

Cash flow

Availability of the liquidity necessary to meet regular payment obligations is ensured through ongoing liquidity planning, which takes into account prospective liquidity movements over the coming twelve months. The organisation receives a continuous influx of liquid funds in the form of regular premium receipts, investment income and return flows from investments of capital. In the current financial year, the cash flow from investments – that is, the funds required for the net investment volume – amounted to € 17.4 million. The bulk of the necessary funds was taken from the cash and cash equivalents.

Ratings

Each year the internationally renowned rating agencies S&P Global Ratings and Fitch evaluate the financial performance and security of DEVK.

S&P Global Ratings last renewed its rating in August 2018. As in the years 2008 to 2017, DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Allgemeine Versicherungs-AG, DEVK Allgemeine Lebensversicherungs-AG and DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE were once again all assigned a rating of "A+" (very good). S&P Global Ratings assesses our future outlook as "stable". This confirms the very good financial position enjoyed by the DEVK companies.

Meanwhile, the rating agency Fitch came to the same conclusion, with its August 2018 rating of the financial strength of DEVK's core companies remaining unaltered at "A+". The companies rated were DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE, DEVK Allgemeine Versicherungs-AG, DEVK Rechtsschutz-Versicherungs-AG, DEVK Krankenversicherungs-AG and the two life assurance companies DEVK Lebensversicherungsverein a.G. and DEVK Allgemeine Lebensversicherungs-AG. The outlook for all our companies remains "stable".

Assets position

	Financial year € 000s	Previous year € 000s	Change € 000s
Investments	1,575,869	1,581,570	-5,701
Receivables arising out of direct insurance operations	5,373	7,708	-2,335
Receivables arising from reinsurance operations	2,789	4,586	-1,796
Other receivables	82,408	106,801	-24,392
Means of payment	14,197	57,350	-43,153
Other assets	54,069	45,075	8,995
Total assets	**1,734,706**	1,803,088	-68,382
Equity	1,059,231	1,035,531	23,700
Technical provisions	431,447	425,182	6,265
Other provisions	73,431	70,903	2,529
Deposits received from reinsurers	61,732	61,270	463
Liabilities arising out of direct insurance operations	19,412	21,329	-1,917
Liabilities arising from reinsurance operations	3,106	553	2,553
Other liabilities	86,283	188,271	-101,988
Accruals and deferred income	65	51	13
Total capital	**1,734,706**	1,803,088	-68,382

There were no significant material changes in the composition of the investment portfolio in 2018.

Of the accounts receivable from reinsurance business, during the year under review no amount (previous year T€ 2,949) was attributable to DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE.

The other receivables and payables arose predominantly from liquidity netting within the DEVK Group.

Non-financial performance indicators

Customer satisfaction

Customer satisfaction is the highest strategic goal for DEVK. DEVK therefore analyses the satisfaction of its customers on an annual basis. The findings are based on an insurance market study which uses a points scale to measure customers' satisfaction with 23 top service insurers in Germany. This enables us to measure developments over time and as compared with our competitors in graphic form. In terms of overall customer satisfaction, DEVK currently occupies 3rd place. The aim of DEVK over the coming years is to achieve first place for customer satisfaction.

Customer satisfaction index	2017	2018
Actual	737 points	746 points
Target	740 points	740 points

The target set for 2019 is 749 points.

Employee satisfaction

At DEVK, the opinion of our employees is important to us. The satisfaction of employees with their working environment, as well as their managers, colleagues, the work assigned to them and the corporate culture is central to employer appeal.

In 2018, the company-wide survey of DEVK back office and employed field sales personnel took place for the fourth time. At 81 %, the participation rate was once again above average. The results show that DEVK sits at a good level on the "commitment and enthusiasm" index. The loyalty of DEVK employees is highly pronounced and lies well above the benchmark. A company-wide short survey will take place again in 2019.

Employee satisfaction index	2017	2018
Actual	773 points	775 points
Target	790 points	775 points

The target set for 2019 is 777 points.

Sustainability report[1]

The sustainability report required under the CSR Directive Implementation Act will be published by 30 April 2019 on the DEVK website (www.devk.de).

Social responsibility[1]

DEVK is aware of its social responsibility as a successful insurer. For many years, we have taken on an above-average number of trainees by industry comparison in both back office and sales/marketing roles, with a current trainee ratio of approximately 8 %. Furthermore, prior to possible professional training at DEVK, every year at our headquarters alone we offer the opportunity of work experience to around 50 school-age young people that assists them in deciding what their future career paths might be.

DEVK actively encourages the social commitment of its personnel with so-called Days of Action. In 2018, DEVK employees once again worked hard to provide support to children's nurseries, as well as homes for young people and senior citizens. Over the last five years, over 550 colleagues from back office and field sales areas have dedicated a total of 4,400 working hours over 25 Days of Action to work for good causes. In 2019, DEVK employees will once again be rolling up their sleeves. DEVK releases the colleagues from their work for one day and provides financial support to the activities.

Personnel and sales staff numbers

Personnel are employed by DEVK Sach- und HUK-Versicherungsverein a.G. on the basis of joint contracts and service contracts, whereby they also work for DEVK subsidiary companies. In cases where staff work for both DEVK Sach- und HUK-Versicherungsverein a.G. and DEVK Lebensversicherungsverein a.G., this takes place within the ambit of dual employment contracts. As such, no services are rendered between the two companies.

The company employed an average of 2,954 people internally in 2018, of whom 2,922 had their contracts of employment with DEVK Sach- und HUK-Versicherungsverein a.G. Employees with dual employment contracts are assigned to a given company on the basis of the predominant contractual share. These figures do not include any inactive employment contracts, while part-time employees are recorded as full-time equivalents on the basis of their working hours.

At the end of the year, 1,830 self-employed personnel worked for DEVK (previous year 1,971), on top of which 576 field sales agents were directly employed by DEVK Sach- und HUK-Versicherungsverein a.G. (previous year 573). However, the entire field sales force also operates on behalf of the various other DEVK companies.

A central focus at DEVK is to identify promising employees, and to retain and support them. As such, in 2018 DEVK once again successfully concurrently implemented or initiated a number of development programmes for various target groups. Through the inter-sectoral "Cross-Mentoring Programme" run by Cologne-based enterprises, DEVK supports women with outstanding leadership potential. With the "Förderkreis Talente" (talent support group), young employees undergo two years of intensive training through a wide range of methods to enhance their personal, social and management skills. For the first time, DEVK has also appealed specifically to the 55+ target group with appropriate offers through the "Generations" initiative. Within the framework of a field sales series of initiatives, successful agency representatives benefit from preparation for agency management roles.[1]

For many employees reconciling work and family life poses a great challenge. Here at DEVK, we offer employees alternative solutions tailored to their personal situations and support them with a broad-based range of measures.[1]

Overall verdict on the management report

All in all, the company's net assets, financial position and results of operations developed in a satisfactory manner throughout 2018.

Outlook, opportunities and risks

Outlook

During 2019 we are expecting premium growth of 0.6 %. Current estimations indicate that the net technical expenses will grow faster than net technical income. Before and after changes to the equalisation provision, we expect to register a technical result in 2019 in the single-digit millions.

In 2019, DEVK anticipates comparatively volatile capital markets and the continued existence of risks to economic development. The ongoing political risks in the field of trade and punitive tariffs between the USA and China, as well as the USA and the EU, play just as important a role as the exit of the UK from the European Union and the political development in Italy. A critical factor for Italy is the further increase in the national debt, given the non-conformance with the original budget plan agreed with the EU. In the Euro Zone, but also globally (e.g. in China), there remains a risk of a further weakening of economic development, which began in the third quarter of 2018.

Given the rising economic woes and unchanged low inflation rates in the Euroland, we presently anticipate no sustained increase in the interest rate level in the coming year. Although an initial increase in the interest rate by the ECB cannot be ruled out in 2019 or at least in 2020, this is likely to be relatively low to avoid a negative impact on the economy insofar as possible. A development comparable with that on the US interest market (10-year US government bonds at 2.7 % at the end of 2018, compared with 10-year federal government bonds at 0.2 %) currently appears very unlikely in the short-term. The picture may be somewhat different with corporate bonds and bonds from debtors with low credit ratings. Here, the spreads could certainly witness further increases. According to market consensus, in 2019 the Fed is now only anticipating one or perhaps even no further increase in the interest rate rather than the three to four further 0.25 percentage point interest rate rises calculated in the third quarter of 2018, depending on the development of inflation and the economy in 2019. The interest escalation cycle in the USA is therefore expected to weaken and may already be at an end. As in 2018, we consider further rising risk surcharges for corporate bonds to be a possibility in the near future. Based on current information in 2019, in addition to economic risks it is also necessary to note that the ECB bond-buying program as a support for corporate bonds will no longer apply.

With regards to the economic situation in the USA and the Euroland, the economic framework data has ultimately further deteriorated. Although the economy continues to follow a stable course, early indicators such as the ISM Purchasing Managers Index in the USA and the IFO Business Climate Index in Germany point to a significant weakening of the growth dynamic. The company results have also weakened slightly overall, and the outlooks have become bleaker. For the UK, major question marks still surround the form, manner and time point of the EU exit. The IMF predicts a downturn in GDP for the UK of up to 4 % in the case of a "hard Brexit". According to Bloomberg, economic forecasts for 2019 indicate a weakening of global economic growth in comparison to the previous year (3.5 % following on from 3.7 %). All in all, uncertainty regarding the further development of the capital markets in 2019 is very high.

As regards the global economy and the development of the capital markets, future economic policy in the USA – after an upturn now lasting for over eight years – and in China (the trade dispute with the USA, and in particular also domestic demand and corporate debt are noteworthy here) will play a significant role from the perspective of DEVK. In addition to this, in Europe the most important factors – at the time of reporting – are the complete uncertainty surrounding the outcome of the Brexit process, political and economic development in Italy, a possible toughening of the ECB's monetary policy, as well as further electoral successes of populist political parties.

At DEVK Sach- and HUK-Versicherungsverein a.G., in the field of capital investments we anticipate a substantial increase in the absolute result coupled with a slight increase in our investment portfolio in 2019, because we do not expect a decline in share prices at the levels witnessed in 2018. As a result, our planning is founded on expectations of a net interest rate significantly higher than last year's figure.

All in all, we are expecting the 2019 profit from normal business activities to be in the order of € 30 to 35 million.

Opportunities report

Opportunities to achieve growth which outstrips the average levels achieved by our competitors are generated if customer demands for quality, service and transparency at attractive prices are met in full measure.

We are available for our customers throughout Germany via our sales network, our regional management units and our headquarters, both by telephone and face-to-face. Communication takes place through all available media. The internet is of ever-growing importance here, and we are well positioned in this respect thanks to the continuous revision and upgrading of our presence.

Our three product-line approach (Active, Comfort and Premium cover) has met with a very positive response.

Through the continuous optimisation of our processes, we ensure that we can execute our business effectively and efficiently.

Thanks to the interplay between competitive products, good service and our efficient sales operation, we view ourselves as very well placed to compete effectively.

Additional sales opportunities will arise through the recruitment drive of Deutsche Bahn.

In the field of investments, we see not only risks but also opportunities in 2019, in particular in real values such as equities and real estate. With agreements on the topics of global trade relations, the exit of the UK from the EU (Brexit), and the debt problem in Italy, as well as electoral results with gains by parties from the centre, equity and real estate values could therefore increase. At the beginning of 2019, the mood on the capital markets is characterised by a high level of uncertainty with a corresponding negative mood and a propensity to hold high levels of liquid assets among many institutional investors. An improvement in the mood could therefore lead to a rise in equities in particular. With the majority of economists predicting a positive cyclical environment it is likely that secure investments such as federal bonds will decrease in value. However, if these instruments are held to maturity, this will not have a negative influence on the profit situation of DEVK due to their non-permanent decline in value. In contrast, rising interest rates would have a marked positive effect on the interest returns on new and repeat investments. A (moderate) loss in the value of the Euro against other currencies also constitutes an opportunity for the investments of DEVK due to foreign currency gains.

In contrast to the significant decline in share values in 2018, in 2019 DEVK is anticipating a volatile sideways movement on the stock markets. Overall, we therefore expect lower write-downs and an improvement in the investment result this year.

Risk report

In accordance with section 289, paragraph 1 HGB and the requirements laid down in section 26 VAG concerning the minimum requirements for the business organisation of insurance companies (MaGo), we are hereby reporting the risks of future developments.

Risk management system

The board of an insurance company is responsible for appropriate risk management in accordance with section 26 paragraph 1 of the German Insurance Supervision Act (VAG). Within DEVK, the foundations for the risk management and the tasks and responsibilities are set out in the risk strategy and the Solvency II guidelines on risk management.

DEVK's risk management organisation is both centralised and decentralised at the same time. By "decentralised risk management", we mean the risk responsibility borne by individual departments. Thus, departmental and process managers are in charge of and responsible for risk management within their specific operational areas. The central risk management is provided by the Risk Management Function (RMF), with the support of risk management experts from the various individual departments. The RMF is responsible for the risk management methods and techniques employed and for the development and maintenance of the company-wide risk management system. It coordinates the company's risk management processes and supports those responsible for risk within individual departments.

Core elements for controlling the risks of DEVK are the risk-bearing capacity concept and the limit system. The risk-bearing capacity concept guarantees adequate coverage of all significant risks through the company's own funds. It serves to map and operationalise the risk appetite of the company. For this purpose, limit values are determined for the significant controllable risks ("market risk", "underwriting risk" and "default risk"), in order to safeguard the target coverage quota of the company for a predefined safety level. Through this, all controllable risks are assigned new maximum limits annually for the respective risk capital.

In order to operationalise risk controlling, a limit system is applied within DEVK as a monitoring system for prompt risk identification and evaluation. The limit capacity is portrayed in the form of risk ratios.

Additionally, a comprehensive risk inventory is compiled every six months, in which the risks are recorded and classified according to risk categories with the aid of a questionnaire. Wherever possible, the risks are quantified and the action necessary to manage the risks is recorded. Furthermore, risks are considered on an ad hoc basis, if these are significant.

With the aid of the risk-bearing capacity concept, limit system and risk inventory, we are able to react immediately and appropriately to developments that pose a risk to DEVK. The system's effectiveness and suitability are monitored by the Internal Auditing unit.

The decentralised risk session and the Risk Committee assess the risk situation faced by individual companies and by the Group as a whole on the basis of the risk report, taking into account all discernible significant risks, as well as the limit capacities and current risk drivers. Finally, the risk report is presented to the Management Board members responsible for the various risk areas as part of a Management Board submission. The risk report and its key risk management elements (identification, analysis, evaluation, controlling and monitoring) is updated on a quarterly basis.

Technical risks

Principal among the technical risks in non-life and accident insurance are the premium/claims risk and the reserves risk.

In this regard, we first consider the movement of the claims ratio net of reinsurance over the past ten years.

Gross claims ratio net of reinsurance

Year	%	Year	%
2009	71.1	2014	73.4
2010	76.4	2015	77.0
2011	71.5	2016	69.6
2012	72.9	2017	74.0
2013	75.5	2018	67.6

As we can see, over the 10-year period considered here the range of fluctuation is low. This is largely due to the fact that, in line with the reasonable acceptance guidelines we apply, we generally only underwrite straightforward, standardised business. Where particularly large volumes of insurance are involved, we limit our risk through co-insurance or reinsurance contracts.

Our outward reinsurance business was distributed between several external reinsurers and our Group-internal reinsurer DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE. Our choice of reinsurers took their ratings into account.

We measure our provision for claims outstanding through the prudent valuation of claims already filed, in addition to establishing additional reserves to meet claims that are statistically likely but have not yet been filed on the balance sheet date, as well as for claims that will have to be reopened after the balance sheet date. Thus, we take the reserve risk duly into account. This is also demonstrated by our settlement results for the past ten years.

Settlement result net of reinsurance as % of original provision

Year	%	Year	%
2009	16.0	2014	13.4
2010	18.4	2015	13.9
2011	17.5	2016	15.9
2012	16.8	2017	14.9
2013	15.1	2018	16.3

Our equalisation provisions provide an additional safety cushion that contributes to the smoothing of our underwriting results. As of 31 December 2018, their volume totalled € 43.6 million (previous year € 33.8 million).

Risk of defaults by debtors arising from our insurance operations

The risk of defaults by debtors from insurance operations arises from the primary insurance of claims against policyholders, insurance brokers and reinsurers.

Over the review period of the past three years, our overdue debts from insurance business averaged 4.2 % of booked gross premiums. Of these, an average of 2.7 % had to be written off. In relation to the booked gross premiums, the average default rate over the past three years was 0.1 %. Accordingly, default risk is of minimal importance for our organisation.

Amounts receivable from reinsurers at the end of the year came to € 2.8 million. An overview of amounts receivable broken down according to the ratings of our reinsurance partners is given in the following table:

Rating category	Receivables in € millions
AA-	0.27
A+	0.77
A	1.32
No rating	0.41

Investment risks

The risks stemming from investments comprise:

- the risk of unfavourable interest rate, equity price, real estate value or exchange rate movements (market price risks),
- counterparty default risk (credit risk),
- the risk of strongly correlated risks that in turn increase counterparty risk (concentration risk),
- liquidity risk; that is the risk of not always being able to meet payment obligations.

Since 1 January 2017, the internal investments catalogue has prescribed the decisive framework conditions for our investment policies. We counteract exchange/market price risk and interest rate risk by maintaining a balanced mix of investment types. Active portfolio management allows us to exploit opportunities arising from market movements to improve our results. Furthermore, we limit credit risk and concentration risk by imposing very stringent rating requirements and continually monitoring the issuers we select, thus avoiding any potentially ruinous dependence on individual debtors. We ensure a continuous influx of liquidity by maintaining a portfolio of interest-bearing investments with a balanced maturity structure. An ongoing ALM (Asset-Liability Management) process ensures that we are able at all times to meet existing and future obligations.

On the balance sheet date of 31 December 2018 we conducted our own investment stress test. The investment stress test determines whether an insurance undertaking would be in a position to meet its obligations towards its clients even if the capital markets underwent a protracted crisis. The investment stress test simulates a short-term adverse change on the capital markets and examines the impact on the insurance undertaking's balance sheet and accounts. The target horizon is the next balance sheet date. The test assumes the following scenarios: a downturn on the equity markets while the bond market remains stable, a simultaneous crash on the equity and bond markets and a simultaneous crash on the equity and real estate markets.

At the end of 2018, the following measures were in place to hedge against investment risks:

- Flexible management of the investment ratios in the special fund, in particular in the equities sphere, for instance via index futures and volatility futures
- Currency-matched refinancing in the field of indirect real estate investments
- Hedging against currency risks via forward contracts
- Adjustment of equity risks via options trading

Liquidity risks are managed by detailed multi-year investment planning. Should a liquidity shortfall arise in future, countermeasures can be taken at an early stage. Moreover, in order to improve our assessment of liquidity risks, stress scenarios in line with Solvency II stresses are applied and evaluated. On top of this, our investments are allocated to various different liquidity classes. These are assigned lower limits in relation to the investment portfolio which they must not fall below. Compliance with these limits is regularly monitored.

Interest-bearing investments

As of 31 December 2018, the Company held interest-bearing investments to a total value of € 526.6 million. Of these, a total of € 214.8 million are bearer instruments which could be subject to write-downs if interest rates rise. Of these bearer instruments, pursuant to section 341b HGB we have assigned a volume of € 162.5 million to the fixed assets since we intend to hold these papers until maturity and their current market fluctuations are viewed as temporary. Should this second assessment in particular prove wide of the mark, we shall undertake the necessary write-downs in a timely fashion. These investments exhibit a positive valuation reserve of € 11.2 million. This includes hidden liabilities totalling € 0.8 million. As of 31 December 2018, the total valuation reserves for our interest-bearing investments came to € 39.5 million. A change in returns of up to +/- 1 % would entail a corresponding value change ranging from € -31.1 million to € 34.8 million.

This intimated impact of a one percentage point interest rate rise only gives an approximate idea of its potential impact on our profitability. This is because, over the course of a year, the diminishing time to maturity of the individual securities will lead to changes in their market value and interest rate sensitivity. Moreover, the bulk of our interest-bearing investments are in bearer bonds or bonds recognised on the balance sheet at their nominal values. In these cases, under the prevailing accounting regulations an increase in the market interest rate does not lead to write-downs. Further to this, the securities currently include hidden reserves which will be reduced in the near future. The exception to this is losses of value due to deteriorating credit ratings that may affect the issuers in question.

Apart from real estate financing, which in total represents 10.5 % of our overall investments, our interest-bearing investments are predominantly in Pfandbriefe (German covered bonds) and notes receivable and bank bonds. We also invest in corporate bonds. At the end of 2018 we did not have any investments in asset-backed securities. In 2018, our bond investments focused on international bearer bonds issued by banks and companies. Our pension investments in particular involve bearer papers, assigned to the fixed assets, and also registered papers.

We continue to have minor investment commitments in countries which remain under the microscope, namely Ireland, Italy and Spain. As regards issuer risk, just 2.6 % of the company's total investments are in government bonds. The bulk of our investments in banks is either covered by various statutory and private deposit protection schemes or involves interest-bearing securities that are protected in law by special guarantee funds.

The ratings of the issuers of our interest-bearing investments break down as follows (previous year):

AA - or better	53.0 %	(52.4 %)
A	22.3 %	(23.4 %)
BBB	22.2 %	(21.3 %)
BB or worse	2.4 %	(2.9 %)

The company's rating distribution remains much the same as it was last year. We shall continue to make virtually all our new and repeat investments in interest-bearing securities with strong credit ratings.

Equity investments and holdings

The bulk of our equity investment is in DAX and EuroStoxx50 companies, as a result of which our portfolio's performance very closely matches that of these indices. A 20 % change in market prices would alter the value of our equity portfolio by € 36.7 million. Both the German and European share indices exhibited negative development during 2018. In the medium term, we continue to expect positive development, albeit with high levels of volatility in some cases. We have applied a value protection model to our equity investments in order to limit market risks. Equities to a value of € 120.6 million have been assigned to the fixed assets. The fixed-asset equities and equity funds show a positive valuation reserve of € 4.5 million. This includes hidden liabilities totalling € 2.1 million.

In light of the uncertain economic and political situation, we actively managed our ratio of equity investments throughout the year. Should growing economic problems lead to a significant downturn, various courses of action are open to us.

In particular, the Company holds 100 % participating interests in Echo Rückversicherungs-AG and DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE. Should the current values of these holdings fall, there would be a risk that the Company would have to undertake write-downs.

Real estate

On the balance sheet date, our real-estate investments totalled € 132.9 million. Of this total, a sum of € 124.4 million is invested in indirect mandates, including restricted special funds in office and other commercial real estate. Our direct holdings worth € 8.5 million are subject to scheduled annual depreciation of approximately € 0.2 million. No significant risks are currently discernible in connection with these real estate holdings, which could lead to extraordinary depreciation.

Operational risks

Operational risks may stem from inadequate or failed operational processes, the break-down of technical systems, external variables, employee-related incidents and changes in the legal framework conditions. Effective management of the operational risks is ensured through the careful structuring of the internal monitoring system. In addition to this, the main focus of the half-yearly risk inventory is on operational risks. The appropriateness and efficacy of in-house controls are monitored by the Internal Auditing unit.

DEVK's operating procedures are based on internal guidelines. The risk of employee-related incidents is limited via regulations governing authorisation and powers of representation, as well as wide-ranging automated backup for operating procedures.

Access controls and preventive measures are in place in the IT division to ensure the security and integrity of programs, data and ongoing operations. The IT infrastructure is redundant by design in order to cater for a catastrophic breakdown scenario. Restart tests are conducted regularly. Links between internal and external networks are suitably protected by state-of-the-art systems.

The emergency management is founded on corporate emergency analysis. This describes the objectives and framework conditions for precautionary measures against emergencies and how to overcome them if they occur.

Legal risks are also included in the operational risks. DEVK has established a compliance management system designed to ensure compliance with both external requirements and internal guidelines.

Solvency II

With the entry into force of Solvency II on 1 January 2016, the insurance industry has undergone radical changes to its supervisory regime. Implementation of the full requirements of Solvency II became part of regular operations in 2018. The shortening of the reporting deadlines per Solvency II proved to be a major challenge in 2018 and required the further optimisation of processes. Furthermore, in 2018 the risk-bearing capacity concept based on Solvency II and the Solvency II materiality concept were further developed with consideration to the minimum requirements on the business organisation of insurance companies (MaGo).

The solvency calculation required by supervisory law, which is based on a standard formula, showed that DEVK Sach- und HUK-Versicherungsverein a.G. has significant excess cover.

Summary of our risk status

We have complied with the supervisory requirements per Solvency II.[1]

Projections made in connection with the ORSA process have shown that sufficient risk capital cover is assured in both the present and the future.[1]

To sum up, currently there are no discernible developments that could lead to a significant impairment of the company's net assets, financial position and results of operations and thus jeopardise its continued existence.

Corporate governance statement[1]

In light of the Act Concerning the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst), we have set target figures for increasing the proportion of women on the Supervisory Board, Executive Board and at the first and second leadership levels of DEVK Sach- und HUK-Versicherungsverein a.G. These apply for 30 June 2022. These target figures and the situation on the balance sheet date of 31 December 2018 can be found in the following table.

	Target 6/2022	Actual 12/2018
Supervisory Board	17 %	17 %
Management Board	17 %	0 %
1st middle management level	14 % - 18 %	15 %
2nd middle management level	20 % - 24 %	23 %

The actual quotas at the end of 2018 reflect the target quotas with the exception of the board level.

Cologne, 15 March 2019

The Management Board

Rüßmann **Burg** **Knaup** **Scheel** **Zens**

Notes to the management report

List of insurance classes covered during the financial year

Accident insurance
General accident insurance
Motor vehicle accident insurance

Liability insurance

Motor vehicle liability insurance

Other motor vehicle insurance
Fully comprehensive motor insurance
Third-party, fire and theft insurance

Fire and non-life insurance
Fire insurance
Burglary and theft insurance
Water damage insurance
Glass insurance
Windstorm insurance
Household contents insurance
Homeowners' building insurance
Engineering insurance
Universal caravan insurance
Extended coverage insurance
Travel baggage insurance
All-risk insurance

Other insurance policies
Breakdown service insurance
Cheque card insurance

Foreign travel health insurance

Financial statements

Balance sheet to 31 December 2018

Assets	€	€	€	Previous year € 000s
A. Intangible assets				
I. Licences, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licences in such rights and assets		6,414,298		9,281
II. Payments on account		1,019,178		386
			7,433,476	9,667
B. Investments				
I. Real estate and similar land rights, including buildings on third-party land		8,494,439		8,638
II. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	727,072,100			721,088
2. Participating interests	32,262,538			26,224
3. Loans to companies in which a participating interest is held	-			260
		759,334,638		747,572
III. Other investments				
1. Shares, units or shares in investment funds and other variable-interest securities	305,352,708			284,671
2. Bearer bonds and other fixed-interest securities	181,992,715			190,238
3. Mortgage loans and annuity claims	165,238,087			174,829
4. Other loans	136,553,725			156,552
5. Other investments	18,902,682			19,071
		808,039,917		825,360
			1,575,868,994	1,581,570
C. Accounts receivable				
I. Receivables arising out of direct insurance operations:				
1. Policyholders	372,616			591
2. Intermediaries	5,000,381			7,117
		5,372,997		7,708
II. Receivables arising out of reinsurance operations		2,789,226		4,585
of which:				
Affiliated companies: - €				3,004
III. Other receivables		82,408,226		106,801
of which:			**90,570,449**	119,094
Affiliated companies: € 60,551,400				87,534
D. Other assets				
I. Tangible assets and inventories		8,892,758		9,082
II. Cash at banks, cheques and cash in hand		14,197,069		57,350
III. Other assets		17,946,879		11,576
			41,036,706	78,008
E. Prepayments and accrued income				
I. Accrued interest and rent		5,853,624		6,687
II. Other prepayments and accrued income		13,942,564		8,062
			19,796,188	14,749
Total assets			**1,734,705,813**	1,803,088

Pursuant to section 128 paragraph 5 of the German Insurance Supervision Act (VAG), I hereby attest that the assets detailed in the list of coverage assets are properly invested and secured in accordance with statutory and supervisory authority requirements.

Cologne, 14 March 2019 **The Trustee** **Thommes**

Liabilities	€	€	€	Previous year € 000s
A. Equity				
- Retained earnings				
1. Loss reserve pursuant to section 193 VAG		184,406,441		179,666
2. Other retained earnings		874,824,200		855,864
			1,059,230,641	1,035,531
B. Technical provisions				
I. Provision for unearned premiums				
1. Gross amount	152,168			147
2. of which from:				
Reinsurance amount	10,630			10
		141,538		137
II. Premium reserve		4,696		6
III. Provision for claims outstanding				
1. Gross amount	531,773,651			541,710
2. of which from:				
Reinsurance amount	160,242,176			162,941
		371,531,475		378,769
IV. Provision for bonuses and rebates		14,609,293		10,607
V. Equalisation provision and similar provisions		43,644,361		33,810
VI. Other technical provisions				
1. Gross amount	1,565,773			1,999
2. of which from:				
Reinsurance amount	49,845			146
		1,515,928		1,853
			431,447,291	425,182
C. Other provisions				
I. Provisions for taxation		36,033,085		35,562
II. Other provisions		37,398,123		35,341
			73,431,208	70,903
D. Deposits received from reinsurers				
			61,732,198	61,270
E. Other liabilities				
I. Liabilities arising out of direct insurance operations towards				
1. Policyholders	16,086,779			17,691
2. Intermediaries	3,324,720			3,638
		19,411,499		21,329
II. Liabilities arising from reinsurance operations		3,105,672		553
of which:				
Against affiliated companies: € 2,671,515				154
III. Other liabilities		86,282,813		188,271
of which:			**108,799,984**	210,152
From taxes: € 8,801,442				8,330
Against affiliated companies: € 34,226,152				171,867
F. Prepayments and accrued income				
			64,491	51
Total liabilities			**1,734,705,813**	1,803,088

I hereby confirm that the premium provision of € 12,089,410.01, recorded on the balance sheet under item B. II. or B. III. of the liabilities and shareholders' equity, has been calculated in compliance with sections 341f and 341g of the German Commercial Code (HGB) as well as the Regulation issued pursuant to section 88 paragraph 3 of the Insurance Supervision Act (VAG).

Cologne, 14 March 2019 **The Actuary in Charge** **Weiler**

Profit and loss account

for the period from 1 January to 31 December 2018

Items	€	€	€	Previous year € 000s
I. Technical account				
1. Earned premiums net of reinsurance				
a) Gross premiums written	374,401,211			369,842
b) Outward reinsurance premiums	64,253,619			59,792
		310,147,592		310,049
c) Change in the gross provision for unearned premiums	-4,825			2
d) Change in the gross provision for unearned premiums, reinsurers' share	389			-
		-4,436		2
			310,143,156	310,051
2. Allocated interest, net of reinsurance			**103,066**	177
3. Other technical income, net of reinsurance			**149,264**	157
4. Claims incurred, net of reinsurance				
a) Claims paid				
aa) Gross amount	258,520,699			251,798
bb) Reinsurers' share	41,779,434			36,113
		216,741,265		215,685
b) Change in the provision for claims outstanding				
aa) Gross amount	-9,936,056			28,163
bb) Reinsurers' share	2,698,739			-14,543
		-7,237,317		13,620
			209,503,948	229,305
5. Changes in other technical provisions, net of reinsurance				
a) Premium reserve, net of reinsurance		1,202		-
b) Other technical provisions, net of reinsurance		313,748		-135
			314,950	-135
6. Bonuses and rebates, net of reinsurance			**4,101,203**	90
7. Net operating expenses, net of reinsurance				
a) Gross operating expenses for insurance operations		94,615,232		89,736
b) of which, from: Reinsurance commissions and profit participation		13,059,464		12,694
			81,555,768	77,041
8. Other technical charges, net of reinsurance			**2,201,703**	2,177
9. Subtotal			**13,347,814**	1,638
10. Change to the equalisation provision and similar provisions			**-9,834,040**	904
11. Technical result net of reinsurance			**3,513,774**	2,542
Balance carried forward:			3,513,774	2,542

Items	€	€	€	€	Previous year € 000s
Balance carried forward:				3,513,774	2,542
II. Non-technical account					
1. Income from investments					
a) Income from participating interests		18,427,829			12,596
of which: from affiliated companies: € 17,608,273					12,099
b) Income from other investments					
aa) Income from real estate and similar land rights, including buildings on third-party land	2,078,065				1,967
bb) Income from other investments	27,208,588				30,741
		29,286,653			32,709
c) Income from write-ups		180,093			1,383
d) Gains on the realisation of investments		6,816,624			6,369
			54,711,200		53,056
2. Investment expenses					
a) Investment management charges, interest expenses and other charges on capital investments		4,989,819			4,175
b) Write-downs on investments		18,158,866			4,265
c) Losses on the realisation of investments		794,221			1,334
			23,942,905		9,774
			30,768,295		43,282
3. Allocated interest			963,966		957
				29,804,328	42,325
4. Other income			446,868,975		421,199
5. Other charges			449,856,556		430,491
				-2,987,581	-9,291
6. Profit from ordinary activities				**30,330,522**	35,576
7. Taxes on income			5,476,001		11,983
8. Other taxes			1,154,521		593
				6,630,522	12,576
9. Net profit for the year				**23,700,000**	23,000
10. Allocation to retained earnings					
a) in the loss reserve pursuant to section 193 VAG			4,740,000		4,600
b) in other retained earnings			18,960,000		18,400
				23,700,000	23,000
11. Net retained profit				**-**	-

Notes to the accounts

Accounting and valuation methods

Intangible assets (IT software) are recognised at their costs of acquisition and, with the exception of advance payments, subjected to scheduled depreciation. Low-value assets are either assigned to a pool of such assets, in which case they are depreciated over a five-year period, beginning from the year of acquisition. Otherwise they are recorded as operating expenses in their year of acquisition.

Land, land rights and buildings including buildings on third-party land are recorded at their costs of acquisition or production and subjected to scheduled depreciation.

Shares in affiliated companies and the **participating interests** were shown either at their costs of acquisition or at the lower of cost or market value.

Equities, fund units or shares and other variable-yield securities, the **bearer bonds and other fixed-interest securities** are shown at the lower of their costs of acquisition or market prices. Investments assigned to the fixed assets pursuant to section 341b paragraph 2 HGB are valued according to the diluted lower value principle. Investments assigned to the current assets were valued according to the strict lower value principle. Where a write-down to a lower value took place in previous years, a corresponding write-up subsequently took place if this asset could then be assigned a higher value on the balance sheet date. These write-ups took place to the lower of the acquisition cost or market value.

Derivatives were valued at their costs of acquisition or their fair value, depending on which was lower. When determining the fair value, the market value was applied. For stock options with a value on the balance sheet date of more than the reported liability, a provision was recorded for the impending losses from pending transactions. The settlement method was applied for the calculation.

Mortgage loans and annuity claims are recognised at their costs of acquisition less an individual value adjustment for the potential default risks. The cumulative amortisation is recognised as revenue over the mortgage term.

Registered bonds are recognised at their nominal values.
Premium and discount points are distributed over the term of the loans via deferrals and accruals.

Notes receivable, loans and **other loans** are recognised at their amortised cost plus or minus the cumulative amortisation of the difference between the cost of acquisition and the redemption amounts, applying the effective interest method.

Other investments are recognised at the lower of acquisition cost or stock market value.

Receivables from direct insurance operations are capitalised at their nominal values less individual value adjustments plus a general write-down to cover the potential default risk.

Receivables from reinsurance operations are based on the reinsurance contracts and are recognised at their nominal values.

Other receivables are shown at their nominal values.

Other assets, excluding operating or office equipment, are recognised at their nominal values. Operating and office equipment is shown at its cost of acquisition or production, reduced by scheduled depreciation. Depreciation was calculated according to the straight-line method. Low-value assets were written off in the year of acquisition. Low-value assets are either assigned to a pool of such assets, in which case they are depreciated over a five-year period, beginning from the year of acquisition. Otherwise they are recorded as operating expenses in their year of acquisition.

Apart from the advance payments of costs for future periods, **prepayments and accrued income** chiefly comprise the interest claims not yet due and premium on registered bonds, which are recorded at their nominal values.

Technical provisions are calculated by application of the following principles: The **provisions for unearned premiums** for direct insurance operations are calculated separately for each policy, taking into account the individual technical policy start, with due regard to the tax regulations laid down by the Finance Minister of North Rhine-Westphalia on 30 April 1974.

The premium reserve required for the child accident insurance was calculated individually according to the prospective method, taking implicit recognised costs duly into account. The calculation was based on the DAV 2006 HUR mortality table. The technical interest rate stands at between 0.9 % and 4.0 %, depending on the time of initial formation of the provision.
Pursuant to section 5 paragraph 4 DeckRV, a supplementary interest reserve with a reference interest rate of 2.09 % was formed for policies with a guaranteed interest rate of at least 2.25 %.

The **provision for claims outstanding** is calculated individually for each claim. A provision for losses incurred but not reported is established according to general blanket criteria. The provision includes amounts designated for claims settlement.

The **pensions premium reserve** was calculated in accordance with section 341g HGB. The calculation was based on the DAV 2006 HUR mortality table. The technical interest rate stands at between 0.9 % and 4.0 %, depending on the time of initial formation of the provision.
The reinsurance amount was calculated in accordance with the contractual agreements in this respect.
The provisions from HUK pensions are not premium reserves in the sense of section 341f HGB. As such, section 5 paragraphs 3 and 4 DeckRV are not applicable here.
Because our net interest rate in the 2018 financial year was below the average technical interest rate of our HUK pensions portfolio, in accordance with section 5 paragraph 4 DeckRV an interest rate reinforcement with a reference interest rate of 2.09 % was formed for policies with a guaranteed interest rate of at least 2.25 %.

The allocation to the **provision for bonuses** was made on the basis of Executive Board and Supervisory Board decisions that took tax regulations duly into account.

The **provision for rebates** was established on the basis of contractual agreements with policyholders.

The **equalisation provision and other provisions** were calculated in accordance with the annex to section 29 of the German Regulation on Accounting in the Insurance Sector (RechVersV).

The **other technical provisions** include unused premium amounts from dormant motor insurance policies, the provision for road traffic victims ceded by Verkehrsopferhilfe e.V. (the Road Accident Victims Aid Association), a cancellation provision for premium claims, a provision for premiums already received and for premium obligations, and also cancellation provisions for reinsurance contracts. These provisions are either estimated or as far as possible calculated on the basis of mathematical models, based on past figures where applicable.

The **other provisions** were formed on the following basis:
The **tax provisions** and **other provisions** (with the exception of the provision for partial retirement benefit obligations and anniversary payments) are calculated according to anticipated needs and set at the levels necessary to the best of our commercial judgement. Pursuant to section 253 paragraph 2 HGB, other provisions with a residual term of more than one year are discounted at an average market interest rate corresponding to their residual terms.

The **provision for partial retirement benefit obligations** is calculated according to the projected unit credit method on the basis of the HEUBECK 2018 G actuarial tables. The discounting interest rate was set at 0.96 % (previous year 1.44 %), calculated on the basis of an assumed residual term of three years. The financing age on expiry corresponds with the contractual age on expiry. The rate of pay increase was set at 2.1 % per annum.

The **anniversary payments provision** was also calculated according to the projected unit credit method on the basis of the HEUBECK 2018 G actuarial tables. The discounting interest rate was set at 2.32 % (previous year 2.81 %), calculated on the basis of an assumed residual term of 15 years (cf. section 253 paragraph 2 sentence 2 HGB). The financing age on expiry corresponds with the contractual age on expiry. The rate of pay increase was set at 2.1 % per annum.

The **deposits received from reinsurers** result from a reinsurance agreement to cover claims and pensions provisions, valued at the settlement values.

Liabilities arising out of direct insurance operations and **other liabilities** are measured at the settlement values.

Liabilities arising out of reinsurance operations result from the reinsurance contracts and are recognised at the settlement value.

The **accruals and deferred income** comprise the discount points on registered bonds and advance rent receipts.

Items in foreign currency are converted on the balance sheet date at the median foreign currency exchange rate.

The **technical interest rate net of reinsurance** was set at 4.0 %, 3.25 %, 2.75 %, 2.25 %, 1.75 %, 1.25 % or 0.90 % of the respective arithmetical means of the initial and final amounts in the gross pension coverage provisions for accident, liability, motor vehicle liability and motor vehicle accident insurance.

The calculations reveal deferred tax due to tax relief resulting from differences between accounting valuations and valuations for tax purposes. These are expected to diminish in future financial years. However, in exercise of our option under section 274 paragraph 1 HGB, we are not recognising any deferred tax asset.

Changes to Asset Items A., B. I. to III. during the 2018 financial year

Assets	Balance sheet values Previous year € 000s	Additions € 000s	Transfers € 000s	Disposals € 000s	Write-ups € 000s	Write-downs € 000s	Balance sheet values Financial year € 000s
A. Intangible assets							
1. Licences, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licences in such rights and assets	9,281	1,269	73	73	-	4,136	6,414
2. Payments on account	386	706	-73	-	-	-	1,019
3. Total A.	9,667	1,975	-	73	-	4,136	7,433
B. I. Real estate and similar land rights, including buildings on third-party land							
	8,637	25	-	-	-	168	8,494
B. II. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	721,088	5,984	-	-	-	-	727,072
2. Participating interests	26,224	6,073	254	48	-	240	32,263
3. Loans to companies in which a participating interest is held	260	-	-254	6	-	-	-
4. Total B. II.	747,572	12,057	-	54	-	240	759,335
B. III. Other investments							
1. Shares, units or shares in investment funds and other variable-interest securities	284,671	76,842	-	41,340	180	15,000	305,353
2. Bearer bonds and other fixed-interest securities	190,238	18,465	-	24,226	-	2,484	181,993
3. Mortgage loans and annuity claims	174,828	14,572	-	24,162	-	-	165,238
4. Other loans							
a) Registered bonds	92,000	-	-	15,000	-	-	77,000
b) Notes receivable and loans	61,995	-	-	4,998	-	-	56,997
c) Other loans	2,557	-	-	-	-	-	2,557
5. Other investments	19,071	764	-	667	-	266	18,902
6. Total B. III.	825,360	110,643	-	110,393	180	17,750	808,040
Total	**1,591,236**	**124,700**	**-**	**110,520**	**180**	**22,294**	**1,583,302**

The write-downs of intangible assets and real estate and similar land rights, including buildings on third-party land represent scheduled amortisation and depreciation.

Notes to the balance sheet

Re Assets B.

Investments

Pursuant to section 341b paragraph 2 HGB, we have assigned investments for long-term retention in the investment portfolio. As of 31 December 2018, our investments had the following book and current values:

Investments		
	Book value €	Current value €
B. I. Real estate and similar land rights, including buildings on third-party land	8,494,439	26,070,000
B. II. Investments in affiliated companies and participating interests		
1. Shares in affiliated companies	727,072,100	1,609,151,360
2. Participating interests	32,262,538	32,829,362
B. III. Other investments		
1. Shares, units or shares in investment funds and other variable-interest securities	305,352,708	337,267,010
2. Bearer bonds and other fixed-interest securities	181,992,715	193,961,601
3. Mortgage loans and annuity claims	165,238,087	177,785,263
4. Other loans		
a) Registered bonds	77,000,000	83,438,727
b) Notes receivable and loans	56,997,266	64,277,416
c) Other loans	2,556,459	2,756,180
5. Other investments	18,902,682	22,123,203
Total	**1,575,868,994**	**2,549,660,122**
of which: Investments valued at costs of acquisition	1,498,868,994	2,466,221,396
of which: Investments in fixed assets pursuant to section 341b paragraph 2 HGB	283,049,931	298,762,075

The valuation reserves include hidden liabilities totalling € 3.4 million. These relate to equities, mortgage loans, notes receivable and loans, bearer bonds and participating interests.

Depending on the investment type, a variety of different methods were used to calculate the current values.

Real estate is valued according to the gross rental method. All real estate held on 31 December 2018 was revalued with effect from that date.

The current value of shares in affiliated companies and participating interests is calculated either on the basis of gross rental values, at market prices or book value equals market value.

Both dividend-bearing securities and fixed-interest securities capitalised at their costs of acquisition are valued using the year-end market prices. Pursuant to section 56 RechVersV, the current values of the registered bonds, notes receivable and loans were calculated at normal market conditions on the basis of the yield curve. The current value of other investments was calculated on the basis of the year's-end prices reported by an independent financial enterprise.

Lien on real estate was valued using the most up-to-date yield curve, while taking default and property risk duly into account.

The current values of the other loans and silent participating interests within the meaning of the German Banking Act (KWG) (equity surrogates) were calculated on the basis of the discounted cash flow method on the basis of the current Euro swap curve plus a risk premium. This takes into account the anticipated future payment streams in light of debtor-specific assumptions.

The market values of investments denominated in foreign currencies were calculated on the basis of the year-end exchange rates.

Financial instruments within the meaning of section 285, No. 18 HGB that are capitalised at their fair value

	Book value € 000s	Fair value € 000s
Participating interests	268	214
Fixed-asset securities incl. SSD	49,429	46,376
Mortgage loans	12,998	12,705

We have refrained from making any write-downs in accordance with section 253 paragraph 3 sentences 5 and 6 HGB, as we either intend to hold these securities until maturity or we are assuming that any fall in value is only temporary.

Derivative financial instruments and forward purchases in accordance with section 285 No. 19 HGB

	Type	Nominal volume € 000s	Book value premium € 000s	Fair value of premium € 000s
Other liabilities	Short put options	2,750	124	467
	Short call options	2,700	43	-

Valuation method		
Short options	European options	Black-Scholes
	American options	Barone-Adesi

Units or shareholdings in domestic investment funds in accordance with section 285 No. 26 HGB

Investment goal	Dividends € 000s	Fair value € 000s	Hidden reserves/ hidden charges € 000s	Limitation on daily redemption
Equity funds	3,423	158,767	8,341	
Bond funds	881	32,852	45	
Real-estate funds	1,931	49,976	4,087	between any time to after six months

Re Assets B. I.

Real estate and similar land rights, including buildings on third-party land

Real estate to a book value of € 1,190,421 is predominantly used by DEVK Sach- und HUK-Versicherungsverein a.G. and other DEVK Group companies. The proportion of each property used by the DEVK Group in m² is calculated by deducting the area used by third parties from the overall area.

Re Assets B. II.

Investments in affiliated companies and participating interests

	% share	Equity €	Results from previous financial year €
DEVK Allgemeine Lebensversicherungs-AG, Cologne	100.00	157,044,493	1,840,000
DEVK Allgemeine Versicherungs-AG, Cologne	100.00	342,170,794	-
DEVK Krankenversicherungs-AG, Cologne	100.00	29,177,128	-
DEVK Pensionsfonds-AG, Cologne	100.00	14,333,766	-
DEVK Rechtsschutz-Versicherungs-AG, Cologne	100.00	60,563,459	-
DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE, Cologne	100.00	1,198,088,436	39,000,000
DEVK Vermögensvorsorge- und Beteiligungs-AG, Cologne	51.00	201,000,000	-
DEVK Asset Management GmbH, Cologne	100.00	1,500,000	-
DEVK Europa Real Estate Investment Fonds SICAV-FIS, Luxembourg (L)	68.00	694,030,721[3]	50,708,577[3]
DEVK Omega GmbH, Cologne	75.00	27,620,863	781,090
DEVK Private Equity GmbH, Cologne	65.00	204,061,995	29,546,872
DEVK Saturn GmbH, Cologne	100.00	27,967,806	689,078
DEVK Service GmbH, Cologne	74.00	1,470,379	-
DEVK Web-GmbH, Cologne	100.00	25,000	-
DEVK Zeta GmbH, Cologne	100.00	775,000	-
Aviation Portfolio Fund Nr. 1 GmbH und Co. geschlossene Investment KG, Grünwald	12.51	408,603,545	19,380,010
Corpus Sireo Health Care III SICAV-FIS, Luxembourg (L)	8.66	54,751,039[2]	3,302,467[2]
CORPUS SIREO RetailCenter Fonds Deutschland SICAV-FIS, Luxembourg (L)	26.88	93,931,863[2]	7,537,406[2]
DEREIF Brüssel Carmen N.V., Brussels (B)	100.00	-897,540	-633,471
DEREIF Brüssel Lloyd George S.à r.l., Luxembourg (L)	100.00	7,147,911	1,318,385
DEREIF Hungary Eiffel Palace Kft., Budapest (HU)	100.00	10,617,382	-445,989
DEREIF Hungary Park Atrium Kft., Budapest (HU)	100.00	4,958,889	-358,164
DEREIF Immobilien 1 S.à r.l., Luxembourg (L)	100.00	-8,423,435	9,909,383
DEREIF Lissabon Republica Unipessoal Lda, Lisbon (P)	100.00	3,643,768	-103,274
DEREIF Paris 6 rue Lamennais S.C.I., Yutz (F)	100.00	5,351,021	-314,464
DEREIF Paris 9 chemin du Cornillon Saint Denis S.C.I., Yutz (F)	100.00	6,291,293	-77,807
DEREIF Paris 37-39 rue d'Anjou S.C.I., Yutz (F)	100.00	11,578,940	1,548,802
DEREIF Wien Beteiligungs GmbH, Vienna (A)	100.00	9,415,108	328,880
DEREIF Wien Nordbahnstrasse 50 OG, Vienna (A)	100.00	9,241,439	644,296
DP7, Unipessoal Lda, Lisbon (P)	100.00	12,369,321	1,282,425
DRED S.C.S. SICAV-FIS, Luxembourg (L)	68.00	95,226,905	12,016,326
European Solar Power Fund No. 1 GmbH & Co. KG, Grünwald	4.35	188,586,371	17,064,975
GAV Versicherungs-AG, Legden	100.00	7,146,680	1,570,073
Hotelbetriebsgesellschaft SONNENHOF mbH, Bad Wörishofen	100.00	356,023	-
HYBIL B.V., Venlo (NL)	100.00	62,663,630	2,745,267
Ictus GmbH, Cologne	75.00	46,977,308	-84,114
INVESCO Beteiligungsverwaltungs-GmbH & Co. KG, Munich	14.39	5,747,175	-33,769
Kassos Ventures GmbH, Cologne	100.00	4,873,251	64,093
Klugo GmbH, Cologne	100.00	1,200,137	-1,032,074
Lieb'Assur S.à r.l., Nîmes (F)	100.00	378,016	8,121
Monega Kapitalanlagegesellschaft mbH, Cologne	45.00	6,821,926[2]	1,621,926[2]
OPPENHEIM PRIVATE EQUITY Institutionelle Anleger GmbH & Co. KG, Cologne	14.29	442,459[2]	295,367[2]
SADA Assurances S.A., Nîmes (F)	100.00	53,743,155	8,291,597
SANA Kliniken AG, Ismaning	0.69	824,767,000[2]	95,327,000[2]
Sireo Immobilienfonds No. 4 Edinburgh Ferry Road S.à r.l., Luxembourg (L)	100.00	-8,093,345	-1,708,400
Sireo Immobilienfonds No. 4 Red Luxembourg Main Building S.à r.l., Luxembourg (L)	100.00	11,719,917	-514,021
Sustainable Funds (SCA) SICAV SIF, Luxembourg (L)	4.95	451,023,034[2]	29,787,507[2]
		GBP	GBP
DEREIF London 10 St. Bride Street S.à r.l., Luxembourg (L)	100.00	6,591,758	437,519
DEREIF London Birchin Court S.à r.l., Luxembourg (L)	100.00	9,699,929	2,986,919
DEREIF London Coleman Street S.à r.l., Luxembourg (L)	100.00	5,920,152	936,041
DEREIF London Eastcheap Court S.à r.l., Luxembourg (L)	100.00	8,001,253	89,767
DEREIF London Lower Thames Street S.à r.l., Luxembourg (L)	100.00	8,565,060	1,571,998
DEREIF London Queen Street S.à r.l., Luxembourg (L)	100.00	15,678,046	-1,014,363
		CZK	CZK
DEREIF Prag Oasis s.r.o., Prague (CZ)	100.00	494,874,000	15,517,000
		SEK	SEK
DEREIF Malmö, Kronan 10 & 11 AB, Malmö (S)	100.00	18,805,000	8,890,000
DEREIF Stockholm, Vega 4 AB, Stockholm (S)	100.00	18,150,000	3,483,000
		CHF	CHF
Echo Rückversicherungs-AG, Zurich (CH)	100.00	93,724,891	-1,212,999

[2] Based on 2017 financial year

[3] Based on subgroup financial statements

Where profit transfer agreements are in place, the operating result does not have to be disclosed.

Re Assets B. III.

Other investments

Other loans exclusively comprise registered participation certificates.

Other investments chiefly comprise silent participating interests within the meaning of the Banking Act (KWG), profit participation certificates and fund units.

Re Liabilities A.-

Retained earnings

1.	Loss reserve pursuant to section 193 VAG	
	As on 31/12/2017	€ 179,666,441
	Allocation from the annual net profit	€ 4,740,000
	As on 31/12/2018	**€ 184,406,441**
2.	Other retained earnings	
	As on 31/12/2017	€ 855,864,200
	Allocation from the annual net profit	€ 18,960,000
	As on 31/12/2018	**€ 874,824,200**

Re Liabilities B.

Technical provisions

Figures in € 000s	Total gross provision		of which: Provision for claims outstanding		of which: Equalisation provision and similar provisions	
Insurance class	Financial year	Previous year	Financial year	Previous year	Financial year	Previous year
Accident	92,062	91,330	91,872	91,135	-	-
Liability	44,898	43,142	35,071	36,889	5,155	5,581
Motor vehicle liability	378,889	380,340	364,019	371,176	14,239	8,156
Other motor vehicle	35,816	31,416	11,998	12,307	15,035	10,012
Fire and non-life	39,333	41,528	28,611	30,047	8,666	9,695
of which:						
Fire	1,288	657	436	338	852	318
Household contents	7,310	7,462	6,223	6,375	-	-
Homeowners' building	24,411	26,259	16,446	16,815	7,067	8,834
Other non-life	6,324	7,150	5,506	6,519	747	543
Other	752	523	202	156	549	366
Total	**591,750**	588,279	**531,773**	541,710	**43,644**	33,810

The settlement result net of reinsurance for the financial year stands at € 61,805 million (previous year € 54,462 million).

Re Liabilities B. IV.

Provision for bonuses and rebates

a) Bonuses

As on 31/12/2017	€ 10,501,328
Allocation	€ 3,998,965
As on 31/12/2018	**€ 14,500,293**

b) Rebates

As on 31/12/2017	€ 106,000
Allocation	€ 3,000
As on 31/12/2018	**€ 109,000**

Re Liabilities F.

Accruals and deferred income

Discount points on registered bonds	€ 32,968
Advance rental receipts	€ 31,523
	€ 64,491

Notes to the profit and loss account

Direct insurance operations

Financial year in € 000s	Gross premiums booked	Gross premiums earned	Net premiums earned	Gross expenses on: Insurance claims	Gross expenses on: Insurance operations	Reinsurance balance	Technical result net of reinsurance
Accident	48,771	48,771	37,087	20,806	15,226	-2,679	10,430
Liability	33,230	33,230	32,666	9,737	15,560	-1,192	3,168
Motor vehicle liability	102,754	102,750	91,155	82,971	13,186	-5,548	-4,924
Other motor vehicle	79,746	79,746	58,397	67,980	10,771	-1,833	-5,642
Fire and non-life	108,112	108,112	89,417	65,864	39,721	-727	388
of which:							
Fire	700	700	554	157	696	-149	-902
Household contents	40,708	40,708	39,397	16,281	15,670	-951	6,670
Homeowners' building	54,651	54,651	38,533	42,777	16,912	1,664	-2,843
Other non-life	12,053	12,053	10,933	6,649	6,443	-1,291	-2,537
Other	1,789	1,789	1,421	1,227	151	-135	94
Total	**374,402**	**374,398**	**310,143**	**248,585**	**94,615**	**-12,114**	**3,514**

previous year in € 000s	Gross premiums booked	Gross premiums earned	Net premiums earned	Gross expenses on: Insurance claims	Gross expenses on: Insurance operations	Reinsurance balance	Technical result net of reinsurance
Accident	47,651	47,651	36,684	26,707	15,502	-2,354	3,447
Liability	33,875	33,875	33,300	12,774	14,864	-722	7,182
Motor vehicle liability	103,314	103,314	93,320	103,417	12,181	9,340	-3,967
Other motor vehicle	78,962	78,962	57,971	72,001	9,925	-746	-4,954
Fire and non-life	104,310	104,310	87,398	63,947	37,146	-1,806	738
of which:							
Fire	754	754	599	290	656	-152	-753
Household contents	39,764	39,764	38,568	15,668	15,051	-1,114	6,823
Homeowners' building	51,429	51,429	36,759	38,894	15,261	-592	-3,383
Other non-life	12,363	12,363	11,472	9,095	6,178	52	-1,949
Other	1,729	1,729	1,379	1,116	119	-153	95
Total	369,841	369,841	310,052	279,962	89,737	3,559	2,541

The gross overall expenses on all insurance operations were as follows:

Acquisition expenses	€ 46,109,202
Administration costs	€ 48,506,029

Insurance agents' commission and other remuneration, personnel expenses		
	Financial year € 000s	Previous year € 000s
1. Insurance agents' commission of all types within the meaning of section 92 HGB for direct insurance operations	34,383	32,924
2. Other insurance agents' remuneration within the meaning of section 92 HGB	1,777	2,153
3. Wages and salaries	230,890	222,878
4. Social-security contributions and social-insurance costs	38,637	38,953
5. Retirement pension costs	14,836	13,360
Total	**320,523**	310,268

The pension provision for DEVK Sach- und HUK-Versicherungsverein a.G. employees is shown on the balance sheet of DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE. The wages and salaries, social-security contributions and social-insurance costs and the allocation to the pension provision, with the exception of the interest allocation, are charged to DEVK Sach- und HUK-Versicherungsverein a.G. The personnel expenses for employees seconded to subsidiary companies under the Cooperative Agreement are allocated according to the costs-by-cause principle.

During the year under review, Management Board remuneration totalled € 671,695. The retirement pensions of former Management Board members and their surviving dependants totalled € 1,049,715. On 31 December 2018, DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE capitalised a pension provision of € 11,619,496 for this group of persons. The Supervisory Board remuneration totalled € 343,810. Payments to the Advisory Board came to € 59,539.

Of the other income, € 16,019 (previous year € 53,904) was attributable to the discounting of provisions. € 94,065 (previous year € 123,590) was attributable to the discounting of provisions and € 239,223 (previous year € 134,439) to currency conversion.

Other information

Contingencies and other financial obligations

On the balance sheet date, there were financial obligations totalling € 5.5 million from open short options. The payment obligations in relation to approved mortgage loans not yet paid out totalled € 1.4 million.

At the end of the year, other financial obligations arising from real estate holdings, fund units, shares in affiliated companies and participating interests totalled € 70.5 million. This includes obligations towards affiliated companies amounting to € 17.9 million.

Under an assumption of debt agreement, the pension provisions for all employees in the DEVK Group have been assigned to DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE in return for the transfer of corresponding investments. This results in a bundling all of the DEVK Group's pension commitments with a single risk bearer and also improves the protection in place for employees' pension rights. The joint and several liability for the pension commitments capitalised on the DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE balance sheet has given rise to benefit obligations totalling € 582.0 million.

Supplementary report

No occurrences or events took place after the reporting date that could significantly affect the company's future net assets, financial position or results of operations.

General information

Number of insurance policies concluded for at least one year in direct insurance operations	Financial year	Previous year
Accident	258,691	261,611
Liability	562,799	571,441
Motor vehicle liability	542,587	550,795
Other motor vehicle	446,123	451,814
Fire and non-life	838,829	851,805
of which:		
Fire	2,752	2,751
Household contents	404,844	412,723
Homeowners' building	182,845	182,808
Other non-life	248,388	253,523
Other	458	286
Total	**2,649,487**	2,687,752

DEVK Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn (= Deutsche Bahn Company Welfare Scheme), Cologne, is registered at the local court under Commercial Register Number HRB 8234.

Lists of the members of the Management Board, Supervisory Board and Advisory Board are given prior to the management report.

During the year under review, the average number of employees, disregarding inactive employment contracts and after conversion of part-time employees to full-time equivalents, came to 3,490. This figure is made up of 67 executives and 3,423 salaried employees.

Pursuant to section 285 paragraph 17 HGB, details of the auditors' fees are provided in the consolidated notes.

As required by law, the annual financial statements are published in Germany's Electronic Federal Gazette.

The consolidated financial statements are published on the website of DEVK at www.devk.de, and in the Electronic Federal Gazette.

Cologne, 15 March 2019

The Management Board

Rüßmann **Burg** **Knaup** **Scheel** **Zens**

Independent audit certificate

To DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn, Cologne

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements prepared by DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn, Cologne, comprising the balance sheet to 31 December 2018, the profit and loss account for the financial year from 1 January to 31 December 2018, and the notes to the financial statements, including a summary of significant accounting policies. In addition, we have audited the management report prepared by DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn, Cologne, for the financial year from 1 January to 31 December 2018. In conformity with German statutory requirements, we have not audited the content of the corporate governance statement contained in the management report. We have not audited the details given in the management report, which are marked as unchecked.

In our opinion, on the basis of the knowledge obtained in the audit

- the accompanying annual financial statements comply in all material respects with the prevailing German commercial regulations for insurance undertakings, give a true and fair view, in accordance with German principles of proper accounting, of the assets, liabilities, and financial position of the Organisation as of 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
- the accompanying management report as a whole conveys an appropriate view of the Organisation's position. In all material respects, the management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future developments. Moreover, our opinion on the management report does not extend to the content of the details given in the corporate governance statement and in the management report which are marked as unchecked.

Pursuant to section 322 paragraph 3 clause 1 HGB, we hereby declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with section 317 HGB and EU Audit Regulation No. 537/2014 and in compliance with the German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities according to those requirements and principles are further described in the section of our auditor's report entitled "Auditor's responsibilities for the audit of the annual financial statements and of the management report". In accordance with the provisions of European law and German commercial and professional law, we are independent of the Company, and we have also fulfilled our other German professional responsibilities pursuant to those provisions. Moreover, in accordance with Article 10, paragraph 2., point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5, paragraph 1 of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters which, in our professional judgement, were of greatest significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in conjunction with our audit of the annual financial statements as a whole, and in forming our audit opinion in this regard; we do not provide a separate audit opinion on these matters.

Valuation of the shares in affiliated insurance companies

With regards to the applied accounting policies and methods we refer to the explanations given in the notes to the Organisation's annual financial statements in the "Accounting and valuation methods" section. Details regarding risks are contained in the management report in the "Risk report" section.

THE FINANCIAL STATEMENT RISK

The shares in affiliated companies total € 727.0 million. This represents 41.9 % of the balance sheet total. Shares in affiliated insurance companies make up a substantial portion of this amount.

The cash inflows to be discounted in calculating the current value of the affiliated insurance companies according to the capitalised earnings method are determined via forecasts of the Company's future net financial surpluses.

The forecast reflects the subjective expectations of the company management regarding projected future business development. It is therefore very much a matter of judgement.

The planned net financial surpluses are discounted through application of capital cost parameters, the growth rate and the capitalisation interest rate, which is made up of a basic interest rate plus a risk premium. This risk premium includes further assumptions about the industry and the risk to which the individual company is exposed, and is therefore subject to the risk inherent in the uncertainty of the estimates made.

The risk lies in the possibility of the current value of the insurance companies being miscalculated, with impairment potential being overlooked.

OUR AUDIT APPROACH

When auditing the shares in affiliated insurance companies, we performed the following principal audit activities:

- In order to assess the suitability of the assumptions used for corporate planning purposes, we acquired an understanding of the planning process.
- Through interviews and inspections, as well as via plausibility considerations, we satisfied ourselves that the information about the past, present and future used for planning purposes was reasonable and non-contradictory in nature. In so doing, we also appraised the accuracy of past years' planning.
- In judging the suitability of the assumptions made in the corporate planning of the life insurance company, we employed the services of our own actuaries.
- We analysed the capital cost parameters employed against criteria of normal industry practice. We also compared the parameters used with external sources.
- We satisfied ourselves as to the suitability of the valuation model and conducted an assessment of its computational accuracy.

OUR OBSERVATIONS

The method on which the impairment testing of the shares in affiliated companies is based is appropriate and in accordance with the valuation policies. The Organisation's overall assumptions, estimates and parameters are appropriate.

Measurement of the partial loss provisions for known and unknown claims contained in the gross provision for claims outstanding in our direct non-life and accident insurance.

With regards to the applied accounting policies and methods we refer to the explanations given in the notes to the Organisation's annual financial statements in the "Accounting and valuation methods" section. Details regarding risks are contained in the management report in the "Risk report" section.

THE FINANCIAL STATEMENT RISK

The gross provisions for claims outstanding in direct non-life and accident insurance total € 531.8 million, which represents 30.7 % of the balance sheet total.

The gross provision for claims outstanding is divided into several partial loss provisions. The provision for known and unknown claims comprises a large part of the gross provision for claims outstanding.

The measurement of the provision for known and unknown claims is subject to a degree of uncertainty regarding the size of the prospective claims, and is therefore very much a matter of judgement. According to commercial principles, the estimate must not be made in a risk-neutral way, in a spirit of equal weighting of opportunities and risk, but rather in observance of the prudence principle required under accountancy law (section 341e paragraph 1 sentence 1 HGB).

The provisions for known claims are estimated according to the likely cost of each individual claim. For as yet unknown claims, a provision for claims incurred but not reported is formed, the extent of which is predominantly based on past experience and calculated through the application of recognised actuarial techniques.

The risk in relation to claims already known on the balance sheet date lies in the fact that insufficient provision may be made for claims payments still outstanding. In the case of claims incurred but not yet reported (unknown outstanding claims), there is the additional risk that they are accounted for either inadequately or not at all.

OUR AUDIT APPROACH

For the audit of the provision for claims outstanding, we engaged the additional services of our own actuaries. We conducted the following specific audit activities:

- We have obtained a fundamental overview of the process for calculating provisions, identified key checks and tested the suitability and efficacy of these checks.
- On the basis of deliberate and follow-up random sampling, we reproduced the process of determining the extent of individual known provisions via examination of the records for various segments and types of insurance.
- On the basis of a time series comparison, focusing particularly on claims numbers, financial year and balance sheet claims rates, as well as settlement results, we analysed the development of the claims provision over time.
- On the basis of a deliberate selection, we audited the Organisation's methods of calculating the extent of claims incurred but not reported. In doing so, we paid particular attention to the determination of estimated numbers and claim sizes from historical experience and current developments.
- We carried out our own actuarial calculations for certain segments which we selected on the basis of risk considerations. In doing so we determined a respective points system based on accepted actuarial processes, in order to evaluate the safety level incorporated in the provisions for claims outstanding.

OUR OBSERVATIONS

The methods and underlying assumptions employed in measuring the partial loss provisions for known and unknown claims contained in the gross provision for claims outstanding in the direct non-life and accident insurance business are generally appropriate and are in accordance with the applicable basis of accounting. The underlying assumptions have been derived in a suitable manner.

Other information

The Management is responsible for the other information. The other information comprises:

- the corporate governance statement,
- the details in the management report marked as unaudited, and
- the remaining parts of the annual report, with the exception of the audited annual financial statements, the management report and our auditor's report.

Our opinions on the financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any offer any other form of assurance in relation said information.

In connection with our audit, our responsibility is to read the other information and consider whether it

- is materially inconsistent with the annual financial statements, the management report and the knowledge we acquired during the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the annual financial statements and the management report

The management is responsible for the preparation of annual financial statements that comply, in all material respects, with the prevailing provisions of German commercial law as applied to insurance undertakings and for ensuring that the annual financial statements, in compliance with German principles of proper accounting, give a true and fair view of the Organisation's assets and liabilities, financial position and financial performance. In addition, the management is responsible for implementing such internal controls as they deem necessary in conformity with German principles of proper accounting, in order to permit the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the management is responsible for assessing the Organisation's ability to continue as a going concern. They are also responsible for disclosing matters related to the continuation of the Company's activities, where applicable. They are also responsible for financial reporting founded on the accounting policy of the going concern, provided no factual or legal circumstances militate against this.

Furthermore, the management is responsible for the preparation of a management report that, taken as a whole, provides an appropriate view of the Organisation's position and is consistent in all material respects with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the management is responsible for such arrangements and measures (systems) as they deem necessary to facilitate the preparation of a management report that complies with the applicable German legal requirements and provides sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Organisation's financial reporting process for the preparation of the annual financial statements and management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Organisation's position and is consistent in all material respects with the annual financial statements and the knowledge obtained in the audit, complies with German legal provisions and appropriately presents the opportunities and risks of future developments, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements may arise from fraud or error and are considered material if they could individually or mutually be reasonably expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements in the annual financial statements and the management report, whether due to fraud or error, plan and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the circumvention of internal controls.
- Acquire an understanding of the internal control system relevant to the audit of the annual financial statements and of arrangements and measures relevant to the audit of the management report, in order to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these Organisation systems.
- Evaluate the appropriateness of the accounting policies used by the management and the reasonableness of estimates made by the management, as well as the related disclosures.
- Draw conclusions regarding the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, as to whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organisation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are obliged to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may mean the Organisation is no longer able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner conducive to ensuring that the annual financial statements give a true and fair view of the assets and liabilities, financial position and financial performance of the Organisation in compliance with German principles of proper accounting.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with applicable law, and the view of the Company's position it provides.
- Perform audit procedures on the forward-looking information presented by the management in the management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the management as a basis for its forward-looking statements, and evaluate the proper derivation of the forward-looking statements from these assumptions. We do not express a separate audit opinion on the forward-looking statements or the assumptions on which they are based. There is a substantial unavoidable risk that future events will differ materially from the forward-looking statements.

We engage in discussions with the persons responsible for governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control system that we identify during our audit.

We also provide the persons responsible for governance with a statement that we have complied with the relevant independence requirements, and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, the related safeguards.

From the matters discussed with the persons responsible for governance, we determine the matters which were of most significance in the audit of the annual financial statements for the current period and which therefore constitute the key audit matters. We describe these matters in our auditor's report unless public disclosure of the matter is forbidden by legislation or other legal provisions.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as the auditors at the Supervisory Board meeting on 4 May 2018. Furthermore, we were engaged by the Supervisory Board on 4 May 2018. We have been the auditor of DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn without interruption since 1998.

We hereby declare that the opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the audit, we also rendered the following services, which are not stated in the annual financial statements or the management report, for the audited companies or for companies controlled by the audited companies:

- Audit of the consolidated financial statements and management report,
- Audit of the annual financial statements and management reports of the parent company and controlled subsidiaries,
- Audit of the solo solvency overviews of the Company and the controlled subsidiaries, as well as of the Group's solvency overview,
- Audit of the Management Board's reporting on relationships with affiliated companies pursuant to section 312 paragraph 1 of the German Stock Corporation Act (AktG) (dependent companies report),
- Audit of the propriety of the data made availability to the guarantee scheme for life insurance policies pursuant to section 7 paragraph 5 of the Insurance Guarantee Scheme Financing Regulation (SichLVFinV).
- Audit pursuant to section 24 of the Financial Investment Brokerage Regulation (FinVermV),
- Tax appraisal and advice on individual accounting matters as well as in connection with the German Investment Tax Act (InvStG),
- Drawing up the tax balance sheet, as well as preparing corporate tax returns,
- Other services in connection with compliance and regulatory matters.

Chief auditor

The auditor in charge of the audit is Thorsten Klitsch.

Cologne, 5 April 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Klitsch	**Happ**
Auditor	Auditor

Supervisory Board report

During 2018, the Supervisory Board regularly monitored the Management Board's leadership on the basis of written and verbal reporting, as well as being briefed on the Organisation's commercial performance, corporate policies and financial position at various meetings.

KPMG AG Wirtschaftsprüfungsgesellschaft, having been appointed as auditors in line with statutory requirements, duly audited the 2018 annual financial statements and management report prepared by the Management Board. This audit did not reveal any irregularities. An unqualified audit certificate was granted. The Supervisory Board has duly acknowledged the audit findings.

The Supervisory Board's own audit of the annual financial statements and management report likewise revealed no irregularities. The Supervisory Board hereby approves the 2018 financial statements, which are thus duly adopted.

The separate obligatory part of the CSR report was appraised by the Supervisory Board at its meeting in March 2019 and approved without reservations.

The Supervisory Board would like to thank the Management Board and employees for all their hard work and commitment.

Cologne, 8 May 2019

The Supervisory Board

Kirchner
Chairman

Company bodies

Supervisory Board

Alexander Kirchner
Runkel
Chairman
Chairman of Eisenbahn- und
Verkehrsgewerkschaft (EVG)

Manfred Stevermann
Münster
Deputy Chairman
CEO of the board
Sparda-Bank West eG

Hans-Jörg Gittler
Kestert
CEO of the board
BAHN-BKK

Helmut Petermann
Essen
Chairman of
General Works Council
DEVK Versicherungen

Ronald Pofalla
Mülheim a. d. Ruhr
Director of Infrastructure
Deutsche Bahn AG

Andrea Tesch
Zittow
Deputy Group Manager
Sach/HUK-Betrieb and
Head of SHU Unit
DEVK Versicherungen,
Schwerin Regional Management Unit

Management Board

Gottfried Rüßmann
Cologne
Chairman

Michael Knaup
Cologne
Deputy Board Member

Bernd Zens
Königswinter

Management report

Company foundations

Business model

The company's exclusive insurance purpose is to provide reinsurance for the insurance operations undertaken in various segments and types of non-life, accident, health and life insurance. Details of this can be found in the notes to the management report. Reinsurance is provided for both affiliated and non-Group companies. In 2018, DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft - DEVK RE expanded its business activities to include North America. Furthermore, the company's agricultural business was also specifically expanded.

The company also acquires and holds participating interests. As the intermediate holding company within the DEVK Sach- und HUK-Versicherungskonzern, it manages the Group's other insurance companies as well as various participating interests.

Due to the growing significance of the "Active reinsurance" business, in 2018 the company changed its name to "DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft - DEVK RE".

Affiliated companies and participating interests

The affiliated companies of DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE are as follows:

DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.
Betriebliche Sozialeinrichtung der Deutschen Bahn, Cologne,

and its direct and indirect subsidiaries.

The share capital of our company of around € 307 million is fully paid up and is 100 % held by DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn, Cologne.

There are control and profit transfer agreements with DEVK Allgemeine Versicherungs-AG, DEVK Rechtsschutz-Versicherungs-AG, DEVK Krankenversicherungs-AG, DEVK Vermögensvorsorge- und Beteiligungs-AG, DEVK Service GmbH, DEVK Web-GmbH and Outcome Unternehmensberatung GmbH. A profit transfer agreement exists with DEVK Asset Management GmbH and a control agreement with GAV Versicherungs-AG.

Details of our company's direct and indirect shareholdings in principal affiliated companies and participating interests can be found in the notes.

Please note that rounding may lead to differences from the mathematically exact figures (monetary units, percentages, etc.).

The sections of this report marked with [1] contain details which have not been checked by the auditor.

Pursuant to section 312 of the German Stock Corporation Act (AktG), the Management Board is required to prepare a report on its relationships with affiliated companies. At the end of the report, the Management Board states that, in light of the circumstances of which it was aware at the time of undertaking legal transactions with affiliated companies, it received appropriate consideration for all such transactions. No action requiring reporting had to be taken in the 2018 financial year.

Delegation of functions and organisational cooperation

Under a service contract concluded with DEVK Sach- und HUK-Versicherungsverein a.G., the Group provides us with services, in particular in the fields of general administration, accounting, collections and disbursements, asset investment and management, personnel management and development, operational organisation, IT, controlling, auditing, law, taxation, sales, inventory management and processing claims and benefits.

Our company purchases or rents its own operating equipment and tools according to its requirements.

Business performance

Economic conditions generally and in the industry

Political risks remained the prevailing factor on the financial markets in 2018. Added to this came economic concerns at the end of 2018. The US president remained uncompromising with regards to trade with China, and also in relation to the European automotive industry. The increasing escalation of the trade dispute and the strength of the US Dollar led in particular to problems in some of the emerging market nations. Alongside Turkey and Argentina, this included such countries as South Africa and Indonesia. All in all, investors were acting with significantly greater risk aversion by the end of 2018 than at the start of the year.

Inside the Euro Zone, a high degree of uncertainty prevailed during 2018 regarding the budgetary policy of the new Italian government, which refused to comply with the agreements concluded between the former government and the EU regarding new borrowing. At the same time various economic indicators signalled downturns, for example the Purchasing Managers Index, in the manufacturing industry for Italy, which stood below the 50-point threshold at the end of 2018 following a significant decline over the course of the year. Overall, during 2018 this development led to a significant expansion in the spread of Italian government bonds to German government bonds.

With regards to the topic of Brexit, 2018 was characterised by mixed messages. In the interim, it appeared that a common exit agreement was not possible. Nonetheless, in November 2018 the EU and the UK drew up such an agreement. However, this agreement was subsequently rejected by the UK parliament and must now be amended and approved in 2019 with no clear prospects of success. By the end of 2018, both a hard and soft Brexit were possible, as well as a new Brexit referendum. This uncertainty continues to prevail in 2019. By the time of reporting no end to the

Brexit uncertainty is in sight, with its associated risks on the currency and stock markets, and also to the economy in Europe in general.

During the second half of 2018, there were also signs of the economy in Germany weakening. As such, incoming orders to German industry from abroad declined, the IFO Business Climate Index fell sharply and GDP growth was actually negative during the third quarter of 2018. It would appear that the 2018 economic peak in the Euroland has passed. Economists surveyed by Bloomberg reduced their forecasts for German GDP growth during 2018. Last year, German GDP ultimately grew by 1.5 %, following on from 2.2 % in the previous year. In 2019, GDP growth of 1.3 % is expected.

The monetary policy also had a major influence on the capital markets in 2018. At its meeting in June 2018, the ECB expressed an expectation that the current interest rates would endure until the end of summer 2019 as a minimum. From October, the bond purchases were halved to € 15 billion, and ended entirely from December 2018. However, the ECB's portfolio of mature bonds was reinvested. In contrast, in 2018 the American Fed further increased the key interest rate a total of four times, to a corridor of 2.25 % to 2.50 %.

Despite an at least temporary rise in inflation within the Euroland, returns on the Euro fixed-interest market reduced slightly in 2018, as seen for example with the 10-year Euro swap rate, from approx. 0.9 % to just over 0.8 % by 31 December 2018. However, the figure stood at almost 1.2 % on occasions. The rear section of the yield curve in the Euro swaps area remains very level, and is in fact partially lightly inverse. The risk premiums on corporate bonds rose again significantly in 2018 due to the economic situation.

In particular from the third quarter of 2018, the value of the DAX fell considerably and closed at 10,558.96 points at the end of 2018, not far off the all-year low witnessed on 27 December 2018. Decisive in this regard were a manifestation of the political risks and an economic downturn. Striking was that the decline was initially comparatively slow and without a significant increase the volatility of the stock markets. This was followed by a steep rise in volatility in December 2018. Overall, 2018 witnessed a DAX downturn of around 18.3 % and with it the first annual decline since 2011.

Following an initial rise in value in 2018, the Euro decreased in value against most currencies. A decisive contribution to this was made by the interest rate differential due to the different monetary policies and the economic situation between Europe and the USA. In 2018, the EUR/USD exchange rate fluctuated between 1.12 and 1.25 (year's-end rate: 1.15). Meanwhile, depending on the news on Brexit, the UK pound moved between 0.86 to the Euro at the start of the year and 0.91 (year's-end rate: 0.90).

In 2018, the world once again experienced a large number of hurricanes. Noteworthy were Hurricane Florence and Hurricane Michael, which caused major damage. Of over 16 severe typhoons in Asia, Jebi was the most powerful and resulted in major devastation in Japan in particular.

Takeovers in the industry, for example of XL Catlin by AXA, also caused furore. However, these have not had noteworthy effects on the capacities available to date.

The pending arrival of Brexit caused unrest on the reinsurance markets due to the likelihood of it complicating the access of British direct insurers and reinsurers to the rest of Europe. This led to the foundation of Lloyd's Brussels.

Whilst price rises were observed in some areas of the USA and the Far East, price development in the catastrophe business in Europe remained relatively stable.

Business trends

In 2018, the gross premiums written for DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE were 12.5 % up at € 530.5 million, and were therefore stronger than expected (forecast 8 % to 10 %). The number of policies reinsured (non-DEVK only) on 31 December 2018 stood at 1,819 (previous year 1,669). Customer numbers rose to 357 (previous year 340).

The underwriting result before changes to the equalisation provision came to € 79.0 million (previous year € 11.4 million). The result therefore lay well above our forecast (€ 15 million to € 20 million). The reason for this is a special effect: The reinsurance contracts of DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE with DEVK Lebensversicherungsverein a.G. and DEVK Allgemeine Lebensversicherungs-AG were mutually terminated in 2018. The liabilities resulting from these contracts, amounting to € 58.2 million, were released to income by DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE. The underwriting result net of reinsurance in the life reinsurance division therefore came to € 60.8 million (previous year € 1.1 million). At € 17.3 million, the allocation to the equalisation provision was higher than we had anticipated (around € 10 million). In total, the underwriting result net of reinsurance was € 61.7 million (previous year € 1.3 million), significantly above the forecast window (€ 5 million to € 10 million) due to the previously described special effect.

Due to the better than expected underwriting result and investment result, the result from ordinary activities came to € 129.1 million (previous year € 95.1 million), which was much higher than the forecast of € 50 million to € 60 million.

The after-tax net annual profit came to € 39.0 million (previous year € 45.0 million), which has been recognised as net retained profit.

Contrary to our expectations, the revenues from profit transfer agreements rose rather than falling. One reason in particular for this was the favourable claims experience of DEVK Allgemeine Versicherungs-AG. Current incomes declined slightly as expected. Overall, an increase in write-downs resulted in the net investment result declining to € 147.2 million (previous year € 156.4 million).

Net assets, financial position and results of operations

Results of operations

	Financial year € 000s	Previous year € 000s	Change € 000s
Technical account	61,687	1,320	60,367
Investment result	147,166	156,409	-9,243
Other result	-79,726	-62,634	-17,092
Profit from ordinary activities	**129,127**	95,095	34,032
Taxes	90,127	50,095	40,032
Net profit for the year	**39,000**	45,000	-6,000

Underwriting result, net of reinsurance

Gross premium receipts rose 12.5 % to € 530.5 million. By far the largest portion of the increase originated from non-DEVK business. Earned premiums net of reinsurance rose by 12.9 % to € 417.1 million (previous year € 369.3 million). Claims expenses net of reinsurance increased to € 280.5 million (previous year € 261.3 million). The ratio of net claims expenses to earned net premiums therefore declined to 67.3 % (previous year 70.8 %). At 27.1 %, the ratio of expenses for insurance business net of reinsurance to earned premiums net of reinsurance was slightly up on the previous year figure (26.8 %). Within the framework of the mutual termination of the reinsurance contracts of DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE with DEVK Lebensversicherungsverein a.G. and DEVK Allgemeine Lebensversicherungs-AG, liabilities amounting to € 58.2 million were released to income in 2018. The underwriting result before changes to the equalisation provision therefore improved to € 79.0 million (previous year € 11.4 million). However, also without the special effect of the contract terminations, there was a sharp increase on the result in the previous year. After an allocation to the equalisation provision of € 17.3 million (previous year € 10.1 million), the underwriting result net of reinsurance stood at € 61.7 million (previous year € 1.3 million).

The individual insurance segments performed as follows:

Underwriting result, net of reinsurance							
Figures in € 000s	Gross premiums written			Change to the equalisation provision		Technical result net of reinsurance	
Insurance class	Financial year	Previous year	Change	Financial year	Previous year	Financial year	Previous year
Life	15,862	18,253	-13.1 %	-	-	60,763	1,067
Accident	39,922	39,305	1.6 %	-	-	7,221	6,190
Liability	6,247	5,649	10.6 %	-2,662	-2,704	-1,467	-1,152
Motor vehicle	208,961	183,022	14.2 %	-11,993	9,426	-3,439	-1,991
Fire and non-life	231,632	202,455	14.4 %	-5,055	-16,936	317	-4,211
of which:							
Fire	55,657	47,530	17.1 %	-4,482	-884	955	-2,719
Household contents	22,979	19,924	15.3 %	-	-	3,625	2,220
Homeowners' building	110,769	101,487	9.1 %	12,046	-8,730	11,781	3,490
Other non-life	42,228	33,514	26.0 %	-12,619	-7,322	-16,045	-7,202
Other	27,918	22,918	21.8 %	2,391	97	-1,708	1,416
Total	**530,542**	471,602	12.5 %	**-17,319**	-10,117	**61,687**	1,320

The greatest growth in premiums in volume terms was recorded in motor vehicle insurance, which - aside from the life division, which was influenced by special effects - delivered the highest earnings contributions alongside accident insurance before the change to the equalisation provision.

Investment result

At € 170.3 million, the investment result was up on the previous year's figure (€ 163.1 million). This was due in particular to the higher revenues from profit transfer agreements with affiliated companies. The income from profit transfer agreements with affiliated companies totalled € 110.4 million (previous year € 102.5 million). Also included were € 7.9 million in profits from disposals of investments (previous year € 6.2 million), as well as € 0.6 million in write-ups (previous year € 1.7 million).

At € 23.2 million, investment expenses were significantly higher than in the previous year (€ 6.7 million). This was mainly due to higher write-downs on investment expenses (€ 21.5 million as against € 3.6 million in the previous year). Losses from disposals of investments came to € 0.7 million (previous year € 1.3 million). In 2018 there were no charges from loss transfers (previous year € 0.2 million). The administration costs were € 1.0 million (previous year € 1.6 million).

Total net investment income therefore declined to € 147.2 million (previous year € 156.4 million).

Other result

The "Other" result, which includes allocated interest, stood at € -79.7 million (previous year € -62.6 million). The additional expense was due in particular to higher retirement pension costs.

Profit from ordinary activities

Due to the strong underwriting result, the profit from ordinary activities rose to € 129.1 million (previous year € 95.1 million).

Tax expenditure

As the parent company of a fiscal unit for trade tax and corporation tax purposes, DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE assumes the tax expenses incurred by the Group companies. At € 90.1 million, the tax expenditure rose disproportionately to the profit from ordinary activities. The reason for this was high allocated amounts on the tax balance sheet.

Operating result and appropriation of retained earnings

Due to the sharp increase in retirement pension costs and tax expenses, at € 39.0 million the net annual profit was down on the previous year figure (€ 45.0 million). The net annual profit is shown as net retained profit.

The Management Board hereby proposes to the Annual General Meeting that the sum of € 15.0 million should be appropriated from the net retained earnings and paid as a dividend to DEVK Sach- und HUK-Versicherungsverein a.G., with the remaining € 24.0 million being allocated to other retained earnings.

Financial position

Cash flow

Availability of the liquidity necessary to meet regular payment obligations is ensured through ongoing liquidity planning, which takes into account prospective liquidity movements over the coming twelve months. The company receives a continuous influx of liquid funds in the form of regular premium receipts, investment income and returns from capital investments. In the current financial year, the cash flow from investments – that is, the funds required for the net investment volume – amounted to € 2.2 million. The necessary funds were generated by the company's ongoing operations.

Ratings

Each year the internationally renowned rating agencies S&P Global Ratings and Fitch evaluate the financial performance and security of DEVK.

S&P Global Ratings last renewed its rating in August 2018. As in the years 2008 to 2017, DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Allgemeine Versicherungs-AG, DEVK Allgemeine Lebensversicherungs-AG and DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE were once again all assigned a rating of "A+" (very good). S&P Global Ratings assesses our future outlook as "stable". This confirms the very good financial position enjoyed by the DEVK companies.

Meanwhile, the rating agency Fitch came to the same conclusion, with its August 2018 rating of the financial strength of DEVK's core companies remaining unaltered at "A+". Alongside our company, the individual companies rated were DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Allgemeine Versicherungs-AG, DEVK Rechtsschutz-Versicherungs-AG, DEVK Krankenversicherungs-AG and the two life assurance companies DEVK Lebensversicherungsverein a.G. and DEVK Allgemeine Lebensversicherungs-AG. The outlook for all our companies remains "stable".

Assets position

	Financial year € 000s	Previous year € 000s	Change € 000s
Investments (excluding deposit receivables)	2,353,580	2,054,349	299,232
Deposit receivables	54,065	239,517	-185,452
Receivables arising from reinsurance operations	53,113	19,695	33,418
Other receivables	150,975	279,099	-128,124
Other assets	18,851	15,793	3,059
Total assets	**2,630,584**	2,608,452	22,132
Equity	1,198,088	1,169,088	29,000
Technical provisions net of reinsurance	561,350	672,291	-110,941
Other provisions	784,129	651,285	132,844
Liabilities arising from reinsurance operations	45,287	110,530	-65,243
Other liabilities	41,334	5,024	36,310
Accruals and deferred income	396	234	162
Total capital	**2,630,584**	2,608,452	22,132

2018 witnessed a modest shift in the composition of our investment portfolio towards interest-bearing investments.

The deposit receivables in the previous year arose chiefly from intra-Group life reinsurance contracts with DEVK's two life insurance companies. These were mutually terminated in 2018.

Of the other receivables, € 114.8 million (previous year € 107.0 million) concerns receivables under profit transfer agreements. The other receivables arose almost exclusively from liquidity offsetting within the DEVK Group.

Non-financial performance indicators

Employee satisfaction

At DEVK, the opinion of our employees is important to us. The satisfaction of employees with their working environment, as well as their managers, colleagues, the work assigned to them and the corporate culture is central to employer appeal.

In 2018, the company-wide survey of DEVK back office and employed field sales personnel took place for the fourth time. At 81 %, the participation rate was once again above average. The results show that DEVK sits at a good level on the "commitment and enthusiasm" index. The loyalty of DEVK employees is highly pronounced and lies well above the benchmark. A company-wide short survey will take place again in 2019.

Employee satisfaction index	2017	2018
Actual	773 points	775 points
Target	790 points	775 points

The target set for 2019 is 777 points.

Overall verdict on the management report

All in all, the company's net assets, financial position and results of operations developed in a satisfactory manner throughout 2018.

Outlook, opportunities and risks

Outlook

During 2019 we are expecting premium growth of around 8 %. Before changes to the equalisation provision, we are expecting a technical account result of between € 25 million and € 30 million. After a high allocation to the equalisation provision, current estimates project a technical loss in the single-digit millions.

In 2019, DEVK anticipates comparatively volatile capital markets and the continued existence of risks to economic development. The ongoing political risks in the field of trade and punitive tariffs between the USA and China, as well as the USA and the EU, play just as important a role as the exit of the UK from the European Union and the political development in Italy. A critical factor for Italy is the further increase in the national debt, given the non-conformance with the original budget plan agreed with the EU. In the Euro Zone, but also globally (e.g. in China), there remains a risk of a further weakening of economic development, which began in the third quarter of 2018.

Given the rising economic woes and unchanged low inflation rates in the Euroland, we presently anticipate no sustained increase in the interest rate level in the coming year. Although an initial increase in the interest rate by the ECB cannot be ruled out in 2019 or at least in 2020, this is likely to be relatively low to avoid a negative impact on the economy insofar as possible. A development comparable with that on the US interest market (10-year US government bonds at 2.7 % at the end of 2018, compared with 10-year federal government bonds at 0.2 %) currently appears very unlikely in the short-term. The picture may be somewhat different with corporate bonds and bonds from debtors with low credit ratings. Here, the spreads could certainly witness further increases. According to market consensus, in 2019 the Fed is now only anticipating one or perhaps even no further increase in the interest rate rather than the three to four further 0.25 percentage point interest rate rises calculated in the third quarter of 2018, depending on the development of inflation and the economy in 2019. The interest escalation cycle in the USA is therefore expected to weaken and may already be at an end. As in 2018, we consider further rising risk surcharges for corporate bonds to be a possibility in the near future. Based on current information in 2019, in addition to economic risks it is also necessary to note that the ECB bond-buying program as a support for corporate bonds will no longer apply.

With regards to the economic situation in the USA and the Euroland, the economic framework data has ultimately further deteriorated. Although the economy continues to follow a stable course, early indicators such as the ISM Purchasing Managers Index in the USA and the IFO Business Climate Index in Germany point to a significant weakening of the growth dynamic. The company results have also weakened slightly overall, and the outlooks have become bleaker. For the UK, major question marks still surround the form, manner and time point of the EU exit. The IMF predicts a downturn in GDP for the UK of up to 4 % in the case of a "hard Brexit". According to Bloomberg, economic forecasts for 2019 indicate a weakening of global economic growth in comparison to the previous year (3.5 % following on from 3.7 %). All in all, uncertainty regarding the further development of the capital markets in 2019 is very high.

As regards the global economy and the development of the capital markets, future economic policy in the USA – after an upturn now lasting for over eight years – and in China (the trade dispute with the USA, and in particular also domestic demand and corporate debt are noteworthy here) will play a significant role from the perspective of DEVK. In addition to this, in Europe the most important factors – at the time of reporting – are the complete uncertainty surrounding the outcome of the Brexit process, political and economic development in Italy, a possible toughening of the ECB's monetary policy, as well as further electoral successes of populist political parties.

In the field of investments we expect DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE to generate income moderately below the previous year's level in 2019, both from profit transfer agreements and as a result of slightly lower other revenues arising due to the loss of technical interest income. Furthermore, we also anticipate that a significant reduction in the write-downs will slightly overcompensate for these effects. We anticipate that our net investment result in 2019 will be slightly higher than last year's level.

Overall, we are expecting profit from ordinary activities in 2019 to be in the order of € 60 million to € 70 million.

Opportunities report

Both the excellent market presence and acceptance of DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE were apparent from the renewals for 2019, with a markedly strong rise in the numbers of offers (+25 %).

Surprisingly positive was the feedback from the USA and Canada, where a large number of mutuals established contact with DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE. We are anticipating tangible growth here in the coming years.

We also see further growth opportunities in the agricultural sector. In 2018 we were able to partially develop and expand our relationships in Europe and acquire a number of customers in North America.

Brexit also affords new business opportunities for us. Some of our European customers are avoiding British reinsurers and syndicates, and are increasingly turning to continental European reinsurers. Our good rating and the foundation of trust that we have developed in recent years make us a sought-after alternative.

In the field of investments, we see not only risks but also opportunities in 2019, in particular in real values such as equities and real estate. With agreements on the topics of global trade relations, the exit of the UK from the EU (Brexit), and the debt problem in Italy, as well as electoral results with gains by parties from the centre, equity and real estate values could therefore increase. At the beginning of 2019, the mood on the capital markets is characterised by a high level of uncertainty with a corresponding negative mood and a propensity to hold high levels of liquid assets among many institutional investors. An improvement in the mood could therefore lead to a rise in equities in particular. With the majority of economists predicting a positive cyclical environment it is likely that secure investments such as federal bonds will decrease in value. However, if these instruments are held to maturity, this will not have a negative influence on the profit situation of DEVK due to their non-permanent decline in value. In contrast, rising interest rates would have a marked positive effect on the interest returns on new and repeat investments. A (moderate) loss in the value of the Euro against other currencies also constitutes an opportunity for the investments of DEVK due to foreign currency gains.

In contrast to the significant decline in share values in 2018, in 2019 DEVK is anticipating a volatile sideways movement on the stock markets. We therefore expect lower write-downs and an improvement in the investment result this year, excluding strategic participating interests.

Risk report

In accordance with section 289, paragraph 1 HGB and the requirements laid down in section 26 VAG concerning the minimum requirements for the business organisation of insurance companies (MaGo), we are hereby reporting the risks of future developments.

Risk management system

With respect to the risk management system employed within the DEVK Group for the early identification and assessment of risks, we refer at this point to the information in the management report of DEVK Sach- und HUK-Versicherungsverein a.G.

Technical risks

Principal among the technical risks are the premium/claims risk and the reserves risk.

In this regard, we first consider the movement of the claims ratio net of reinsurance over the past ten years.

Gross claims ratio net of reinsurance

Year	%	Year	%
2009	73.5	2014	68.6
2010	72.6	2015	65.3
2011	70.8	2016	66.2
2012	68.2	2017	70.8
2013	72.6	2018	67.3

Within the framework of suitable acceptance guidelines and signatory powers, we predominantly only underwrite standardised business. We counteract the risk of unusually high claims expenses due to extraordinary loss events through a corresponding retrocession policy.

The reinsurance of our business was distributed among several external reinsurers. As a rule our choice of external reinsurers took their ratings into account.

Settlement result net of reinsurance as % of original provision

Year	%	Year	%
2009	-15.9	2014	-4.1
2010	1.2	2015	2.4
2011	2.2	2016	3.0
2012	2.8	2017	3.2
2013	13.7	2018	1.6

The negative settlement result in 2009 was affected by the discontinuation of the deferred accounting of non-Group insurance business.

Our equalisation provisions provide an additional safety cushion that contributes to the smoothing of our underwriting results. As of 31 December 2018, their volume totalled € 152.7 million (previous year € 135.4 million).

Risk of defaults by debtors arising from our insurance operations

Amounts receivable from reinsurance business at the end of the year came to € 53.1 million. These include receivables from reinsurers totalling € 4.3 million. An overview of amounts receivable, broken down according to the ratings of our reinsurance partners, is given in the following table:

Rating category	Receivables in € millions
AA-	0.12
A+	1.25
A	1.24
A-	1.63
No rating	0.03

Investment risks

In the investment sphere, DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE is exposed for the most part to participation risks. These arise in particular from its 100 % participating interests, as well as the 51 % participation in DEVK Vermögensvorsorge- und Beteiligungs-AG. They chiefly concern the company's obligations under various control agreements to assume any annual losses suffered by its subsidiaries. In the event of falling current values of participating interests, the risk of needing to make write-downs arises.

The risks stemming from investments comprise:

- the risk of unfavourable interest rate, equity price, real estate value or exchange rate movements (market price risks),
- counterparty default risk (credit risk),
- the risk of strongly correlated risks that in turn increase counterparty risk (concentration risk),
- liquidity risk; that is the risk of not always being able to meet payment obligations.

Since 1 January 2017, the internal investments catalogue has prescribed the decisive framework conditions for our investment policies. We counteract exchange/market price risk and interest rate risk by maintaining a balanced mix of investment types. Active portfolio management allows us to exploit opportunities arising from market movements to improve our results. Furthermore, we limit credit risk and concentration risk by imposing very stringent rating requirements and continually monitoring the issuers we select, thus avoiding any potentially ruinous dependence on individual debtors. We ensure a continuous influx of liquidity by maintaining a portfolio of interest-bearing investments with a balanced maturity structure. An ongoing ALM (Asset-Liability Management) process ensures that we are able at all times to meet existing and future obligations.

On the balance sheet date of 31 December 2018 we conducted our own investment stress test. The investment stress test determines whether an insurance undertaking would be in a position to meet its obligations towards its clients even if the capital markets underwent a protracted crisis. The investment stress test simulates a short-term adverse change on the capital markets and examines the impact on the insurance undertaking's balance sheet and accounts. The target horizon is the next balance sheet date. The test assumes the following scenarios: a downturn on the equity markets while the bond market remains stable, a simultaneous crash on the equity and bond markets and a simultaneous crash on the equity and real estate markets.

At the end of 2018, the following measures were in place to hedge against investment risks:

- Flexible management of the investment ratios in the special fund, in particular in the equities sphere, for instance via index futures and volatility futures
- Currency-matched refinancing in the field of indirect real estate investments
- Hedging against currency risks via forward contracts
- Use of bond forward purchases
- Adjustment of equity risks via options trading

Liquidity risks are managed by detailed multi-year investment planning. Should a liquidity shortfall arise in future, countermeasures can be taken at an early stage. Moreover, in order to improve our assessment of liquidity risks, stress scenarios in line with Solvency II stresses are applied and evaluated. On top of this, our investments are allocated to various different liquidity classes. These are assigned lower limits in relation to the investment portfolio which they must not fall below. Compliance with these limits is regularly monitored.

Interest-bearing investments

As of 31 December 2018, the Company held interest-bearing investments with a total value of € 1.2 billion. A total of € 726.7 million of these investments are in bearer instruments (including the pure pension funds), which could be subject to write-downs if interest rates rise. Of these bearer instruments, pursuant to section 341b HGB we have assigned a volume of € 653.6 million to the fixed assets since we intend to hold these papers until maturity and their current market fluctuations are viewed as temporary. Should this second assessment in particular prove wide of the mark, we shall undertake the necessary write-downs in a timely fashion. These investments exhibit a positive valuation reserve of € 36.9 million. This includes hidden liabilities totalling € 3.1 million. As of 31 December 2018, the total valuation reserves for our interest-bearing investments came to € 54.1 million. A change in returns of up to +/-1 % would result in a corresponding value change ranging from € -81.1 million to € 85.6 million.

This intimated impact of a one percentage point interest rate rise only gives an approximate idea of its potential impact on our profitability. This is because, over the course of a year, the diminishing time to maturity of the individual securities will lead to changes in their market value and interest rate sensitivity. Moreover, the bulk of our interest-bearing investments are in bearer bonds or bonds recognised on the balance sheet at their nominal values. In these cases, under the prevailing accounting regulations an increase in the market interest rate does not lead to write-downs. Further to this, the securities currently include hidden reserves which will be reduced in the near future. The exception to this is losses of value due to deteriorating credit ratings that may affect the issuers in question.

Our interest-bearing investments are predominantly in covered bonds and bank bonds. We also invest in corporate bonds. Our direct corporate bond holdings make up 16 % of our total investments. At the end of 2018 there were no investments in asset-backed securities. We continue to have minor investment commitments in countries which remain under the microscope, namely Italy and Spain. In 2018 our bond investments focused on international bearer bonds issued by banks and companies. Our pension investments in particular involve bearer papers, predominantly assigned to the fixed assets, and also registered papers.

Turning to issuer risks, as proportions of our total investments, 5 % of the company's investments are in government bonds, 16 % in corporate bonds and 31 % in securities and deposits with banks and other financial service providers. The bulk of our investments in banks is either covered by various statutory and private deposit protection schemes or involves interest-bearing securities that are protected in law by special guarantee funds.

The ratings of the issuers of our interest-bearing investments break down as follows (previous year):

AA or better	46.2 %	(49.0 %)
A	27.8 %	(24.3 %)
BBB	24.7 %	(25.5 %)
BB or worse	1.3 %	(1.1 %)

The company's rating distribution has changed only slightly from last year. We shall continue to make virtually all our new and repeat investments in interest-bearing securities with strong credit ratings.

Equity investments

The bulk of our equity investment is in DAX and EuroStoxx50 companies, as a result of which our portfolio's performance very closely matches that of these indices. A 20 % change in market prices would alter the value of our equity portfolio by € 40.2 million. Both the German and European share indices exhibited negative development during 2018. In the medium term, we continue to expect positive development, albeit with high levels of volatility in some cases. We have applied a value protection model to our equity investments in order to limit exchange risks.

In light of the uncertain economic situation, we actively managed our ratio of equity investments throughout the year. Overall, there has been an downward trend in the ratio compared to the previous year. Should growing economic problems lead to a significant downturn, various courses of action are open to us.

Real estate

On the balance sheet date, we held indirect mandates to a value of € 104.2 million. Of this, € 78.8 million was invested in direct property holdings and € 25.3 million in real estate funds. In 2018, the write-downs on these real estate investments stood at € 0.4 million.

Operational risks

Operational risks may stem from inadequate or failed operational processes, the break- down of technical systems, external variables, employee-related incidents and changes in the legal framework conditions. Effective management of the operational risks is ensured through the careful structuring of the internal monitoring system. In addition to this, the main focus of the half-yearly risk inventory is on operational risks. The appropriateness and efficacy of in-house controls are monitored by the Internal Auditing unit.

DEVK's operating procedures are based on internal guidelines. The risk of employee-related incidents is limited via regulations governing authorisation and powers of representation, as well as wide-ranging automated backup for operating procedures.

Access controls and preventive measures are in place in the IT division to ensure the security and integrity of programs, data and ongoing operations. The IT infrastructure is redundant by design in order to cater for a catastrophic breakdown scenario. Restart tests are conducted regularly. Links between internal and external networks are suitably protected by state-of-the-art systems.

The emergency management is founded on corporate emergency analysis. This describes the objectives and framework conditions for precautionary measures against emergencies and how to overcome them if they occur.

Legal risks are also included in the operational risks. DEVK has established a compliance management system designed to ensure compliance with both external requirements and internal guidelines.

Solvency II

With the entry into force of Solvency II on 1 January 2016, the insurance industry has undergone radical changes to its supervisory regime. Implementation of the full requirements of Solvency II became part of regular operations in 2018. The shortening of the reporting deadlines per Solvency II proved to be a major challenge in 2018 and required the further optimisation of processes. Furthermore, in 2018 the risk-bearing capacity concept based on Solvency II and the Solvency II materiality concept were further developed with consideration to the minimum requirements on the business organisation of insurance companies (MaGo).

The solvency calculation required by supervisory law, which is based on a standard formula, showed that DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE has significant excess cover.

Summary of our risk status

We have complied with the supervisory requirements per Solvency II.[1]

Projections made in connection with the ORSA process have shown that sufficient risk capital cover is assured in both the present and the future.[1]

To sum up, currently there are no discernible developments that could lead to a significant impairment of the company's net assets, financial position and results of operations and thus jeopardise its continued existence.

Cologne, 15 March 2019

The Management Board

Rüßmann **Knaup** **Zens**

Notes to the management report

List of insurance classes covered during the financial year

Reinsurance coverage provided

Life assurance

Health insurance
Daily benefits insurance
Hospital daily benefits insurance
Travel health insurance

Accident insurance
General accident insurance
Motor vehicle accident insurance
Travel accident insurance

Liability insurance
General liability insurance
Pecuniary loss liability insurance
Travel liability insurance

Motor vehicle liability insurance

Other motor vehicle insurance
Fully comprehensive motor insurance
Third-party, fire and theft insurance

Legal expenses insurance

Fire and non-life insurance
Fire insurance
Burglary and theft insurance
Water damage insurance
Glass insurance
Windstorm insurance
Household contents insurance
Homeowners' building insurance
Hail insurance
Animal insurance
Engineering insurance
Extended coverage insurance
Travel baggage insurance
All-risk insurance

Goods-in-transit insurance

Other insurance policies
Transport insurance
Credit and bond insurance
Breakdown service insurance
Business interruption insurance
Exhibition insurance
Travel cancellation costs insurance

Financial statements

Balance sheet to 31 December 2018

Assets	€	€	€	Previous year € 000s
A. Intangible assets				
I. Licences, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licences in such rights and assets		1,259,185		1,537
II. Payments on account		43,027		11
			1,302,212	1,547
B. Investments				
I. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	827,984,068			816,150
2. Loans to affiliated companies	85,621,962			114,100
3. Participating interests	34,064,150			15,176
4. Loans to companies in which a participating interest is held	-			260
		947,670,180		945,685
II. Other investments				
1. Shares, units or shares in investment funds and other variable-interest securities	301,586,541			293,341
2. Bearer bonds and other fixed-interest securities	679,224,290			448,087
3. Other loans	406,960,745			349,422
4. Other investments	18,138,198			17,814
		1,405,909,774		1,108,663
III. Deposits with ceding companies		54,065,218		239,517
			2,407,645,172	2,293,866
C. Accounts receivable				
I. Receivables arising out of reinsurance operations		53,112,654		19,695
of which: Affiliated companies: € 31,024,492				1,519
II. Other receivables		150,974,782		279,099
of which:			**204,087,436**	298,793
Affiliated companies: € 116,778,579				272,080
D. Other assets				
I. Tangible assets and inventories		111,571		86
II. Cash at banks, cheques and cash in hand		795,203		
III. Other assets		90,507		-
			997,281	86
E. Prepayments and accrued income				
I. Accrued interest and rent		16,499,066		14,100
II. Other prepayments and accrued income		52,775		60
			16,551,841	14,160
Total assets			**2,630,583,942**	2,608,452

Liabilities	€	€	€	Previous year € 000s
A. Equity				
I. Subscribed capital		306,775,129		306,775
II. Capital reserve		193,747,061		193,747
III. Retained earnings				
- other retained earnings		658,566,246		623,566
IV. Net retained profit		39,000,000		45,000
			1,198,088,436	1,169,088
B. Technical provisions				
I. Provision for unearned premiums				
1. Gross amount	36,460,484			29,524
2. of which from: Reinsurance amount	44,827			45
		36,415,657		29,478
II. Premium reserve		13,840,547		203,363
III. Provision for claims outstanding				
1. Gross amount	430,980,848			377,331
2. of which from: Reinsurance amount	73,191,512			73,869
		357,789,336		303,462
IV. Equalisation provision and similar provisions		152,741,186		135,423
V. Other technical provisions				
1. Gross amount	629,906			668
2. of which from: Reinsurance amount	66,906			104
		563,000		564
			561,349,726	672,291
C. Other provisions				
I. Provisions for pensions and similar commitments		652,951,215		583,800
II. Provisions for taxation		103,138,187		54,353
III. Other provisions		28,039,360		13,131
			784,128,762	651,285
D. Other liabilities				
I. Liabilities arising out of reinsurance operations of which:		45,286,999		110,530
Against affiliated companies: € 986,222				43,872
II. Liabilities to banks		36,000,000		-
III. Other liabilities		5,334,132		5,024
of which:			**86,621,131**	115,554
From taxes: € 1,191,564				1,182
Against affiliated companies: € 3,302,129				206
E. Prepayments and accrued income				
			395,887	233
Total liabilities			**2,630,583,942**	2,608,452

Profit and loss account

for the period from 1 January to 31 December 2018

Items	€	€	€	Previous year € 000s
I. Technical account				
1. Earned premiums net of reinsurance				
a) Gross premiums written	530,542,063			471,602
b) Outward reinsurance premiums	106,563,375			97,906
		423,978,688		373,696
c) Change in the gross provision for unearned premiums	-6,877,963			-4,378
d) Change in the gross provision for unearned premiums, reinsurers' share	-410			11
		-6,878,373		-4,368
			417,100,315	369,329
2. Allocated interest, net of reinsurance			**5,950,239**	7,783
3. Other technical income, net of reinsurance			**59,100,980**	-
4. Claims incurred, net of reinsurance				
a) Claims paid				
aa) Gross amount	290,872,229			254,702
bb) Reinsurers' share	66,108,086			58,577
		224,764,143		196,124
b) Change in the provision for claims outstanding				
aa) Gross amount	55,097,301			62,802
bb) Reinsurers' share	677,336			2,400
		55,774,637		65,202
			280,538,780	261,326
5. Changes in other technical provisions, net of reinsurance				
a) Premium reserve, net of reinsurance		-8,170,724		-4,399
b) Other technical provisions, net of reinsurance		-71,263		122
			-8,241,987	-4,277
6. Bonuses and rebates, net of reinsurance			**841**	-
7. Net operating expenses, net of reinsurance				
a) Gross operating expenses for insurance operations		139,826,313		122,373
b) of which, from: Reinsurance commissions and profit participation		26,747,390		23,546
			113,078,923	98,827
8. Other technical charges, net of reinsurance			**1,285,316**	1,244
9. Subtotal			**79,005,687**	11,437
10. Change to the equalisation provision and similar provisions			**-17,318,631**	-10,117
11. Technical result net of reinsurance			**61,687,056**	1,320
Balance carried forward:			61,687,056	1,320

Items	€	€	€	Previous year € 000s
Balance carried forward:			61,687,056	1,320
II. Non-technical account				
1. Income from investments				
a) Income from participating interests	7,908,702			6,145
of which: from affiliated companies: € 6,158,493				3,914
b) Income from other investments	43,575,897			46,555
of which: from affiliated companies: € 1,114,759				4,874
c) Income from write-ups	609,597			1,709
d) Gains on the realisation of investments	7,869,128			6,196
e) Income from profit pooling, profit transfer and partial profit transfer agreements	110,361,986			102,541
		170,325,310		163,145
2. Investment charges				
a) Investment management charges, interest expenses and other charges on capital investments	1,043,019			1,578
b) Write-downs on investments	21,456,788			3,613
c) Losses on the realisation of investments	659,106			1,340
d) Charges from loss transfer	-			204
		23,158,913		6,736
		147,166,397		156,409
3. Allocated interest		5,950,239		7,783
			141,216,158	148,626
4. Other income		33,500,888		15,176
5. Other charges		107,277,347		70,026
			-73,776,459	-54,851
6. Profit from ordinary activities			**129,126,755**	95,095
7. Taxes on income		90,124,534		50,091
8. Other taxes		2,221		5
			90,126,755	50,095
9. Net profit for the year/net retained earnings			**39,000,000**	45,000

Notes to the accounts

Accounting and valuation methods

Intangible assets (IT software) are recognised at their costs of acquisition and, with the exception of advance payments, subjected to scheduled depreciation. Low-value assets are either assigned to a pool of such assets, in which case they are depreciated over a five-year period, beginning from the year of acquisition. Otherwise they are recorded as operating expenses in their year of acquisition.

The **shares in affiliated companies,** the **loans to affiliated companies,** the **participating interests** and **the loans to companies in which a participating interest is held** were shown either at their costs of acquisition or at the lower fair value.

Equities, fund units or shares and other variable-yield securities, the **bearer bonds and other fixed-interest securities** are shown at the lower of their costs of acquisition or market prices. Investments assigned to the fixed assets pursuant to section 341b paragraph 2 HGB are valued according to the diluted lower value principle. Investments assigned to the current assets were valued according to the strict lower value principle. Where a write-down to a lower value took place in previous years, a corresponding write-up subsequently took place if this asset could then be assigned a higher value on the balance sheet date. These write-ups took place to the lower of the acquisition cost or market value.

Derivatives were valued at their costs of acquisition or their fair value, depending on which was lower. When determining the fair value, the market value was applied. For stock options with a value on the balance sheet date of more than the reported liability, a provision was recorded for the impending losses from pending transactions. The settlement method was applied for the calculation.

Registered bonds are recorded on the balance sheet at their nominal values. Premium and discount points are distributed over the term of the loans via deferrals and accruals.

Notes receivable, loans and **other loans** are recognised at their amortised cost plus or minus the cumulative amortisation of the difference between the cost of acquisition and the redemption amounts, applying the effective interest method.

Other investments are recognised at the lower of acquisition cost or stock market value.

Deposits with ceding companies are recorded using the details provided by the ceding companies.

Receivables from reinsurance operations are based on the reinsurance contracts and are recognised at their nominal values less necessary individual value adjustments.

Other receivables are shown at their nominal values.

Other assets, excluding operating or office equipment, are recognised at their nominal values. Operating and office equipment is shown at its cost of acquisition or production, reduced by scheduled depreciation. Depreciation was calculated according to the straight-line method. Low-value assets are either assigned to a pool of such assets, in which case they are depreciated over a five-year period, beginning from the year of acquisition. Otherwise they are recorded as operating expenses in their year of acquisition.

Apart from the advance payments of costs for future periods, **prepayments and accrued income** chiefly comprise the premium on registered bonds, which are recorded at their nominal values.

Technical provisions are calculated by application of the following principles:
Provisions for unearned premiums are recognised on the basis of the contracts with the primary insurers. When calculating the unearned premium provisions, we complied with the regulation laid down by the Finance Minister of North Rhine Westphalia on 30 April 1974. The gross provision for unearned premiums denominated in foreign currencies were calculated on the basis of the year-end exchange rates. Exchange rate gains/losses are recorded under the other income/expenses. The provision for unearned premiums attributable to the reinsurers is calculated on the basis of the contracts with the reinsurers.

The **premium reserve** was recorded in accordance with the reinsurance policies, using the details provided by the ceding companies.

The gross amounts for the **provisions for claims outstanding** were recorded on the basis of the details provided by the ceding companies. The gross provision for unearned premiums denominated in foreign currencies were calculated on the basis of the year-end exchange rates. Exchange rate gains/losses are recorded under the other income/expenses. The reinsurance amount was calculated in accordance with the contractual agreements in this respect.

The **equalisation provision** was calculated in accordance with the annex to section 29 of the German Regulation on Accounting in the Insurance Sector (RechVersV). **Provisions similar to the equalisation provision** for insurance against pharmaceutical, nuclear facility and terrorist risks were formed in accordance with section 30 paragraphs 1, 2 and 2a of the German Regulation on Accounting in the Insurance Sector (RechVersV).

The **other technical provisions** include a cancellation provision for premium claims. These were balanced on the basis of details provided by the ceding companies.

The **other provisions** were formed on the following basis:
The **pension provision** is calculated according to the projected unit credit method on the basis of the HEUBECK 2018 G actuarial tables. The discounting interest rate was calculated as a 10-year average pursuant to the previously valid German Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung). It was set at 3.21 % (previous year 3.68 %) and calculated on the basis of an assumed residual term of 15 years (section 253 paragraph 2 clause 2 HGB). The financing age on expiry corresponds with the contractual age on expiry. The assumed rate of

pay increase was set at 2.1 % p.a., and the rate of pension increase at 1.0 %, 1.7 % or 2.4 % p.a. depending on undertaking.

The **tax provisions** and **other provisions**, calculated according to anticipated requirement, were formed for the current financial year and set at the levels necessary to the best of our commercial judgement.

Liabilities arising from reinsurance operations are based on the reinsurance contracts and are recognised at the settlement value.

Amounts owed to banks are recognised at their repayment amounts.

Other creditors are valued at their settlement values.

Accruals and deferred income include the discount points on registered bonds.

Items in foreign currency are converted on the balance sheet date at the median foreign currency exchange rate.

The **allocated interest, net of reinsurance**, was recorded on the basis of the details provided by the ceding company. The reinsurance amount was calculated in accordance with the contractual agreements in this respect.

The gross technical items shown in the financial statements include estimated figures. These are due to invoices from outside business taken on which were unavailable as of the balance sheet date. On presentation the following year, the balance sheet values will be adjusted by the differences from these estimates.

Calculations reveal deferred tax due to tax relief resulting from differences between accounting valuations and valuations for tax purposes. These are expected to diminish in future financial years. However, in exercise of our option under section 274 paragraph 1 HGB, we are not recognising any deferred tax asset.

Changes to Asset Items A., B. I. to II. during the 2018 financial year

Assets	Balance sheet values Previous year € 000s	Additions € 000s	Transfers € 000s	Disposals € 000s	Write-ups € 000s	Write-downs € 000s	Balance sheet values Financial year € 000s
A. Intangible assets							
1. Licences, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licences in such rights and assets	1,537	34	1	-	-	313	1,259
2. Payments on account	10	34	-1	-	-	-	43
3. Total A.	1,547	68	-	-	-	313	1,302
B. I. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	816,150	11,834	-	-	-	-	827,984
2. Loans to affiliated companies	114,100	21,448	-	49,926	-	-	85,622
3. Participating interests	15,175	19,544	254	848	-	61	34,064
4. Loans to companies in which a participating interest is held	260	-	-254	6	-	-	-
5. Total B. I.	945,685	52,826	-	50,780	-	61	947,670
B. II. Other investments							
1. Shares, units or shares in investment funds and other variable-interest securities	293,339	72,113	-	50,068	610	14,407	301,587
2. Bearer bonds and other fixed-interest securities	448,088	246,688	-	8,831	-	6,721	679,224
3. Other loans							
a) Registered bonds	193,096	38,312	9,847	-	-	-	241,255
b) Notes receivable and loans	146,272	24,283	-9,847	5,042	-	-	155,666
c) Other loans	10,056	-	-	17	-	-	10,039
4. Other investments	17,814	1,529	-	938	-	267	18,138
5. Total B. II.	1,108,665	382,925	-	64,896	610	21,395	1,405,909
Total	**2,055,897**	**435,819**	-	**115,676**	**610**	**21,769**	**2,354,881**

The amortisation of intangible assets is scheduled in nature.

Notes to the balance sheet

Re Assets B.

Investments

Pursuant to section 341b paragraph 2 HGB, we have assigned investments for long-term retention in the investment portfolio. As of 31 December 2018, our investments had the following book and current values:

Investments	Book value	Current value
B. I. Investments in affiliated companies and participating interests		
1. Shares in affiliated companies	827,984,068	1,072,353,712
2. Loans to affiliated companies	85,621,962	85,621,962
3. Participating interests	34,064,150	35,957,390
B. II. Other investments		
1. Shares, units or shares in investment funds and other variable-interest securities	301,586,541	357,429,686
2. Bearer bonds and other fixed-interest securities	679,224,290	717,317,915
3. Other loans		
a) Registered bonds	241,255,490	243,687,200
b) Notes receivable and loans	155,666,065	168,277,665
c) Other loans	10,039,190	10,776,817
4. Other investments	18,138,198	23,046,752
Total	**2,353,579,954**	**2,714,469,099**
of which: Investments valued at costs of acquisition	2,122,579,954	2,481,730,183
of which: Investments in fixed assets pursuant to section 341b paragraph 2 HGB	653,597,604	687,280,465

The valuation reserves include hidden liabilities totalling € 9.9 million. These relate to participating interests, stocks, bearer bonds, registered bonds, notes receivable and loans.

Depending on the investment type, a variety of different methods were used to calculate the current values.

The current value of shares in affiliated companies held by DEVK Allgemeine Versicherungs-AG, DEVK Rechtsschutz-Versicherungs-AG, DEVK Krankenversicherungs-AG, DEVK Vermögensvorsorge- und Beteiligungs-AG, DEVK Asset Management GmbH, DEVK Service GmbH, GAV Versicherungs-AG and SADA Assurances S.A. is calculated on the basis of earning power. DEVK Private Equity GmbH, HYBIL B.V. and Ictus GmbH were measured at their market values. Other shares are recognised at their book values.

In the great majority of cases, the current values of participating interests correspond to the book values.

Both dividend-bearing securities and fixed-interest securities capitalised at their costs of acquisition are valued using the year-end market prices. Pursuant to section 56 RechVersV, the current values of the registered bonds, notes receivable and loans were calculated at normal market conditions on the basis of the yield curve.

The current values of the other loans and silent participating interests within the meaning of the German Banking Act (KWG) (equity surrogates) were calculated on the basis of the discounted cash flow method on the basis of the current Euro swap curve plus a risk premium. This takes into account the anticipated future payment streams in light of debtor-specific assumptions.

The market values of investments denominated in foreign currencies were calculated on the basis of the year-end exchange rates.

Financial instruments within the meaning of section 285, No. 18 HGB that are capitalised at their fair value

	Book value € 000s	Fair value € 000s
Participating interests	12,232	12,177
Fixed-asset securities	197,191	190,874
Other loans	150,500	146,964

We have refrained from applying any write-downs in accordance with section 253 paragraph 3 clause 5 and 6 HGB, as we either intend to hold various securities until maturity or we are assuming that any fall in value is only temporary.

Derivative financial instruments and forward purchases in accordance with section 285 No. 19 HGB

	Type	Nominal volume € 000s	Book value premium € 000s	Fair value of premium € 000s
Other liabilities	Short put options	4,570	220	-616
	Short call options	2,700	43	-
Registered bonds, notes receivable and loans	Forward purchases	30,000	-	614

Valuation methods		
Short options	European options	Black-Scholes
	American options	Barone-Adesi

Units or shareholdings in domestic investment funds in accordance with section 285 No. 26 HGB

Investment goal	Dividends € 000s	Fair value € 000s	Hidden reserves/ hidden charges € 000s	Limitation on daily redemption
Equity funds	1,743	183,271	20,735	
Bond funds	1,363	47,577	200	
Real-estate funds	1,029	28,011	2,858	between any time to after 6 months

Re Assets B. I.

Investments in affiliated companies and participating interests

	% share	Equity €	Results from previous financial year €
DEVK Allgemeine Lebensversicherungs-AG, Cologne	100.00	157,044,493	1,840,000
DEVK Allgemeine Versicherungs-AG, Cologne	100.00	342,170,794	-
DEVK Krankenversicherungs-AG, Cologne	100.00	29,177,128	-
DEVK Pensionsfonds-AG, Cologne	100.00	14,333,766	-
DEVK Rechtsschutz-Versicherungs-AG, Cologne	100.00	60,563,459	-
DEVK Vermögensvorsorge- und Beteiligungs-AG, Cologne	51.00	201,000,000	-
DEVK Asset Management GmbH, Cologne	100.00	1,500,000	-
DEVK Europa Real Estate Investment Fonds SICAV-FIS, Luxembourg (L)	58.00	694,030,721[3]	50,708,577[3]
DEVK Omega GmbH, Cologne	50.00	27,620,863	781,090
DEVK Private Equity GmbH, Cologne	55.00	204,061,995	29,546,872
DEVK Saturn GmbH, Cologne	33.33	27,967,806	689,078
DEVK Service GmbH, Cologne	74.00	1,470,379	-
DEVK Web-GmbH, Cologne	100.00	25,000	-
DEVK Zeta GmbH, Cologne	100.00	775,000	-
Corpus Sireo Health Care III SICAV-FIS, Luxembourg (L)	8.66	54,751,039[2]	3,302,467[2]
CORPUS SIREO RetailCenter Fonds Deutschland SICAV-FIS, Luxembourg (L)	26.88	93,931,863[2]	7,537,406[2]
DEREIF Brüssel Carmen N.V., Brussels (B)	100.00	-897,540	-633,471
DEREIF Brüssel Lloyd George S.à.r.l., Luxembourg (L)	100.00	7,147,911	1,318,385
DEREIF Hungary Eiffel Palace Kft., Budapest (HU)	100.00	10,617,382	-445,989
DEREIF Hungary Park Atrium Ltd., Budapest (HU)	100.00	4,958,889	-358,164
DEREIF Immobilien 1 S.à.r.l., Luxembourg (L)	100.00	-8,423,435	9,909,383
DEREIF Lissabon Republica Unipessoal Lda, Lisbon (P)	100.00	3,643,768	-103,274
DEREIF Paris 6, rue Lamennais, S.C.I., Yutz (F)	100.00	5,351,021	-314,464
DEREIF Paris 9, chemin du Cornillon Saint-Denis, S.C.I., Yutz (F)	100.00	6,291,293	-77,807
DEREIF Paris 37–39, rue d'Anjou, Yutz (F)	100.00	11,578,940	1,548,802
DEREIF Wien Beteiligungs GmbH, Vienna (A)	100.00	9,415,108	328,880
DEREIF Wien Nordbahnstrasse 50 OG, Vienna (A)	100.00	9,241,439	644,296
DP7, Unipessoal LDA, Lisbon (P)	100.00	12,369,321	1,282,425
DRED S.C.S. SICAV-FIS, Luxembourg (L)	58.00	95,226,905	12,016,326
European Solar Power Fund No. 1 GmbH & Co. KG, Grünwald	4.35	188,586,371	17,064,975
GAV Versicherungs-AG, Legden	100.00	7,146,680	1,570,073
Hotelbetriebsgesellschaft SONNENHOF mbH, Bad Wörishofen	100.00	356,023	-
HYBIL B.V., Venlo (NL)	80.00	62,663,630	2,745,267
Ictus GmbH, Cologne	60.00	46,977,308	-84,114
INVESCO Beteiligungsverwaltungs-GmbH & Co. KG, Munich	14.39	5,747,175	-33,769
Kassos Ventures GmbH, Cologne	100.00	4,873,251	64,093
KLUGO GmbH, Cologne	100.00	1,200,137	-1,032,074
Lieb' Assur S.à.r.l., Nîmes (F)	100.00	378,016	8,121
Monega Kapitalanlagegesellschaft mbH, Cologne	45.00	6,821,926[2]	1,621,926[2]
SADA Assurances S.A., Nîmes (F)	100.00	53,743,155	8,291,597
SANA Kliniken AG, Ismaning	0.70	824,767,000[2]	95,327,000[2]
Sireo Immobilienfonds No. 4 Edinburgh Ferry Road S.à.r.l., Luxembourg (L)	100.00	-8,093,345	-1,708,400
Sireo Immobilienfonds No. 4 Red Luxemburg Main Building S.à.r.l., Luxembourg (L)	100.00	11,719,917	-514,021
Sustainable Funds SCA SICAV SIF, Luxembourg (L)	3.30	451,023,034[2]	29,787,507[2]
		GBP	GBP
DEREIF London 10, St. Bride Street S.à.r.l., Luxembourg (L)	100.00	6,591,758	437,519
DEREIF London Birchin Court S.à.r.l., Luxembourg (L)	100.00	9,699,929	2,986,919
DEREIF London Coleman Street S.à.r.l., Luxembourg (L)	100.00	5,920,152	936,041
DEREIF London Eastcheap Court S.à.r.l., Luxembourg (L)	100.00	8,001,253	89,767
DEREIF London Lower Thames Street S.à.r.l., Luxembourg (L)	100.00	8,565,060	1,571,998
DEREIF London Queen Street S.à.r.l., Luxembourg (L)	100.00	15,678,046	-1,014,363
		CZK	CZK
DEREIF Prag Oasis s.r.o., Prague (CZ)	100.00	494,874,000	15,517,000
		SEK	SEK
DEREIF Malmö, Kronan 10 & 11 AB, Malmö (S)	100.00	18,805,000	8,890,000
DEREIF Stockholm, Vega 4 AB, Stockholm (S)	100.00	18,150,000	3,483,000

[2] Based on 2017 financial year
[3] Based on subgroup financial statements

Where profit transfer agreements are in place, the operating result does not have to be disclosed.

Re Assets B. II.

Other investments

Other loans exclusively comprise registered participation certificates.

Re Assets E. II.

Other prepayments and accrued income	
Premium on registered bonds	€ 317
Advance payments for future services	€ 52,458
	€ 52,775

Re Liabilities A. I.

Subscribed capital

The subscribed capital totalling € 306,775,129 is divided into 120 million registered no par value shares.

Re Liabilities A. III.

Retained earnings	
- Other retained earnings	
As per 31/12/2017	€ 623,566,246
Allocation	€ 35,000,000
As per 31/12/2018	**€ 658,566,246**

Re Liabilities B. III.

Provision for claims outstanding

The settlement result net of reinsurance for the financial year stands at € 4.87 million (previous year € 7.64 million).

Re Liabilities E.

Accruals and deferred income	
Discount points on registered bonds	**€ 395,887**

Notes to the profit and loss account

Reinsurance coverage provided		
	Financial year € 000s	Previous year € 000s
Gross premiums written		
- Life	15,862	18,253
- Non-life/accident	514,680	453,349
Total	**530,542**	471,602

Insurance agents' commission and other remuneration, personnel expenses		
	Financial year € 000s	Previous year € 000s
1. Insurance agents' commission of all types within the meaning of section 92 HGB for direct insurance operations	-	-
2. Other insurance agents' remuneration within the meaning of section 92 HGB	-	-
3. Wages and salaries	304	305
4. Social-security contributions and social-insurance costs	-	-
5. Retirement pension costs	183	-
Total	**487**	305

During the year under review, Management Board remuneration totalled € 317,516. The retirement pensions of former Management Board members and their surviving dependants totalled € 247,639. As of 31 December 2018, a pension provision of € 3,608,093 was capitalised for this group of people. The Supervisory Board remuneration totalled € 171,445.

Of the other income, € 2,936,535 (previous year € 411,671) is attributable to currency conversion. Other expenses include € 2,546,797 (previous year € 1,098,234) from currency conversion.

Appropriation of profit

The overall net annual profit came to € 39.0 million. The net annual profit is shown as net retained profit.

The Management Board proposes to the Annual General Meeting that the sum of € 15.0 million should be appropriated from the net retained earnings and paid as a dividend to DEVK Sach- und HUK-Versicherungsverein a.G., with the remaining € 24.0 million being allocated to other retained earnings.

Other information

Difference pursuant to section 253 paragraph 6 of the German Commercial Code (HGB)

The difference pursuant to section 253 paragraph 6 HGB on the balance sheet date amounted to € 118.8 million (previous year € 100.0 million). This was due to the pension provision.

Parent company guarantee

Our company undertakes at all times to provide Assistance Services GmbH and Outcome Unternehmensberatung GmbH with sufficient funds to enable them to duly meet their obligations.

Contingent liabilities and other financial obligations

On the balance sheet date, there were financial obligations totalling € 7.3 million from open short options and € 30.0 million from forward purchases.

At the end of the year, other financial obligations arising from real estate holdings, fund units, shares in affiliated companies and participating interests totalled € 65.8 million. This includes obligations towards affiliated companies amounting to € 25.3 million.

In order to secure a guarantee line of USD 50.0 million, our company issued a securities deposit with a value of € 2.5 million.

Supplementary report

No occurrences or events took place after the reporting date that could significantly affect the company's future net assets, financial position or results of operations.

General information

DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE, Cologne, is registered at the local court under Commercial Register Number HRB 29417.

Lists of the members of the Management Board and Supervisory Board are given prior to the management report.

Our company does not itself employ any personnel.

On the balance sheet date, our company is owned by DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn, Cologne, with 100 % interest. The aforementioned has disclosed, pursuant to section 20 paragraph 4 AktG, that it holds a voting rights majority.

As required by law, the annual financial statements are published in Germany's Electronic Federal Gazette.

Pursuant to section 285 paragraph 17 HGB, details of the auditors' fees are provided in the consolidated notes.

Our company is exempt from the obligation to prepare consolidated financial statements and a consolidated management report.

Name and domicile of the parent company that draws up the consolidated financial statements whereby the company is exempted and in which it is included:

DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.
Betriebliche Sozialeinrichtung der Deutschen Bahn
Zentrale, Riehler Straße 190, 50735 Cologne

The consolidated financial statements are published on the website of DEVK at www.devk.de, and in the Electronic Federal Gazette.

Cologne, 15 March 2019

The Management Board

Rüßmann **Knaup** **Zens**

Independent audit certificate

To DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft - DEVK RE, Cologne

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft - DEVK RE (until 21 September 2018 DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft), Cologne, comprising the balance sheet to 31 December 2018, the profit and loss account for the financial year from 1 January to 31 December 2018, as well as the notes, including the statement of the accounting policies. In addition, we have audited the management report of DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft - DEVK RE for the financial year from 1 January to 31 December 2018. We have not audited the details given in the management report, which are marked as unchecked.

In our opinion, on the basis of the knowledge obtained in the audit

– the accompanying annual financial statements comply in all material respects with the prevailing German commercial regulations for insurance undertakings, give a true and fair view, in accordance with German principles of proper accounting, of the assets, liabilities, and financial position of the Company as of 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
– the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, the management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future developments. Moreover, our opinion on the management report does not extend to the content of the details given in the management report which are marked as unchecked.

Pursuant to section 322 paragraph 3 clause 1 HGB, we hereby declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with section 317 HGB and EU Audit Regulation No. 537/2014 and in compliance with the German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities according to those requirements and principles are further described in the section of our auditor's report entitled "Auditor's responsibilities for the audit of the annual financial statements and of the management report". In accordance with the provisions of European law and German commercial and professional law, we are independent of the Company, and we have also fulfilled our other German professional responsibilities pursuant to those provisions. Moreover, in accordance with Article 10, paragraph 2., point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5, paragraph 1 of the EU Audit Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters which, in our professional judgement, were of greatest significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in conjunction with our audit of the annual financial statements as a whole, and in forming our audit opinion in this regard; we do not provide a separate audit opinion on these matters.

Valuation of the shares in affiliated insurance companies

With regards to the applied accounting policies and methods we refer to the explanations given in the notes to the Company's annual financial statements in the "Accounting and valuation methods" section. Details regarding risks are contained in the management report in the "Risk report" section.

THE FINANCIAL STATEMENT RISK

The shares in affiliated companies amounted to € 828 million, which represents 31.5 % of the balance sheet total. Shares in affiliated insurance companies make up a substantial portion of this amount.

The cash inflows to be discounted in calculating the current value of the affiliated insurance companies according to the capitalised earnings method are determined via forecasts of the Company's future net financial surpluses.

The forecast reflects the subjective expectations of the company management regarding projected future business development. It is therefore very much a matter of judgement.

The planned net financial surpluses are discounted through application of capital cost parameters, the growth rate and the capitalisation interest rate, which is made up of a basic interest rate plus a risk premium. This risk premium includes further assumptions about the industry and the risk to which the individual company is exposed, and is therefore subject to the risk inherent in the uncertainty of the estimates made.

The risk lies in the possibility of the current value of the insurance companies being miscalculated, with impairment potential being overlooked.

OUR AUDIT APPROACH

When auditing the shares in affiliated insurance companies, we performed the following principal audit activities:

- In order to assess the suitability of the assumptions used for corporate planning purposes, we acquired an understanding of the planning process.
- Through interviews and inspections, as well as via plausibility considerations, we satisfied ourselves that the information about the past, present and future used for planning purposes was reasonable and non-contradictory in nature. In so doing, we also appraised the accuracy of past years' planning.
- In judging the suitability of the assumptions made in the corporate planning of the life insurance company, we employed the services of our own actuaries.
- We analysed the capital cost parameters employed against criteria of normal industry practice. We also compared the parameters used with external sources.
- We satisfied ourselves as to the suitability of the valuation model and conducted an assessment of its computational accuracy.

OUR OBSERVATIONS

The method on which the impairment testing of the shares in affiliated companies is based is appropriate and in accordance with the valuation policies. The Company's overall assumptions, estimates and parameters are appropriate.

Appropriateness of the estimates in relation to Group-external insurance business undertaken

With regards to the applied accounting policies and methods we refer to the explanations given in the notes to the Company's annual financial statements in the "Accounting and valuation methods" section. Details regarding risks are contained in the management report in the "Risk report" section.

THE FINANCIAL STATEMENT RISK

The estimated values included in the gross premiums written and the provisions for claims outstanding comprise a significant proportion of the overall values.

Charges made by Group-external ceding insurance companies, which were unavailable at the time of preparing the financial statements, were estimated using a cost estimation tool. Depending on the agreed invoicing method, the estimates may concern the fourth quarter or the whole of the second half year. The estimates will be replaced by the actual figures once the invoices are received and posted during the following year. The difference between the estimates and the actual charges as determined by the true-up process will be applied in profit or loss during the following year.

The risk exists that the estimates will fail to assess the values appropriately.

OUR AUDIT APPROACH

For the audit of the gross premiums written and the gross provision for claims outstanding, we engaged the additional services of our own specialists. We conducted the following specific audit activities:

- We recorded the process for estimating the value of reinsurance operations undertaken, identified key checks and tested the suitability and efficacy of these checks.
- Furthermore, on the basis of a judicious selection of policies, we gained an understanding of the estimates made during the year under review and of the true-up in relation to the previous year.
- Interviews and inspections were conducted in relation to any material discrepancies.
- We judged the quality of the estimates on the basis of the knowledge gained in this way.

OUR OBSERVATIONS

Taken as a whole, the estimates made in relation to outside insurance business undertaken are appropriate.

Other information

The Management is responsible for the other information. The other information comprises:

- the details in the management report marked as unaudited, and
- the remaining parts of the annual report, with the exception of the audited annual financial statements, the management report and our auditor's report.

Our opinions on the financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any offer any other form of assurance in relation said information.

In connection with our audit, our responsibility is to read the other information and consider whether it

- is materially inconsistent with the annual financial statements, the management report and the knowledge we acquired during the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the annual financial statements and the management report

The management is responsible for the preparation of annual financial statements that comply, in all material respects, with the prevailing provisions of German commercial law as applied to insurance undertakings and for ensuring that the annual financial statements, in compliance with German principles of proper accounting, give a true and fair view of the Company's assets and liabilities, financial position and financial performance. In addition, the management is responsible for implementing such internal controls as they deem necessary in conformity with German principles of proper accounting, in order to permit the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the management is responsible for assessing the Company's ability to continue as a going concern. They are also responsible for disclosing matters related to the continuation of the Company's activities, where applicable. They are also responsible for financial reporting founded on the accounting policy of the going concern, provided no factual or legal circumstances militate against this.

Furthermore, the management is responsible for the preparation of a management report that, taken as a whole, provides an appropriate view of the Company's position and is consistent in all material respects with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the management is responsible for such arrangements and measures (systems) as they deem necessary to facilitate the preparation of a management report that complies with the applicable German legal requirements and provides sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and is consistent in all material respects with the annual financial statements and the knowledge obtained in the audit, complies with German legal provisions and appropriately presents the opportunities and risks of future developments, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements may arise from fraud or error and are considered material if they could individually or mutually be reasonably expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements in the annual financial statements and the management report, whether due to fraud or error, plan and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the circumvention of internal controls.
- Acquire an understanding of the internal control system relevant to the audit of the annual financial statements and of arrangements and measures relevant to the audit of the manage-

ment report, in order to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these Company systems.

- Evaluate the appropriateness of the accounting policies used by the management and the reasonableness of estimates made by the management, as well as the related disclosures.
- Draw conclusions regarding the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, as to whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are obliged to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may mean the Company is no longer able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner conducive to ensuring that the annual financial statements give a true and fair view of the assets and liabilities, financial position and financial performance of the Company in compliance with German principles of proper accounting.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with applicable law, and the view of the Company's position it provides.
- Perform audit procedures on the forward-looking information presented by the management in the management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the management as a basis for its forward-looking statements, and evaluate the proper derivation of the forward-looking statements from these assumptions. We do not express a separate audit opinion on the forward-looking statements or the assumptions on which they are based. There is a substantial unavoidable risk that future events will differ materially from the forward-looking statements.

We engage in discussions with the persons responsible for governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control system that we identify during our audit.

We also provide the persons responsible for governance with a statement that we have complied with the relevant independence requirements, and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, the related safeguards.

From the matters discussed with the persons responsible for governance, we determine the matters which were of most significance in the audit of the annual financial statements for the current period and which therefore constitute the key audit matters. We describe these matters in our auditor's report unless public disclosure of the matter is forbidden by legislation or other legal provisions.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as the auditors at the Supervisory Board meeting on 4 May 2018. Furthermore, we were engaged by the Supervisory Board on 4 May 2018. We have been the auditor of DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft - DEVK RE (up to 21 September 2018 DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft) without interruption since 1997.

We hereby declare that the opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the audit, we also rendered the following services, which are not stated in the annual financial statements or the management report, for the audited companies or for companies controlled by the audited companies:

- Audit of the annual financial statements and management reports of the parent company and controlled subsidiaries,
- Audit of the solo solvency overviews of the Company and its controlled subsidiaries,
- Audit of the Management Board's reporting on relationships with affiliated companies pursuant to section 312 paragraph 1 of the German Stock Corporation Act (AktG) (dependent companies report),
- Audit of the propriety of the data made availability to the guarantee scheme for life insurance policies pursuant to section 7 paragraph 5 of the Insurance Guarantee Scheme Financing Regulation (SichLVFinV),
- Audit pursuant to section 24 of the Financial Investment Brokerage Regulation (FinVermV),
- Tax appraisal and advice on individual accounting matters as well as in connection with the German Investment Tax Act (InvStG),
- Drawing up the tax balance sheet, as well as preparing corporate tax returns.

Chief auditor

The auditor in charge of the audit is Thorsten Klitsch.

Cologne, 5 April 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Klitsch	**Happ**
Auditor	Auditor

Supervisory Board report

During 2018, the Supervisory Board regularly monitored the Management Board's leadership on the basis of written and verbal reporting, as well as being briefed on the company's commercial performance, corporate policies and financial position at various meetings.

KPMG AG Wirtschaftsprüfungsgesellschaft, having been appointed as auditors in line with statutory requirements, duly audited the 2018 annual financial statements and management report prepared by the Management Board. This audit did not reveal any irregularities. An unqualified audit certificate was granted. The Supervisory Board has duly acknowledged the audit findings.

The Supervisory Board's own audit of the annual financial statements and management report likewise revealed no irregularities. The Supervisory Board hereby approves the 2018 financial statements, which are thus duly adopted.

The Supervisory Board agrees with the Management Board's proposal concerning the appropriation of the 2018 net retained earnings and hereby recommends that the Annual General Meeting passes a corresponding resolution.

We have been furnished with and have studied the report prepared by the Management Board on relationships with affiliated companies and also the audit report on this prepared by KPMG AG Wirtschaftsprüfungsgesellschaft. The auditor has issued the following audit certificate of the Management Board's report on relationships with affiliated companies:

"After our statutory audit and evaluation, we hereby confirm that
1. the material details in the report are correct, and
2. the payments made by the company in connection with the legal transactions discussed in the report were not excessive."
We endorse this judgement and we do not have any objections to the Management Board's statement at the end of the report concerning relationships with affiliated companies.

The Supervisory Board would like to thank the Management Board and employees for all their hard work and commitment.

Cologne, 8 May 2019

The Supervisory Board

Kirchner
Chairman

Company bodies

Supervisory Board

Torsten Westphal
Magdeburg
Chairman
Federal Director of the
Eisenbahn- und Verkehrs-
gewerkschaft (EVG)

Helmut Lind
Munich
Deputy Chairman
CEO of the board
Sparda-Bank München eG

Helmut Petermann
Essen
Chairman of the General Works Council,
DEVK Versicherungen
Sparda-Bank München eG

Norbert Quitter
Bensheim
Deputy Federal Chairman of the
Gewerkschaft Deutscher
Lokomotivführer (GDL) (German Train Drivers' Union)

Regina Rusch-Ziemba
Hamburg
Deputy Chair of
Eisenbahn- und Verkehrs-
gewerkschaft (EVG)

Ekhard Zinke
Flensburg
President of the
Federal Motor Transport Authority

Management Board

Gottfried Rüßmann
Cologne
Chairman

Rüdiger Burg
Frechen

Michael Knaup
Cologne

Dietmar Scheel
Bad Berka

Bernd Zens
Königswinter

Advisory Board

Rudi Schäfer
Bad Friedrichshall
- Honorary Chairman -
Chairman of the German
Railway Workers
Union, ret.

Alexandra Bastian
Berlin
Operations Manager and Head of HR
Partner Holding I (HBR)
Deutsche Bahn AG

Antje Böttcher
Halle (Saale)
Chairwoman of the Association
of German Railway
Technical Colleges e.V. (VDEF)

Heiko Büttner
Munich
CEO of
DB Regio AG
S-Bahn Munich

Andreas Dill
Dortmund
CEO of the board
Sparda-Bank Hannover eG i. R.

Katrin Dornheim
Berlin
Departmental Head, South-East Region
Eisenbahn- und Verkehrs-
gewerkschaft (EVG)

Dirk Flege
Glienicke Nordbahn
Managing Director of Allianz pro
Schiene e. V.

Thorsten Hagedorn
Essen
Departmental Manager, South-West Region
Eisenbahn- und Verkehrs-
gewerkschaft (EVG)

Hans-Jürgen Hauschild
Moisburg
Group Advisory Council Chairman
Netinera Deutschland GmbH
KVG Stade GmbH & Co. KG
Betrieb Buxtehude

Jürgen Knörzer
Schwarzach
Chairman of the General Works Council,
DB Regio, Rail/Bus

Günther Köhnke
Rotenburg
Head of Market Development
DB Regio, Regio Bus

Raoul Machalet
Meudt
Departmental Manager, Region West
Eisenbahn- und Verkehrs-
gewerkschaft (EVG)

Silvia Müller
Berlin
Ombudswoman
Deutsche Bahn AG

Dr Sigrid Nikutta
Berlin
CEO of the board
Berliner Verkehrsbetriebe

Ulrich Nölkenbockhoff
Nordkirchen
Chairman of the Special
Staff Council for the
President of the Bundeseisen-
bahnvermögens

Peter Obeldobel
Bad Überkingen
Chairman of the Association of
Deutscher Bahnhofsbuchhändler (German
Railway Station Bookshops)

Dr Doris Radatz
Berlin
Personnel Director,
DB Fahrwegdienste GmbH

Peter Rahm
Crailsheim
Chairman of the General Works Council,
DB Kommunikationstechnik
GmbH

Jochen Ramakers
Hanover
Deputy Chair of the Board
Sparda-Bank Hannover eG

Marion Rövekamp
Munich
Director of Personnel & Legal Affairs
EWE Aktiengesellschaft

Lars Scheidler
Berlin
Departmental Manager at Eisenbahn-
und Verkehrsgewerkschaft (EVG)

Martin Schmitz
Rodgau
Director of the Association of
German Transport
Operators e. V.

Andreas Springer
Berlin
Personnel and Operations Director
DB Station & Service AG

Oliver Wolff
Bad Salzuflen
Managing Director and
Member of the Managing Presidium
Verband Deutscher
Verkehrsunternehmen (VDV)

Margarete Zavoral
Liederbach am Taunus
Chairwoman of the
Management Board
for the family of foundations BSW & EWH

Management report

Company foundations

Business model

The company undertakes direct and reinsured non-life and accident insurance in Germany and abroad, as well as direct foreign travel sickness insurance and, since 2018, non-substitutive health insurance in Germany. Details of this can be found in the notes to the management report.

Insurance business undertaken abroad relates exclusively to the business activities of the French subsidiary, which has been in run-off since 2005.

Throughout Germany, the DEVK Group runs 19 subsidiaries and has around 1,220 branch offices.

Affiliated companies and participating interests

The affiliated companies of DEVK Allgemeine Versicherungs-AG are as follows:

DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.
Betriebliche Sozialeinrichtung der Deutschen Bahn, Cologne,

and its direct and indirect subsidiaries.

The share capital of DEVK Allgemeine Versicherungs-AG of around € 195.0 million is fully paid up It is 100 % held by DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE, with whom a control and profit transfer agreement exists.

Details of our company's direct shareholdings of significance in affiliated companies and participating interests are given in the notes.

Delegation of functions and organisational cooperation

Under a general agency agreement, DEVK Sach- und HUK-Versicherungsverein a.G. performs the insurance brokerage role and associated operations.

The general operational areas of accountancy, collection, EDP, asset management, personnel, auditing and general administration are centrally organised for all DEVK companies. Furthermore, our portfolio management and claims management are also merged with those of DEVK Sach- und HUK-Versicherungsverein a.G.

Under our Cooperative Agreement, DEVK Sach- und HUK-Versicherungsverein a.G. furnishes us with the necessary back-office personnel.

However, our company has separate lease contracts and its own inventory and equipment based on our own needs.

Please note that rounding may lead to differences from the mathematically exact figures (monetary units, percentages, etc.).

The sections of this report marked with [1] contain details which have not been checked by the auditor.

Business performance

Economic conditions generally and in the industry

Political risks remained the prevailing factor on the financial markets in 2018. Added to this came economic concerns at the end of 2018. The US president remained uncompromising with regards to trade with China, and also in relation to the European automotive industry. The increasing escalation of the trade dispute and the strength of the US Dollar led in particular to problems in some of the emerging market nations. Alongside Turkey and Argentina, this included such countries as South Africa and Indonesia. All in all, investors were acting with significantly greater risk aversion by the end of 2018 than at the start of the year.

Inside the Euro Zone, a high degree of uncertainty prevailed during 2018 regarding the budgetary policy of the new Italian government, which refused to comply with the agreements concluded between the former government and the EU regarding new borrowing. At the same time various economic indicators signalled downturns, for example the Purchasing Managers Index, in the manufacturing industry for Italy, which stood below the 50-point threshold at the end of 2018 following a significant decline over the course of the year. Overall, during 2018 this development led to a significant expansion in the spread of Italian government bonds to German government bonds.

With regards to the topic of Brexit, 2018 was characterised by mixed messages. In the interim, it appeared that a common exit agreement was not possible. Nonetheless, in November 2018 the EU and the UK drew up such an agreement. However, this agreement was subsequently rejected by the UK parliament and must now be amended and approved in 2019 with no clear prospects of success. By the end of 2018, both a hard and soft Brexit were possible, as well as a new Brexit referendum. This uncertainty continues to prevail in 2019. By the time of reporting no end to the Brexit uncertainty is in sight, with its associated risks on the currency and stock markets, and also to the economy in Europe in general.

During the second half of 2018, there were also signs of the economy in Germany weakening. As such, incoming orders to German industry from abroad declined, the IFO Business Climate Index fell sharply and GDP growth was actually negative during the third quarter of 2018. It would appear that the 2018 economic peak in the Euroland has passed. Economists surveyed by Bloomberg reduced their forecasts for German GDP growth during 2018. Last year, German GDP ultimately grew by 1.5 %, following on from 2.2 % in the previous year. In 2019, GDP growth of 1.3 % is expected.

The monetary policy also had a major influence on the capital markets in 2018. At its meeting in June 2018, the ECB expressed an expectation that the current interest rates would endure until the end of summer 2019 as a minimum. From October, the bond purchases were halved to € 15 billion, and ended entirely from December 2018. However, the ECB's portfolio of mature bonds was reinvested. In contrast, in 2018 the American Fed further increased the key interest rate a total of four times, to a corridor of 2.25 % to 2.50 %.

Despite an at least temporary rise in inflation within the Euroland, returns on the Euro fixed-interest market reduced slightly in 2018, as seen for example with the 10-year Euro swap rate, from approx. 0.9 % to just over 0.8 % by 31 December 2018. However, the figure stood at almost 1.2 % on occasions. The rear section of the yield curve in the Euro swaps area remains very level, and is in fact partially lightly inverse. The risk premiums on corporate bonds rose again significantly in 2018 due to the economic situation.

In particular from the third quarter of 2018, the value of the DAX fell considerably and closed at 10,558.96 points at the end of 2018, not far off the all-year low witnessed on 27 December 2018. Decisive in this regard were a manifestation of the political risks and an economic downturn. Striking was that the decline was initially comparatively slow and without a significant increase the volatility of the stock markets. This was followed by a steep rise in volatility in December 2018. Overall, 2018 witnessed a DAX downturn of around 18.3 % and with it the first annual decline since 2011.

Following an initial rise in value in 2018, the Euro decreased in value against most currencies. A decisive contribution to this was made by the interest rate differential due to the different monetary policies and the economic situation between Europe and the USA. In 2018, the EUR/USD exchange rate fluctuated between 1.12 and 1.25 (year's-end rate: 1.15). Meanwhile, depending on the news on Brexit, the UK pound moved between 0.86 to the Euro at the start of the year and 0.91 (year's-end rate: 0.90).

At its annual press conference at the end of January 2019, the German Insurance Association (GDV) announced that it anticipated a rise in gross non-life and accident insurance premium receipts of 3.3 % for 2018. The combined ratio (the ratio of claims expenses and costs to premium receipts) is estimated to lie close to 96 % (previous year 93.2 %). Thus, profitability of the non-life and accident sector has deteriorated in comparison to the previous year, although it just remained satisfactory.

In the motor vehicle insurance segment, 2018 premium receipts growth came to +3.2 %, which was below the figure in the previous year (+4.0 %). According to the GDV's estimate, at roughly 98 % the combined ratio should be virtually unchanged from the previous year (98.0 %).

Business trends

During the financial year, our overall portfolio of insurance policies rose by 2.4 % to 8,314,121 policies (previous year 8,116,203). The risks in motor vehicle liability insurance, comprehensive and third-party, fire and theft motor insurance were counted separately here. Moped insurance policies were not taken into account.

The rise in the gross premiums written was in line with the industry level at +3.4 %, although above our forecast from the previous year (2 % to 3 %). The increase in premiums in motor, buildings and other insurances was higher than predicted.

Against our expectations, the technical charges (net +2.5 %) rose less heavily than the technical income (net +4.0 %). The reason for this was the net claims expenses, which were significantly below our forecast approach. As a result of this, at € 55.2 million the technical result net of reinsurance before changes to the equalisation provision came in well above the expected figure (close to the break even point). After a withdrawal from the equalisation provision (€ 2.5 million, previous year € 1.7 million allocation) the technical result net of reinsurance came to € 57.7 million, thus exceeding both the figure from the previous year (of € 34.9 million) and our previous year forecast (€ 40 million).

In line with expectations, the absolute investment result in 2018 of € 45.5 million was significantly down on the previous year's figure (€ 65.2 million). The reason for this was equity-related higher depreciation. As expected, the net interest rate is significantly down on the figure for the previous year at 2.0 % (previous year: 3.1 %), also due to the further slight increase in the investment portfolio. The increase in the investment portfolio in 2018 was roughly in line with expectations.

Overall, at € 96.5 million the result from ordinary activities exceeded the range of our forecast (€ 80 million to € 90 million).

After a tax rebate, the profit transfer to DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE was € 97.3 million (previous year € 89.9 million). The profit transfer thus once again reached a very satisfactory level.

Net assets, financial position and results of operations

Results of operations

	Financial year € 000s	Previous year € 000s	Change € 000s
Technical account	57,653	34,875	22,779
Investment result	45,452	65,186	-19,734
Other result	-6,638	-9,621	2,983
Profit from ordinary activities	**96,467**	90,439	6,028
Taxes	-867	576	-1,443
Profit transfer	97,334	89,863	7,470
Net profit for the year	-	-	-

Underwriting result, net of reinsurance

DEVK Allgemeine Versicherungs-AG's gross premiums written rose by 3.4 % to € 1,416.3 million. Earned premiums net of reinsurance during the financial year rose by 4.0 % to € 1,178.1 million. Claims expenses net of reinsurance reduced by 0.1 % to € 842.4 million. Their ratio of the earned net premiums therefore fell to 71.5 % (previous year 74.5 %). The ratio of expenses on insurance operations net of reinsurance to earned premiums rose to 23.5 % (previous year 21.9 %).

The overall claims figures for 2018 were moderate. The gross claims expenses for the financial year for rose by 2.2 % (previous year +4.5 %). Profits from the settlement of the previous years' claims fell by 6.4 % in comparison to the previous year. Overall, the gross claims ratio improved to 71.3 % (previous year 71.7 %).

Gross operating expenses rose by 10.5 % in comparison to the previous year figure (€ 295.4 million) and stood at € 326.3 million. The increase was therefore proportional to the premium receipts.

After a withdrawal from the equalisation provision of € 2.5 million (previous year € 1.7 million allocation), the underwriting result net of reinsurance rose to € 57.7 million (previous year € 34.9 million).

The individual insurance segments performed as follows:

Underwriting result, net of reinsurance

Figures in € 000s	Gross premiums written			Change to the equalisation provision		Technical result net of reinsurance	
Insurance class	Financial year	Previous year	Change	Financial year	Previous year	Financial year	Previous year
Accident	115,436	110,775	4.2 %	-9	422	20,174	6,150
Liability	90,851	88,515	2.6 %	4,176	4,176	19,153	20,219
Motor vehicle liability	532,113	526,319	1.1 %	12,015	-614	-1,176	4,189
Other motor vehicle	330,197	321,691	2.6 %	-17,926	-1,311	2,484	2,998
Fire and non-life	331,693	310,006	7.0 %	4,919	-3,830	16,167	802
of which:							
Fire	1,696	1,503	12.8 %	-229	-512	-981	-557
Household contents	104,878	100,584	4.3 %	-	-	20,953	15,703
Homeowners' building	190,118	173,878	9.3 %	1,671	-2,271	-8,494	-15,727
Other non-life	35,001	34,041	2.8 %	3,477	-1,047	4,689	1,383
Other	15,965	11,979	33.3 %	-684	-504	851	516
Total	**1,416,255**	1,369,285	3.4 %	**2,490**	-1,661	**57,653**	34,874

Homeowners' building insurance showed the greatest premium growth as an absolute amount. The bulk of the growth registered here is attributable to taking on additional coinsurance business.

In motor vehicle insurance, our largest segment, the premium growth can be put down to both portfolio growth and premium adjustments.

In the technical result net of reinsurance, the losses registered by the homeowners' building insurance segment and motor vehicle liability insurance were more than offset by profits in other segments.

Investment result

The investment result is significantly down on the figure in the previous year. This can chiefly be put down to higher write-downs. The increase in the investment portfolio was roughly in line with expectations.

Total investment income came to € 75.0 million (previous year € 75.1 million). Alongside the regular income, we registered € 10.6 million in profits from disposals of investments (previous year € 6.6 million) plus income from write-ups totalling € 0.5 million (previous year € 2.4 million).

Due to increased write-downs, investment expenses rose significantly against the previous year (€ 9.9 million) to € 29.5 million.

Our net investment result came to € 45.5 million, as against € 65.2 million in the previous year.

Other result

Due to interest income from tax rebates and lower expenses, the "Other" result (including technical interest income) improved to € -6.6 million (previous year € -9.6 million).

Taxes

The control and profit transfer agreement entered into with DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE in 2002 established a fiscal unit for corporation tax and trade tax purposes. The parent company DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE has refrained from making a Group allocation for tax purposes on the income of the consolidated company since the entire profit or loss is transferred to DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE under the profit transfer agreement.

Taxes on income, which came to T€ 139 (previous year T€ 226) comprised foreign withholding taxes. This figure was more than offset by a corporation tax rebate.

Operating result and appropriation of retained earnings

The result before profit transfer came to € 97.3 million (previous year € 89.9 million). This sum was transferred to DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE in line with the control and profit transfer agreement.

Return on sales

A key company management figure we use is the "adjusted return on sales" in relation to our direct insurance operations.[1] This is defined as the ratio between the net profit before taxes and the profit transfer, less bonus and rebate expenses and the reinsurance balance, on the one hand, as well as the change to the equalisation provision in relation to the gross premium receipts, on the other hand. This ratio does not take reinsurance business into account.

The 2018 return on sales came to 8.4 % (previous year 10.6 %).

Financial position

Cash flow

Availability of the liquidity necessary to meet regular payment obligations is ensured through ongoing liquidity planning, which takes into account prospective liquidity movements over the coming twelve months. The company receives a continuous influx of liquid funds in the form of regular premium receipts, investment income and returns from capital investments. In the current financial year, the cash flow from investments – that is, the funds required for the net investment volume – amounted to € 35.1 million. The necessary funds were generated by the company's ongoing operations.

Ratings

Each year the internationally renowned rating agencies S&P Global Ratings and Fitch evaluate the financial performance and security of DEVK.

S&P Global Ratings last renewed its rating in August 2018. As in the years 2008 to 2017, DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Allgemeine Versicherungs-AG, DEVK Allgemeine Lebensversicherungs-AG and DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE were once again all assigned a rating of "A+" (very good). S&P Global Ratings assesses our future outlook as "stable". This confirms the very good financial position enjoyed by the DEVK companies.

Meanwhile, the rating agency Fitch came to the same conclusion, with its August 2018 rating of the financial strength of DEVK's core companies remaining unaltered at "A+". Alongside our company, the individual companies rated were DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE, DEVK Rechtsschutz-Versicherungs-AG, DEVK Krankenversicherungs-AG and the two life assurance companies DEVK Lebensversicherungsverein a.G. and DEVK Allgemeine Lebensversicherungs-AG. The outlook for all our companies remains "stable".

Assets position

	Financial year € 000s	Previous year € 000s	Change € 000s
Investments	2,262,663	2,217,666	44,997
Receivables arising out of direct insurance operations	11,228	11,160	68
Receivables arising from reinsurance operations	6,898	20,300	-13,402
Other receivables	16,981	675	16,305
Means of payment	195	98	96
Other assets	46,044	50,785	-4,741
Total assets	**2,344,009**	2,300,685	43,324
Equity	342,171	342,171	-
Technical provisions	1,717,075	1,675,786	41,289
Other provisions	11,431	10,456	975
Deposits received from reinsurers	59,965	61,956	-1,991
Liabilities arising out of direct insurance operations	71,373	76,873	-5,500
Liabilities arising from reinsurance operations	31,885	3,165	28,720
Other liabilities	109,198	129,188	-19,989
Accruals and deferred income	911	1,091	-180
Total capital	**2,344,009**	2,300,685	43,324

There were no significant material changes in the composition of the investment portfolio.

The high level of other receivables was largely the result of liquidity offsetting within the DEVK Group.

The principal items in the other liabilities are the profit transfer to be carried out by DEVK Allgemeine Versicherungs-AG (€ 97.3 million, previous year € 89.9 million) Furthermore, in the previous year liabilities of € 27.2 million arose due to liquidity offsetting within the DEVK Group.

Non-financial performance indicators

Customer satisfaction

Customer satisfaction is the highest strategic goal for DEVK. DEVK therefore analyses the satisfaction of its customers on an annual basis. The findings are based on an insurance market study which uses a points scale to measure customers' satisfaction with 23 top service insurers in Germany. This enables us to measure developments over time and as compared with our competitors in graphic form. In terms of overall customer satisfaction, DEVK currently occupies 3rd place. The aim of DEVK over the coming years is to achieve first place for customer satisfaction.

Customer satisfaction index	2017	2018
Actual	737 points	746 points
Target	740 points	740 points

The target set for 2019 is 749 points.

Employee satisfaction

At DEVK, the opinion of our employees is important to us. The satisfaction of employees with their working environment, as well as their managers, colleagues, the work assigned to them and the corporate culture is central to employer appeal.

In 2018, the company-wide survey of DEVK back office and employed field sales personnel took place for the fourth time. At 81 %, the participation rate was once again above average. The results show that DEVK sits at a good level on the "commitment and enthusiasm" index. The loyalty of DEVK employees is highly pronounced and lies well above the benchmark. A company-wide short survey will take place again in 2019.

Employee satisfaction index	2017	2018
Actual	773 points	775 points
Target	790 points	775 points

The target set for 2019 is 777 points.

Overall verdict on the management report

All in all, the company's net assets, financial position and results of operations developed in a satisfactory manner throughout 2018.

Outlook, opportunities and risks

Outlook

During 2019, we are expecting total premium receipts to increase by between 4 % and 5 %. Current estimations indicate that the net technical expenses will grow faster than net technical income. Before changes to the equalisation provision, in 2019 we anticipate an underwriting result in the order of € 20 million to € 30 million, and after changes to the equalisation provision of around € 35 million to € 45 million.

In 2019, DEVK anticipates comparatively volatile capital markets and the continued existence of risks to economic development. The ongoing political risks in the field of trade and punitive tariffs between the USA and China, as well as the USA and the EU, play just as important a role as the exit of the UK from the European Union and the political development in Italy. A critical factor for Italy is the further increase in the national debt, given the non-conformance with the original budget plan agreed with the EU. In the Euro Zone, but also globally (e.g. in China), there remains a risk of a further weakening of economic development, which began in the third quarter of 2018.

Given the rising economic woes and unchanged low inflation rates in the Euroland, we presently anticipate no sustained increase in the interest rate level in the coming year. Although an initial increase in the interest rate by the ECB cannot be ruled out in 2019 or at least in 2020, this is likely to be relatively low to avoid a negative impact on the economy insofar as possible. A development comparable with that on the US interest market (10-year US government bonds at 2.7 % at the end of 2018, compared with 10-year federal government bonds at 0.2 %) currently appears very unlikely in the short-term. The picture may be somewhat different with corporate bonds and bonds from debtors with low credit ratings. Here, the spreads could certainly witness further increases. According to market consensus, in 2019 the Fed is now only anticipating one or perhaps even no further increase in the interest rate rather than the three to four further 0.25 percentage point interest rate rises calculated in the third quarter of 2018, depending on the development of inflation and the economy in 2019. The interest escalation cycle in the USA is therefore expected to weaken and may already be at an end. As in 2018, we consider further rising risk surcharges for corporate bonds to be a possibility in the near future. Based on current information in 2019, in addition to economic risks it is also necessary to note that the ECB bond-buying program as a support for corporate bonds will no longer apply.

With regards to the economic situation in the USA and the Euroland, the economic framework data has ultimately further deteriorated. Although the economy continues to follow a stable course, early indicators such as the ISM Purchasing Managers Index in the USA and the IFO Business Climate Index in Germany point to a significant weakening of the growth dynamic. The company results have also weakened slightly overall, and the outlooks have become bleaker. For the UK, major question marks still surround the form, manner and time point of the EU exit. The IMF predicts a downturn in GDP for the UK of up to 4 % in the case of a "hard Brexit". According to Bloomberg, economic forecasts for 2019 indicate a weakening of global economic growth in comparison to the previous year (3.5 % following on from 3.7 %). All in all, uncertainty regarding the further development of the capital markets in 2019 is very high.

As regards the global economy and the development of the capital markets, future economic policy in the USA – after an upturn now lasting for over eight years – and in China (the trade dispute with the USA, and in particular also domestic demand and corporate debt are noteworthy here) will play a significant role from the perspective of DEVK. In addition to this, in Europe the most important factors – at the time of reporting – are the complete uncertainty surrounding the outcome of the Brexit process, political and economic development in Italy, a possible toughening of the ECB's monetary policy, as well as further electoral successes of populist political parties.

On the investment front, in 2019 we expect DEVK Allgemeine Versicherungs-AG to register a result significantly higher than the level in the previous year, on a slightly growing investment portfolio. The reason for the rise results from the anticipated lower write-downs, because we do not expect a decline in share prices in 2019 at the levels witnessed in 2018. Accordingly we anticipate a substantially higher net interest rate in 2019 overall.

All in all, we are expecting the 2019 profit from normal business activities to be in the order of € 85 million to € 95 million.

Opportunities report

Opportunities to continue achieving growth that outstrips the average levels achieved by our competitors are generated if customer demands for quality, service and transparency at attractive prices are met in full measure.

We are available for our customers throughout Germany via our sales network, our regional management units and our headquarters, both by telephone and face-to-face. Communication takes place through all available media. The internet is of ever-growing importance here, and we are well positioned in this respect thanks to the continuous revision and upgrading of our presence.

Our three-product-line approach (Active, Comfort and Premium cover) has been met with a very positive response.

Through the continuous optimisation of our processes, we ensure that we can execute our business effectively and efficiently.

Thanks to the interplay between competitive products, good service and our efficient sales operation, we view ourselves as very well placed to compete effectively.

In the field of investments, we see not only risks but also opportunities in 2019, in particular in real values such as equities and real estate. With agreements on the topics of global trade relations, the exit of the UK from the EU (Brexit), and the debt problem in Italy, as well as electoral results with gains by parties from the centre, equity and real estate values could therefore increase. At the beginning of 2019, the mood on the capital markets is characterised by a high level of uncertainty with a corresponding negative mood and a propensity to hold high levels of liquid assets among many institutional investors. An improvement in the mood could therefore lead to a rise in equities in particular. With the majority of economists predicting a positive cyclical environment it is likely that secure investments such as federal bonds will decrease in value. However, if these instruments are held to maturity, this will not have a negative influence on the profit situation of DEVK due to their non-permanent decline in value. In contrast, rising interest rates would have a marked positive effect on the interest returns on new and repeat investments. A (moderate) loss in the value of the Euro against other currencies also constitutes an opportunity for the investments of DEVK due to foreign currency gains.

In contrast to the significant decline in share values in 2018, in 2019 DEVK is anticipating a volatile sideways movement on the stock markets. Overall, we therefore expect lower write-downs and an improvement in the investment result this year.

Risk report

In accordance with section 289, paragraph 1 HGB and the requirements laid down in section 26 VAG concerning the minimum requirements for the business organisation of insurance companies (MaGo), we are hereby reporting the risks of future developments.

Risk management system

With respect to the risk management system employed within the DEVK Group for the early identification and assessment of risks, we refer at this point to the information in the management report of DEVK Sach- und HUK-Versicherungsverein a.G.

Technical risks

Principal among the technical risks in non-life and accident insurance are the premium/claims risk and the reserves risk.

To determine this we first consider the movement of the claims ratio net of reinsurance over the past ten years.

Gross claims ratio net of reinsurance

Year	%	Year	%
2009	77.3	2014	71.4
2010	78.1	2015	74.8
2011	77.1	2016	72.5
2012	74.3	2017	74.5
2013	75.2	2018	71.5

As we can see, over the ten-year period considered here the range of fluctuation is low. This is largely due to the fact that, in line with the reasonable acceptance guidelines we apply, we generally only underwrite straightforward, standardised business. Where particularly large volumes of insurance are involved, we limit our risk through co-insurance or reinsurance contracts.

Our outward reinsurance business was distributed between several external reinsurers and our Group-internal reinsurer DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE. Our choice of reinsurers took their ratings into account.

We measure our provision for claims outstanding through the prudent valuation of claims already filed, in addition to establishing additional reserves to meet claims that are statistically likely but have not yet been filed on the balance sheet date, as well as for claims that will have to be reopened after the balance sheet date. Thus, we take the reserve risk duly into account. This is also demonstrated by our settlement results for the past ten years.

Settlement result net of reinsurance as % of original provision

Year	%	Year	%
2009	10.3	2014	8.7
2010	11.7	2015	8.0
2011	10.0	2016	9.3
2012	9.0	2017	8.5
2013	8.7	2018	8.8

Our equalisation provisions provide an additional safety cushion that contributes to the smoothing of our underwriting results. As of 31 December 2018, their volume totalled € 226.2 million (previous year € 228.7 million).

Risk of defaults by debtors arising from our insurance operations

The risk of defaults by debtors from insurance operations arises from the primary insurance of claims against policyholders and reinsurers.

Over the review period of the past three years, our overdue debts from insurance business averaged 2.2 % of booked gross premiums. Of these, an average of 13.5 % had to be written off. In relation to the booked gross premiums, the average default rate over the past three years was 0.3 %. Accordingly, default risk is of minimal importance for our company.

Amounts receivable from reinsurers at the end of the year came to € 6.9 million. An overview of amounts receivable broken down according to the ratings of our reinsurance partners is given in the following table:

Rating category	Receivables in € millions
AA-	0.19
A+	0.92
A-	2.33
A	1.41
No rating	2.04

Investment risks

The risks stemming from investments comprise:

- the risk of unfavourable interest rate, equity price, real estate value or exchange rate movements (market price risks),
- counterparty default risk (credit risk),
- the risk of strongly correlated risks that in turn increase counterparty risk (concentration risk),
- liquidity risk; that is the risk of not always being able to meet payment obligations.

Since 1 January 2017, the internal investments catalogue has prescribed the decisive framework conditions for our investment policies. We counteract exchange/market price risk and interest rate risk by maintaining a balanced mix of investment types. Active portfolio management allows us to exploit opportunities arising from market movements to improve our results. Furthermore, we limit credit risk and concentration risk by imposing very stringent rating requirements and continually monitoring the issuers we select, thus avoiding any potentially ruinous dependence on individual debtors. We ensure a continuous influx of liquidity by maintaining a portfolio of interest-bearing investments with a balanced maturity structure. An ongoing ALM (Asset-Liability Management) process ensures that we are able at all times to meet existing and future obligations.

On the balance sheet date of 31 December 2018 we conducted our own investment stress test. The investment stress test determines whether an insurance undertaking would be in a position to meet its obligations towards its clients even if the capital markets underwent a protracted crisis. The investment stress test simulates a short-term adverse change on the capital markets and examines the impact on the insurance undertaking's balance sheet and accounts. The target horizon is the next balance sheet date. The test assumes the following scenarios: a downturn on the equity markets while the bond market remains stable, a simultaneous crash on the equity and bond markets and a simultaneous crash on the equity and real estate markets.

At the end of 2018, the following measures were in place to hedge against investment risks:
- Flexible management of the investment ratios in the special fund, in particular in the equities sphere, for instance via index futures and volatility futures
- Currency-matched refinancing in the field of indirect real estate investments
- Hedging against currency risks via forward contracts
- Use of bond forward purchases
- Adjustment of equity risks via options trading

Liquidity risks are managed by detailed multi-year investment planning. Should a liquidity shortfall arise in future, countermeasures can be taken at an early stage. Moreover, in order to improve our assessment of liquidity risks, stress scenarios in line with Solvency II stresses are applied and evaluated. On top of this, our investments are allocated to various different liquidity classes. These are assigned lower limits in relation to the investment portfolio which they must not fall below. Compliance with these limits is regularly monitored.

Interest-bearing investments

As of 31 December 2018, the Company held interest-bearing investments to a total value of € 1.72 billion. Of these investments, a total of € 821.4 million are in bearer instruments, including the pure pension funds, which could be subject to write-downs if interest rates rise. Of these bearer instruments, pursuant to section 341b HGB we have assigned a volume of € 803.8 million to the fixed assets since we intend to hold these papers until maturity and their current market fluctuations are viewed as temporary. Should this second assessment in particular prove wide of the mark, we shall undertake the necessary write-downs in a timely fashion. These investments exhibit a positive valuation reserve of € 45.9 million. This includes hidden liabilities totalling € 6.2 million. As of 31 December 2018, the total valuation reserves for our interest-bearing investments came to € 108.1 million. A change in returns of up to +/- 1 % would entail a corresponding value change of up to € -124.5 million, or € 134.2 million respectively.

This intimated impact of a one percentage point interest rate rise only gives an approximate idea of its potential impact on our profitability. This is because, over the course of a year, the diminishing time to maturity of the individual securities will lead to changes in their market value and interest rate sensitivity. Moreover, the bulk of our interest-bearing investments are in bearer bonds or bonds recognised on the balance sheet at their nominal values. In these cases, under the prevailing accounting regulations an increase in the market interest rate does not lead to write-downs. Further to this, the securities currently include hidden reserves which will be reduced in the near future. The exception to this is losses of value due to deteriorating credit ratings that may affect the issuers in question.

Apart from real estate financing, which represents 9 % of our overall investments, our interest-bearing investments are predominantly in Pfandbriefe (German covered bonds) and bank bonds. We also invest in corporate bonds. Our direct corporate bond holdings make up 19 % of our total investments. At the end of 2018 there were no investments in asset-backed securities. In 2018 our bond investments focused on international bearer bonds issued by banks and companies, as well as state government bonds and covered bonds. Our pension investments in particular largely involve bearer papers, assigned to the fixed assets, and also registered papers.

We have minor investment exposure to the peripheral European countries Italy and Spain. Turning to issuer risks, as proportions of our total investments, 5 % of the company's investments are in government bonds, 19 % in corporate bonds and 43 % in securities and deposits with banks and other financial service providers. The bulk of our investments in banks is either covered by various statutory and private deposit protection schemes or involves interest-bearing securities that are protected in law by special guarantee funds.

The ratings of the issuers of our interest-bearing investments break down as follows (previous year):

AA or better	56.5 %	(56.3 %)
A	27.0 %	(28.1 %)
BBB	15.4 %	(14.3 %)
BB or worse	1.2 %	(1.3 %)

The company's rating distribution remained almost unchanged from last year's figure. We shall continue to make virtually all our new and repeat investments in interest-bearing securities with strong credit ratings.

Equity investments

The bulk of our equity investment is in DAX and EuroStoxx50 companies, as a result of which our portfolio's performance very closely matches that of these indices. A 20 % change in market prices would alter the value of our equity portfolio by roughly € 52.9 million. Both the German and European share indices exhibited negative development during 2018. In the medium term, we continue to expect positive development, albeit with high levels of volatility in some cases.

We have applied a value protection model to our equity investments in order to limit exchange risks. Should growing economic problems lead to a significant downturn, various courses of action are open to us. In light of the uncertain economic situation, we actively managed our ratio of equity investments throughout the year.

The fixed-asset equities and equity funds show a negative valuation reserve of € 5.8 million. This includes hidden liabilities totalling € 10.4 million.

Real estate

On the balance sheet date, our real-estate investments totalled € 185.0 million. Of this total, a sum of € 172.8 million is invested in indirect mandates, including restricted special funds in office and other commercial real estate. Our direct holdings worth € 12.2 million are subject to scheduled annual depreciation of approximately € 0.2 million. No particular risks are currently discernible in connection with these real estate holdings.

Operational risks

Operational risks may stem from inadequate or failed operational processes, the break- down of technical systems, external variables, employee-related incidents and changes in the legal framework conditions. Effective management of the operational risks is ensured through the careful structuring of the internal monitoring system. In addition to this, the main focus of the half-yearly risk inventory is on operational risks. The appropriateness and efficacy of in-house controls are monitored by the Internal Auditing unit.

DEVK's operating procedures are based on internal guidelines. The risk of employee-related incidents is limited via regulations governing authorisation and powers of representation, as well as wide-ranging automated backup for operating procedures.

Access controls and preventive measures are in place in the IT division to ensure the security and integrity of programs, data and ongoing operations. The IT infrastructure is redundant by design in order to cater for a catastrophic breakdown scenario. Restart tests are conducted regularly. Links between internal and external networks are suitably protected by state-of-the-art systems.

The emergency management is founded on corporate emergency analysis. This describes the objectives and framework conditions for precautionary measures against emergencies and how to overcome them if they occur.

Legal risks are also included in the operational risks. DEVK has established a compliance management system designed to ensure compliance with both external requirements and internal guidelines.

Solvency II

With the entry into force of Solvency II on 1 January 2016, the insurance industry has undergone radical changes to its supervisory regime. Implementation of the full requirements of Solvency II became part of regular operations in 2018. The shortening of the reporting deadlines per Solvency II proved to be a major challenge in 2018 and required the further optimisation of processes. Furthermore, in 2018 the risk-bearing capacity concept based on Solvency II and the Solvency II materiality concept were further developed with consideration to the minimum requirements on the business organisation of insurance companies (MaGo).

The solvency calculation required by supervisory law, which is based on a standard formula, showed that DEVK Allgemeine Versicherungs-AG has significant excess cover.

Summary of our risk status

We have complied with the supervisory requirements per Solvency II.[1]

Projections made in connection with the ORSA process have shown that sufficient risk capital cover is assured in both the present and the future.[1]

To sum up, currently there are no discernible developments that could lead to a significant impairment of the company's net assets, financial position and results of operations and thus jeopardise its continued existence.

Cologne, 15 March 2019

The Management Board

Rüßmann **Burg** **Knaup** **Scheel** **Zens**

Notes to the management report

List of insurance classes covered during the financial year

Direct insurance operations

Accident insurance
General accident insurance
Motor vehicle accident insurance

Liability insurance

Motor vehicle liability insurance

Other motor vehicle insurance
Fully comprehensive motor insurance
Third-party, fire and theft insurance

Fire and non-life insurance
Fire insurance
Burglary and theft insurance
Water damage insurance
Glass insurance
Windstorm insurance
Household contents insurance
Homeowners' building insurance
Universal caravan insurance
Extended coverage insurance
Business interruption insurance
Travel baggage insurance
All-risk insurance

Other insurance policies
Insurance against other financial losses
Bond insurance
Breakdown service insurance
Cheque card insurance

Health insurance
Foreign travel health insurance
Non-substitutive health insurance
(Daily benefits payment protection)

Reinsurance coverage provided

Motor vehicle liability insurance

Other motor vehicle insurance

Legal costs insurance

Fire and non-life insurance
Fire insurance
Household contents insurance
Homeowners' building insurance

Other insurance policies
Rent insurance

Financial statements

Balance sheet to 31 December 2018

Assets	€	€	€	Previous year € 000s
A. Intangible assets				
I. Licences, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licences in such rights and assets		14,162,514		20,179
II. Payments on account		2,770,088		1,000
			16,932,602	21,179
B. Investments				
I. Real estate and similar land rights, including buildings on third-party land		12,243,303		14,389
II. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	154,562,107			145,074
2. Participating interests	55,372,639			37,852
3. Loans to companies in which a participating interest is held	-			260
		209,934,746		183,187
III. Other investments				
1. Shares, units or shares in investment funds and other variable-interest securities	339,817,903			322,570
2. Bearer bonds and other fixed-interest securities	794,673,163			754,376
3. Mortgage loans and annuity claims	196,101,885			183,404
4. Other loans	672,186,248			722,108
5. Deposits with banks	10,001,347			10,001
6. Other investments	27,704,773			27,632
		2,040,485,319		2,020,091
			2,262,663,368	2,217,666
C. Accounts receivable				
I. Receivables arising out of direct insurance operations:				
1. Policyholders	11,228,238			11,007
2. Intermediaries	-			153
		11,228,238		11,161
II. Receivables arising out of reinsurance operations		6,897,961		20,300
of which:				
Affiliated companies: € 3,955,973				16,150
III. Other receivables		16,980,577		675
of which:			**35,106,776**	32,135
Affiliated companies: € 13,703,397				-
D. Other assets				
I. Tangible assets and inventories		6,433,581		5,542
II. Cash at banks, cheques and cash in hand		194,657		99
III. Other assets		745,797		347
			7,374,035	5,988
E. Prepayments and accrued income				
I. Accrued interest and rent		21,881,815		23,484
II. Other prepayments and accrued income		50,343		233
			21,932,158	23,717
Total assets			**2,344,008,939**	2,300,685

Pursuant to section 128 paragraph 5 of the German Insurance Supervision Act (VAG), I hereby attest that the assets detailed in the list of coverage assets are properly invested and secured in accordance with statutory and supervisory authority requirements.

Cologne, 14 March 2019 **The Trustee** **Thommes**

Liabilities	€	€	€	Previous year € 000s
A. Equity				
I. Subscribed capital		195,000,000		195,000
II. Capital reserve		100,302,634		100,303
III. Retained earnings				
1. Statutory reserve	383,469			383
2. Other retained earnings	46,484,692			46,485
		46,868,161		46,868
			342,170,795	342,171
B. Technical provisions				
I. Provision for unearned premiums				
1. Gross amount	14,858,059			16,109
2. of which from: Reinsurance amount	6,553,839			142
		8,304,220		15,967
II. Premium reserve		30,253		20
III. Provision for claims outstanding				
1. Gross amount	1,859,950,633			1,791,054
2. of which from: Reinsurance amount	400,680,655			383,682
		1,459,269,978		1,407,372
IV. Provision for bonuses and rebates		14,545,040		14,522
V. Equalisation provision and similar provisions		226,197,003		228,687
VI. Other technical provisions				
1. Gross amount	9,063,216			9,689
2. of which from: Reinsurance amount	334,421			471
		8,728,795		9,218
			1,717,075,289	1,675,785
C. Other provisions				
I. Provisions for pensions and similar commitments		9,650,451		9,296
II. Other provisions		1,780,324		1,160
			11,430,775	10,456
D. Deposits received from reinsurers				
			59,965,003	61,956
E. Other liabilities				
I. Liabilities arising out of direct insurance operations towards				
- Policyholders		71,372,663		76,873
II. Liabilities arising from reinsurance operations		31,884,965		3,165
of which:				
Against affiliated companies: € 27,793,831				-
III. Other liabilities		109,198,052		129,187
of which:			**212,455,680**	209,225
From taxes: € 10,455,572				10,475
Against affiliated companies: € 97,733,849				117,217
F. Prepayments and accrued income				
			911,397	1,091
Total liabilities			**2,344,008,939**	2,300,685

I hereby confirm that the premium provision of € 24,064,335.00, recorded on the balance sheet under item B. II. or B. III. of the liabilities and shareholders' equity, has been calculated in compliance with sections 341f and 341g of the German Commercial Code (HGB) as well as the Regulation issued pursuant to section 88 paragraph 3 of the Insurance Supervision Act (VAG).

Cologne, 14 March 2019 **The Actuary in Charge** **Weiler**

Profit and loss account

for the period from 1 January to 31 December 2018

Items	€	€	€	Previous year € 000s
I. Technical account				
1. Earned premiums net of reinsurance				
a) Gross premiums written	1,416,255,309			1,369,285
b) Outward reinsurance premiums	245,825,485			231,370
		1,170,429,824		1,137,916
c) Change in the gross provision for unearned premiums	1,250,632			-5,598
d) Change in the gross provision for unearned premiums, reinsurers' share	6,412,264			-7
		7,662,896		-5,605
			1,178,092,720	1,132,311
2. Allocated interest, net of reinsurance			**726,301**	616
3. Other technical income, net of reinsurance			**1,127,814**	1,152
4. Claims incurred, net of reinsurance				
a) Claims paid				
aa) Gross amount	941,546,243			897,097
bb) Reinsurers' share	151,030,588			127,467
		790,515,655		769,630
b) Change in the provision for claims outstanding				
aa) Gross amount	68,896,338			80,972
bb) Reinsurers' share	-16,998,502			-7,303
		51,897,836		73,669
			842,413,492	843,300
5. Changes in other technical provisions, net of reinsurance				
a) Premium reserve, net of reinsurance		-10,144		5
b) Other technical provisions, net of reinsurance		374,606		-920
			364,462	-916
6. Bonuses and rebates, net of reinsurance			**83,727**	-388
7. Net operating expenses, net of reinsurance				
a) Gross operating expenses for insurance operations		326,331,829		295,396
b) of which, from: Reinsurance commissions and profit participation		49,975,869		47,635
			276,355,960	247,761
8. Other technical charges, net of reinsurance			**6,295,367**	5,955
9. Subtotal			**55,162,751**	36,536
10. Change to the equalisation provision and similar provisions			**2,490,470**	-1,661
11. Technical result net of reinsurance			**57,653,221**	34,875
Balance carried forward:			57,653,221	34,875

Items	€	€	€	€	Previous year € 000s
Balance carried forward:				57,653,221	34,875
II. Non-technical account					
1. Income from investments					
a) Income from participating interests		6,689,009			5,913
of which: from affiliated companies: € 4,811,636					4,109
b) Income from other investments					
aa) Income from real estate and similar land rights, including buildings on third-party land	938,410				1,010
bb) Income from other investments	56,226,098				59,174
		57,164,508			60,184
c) Income from write-ups		477,195			2,443
d) Gains on the realisation of investments		10,644,460			6,565
			74,975,172		75,105
2. Investment charges					
a) Investment management charges, interest expenses and other charges on capital investments		3,689,889			3,821
b) Write-downs on investments		25,310,036			4,818
c) Losses on the realisation of investments		523,228			1,280
			29,523,153		9,920
			45,452,020		65,186
3. Allocated interest			2,106,086		2,044
				43,345,933	63,142
4. Other income			3,218,539		1,720
5. Other charges			7,750,732		9,297
				-4,532,192	-7,577
6. Profit from ordinary activities				**96,466,962**	90,439
7. Taxes on income			-1,247,096		-181
8. Other taxes			380,387		757
				-866,709	576
9. Profit transferred under a profit pooling, profit transfer or partial profit transfer agreement				**97,333,671**	89,863
10. Net profit for the year				**-**	-

Notes to the accounts

Accounting and valuation methods

Intangible assets (IT software) are recognised at their costs of acquisition and, with the exception of advance payments, subjected to scheduled depreciation. Low-value assets are either assigned to a pool of such assets, in which case they are depreciated over a five-year period, beginning from the year of acquisition. Otherwise they are recorded as operating expenses in their year of acquisition.

Land, land rights and buildings including buildings on third-party land are recorded at their costs of acquisition or production and subjected to scheduled depreciation.

Shares in affiliated companies and the **participating interests** were shown either at their costs of acquisition or at the lower of cost or market value.

Equities, fund units or shares and other variable-yield securities, the **bearer bonds and other fixed-interest securities** are shown at the lower of their costs of acquisition or market prices. Investments assigned to the fixed assets pursuant to section 341b paragraph 2 HGB are valued according to the diluted lower value principle. Investments assigned to the current assets were valued according to the strict lower value principle. Where a write-down to a lower value took place in previous years, a corresponding write-up subsequently took place if this asset could then be assigned a higher value on the balance sheet date. These write-ups took place to the lower of the acquisition cost or market value.

Derivatives were valued at their costs of acquisition or their fair value, depending on which was lower. When determining the fair value, the market value was applied. For stock options with a value on the balance sheet date of more than the reported liability, a provision was recorded for the impending losses from pending transactions. The settlement method was applied for the calculation.

Mortgage loans and annuity claims are recognised at their costs of acquisition less an individual value adjustment for the potential default risks. The cumulative amortisation is recognised as revenue over the mortgage term.

Registered bonds are recognised at their nominal values. Premium and discount points are distributed over the term of the loans via deferrals and accruals.

Notes receivable, loans and **other loans** are recognised at their amortised cost plus or minus the cumulative amortisation of the difference between the cost of acquisition and the redemption amounts, applying the effective interest method.

Zero notes receivable were capitalised at their costs of acquisition plus the interest entitlement as determined on the basis of the capital volume and the interest agreement.

Deposits with banks were recorded at their nominal values.

Other investments are recognised at the lower of acquisition cost or stock market value.

Receivables from direct insurance operations are capitalised at their nominal values less individual value adjustments plus a general write-down to cover the potential default risk.

Receivables from reinsurance operations are based on the reinsurance contracts and are recognised at their nominal values.

Other receivables are shown at their nominal values.

Other assets, excluding operating or office equipment, are recognised at their nominal values. Operating and office equipment is shown at its cost of acquisition or production, reduced by scheduled depreciation. Depreciation was calculated according to the straight-line method. Low-value assets are either assigned to a pool of such assets, in which case they are depreciated over a five-year period, beginning from the year of acquisition. Otherwise they are recorded as operating expenses in their year of acquisition.

Apart from the advance payments of costs for future periods, **prepayments and accrued income** chiefly comprise the interest claims not yet due and premium on registered bonds, which are recorded at their nominal values.

Technical provisions are calculated by application of the following principles:
The **provisions for unearned premiums** for direct insurance operations are calculated separately for each policy, taking into account the individual technical policy start, with due regard to the tax regulations laid down by the Finance Minister of North Rhine-Westphalia on 30 April 1974.
Provisions for unearned premiums in relation to reinsurance cover provided were formed on the basis of the details provided by the ceding insurance companies.

The **premium reserve** required for the child accident insurance was calculated individually according to the prospective method, taking implicit recognised costs duly into account. The calculation was based on the DAV 2006 HUR mortality table. The technical interest rate stands at between 0.9 % and 4.0 %, depending on the time of initial formation of the provision.
Pursuant to section 5 paragraph 4 DeckRV, a supplementary interest reserve with a reference interest rate of 2.09 % was formed for policies with a guaranteed interest rate of at least 2.25 %.

The gross amounts for the **provisions for claims outstanding** from direct insurance operations are calculated individually for each claim. A provision for losses incurred but not reported is established according to general blanket criteria. The provision covers amounts for claims settlement. Gross provisions for unearned premiums in relation to reinsurance cover provided were formed on the basis of the details provided by the ceding insurance companies.

The **pensions premium reserve** was calculated in accordance with section 341g HGB. The calculation was based on the DAV 2006 HUR mortality table. The technical interest rate stands at between 0.9 % and 4.0 %, depending on the time of initial formation of the provision.
The reinsurance amount was calculated in accordance with the contractual agreements in this respect.

The provisions from HUK pensions are not premium reserves in the sense of section 341f HGB. As such, section 5 paragraphs 3 and 4 DeckRV are not applicable here.
Because our net interest rate in the 2018 financial year was below the average technical interest rate of our HUK pensions portfolio, in accordance with section 5 paragraph 4 DeckRV an interest rate reinforcement with a reference interest rate of 2.09 % was formed for policies with a guaranteed interest rate of at least 2.25 %.

The allocation to the **provision for bonuses** was made on the basis of Executive Board and Supervisory Board decisions that took tax regulations duly into account.

The **provision for rebates** was established on the basis of contractual agreements with policyholders.

The **equalisation provision and other provisions** were calculated in accordance with the annex to section 29 of the German Regulation on Accounting in the Insurance Sector (RechVersV).

The **other technical provisions** include unused premium amounts from dormant motor insurance policies, the provision for road traffic victims ceded by Verkehrsopferhilfe e.V. (the Road Accident Victims Aid Association), a cancellation provision for premium claims, a provision for premiums already received and for premium obligations, and also cancellation provisions for reinsurance contracts. These provisions are either estimated or as far as possible calculated on the basis of mathematical models, based on past figures where applicable.

The **other provisions** were formed on the following basis:
The **pension provision** is calculated according to the projected unit credit method on the basis of the HEUBECK 2018 G actuarial tables. The discounting interest rate was calculated as a 10-year average pursuant to the previously valid German Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung). It was set at 3.21 % (previous year 3.68 %) and calculated on the basis of an assumed residual term of 15 years (section 253 paragraph 2 sentence 2 HGB). The financing age on expiry corresponds with the contractual age on expiry.
The assumed rate of pay increase was set at 1.95 % p.a., and the rate of pension increase at 1 %, 1.7 % or 2.4 % p.a. depending on undertaking.

The **other provisions** are formed for the current financial year and measured according to the settlement values deemed necessary in our commercial judgement.

The **deposits received from reinsurers** result from a reinsurance agreement to cover claims and pensions provisions, valued at the settlement values.

Liabilities arising out of direct insurance operations and other liabilities are measured at the settlement values.

Liabilities arising from reinsurance operations are based on the reinsurance contracts and are recognised at the settlement value.

Accruals and deferred income include the discount points on registered bonds.

Items in foreign currency are converted on the balance sheet date at the median foreign currency exchange rate.

The **technical interest rate net of reinsurance** was set at 4.0 %, 3.25 %, 2.75 %, 2.25 %, 1.75 %, 1.25 % or 0.9 % of the respective arithmetical means of the initial and final amounts in the gross pension coverage provisions for accident, liability, motor vehicle liability and motor vehicle accident insurance.

Due to the company's subsidiary status within the Group, details of deferred tax are given at the level of the parent company DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE, Cologne.

Changes to Asset Items A., B. I. to III. during the 2018 financial year

Assets	Balance sheet values Previous year € 000s	Additions € 000s	Transfers € 000s	Disposals € 000s	Write-ups € 000s	Write-downs € 000s	Balance sheet values Financial year € 000s
A. Intangible assets							
1. Licences, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licences in such rights and assets	20,179	3,029	154	-	-	9,200	14,162
2. Payments on account	1,000	1,924	-154	-	-	-	2,770
3. Total A.	21,179	4,953	-	-	-	9,200	16,932
B. I. Real estate and similar land rights, including buildings on third-party land							
	14,388	-	-	1,956	-	189	12,243
B. II. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	145,074	9,488	-	-	-	-	154,562
2. Participating interests	37,853	18,040	254	774	-	-	55,373
3. Loans to companies in which a participating interest is held	260	-	-254	6	-	-	-
4. Total B. II.	183,187	27,528	-	780	-	-	209,935
B. III. Other investments							
1. Shares, units or shares in investment funds and other variable-interest securities	322,570	87,414	-	50,152	343	20,357	339,818
2. Bearer bonds and other fixed-interest securities	754,376	78,091	-	33,318	-	4,476	794,673
3. Mortgage loans and annuity claims	183,404	75,922	-	63,337	134	21	196,102
4. Other loans							
a) Registered bonds	450,480	340	-	15,000	-	-	435,820
b) Notes receivable and loans	246,628	4,858	-	40,120	-	-	211,366
c) Other loans	25,000	-	-	-	-	-	25,000
5. Deposits with banks	10,000	1	-	-	-	-	10,001
6. Other investments	27,631	765	-	425	-	266	27,705
7. Total B. III.	2,020,089	247,391	-	202,352	477	25,120	2,040,485
Total	**2,238,843**	**279,872**	**-**	**205,088**	**477**	**34,509**	**2,279,595**

The write-downs of intangible assets and real estate and similar land rights, including buildings on third-party land represent scheduled amortisation and depreciation.

Notes to the balance sheet

Re Assets B.

Investments

Pursuant to section 341b paragraph 2 HGB, we have assigned investments for long-term retention in the investment portfolio. As of 31 December 2018, our investments had the following book and current values:

Investments	Book value €	Current value €
B. I. Real estate and similar land rights, including buildings on third-party land	12,243,303	12,850,000
B. II. Investments in affiliated companies and participating interests		
1. Shares in affiliated companies	154,562,107	209,483,215
2. Participating interests	55,372,639	57,079,896
B. III. Other investments		
1. Shares, units or shares in investment funds and other variable-interest securities	339,817,903	363,968,252
2. Bearer bonds and other fixed-interest securities	794,673,163	841,124,390
3. Mortgage loans and annuity claims	196,101,885	203,946,090
4. Other loans		
a) Registered bonds	435,820,191	469,770,015
b) Notes receivable and loans	211,366,057	229,168,472
c) Other loans	25,000,000	25,525,927
5. Deposits with banks	10,001,347	10,001,347
6. Other investments	27,704,773	31,189,319
Total	**2,262,663,368**	**2,454,106,923**
of which: Investments valued at costs of acquisition	1,838,662,020	1,997,629,781
of which: Investments in fixed assets pursuant to section 341b paragraph 2 HGB	924,380,539	964,517,560

The valuation reserves include hidden liabilities totalling € 25.2 million. These arise from bearer bonds, fund units, other variable interest securities, mortgage loans, participating interests, notes receivable, registered bonds and real estate.

Depending on the investment type, a variety of different methods were used to calculate the current values.

Real estate is valued according to the gross rental method. All real estate held on 31 December 2018 was revalued with effect from that date.

The current value of shares in affiliated companies and participating interests was calculated on the basis of either gross rental values or book value equals market value.

Lien on real estate was valued using the most up-to-date yield curve, while taking default and property risk duly into account.

Both dividend-bearing securities and fixed-interest securities capitalised at their costs of acquisition are valued using the year-end market prices. Pursuant to section 56 RechVersV, the current values of the registered bonds, notes receivable, loans and zero notes payable were calculated at normal market conditions on the basis of the yield curve. The current value of other investments was calculated on the basis of the year's-end prices reported by an independent financial enterprise.

The current values of the other loans and silent participating interests within the meaning of the German Banking Act (KWG) (equity surrogates) were calculated on the basis of the discounted cash flow method on the basis of the current Euro swap curve plus a risk premium. This takes into account the anticipated future payment streams in light of debtor-specific assumptions.

The market values of investments denominated in foreign currencies were calculated on the basis of the year-end exchange rates.

Financial instruments within the meaning of section 285, No. 18 HGB that are capitalised at their fair value

	Book value € 000s	Fair value € 000s
Participating interests	12,232	12,177
Fixed-asset securities	324,639	308,036
Mortgage loans	51,094	49,607
Other loans	185,000	178,747

We have refrained from applying any write-downs in accordance with section 253 paragraph 3 clause 5 and 6 HGB, as we either intend to hold various securities until maturity or we are assuming that any fall in value is only temporary.

Derivative financial instruments and forward purchases in accordance with section 285 No. 19 HGB

	Type	Nominal volume € 000s	Book value premium € 000s	Fair value of premium € 000s
Other liabilities	Short put options	5,730	237	801
Registered bonds	Forward purchases	10,000	-	-712

Valuation methods

Short options:	European options	Black-Scholes
	American options	Barone-Adesi

Units or shareholdings in domestic investment funds in accordance with section 285 No. 26 HGB

Investment goal	Dividends € 000s	Fair value € 000s	Hidden reserves/ hidden charges € 000s	Limitation on daily redemption
Equity funds	3,413	184,721	-8,320	
Bond funds	127	6,686	-	
Mixed funds	58	7,942	561	
Real-estate funds	1,784	43,918	4,252	between any time and after 6 months

Re Assets B. II.

Investments in affiliated companies and participating interests	% share	Equity €	Results from previous financial year €
DEVK Europa Real Estate Investment Fonds SICAV-FIS, Luxembourg (L)	16.00	694,030,721 [3]	50,708,577 [3]
DEVK Omega GmbH, Cologne	25.00	27,620,863	781,090
DEVK Private Equity GmbH, Cologne	20.00	204,061,995	29,546,872
Aviation Portfolio Fund Nr. 1 GmbH und Co. geschlossene Investment KG, Grünwald	2.50	408,603,545	19,380,010
CORPUS SIREO RetailCenter Fonds Deutschland SICAV-FIS, Luxembourg (L)	10.75	93,931,863 [2]	7,537,406 [2]
DRED S.C.S. SICAV-FIS, Luxembourg (L)	16.00	95,226,905	12,016,326
Ictus GmbH, Cologne	15.00	46,977,308	-84,114
INVESCO Beteiligungsverwaltung-GmbH & Co. KG, Munich	14.39	5,747,175	-33,769
Sustainable Funds (SCA) SICAV SIF, Luxembourg (L)	1.65	451,023,034 [2]	29,787,507 [2]

[2] Based on 2017 financial year

[3] Based on subgroup financial statements

Re Assets B. III.

Other investments

Other loans exclusively comprise registered participation certificates.

Other investments chiefly comprise silent participating interests within the meaning of the Banking Act (KWG), profit participation certificates and fund units.

Re Assets E. II.

Other prepayments and accrued income	
Premium on registered bonds	€ 7,215
Advance payments for future services	€ 43,128
	€ 50,343

Re Liabilities A. I.

Subscribed capital

The subscribed capital totalling € 195,000,000 is divided into 195,000,000 shares.

Re Liabilities B.

Technical provisions						
Figures in € 000s		Total gross provision		of which: Provision for claims outstanding		of which: Equalisation provision and similar provisions
Insurance class	Financial year	Previous year	Financial year	Previous year	Financial year	Previous year
Accident	180,858	179,274	180,378	178,812	9	-
Liability	80,924	78,972	72,554	66,428	8,351	12,527
Motor vehicle liability	1,579,346	1,536,783	1,464,784	1,409,608	109,391	121,406
Other motor vehicle	131,321	115,896	40,025	42,043	76,257	58,331
Fire and non-life	138,155	135,385	99,660	91,467	25,694	30,613
of which:						
Fire	5,909	6,111	5,030	5,437	741	512
Household contents	12,755	14,387	12,744	14,271	-	-
Homeowners' building	102,940	95,218	69,643	59,903	20,767	22,438
Other non-life	16,551	19,669	12,243	11,856	4,186	7,663
Other	14,042	13,771	2,550	2,696	6,494	5,810
Total	**2,124,646**	2,060,081	**1,859,951**	1,791,054	**226,196**	228,687

The settlement result net of reinsurance for the financial year stands at € 123,553 million (previous year € 113,364 million).

Re Liabilities B. IV.

Provision for bonuses and rebates

a)	Bonuses	
	As on 31/12/2018	**€ 14,491,040**
b)	Rebates	
	As on 31/12/2017	€ 31,000
	Withdrawal	€ 60,727
	Allocation	€ 83,727
	As on 31/12/2018	**€ 54,000**

Re Liabilities F.

Accruals and deferred income

Discount points on registered bonds	**€ 898,692**

Notes to the profit and loss account

Direct and reinsured insurance business

Financial year in € 000s	Gross premiums booked	Gross premiums earned	Net premiums earned	Gross expenses on Insurance claims	Gross expenses on Insurance operations	Reinsurance balance	Technical result net of reinsurance
Accident	115,436	115,436	89,482	41,426	44,427	-10,018	20,174
Liability	90,851	90,851	88,827	35,066	38,807	-2,043	19,153
Motor vehicle liability	532,113	532,188	464,362	478,271	73,373	5,219	-1,176
Other motor vehicle	330,197	330,229	268,910	250,432	49,253	-10,778	2,484
Fire and non-life	331,693	332,570	251,135	194,481	117,140	-3,181	16,167
of which:							
Fire	1,696	1,696	1,404	1,339	709	-274	-981
Household contents	104,878	104,878	91,829	36,255	39,012	-6,046	20,953
Homeowners' building	190,118	190,967	124,755	141,468	60,410	4,538	-8,494
Other non-life	35,001	35,029	33,147	15,419	17,009	-1,399	4,689
Other	15,965	16,232	15,377	10,766	3,332	-606	851
Total	**1,416,255**	**1,417,506**	**1,178,093**	**1,010,442**	**326,332**	**-21,407**	**57,653**

previous year € 000s	Gross premiums booked	Gross premiums earned	Net premiums earned	Gross expenses on Insurance claims	Gross expenses on Insurance operations	Reinsurance balance	Technical result net of reinsurance
Accident	110,775	110,775	86,013	56,651	43,251	-5,796	6,150
Liability	88,515	88,515	86,536	30,276	35,869	-6,415	20,219
Motor vehicle liability	526,319	526,373	460,767	448,520	65,742	-7,726	4,189
Other motor vehicle	321,691	321,713	262,545	268,334	43,116	-6,361	2,998
Fire and non-life	310,006	303,705	224,621	163,818	106,364	-22,380	802
of which:							
Fire	1,503	1,503	882	-2,746	659	-3,861	-557
Household contents	100,584	100,584	88,207	40,281	36,790	-5,144	15,703
Homeowners' building	173,878	167,705	103,335	111,420	53,225	-12,294	-15,727
Other non-life	34,041	33,913	32,197	14,863	15,690	-1,081	1,383
Other	11,979	12,607	11,828	10,472	1,054	-296	516
Total	1,369,285	1,363,688	1,132,310	978,071	295,396	-48,974	34,874

The gross overall expenses on all insurance operations were as follows:

Acquisition expenses	€ 202,112,443
Administration costs	€ 124,219,386

Insurance agents' commission and other remuneration, personnel expenses	Financial year € 000s	Previous year € 000s
1. Insurance agents' commission of all types within the meaning of section 92 HGB for direct insurance operations	190,724	169,864
2. Other insurance agents' remuneration within the meaning of section 92 HGB	-	-
3. Wages and salaries	707	445
4. Social-security contributions and social-insurance costs	-	-
5. Retirement pension costs	-	-
Total	**191,431**	170,309

The pension provision for the personnel provided under the Cooperative Agreement is capitalised by DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE. Allocations to the pension provision, with the exception of the interests allocation, are charged to DEVK Allgemeine Versicherungs-AG.

During the year under review, Management Board remuneration totalled € 650,914. The retirement pensions of former Management Board members and their surviving dependants totalled € 564,808. As of 31 December 2018, a pension provision of € 7,038,519 was to be capitalised for this group of people. The Supervisory Board remuneration totalled € 171,250. Payments to the Advisory Board came to € 64,625.

Other expenses include € 11 (previous year € 202,819) from currency conversion.

Other information

Difference pursuant to section 253 paragraph 6 of the German Commercial Code (HGB)

On the balance sheet date, the difference pursuant to section 253 paragraph 6 HGB amounted to € 1,140,250 (previous year € 1,010,252). This was due to the pension provision.

Contingent liabilities and other financial obligations

On the balance sheet date, there were financial obligations totalling € 5.7 million from open short options and € 10.0 million from forward purchases. The payment obligations in relation to approved mortgage loans not yet paid out totalled € 94.8 million.

At the end of the year, remaining payment obligations arising from real-estate holdings, fund units, participating interests and shares in affiliated companies totalled € 97.4 million. This includes obligations towards affiliated companies amounting to € 35.7 million.

Via a bond insurance policy DEVK Allgemeine Versicherungs-AG is furnishing a default guarantee in the event of the policyholder's insolvency. As of the balance sheet date this guarantee covers the sum of € 83.8 million. We do not currently anticipate any availment of this guarantee since the risk of the policyholder becoming insolvent is rated as extremely low.

Supplementary report

No occurrences or events took place after the reporting date that could significantly affect the company's future net assets, financial position or results of operations.

General information

Number of insurance policies concluded for at least one year in direct insurance operations		
	Financial year	Previous year
Accident	937,952	924,306
Liability	1,270,048	1,239,555
Motor vehicle liability	2,390,274	2,330,158
Other motor vehicle	1,824,663	1,774,465
Fire and non-life	1,889,919	1,847,177
of which:		
Fire	8,223	7,643
Household contents	955,136	940,305
Homeowners' building	425,349	411,014
Other non-life	501,211	488,215
Other	1,265	542
Total	**8,314,121**	8,116,203

DEVK Allgemeine Versicherungs-AG, Cologne, is registered at the local court under Commercial Register Number HRB 7935.

Lists of the members of the Management Board, Supervisory Board and Advisory Board are given prior to the management report.

Our company does not itself employ any personnel.

On the balance sheet date, our company is 100 % owned by DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE, Cologne. The aforementioned has disclosed, pursuant to section 20 paragraph 4 AktG, that it holds a voting rights majority.

As required by law, the annual financial statements are published in Germany's Electronic Federal Gazette.

Pursuant to section 285 paragraph 17 HGB, details of the auditors' fees are provided in the consolidated notes.

Our company is exempt from the obligation to prepare consolidated financial statements and a consolidated management report.

Name and domicile of the parent company that draws up the consolidated financial statements whereby the company is exempted and in which it is included:

DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.
Betriebliche Sozialeinrichtung der Deutschen Bahn
Zentrale, Riehler Straße 190, 50735 Cologne

The consolidated financial statements are published on the website of DEVK at www.devk.de, and in the Electronic Federal Gazette.

Cologne, 15 March 2019

The Management Board

Rüßmann **Burg** **Knaup** **Scheel** **Zens**

Independent audit certificate

To DEVK Allgemeine Versicherungs-Aktiengesellschaft, Cologne

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of DEVK Allgemeine Versicherungs-Aktiengesellschaft, Cologne, comprising the balance sheet to 31 December 2018, the profit and loss account for the financial year from 1 January to 31 December 2018, as well as the notes, including the statement of the accounting policies. In addition we have audited the management report of DEVK Allgemeine Versicherungs-Aktiengesellschaft, Cologne, for the financial year from 1 January to 31 December 2018. We have not audited the details given in the management report, which are marked as unchecked.

In our opinion, on the basis of the knowledge obtained in the audit

- the accompanying annual financial statements comply in all material respects with the prevailing German commercial regulations for insurance undertakings, give a true and fair view, in accordance with German principles of proper accounting, of the assets, liabilities, and financial position of the Company as of 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, the management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future developments. Moreover, our opinion on the management report does not extend to the content of the details given in the management report which are marked as unchecked.

Pursuant to section 322 paragraph 3 clause 1 HGB, we hereby declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with section 317 HGB and EU Audit Regulation No. 537/2014 and in compliance with the German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities according to those requirements and principles are further described in the section of our auditor's report entitled "Auditor's responsibilities for the audit of the annual financial statements and of the management report". In accordance with the provisions of European law and German commercial and professional law, we are independent of the Company, and we have also fulfilled our other German professional responsibilities pursuant to those provisions. Moreover, in accordance with Article 10, paragraph 2, point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5, paragraph 1 of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters which, in our professional judgement, were of greatest significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in conjunction with our audit of the annual financial statements as a whole, and in forming our audit opinion in this regard; we do not provide a separate audit opinion on these matters.

Measurement of the partial loss provisions for known and unknown claims contained in the gross provision for claims outstanding in our direct non-life and accident insurance.

With regards to the applied accounting policies and methods we refer to the explanations given in the notes to the Company's annual financial statements in the "Accounting and valuation methods" section. Details regarding risks are contained in the management report in the "Risk report" section.

THE FINANCIAL STATEMENT RISK

The gross provisions for claims outstanding total € 1,829 million, which represents 78.0 % of the balance sheet total.

The gross provision for claims outstanding is divided into several partial loss provisions. The provision for known and unknown claims comprises a large part of the gross provision for claims outstanding.

The measurement of the provision for known and unknown claims is subject to a degree of uncertainty regarding the size of the prospective claims, and is therefore very much a matter of judgement. According to commercial principles, the estimate must not be made in a risk-neutral way, in a spirit of equal weighting of opportunities and risk, but rather in observance of the prudence principle required under accountancy law (section 341e paragraph 1 sentence 1 HGB).

The provisions for known claims are estimated according to the likely cost of each individual claim. For as yet unknown claims, a provision for claims incurred but not reported is formed, the extent of which is predominantly based on past experience and calculated through the application of recognised actuarial techniques.

The risk in relation to claims already known on the balance sheet date lies in the fact that insufficient provision may be made for claims payments still outstanding. In the case of claims incurred but not yet reported (unknown outstanding claims), there is the additional risk that they are accounted for either inadequately or not at all.

OUR AUDIT APPROACH

For the audit of the provision for claims outstanding, we engaged the additional services of our own actuaries. We conducted the following specific audit activities:

- We have obtained a fundamental overview of the process for calculating provisions, identified key checks and tested the suitability and efficacy of these checks.
- On the basis of deliberate and follow-up random sampling, we reproduced the process of determining the extent of individual known provisions via examination of the records for various segments and types of insurance.
- On the basis of a time series comparison, focusing particularly on claims numbers, financial year and balance sheet claims rates, as well as settlement results, we analysed the development of the claims provision over time.
- On the basis of a deliberate selection, we audited the Company's methods of calculating the extent of claims incurred but not reported. In doing so, we paid particular attention to the determination of estimated numbers and claim sizes from historical experience and current developments.
- We carried out our own actuarial calculations for certain segments which we selected on the basis of risk considerations. In doing so we determined a respective points system based on accepted actuarial processes, in order to evaluate the safety level incorporated in the provisions for claims outstanding.

OUR OBSERVATIONS

The methods and underlying assumptions employed in measuring the partial loss provisions for known and unknown claims contained in the gross provision for claims outstanding in the direct non-life and accident insurance business are in accordance with the applicable basis of accounting. The underlying assumptions have been derived in a suitable manner.

Other information

The Management is responsible for the other information. The other information comprises:

- the details in the management report marked as unaudited, and
- the remaining parts of the annual report, with the exception of the audited annual financial statements, the management report and our auditor's report.

Our opinions on the financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any offer any other form of assurance in relation said information.

In connection with our audit, our responsibility is to read the other information and consider whether it

- is materially inconsistent with the annual financial statements, the management report and the knowledge we acquired during the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the annual financial statements and the management report

The management is responsible for the preparation of annual financial statements that comply, in all material respects, with the prevailing provisions of German commercial law as applied to insurance undertakings and for ensuring that the annual financial statements, in compliance with German principles of proper accounting, give a true and fair view of the Company’s assets and liabilities, financial position and financial performance. In addition, the management is responsible for implementing such internal controls as they deem necessary in conformity with German principles of proper accounting, in order to permit the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the management is responsible for assessing the Company’s ability to continue as a going concern. They are also responsible for disclosing matters related to the continuation of the Company's activities, where applicable. They are also responsible for financial reporting founded on the accounting policy of the going concern, provided no factual or legal circumstances militate against this.

Furthermore, the management is responsible for the preparation of a management report that, taken as a whole, provides an appropriate view of the Company’s position and is consistent in all material respects with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the management is responsible for such arrangements and measures (systems) as they deem necessary to facilitate the preparation of a management report that complies with the applicable German legal requirements and provides sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company’s financial reporting process for the preparation of the annual financial statements and management report.

Auditor’s responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company’s position and is consistent in all material respects with the annual financial statements and the knowledge obtained in the audit, complies with German legal provisions and appropriately presents the opportunities and risks of future developments, as well as to issue an auditor’s report that includes our audit opinions on the annual financial statements and management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements may arise from fraud or error and are considered material if they could individually or mutually be reasonably expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements in the annual financial statements and the management report, whether due to fraud or error, plan and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the circumvention of internal controls.
- Acquire an understanding of the internal control system relevant to the audit of the annual financial statements and of arrangements and measures relevant to the audit of the management report, in order to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these Company systems.
- Evaluate the appropriateness of the accounting policies used by the management and the reasonableness of estimates made by the management, as well as the related disclosures.
- Draw conclusions regarding the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, as to whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are obliged to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may mean the Company is no longer able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner conducive to ensuring that the annual financial statements give a true and fair view of the assets and liabilities, financial position and financial performance of the Company in compliance with German principles of proper accounting.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with applicable law, and the view of the Company's position it provides.
- Perform audit procedures on the forward-looking information presented by the management in the management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the management as a basis for its forward-looking statements, and evaluate the proper derivation of the forward-looking statements from these assumptions. We do not express a separate audit opinion on the forward-looking statements or the assumptions on which they are based. There is a substantial unavoidable risk that future events will differ materially from the forward-looking statements.

We engage in discussions with the persons responsible for governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control system that we identify during our audit.

We also provide the persons responsible for governance with a statement that we have complied with the relevant independence requirements, and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, the related safeguards.

From the matters discussed with the persons responsible for governance, we determine the matters which were of most significance in the audit of the annual financial statements for the current period and which therefore constitute the key audit matters. We describe these matters in our auditor's report unless public disclosure of the matter is forbidden by legislation or other legal provisions.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as the auditors at the Supervisory Board meeting on 3 May 2018. Furthermore, we were engaged by the Supervisory Board on 3 May 2018. We have acted as the auditor of DEVK Allgemeine Versicherungs-Aktiengesellschaft without interruption since the 1998 financial year.

We hereby declare that the opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the audit, we also rendered the following services, which are not stated in the annual financial statements or the management report, for the audited companies or for companies controlled by the audited companies:

- Audit of the Company's solo solvency overview.

Chief auditor

The auditor in charge of the audit is Thorsten Klitsch.

Cologne, 5 April 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Klitsch
Auditor

Happ
Auditor

Supervisory Board report

During 2018, the Supervisory Board regularly monitored the Management Board’s leadership on the basis of written and verbal reporting, as well as being briefed on the company’s commercial performance, corporate policies and financial position at various meetings.

KPMG AG Wirtschaftsprüfungsgesellschaft, having been appointed as auditors in line with statutory requirements, duly audited the 2018 annual financial statements and management report prepared by the Management Board. This audit did not reveal any irregularities. An unqualified audit certificate was granted. The Supervisory Board has duly acknowledged the audit findings.

The Supervisory Board’s own audit of the annual financial statements and management report likewise revealed no irregularities. The Supervisory Board hereby approves the 2018 financial statements, which are thus duly adopted.

The Supervisory Board would like to thank the Management Board and employees for all their hard work and commitment.

Cologne, 7 May 2019

The Supervisory Board

Westphal
Chairman

Group management report

Group foundations

Group structure

At the head of the Group is DEVK Sach- und HUK-Versicherungsverein a.G. DEVK Sach- und HUK-Versicherungsverein a.G.'s inception was as a self-help organisation for railway workers, and today it is recognised as a company welfare scheme by Deutsche Bahn and the Federal Office for Railway Assets (Bundeseisenbahnvermögen). It offers its members, who are predominantly railway workers and other transport sector employees, comprehensive bespoke, economically priced insurance cover.

DEVK Sach- und HUK-Versicherungsverein a.G. has a 100 % holding in its subsidiary DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE. This stock corporation acts as the reinsurer and intermediate holding company controlling the Group's principal insurance companies operating for the general private-client market, as well as other participating interests.

The Group companies included in the 2018 consolidated financial statements have not changed since last year. Details of them can be found in the consolidated notes.

The reader is referred to the notes to the management report for details of the classes of insurance marketed by Group companies.

The companies of the DEVK Sach- und HUK Group and the DEVK Lebensversicherungs Group largely share a joint organisation and management set-up. Various general agency agreements are also in place.

The bulk of the sales is realised by our field sales force, which comprises both our own salaried field sales agents and self-employed representatives. We also engage in a variety of sales cooperation arrangements. Of particular importance in this connection are our collaborations with the Sparda Bank Group and with the Association of German Transport Companies (VDV). Our central direct sales operation and corresponding links with brokers round off our sales channel mix.

Throughout Germany, the DEVK Group runs 19 subsidiaries and has around 1,220 branch offices.

Delegation of functions and organisational cooperation

Under the existing general agency contracts with other DEVK insurance companies, DEVK Sach- und HUK-Versicherungsverein a.G. has been assigned overall responsibility for all DEVK insurance brokerage operations and associated tasks.

The general operational areas of accountancy, collection, EDP, asset management, personnel, auditing and general administration are centrally organised for all DEVK companies. The portfolio management and claims management of DEVK Sach- und HUK-Versicherungsverein a.G. is carried out together with DEVK Allgemeine Versicherungs-AG. The same applies to the portfolio management and claims management of DEVK Allgemeine Lebensversicherungs-AG and DEVK

Please note that rounding may lead to differences from the mathematically exact figures (monetary units, percentages, etc.).

The sections of the management report marked with [1] contain details which have not been checked by the auditor.

Lebensversicherungsverein a.G. However, each company has separate lease contracts and its own inventory and equipment based on its own needs.

Under the existing joint contracts and service contracts, the Group parent company provides the necessary internal staff for the Group companies DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE, DEVK Allgemeine Versicherungs-AG, DEVK Rechtsschutz-Versicherungs-AG, DEVK Krankenversicherungs-AG, DEVK Allgemeine Lebensversicherungs-AG, DEVK Pensionsfonds-AG, DEVK Vermögensvorsorge- und Beteiligungs-AG and DEVK Service GmbH, as well as various smaller Group companies.

Business performance

Political risks remained the prevailing factor on the financial markets in 2018. Added to this came economic concerns at the end of 2018. The US president remained uncompromising with regards to trade with China, and also in relation to the European automotive industry. The increasing escalation of the trade dispute and the strength of the US Dollar led in particular to problems in some of the emerging market nations. Alongside Turkey and Argentina, this included such countries as South Africa and Indonesia. All in all, investors were acting with significantly greater risk aversion by the end of 2018 than at the start of the year.

Inside the Euro Zone, a high degree of uncertainty prevailed during 2018 regarding the budgetary policy of the new Italian government, which refused to comply with the agreements concluded between the former government and the EU regarding new borrowing. At the same time various economic indicators signalled downturns, for example the Purchasing Managers Index, in the manufacturing industry for Italy, which stood below the 50-point threshold at the end of 2018 following a significant decline over the course of the year. Overall, during 2018 this development led to a significant expansion in the spread of Italian government bonds to German government bonds.

With regards to the topic of Brexit, 2018 was characterised by mixed messages. In the interim, it appeared that a common exit agreement was not possible. Nonetheless, in November 2018 the EU and the UK drew up such an agreement. However, this agreement was subsequently rejected by the UK parliament and must now be amended and approved in 2019 with no clear prospects of success. By the end of 2018, both a hard and soft Brexit were possible, as well as a new Brexit referendum. This uncertainty continues to prevail in 2019. By the time of reporting no end to the Brexit uncertainty is in sight, with its associated risks on the currency and stock markets, and also to the economy in Europe in general.

During the second half of 2018, there were also signs of the economy in Germany weakening. As such, incoming orders to German industry from abroad declined, the IFO Business Climate Index fell sharply and GDP growth was actually negative during the third quarter of 2018. It would appear that the 2018 economic peak in the Euroland has passed. Economists surveyed by Bloomberg reduced their forecasts for German GDP growth during 2018. Last year, German GDP ultimately grew by 1.5 %, following on from 2.2 % in the previous year. In 2019, GDP growth of 1.3 % is expected.

The monetary policy also had a major influence on the capital markets in 2018. At its meeting in June 2018, the ECB expressed an expectation that the current interest rates would endure until the end of summer 2019 as a minimum. From October, the bond purchases were halved to € 15 billion, and ended entirely from December 2018. However, the ECB's portfolio of mature bonds was reinvested. In contrast, in 2018 the American Fed further increased the key interest rate a total of four times, to a corridor of 2.25 % to 2.50 %.

Despite an at least temporary rise in inflation within the Euroland, returns on the Euro fixed-interest market reduced slightly in 2018, as seen for example with the 10-year Euro swap rate, from approx. 0.9 % to just over 0.8 % by 31 December 2018. However, the figure stood at almost 1.2 % on occasions. The rear section of the yield curve in the Euro swaps area remains very level, and is in fact partially lightly inverse. The risk premiums on corporate bonds rose again significantly in 2018 due to the economic situation.

In particular from the third quarter of 2018, the value of the DAX fell considerably and closed at 10,558.96 points at the end of 2018, not far off the all-year low witnessed on 27 December 2018. Decisive in this regard were a manifestation of the political risks and an economic downturn. Striking was that the decline was initially comparatively slow and without a significant increase the volatility of the stock markets. This was followed by a steep rise in volatility in December 2018. Overall, 2018 witnessed a DAX downturn of around 18.3 % and with it the first annual decline since 2011.

Following an initial rise in value in 2018, the Euro decreased in value against most currencies. A decisive contribution to this was made by the interest rate differential due to the different monetary policies and the economic situation between Europe and the USA. In 2018, the EUR/USD exchange rate fluctuated between 1.12 and 1.25 (year's-end rate: 1.15). Meanwhile, depending on the news on Brexit, the UK pound moved between 0.86 to the Euro at the start of the year and 0.91 (year's-end rate: 0.90).

At its annual press conference at the end of January 2019, the German Insurance Association (GDV) announced that it anticipated a rise in gross non-life and accident insurance premium receipts of 3.3 % for 2018. The combined ratio (the ratio of claims expenses and costs to premium receipts) is estimated to lie close to 96 % (previous year 93.2 %). Thus, profitability of the non-life and accident sector has deteriorated in comparison to the previous year, although it just remained satisfactory.

In the motor vehicle insurance segment, 2018 premium receipts growth came to +3.2 %, which was below the figure in the previous year (+4.0 %). According to the GDV's estimate, at roughly 98 % the combined ratio should be virtually unchanged from the previous year (98.0 %).

German life insurance premium receipts (including pension funds and schemes) rose by 1.3 % (previous year -0.1 %).

According to the German Private Health Insurance Association (Verband der Privaten Krankenversicherung) private health insurance, including long-term care insurance, saw a premium increase of 2.1 %.

Business trends

Non-life and accident insurance business trends

Number of insurance policies concluded for at least one year in direct insurance operations		
	Financial year	Previous year
Accident	1,196,643	1,185,917
Liability	1,832,847	1,810,996
Motor vehicle liability	2,932,861	2,880,953
Other motor vehicle	2,270,786	2,226,279
Fire and non-life	2,734,539	2,705,067
of which:		
Fire	10,975	10,394
Household contents	1,359,980	1,353,028
Homeowners' building	608,194	593,822
Other non-life	755,390	747,823
Other	2,900	5,537
Legal protection	958,109	921,965
Total	**11,928,685**	11,736,714

The above table includes the figures for DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Allgemeine Versicherungs-AG, DEVK Rechtsschutz-Versicherungs-AG and GAV Versicherungs-AG. The overall portfolio has grown by 1.6 % since the previous year.

At 5.6 %, premium growth came in above the predicted level (forecast: around 4 %). The reason for this is the higher than anticipated premium growth of DEVK Allgemeine Versicherungs-AG and DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE.

After an allocation of € 25.0 million to the equalisation provision (previous year € 20.4 million), at € 107.3 million (previous year € 29.4 million) the underwriting result net of reinsurance improved, thus coming in well ahead of our forecast (of around € 45 million to € 55 million). In addition to an improved combined ratio (net 94.9 %, previous year 97.3 %), also responsible for this was a special effect amounting to around € 30 million, which resulted from the end of a group-internal reinsurance contract.

Life assurance business trends

The Group's life insurance business is conducted by DEVK Allgemeine Lebensversicherungs-AG.

In contrast to the sector, DEVK Allgemeine Lebensversicherungs-AG's premium receipts were down on the figure in the previous year, in line with our forecast.

In continuation of the restructuring of the product range implemented in previous years, the portfolio in the 2018 financial year was further developed with regards to protection against biometric risks.

The "DEVK basic abilities insurance policy" successfully introduced in the middle of the year covers certain elementary physical and mental abilities for comparatively low premiums. The basic abilities insurance policy can also be supplemented with additional protection against serious illnesses (cancer, heart attack and stroke). With this, the basic abilities insurance cover forms the ideal complement to our existing providential products. Sales to date show that the products have been well received on the market.

Furthermore, the new tariffs introduced in previous years "DEVK Occupational Incapacity Insurance" and "DEVK-JobStarter BU" were supplemented in 2018 through the introduction of additional options such as the inability to work clause. These product improvements resulted in further positive impulses.

The introduction of the pension insurance plans "DEVK-Garantierente vario" and "Direktversicherung vario" represented a further key step in the direction of a Solvency II-compliant product range. Sales of both products remained at a stable level during the course of 2018.

Furthermore, the unit-linked pension insurance from DEVK Allgemeine Lebensversicherungs-AG continues to have a major influence on the course of business development.

On the investment front, the net investment result came to € 187.8 million and therefore fell short of the level in the previous year of € 248.9 million, against expectations. This decline, despite the increase in the investment portfolio in line with forecasts, can be attributed to the increased write-downs on equities and a lower than expected rise in necessitated hidden reserves due to the reduction in the allocation to the supplementary interest reserve in comparison to the scheduled figures.

During 2018, DEVK Allgemeine Lebensversicherungs-AG concluded a total of 41,319 new policies (previous year 58,746). The decrease in development largely resulted from the significantly reduced credit life business. Since January 2018, Sparda Bank has not been marketing any further DEVK credit life contracts. The sum insured under new policies stood at € 2.82 billion (previous year € 3.02 billion). This equates to a premium amount from new business of € 1.07 billion (previous year € 1.10 billion).

The sum insured under the main insurance policies within our portfolio as a whole rose 4.1 % to € 25.22 billion (previous year € 24.23 billion). As forecast, at 764,670 (previous year 791,595) the number of policies fell in comparison to the previous year. Contrary to the forecast, the number of cancellations was slightly lower than the figure in the previous year. The portfolio development is presented in the notes to this management report.

Health insurance business trends

This segment is operated by DEVK Krankenversicherungs-AG.

As in recent years, the most important contributor of new business at DEVK Krankenversicherungs-AG was supplementary insurance for members of statutory health insurance schemes. The insurance types are individually listed in the notes to this management report. At DEVK, we are continuing to more than hold our own in the ever more fiercely contested supplementary insurance segment, having further increased our market share.

The monthly target premium in the overall portfolio stood at € 7.97 million by the end of the year (previous year € 7.56 million). The premium receipts rose in the period under review by 7.1 %. An overview of the number of persons insured per insurance type is provided in the notes.

All in all, this meant that our medium-term growth and income forecasts were fulfilled.

The result from investments in 2018 declined in line with forecasts. This is partially attributable to the drop in gains on the realisation of investments and on the increase in write-downs. This resulted in a significant drop in the net interest rate. The low interest rates on new assets and repeat investments in comparison to the interest rate on the existing portfolio led to a moderate fall in current interest returns calculated on the average investment volume.

Pension fund business trends

The Group’s pension fund business is conducted by DEVK Pensionsfonds-AG.

2018 business performance was satisfactory.

The number of people enrolled in pension plans during the 2018 financial year rose by 7.3 %. The premium receipts rose by 6.0 % (previous year 6.7 %).

Expenditure on payments of benefits and pension fund business fell by 10.2 % during the financial year in comparison to the previous year. The cause of this was the absence of the special effects from the previous year.

The most important source of new business continues to be defined-contribution pension plans pursuant to section 3 No. 63 of the German Income Tax Act (EStG).

During the year under review, we registered 15,190 new enrolments in pension plans with present or future entitlements (previous year 10,541). As in previous years, this figure was in line with our expectations.

The beneficiaries developed positively in comparison to the previous year (+5.6 %). The portfolio comprises 243,537 pension schemes for 164,639 persons currently at the future entitlement stage, of which 121,773 are for men and 42,866 for women (previous year 155,902, of which 115,313 men and 40,589 women).

The number of pension schemes now drawing pensions rose by 23.4 % to 3,534 ongoing pensions (previous year 2,863). The option of prematurely drawing pension benefits when reaching the age of 63 has become the norm.

Approximately 96 % of the existing portfolio and approx. 98 % of the new business results from pension contributions in connection with collective bargaining agreements (the so-called 2.2 % rule), as well as deferred compensation for employees of Deutsche Bahn AG.

Overall business trends

The Group's gross premium receipts rose 4.0 % to € 3,126.8 million. Earned premiums net of reinsurance during the financial year rose by 3.9 % to € 2,977.8 million. Expenditures on insured events and pensions net of reinsurance increased by 2.6 % to € 1,990.4 million. Their ratio of the earned net premiums therefore stood at to 66.8 % (previous year 67.7 %). The ratio of expenses on insurance and pension fund operations net of reinsurance to earned premiums net of reinsurance rose to 21.7 % (previous year 20.9 %).

Following a higher allocation to the equalisation provision in the field of non-life and accident insurance (€ 25.0 million following on from € 20.4 million in the previous year), the insurance and pension fund underwriting result net of reinsurance improved to € 143.8 million (previous year € 39.7 million).

At € 161.9 million (previous year € 201.6 million), the non-technical account investment result was in line with expectations (significantly down on the previous year.

The "Other" result including the technical interest income declined to € -114.3 million in particular due to higher retirement pension costs (previous year € -93.1 million).
Due to the better than expected technical result in the field of non-life and accident insurance as well as life and health insurance, the result from ordinary activities exceeded expectations at € 191.4 million (previous year € 148.1 million) (significant decline on the previous year).

After very high tax expenditure in comparison to the previous year, resulting from high amounts allocated to tax, the net annual profit came to € 82.2 million (previous year € 71.0 million). In view of the very high tax expenditure and the rise in pension costs, the profit may be regarded as satisfactory.

Net assets, financial position and results of operations

Results of operations

	Financial year € 000s	Previous year € 000s	Change € 000s
Underwriting result net of reinsurance, non-life and accident insurance	107,263	29,381	77,882
Underwriting result net of reinsurance, life and health insurance	35,866	11,035	24,831
Technical pension fund result	686	-742	1,428
Non-underwriting result	42,305	103,305	-61,000
Result before taxes on income	**186,121**	142,980	43,141
Taxes on income	103,914	71,955	31,959
Consolidated net profit for the year (before taking minority shareholders into account)	**82,207**	71,025	11,182
Allocation to retained earnings	25,619	24,840	779
Result attributable to minority shareholders	17,812	9,019	8,793
Net retained profit (after taking minority shareholders into account)	**38,776**	37,165	1,611

Underwriting result net of reinsurance, non-life and accident insurance

Gross premium receipts rose 5.6 % to € 2,425.1 million. The earned premiums net of reinsurance in the financial year rose by 5.7 % to € 2,273.6 million. Claims expenses net of reinsurance rose slightly by 0.6 % to € 1,587.9 million. Their ratio of the earned net premiums therefore declined to 69.8 % (previous year 73.4 %). At 25.1 %, the ratio of expenses for insurance business net of reinsurance to earned premiums net of reinsurance was up on the previous year figure (24.0 %).

In 2018, gross claims expenses rose somewhat slower than premium receipts. The gross claims ratio therefore improved to 69.4 % (previous year 71.9 %).

Gross operating expenses came to € 594.9 million (previous year € 536.4 million). In relation to gross premiums earned, this yielded a ratio of 24.5 % (previous year 23.5 %).

After an allocation to the equalisation provision of € 25.0 million (previous year € 20.4 million), the underwriting result net of reinsurance improved to € 107.3 million (previous year € 29.4 million).

Primary insurance in Germany

The following table shows the business trends for business conducted directly in the various individual insurance classes. The figures include the results for DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Allgemeine Versicherungs-AG, DEVK Rechtsschutz-Versicherungs-AG and GAV Versicherungs-AG. In the case of DEVK Allgemeine Versicherungs-AG, the results of the French subsidiary which has been in run-off since 2005 were not eliminated.

Figures in € 000s	Gross premiums written			Change to the equalisation provision		Technical result net of reinsurance	
Insurance class	Financial year	Previous year	Change	Financial year	Previous year	Financial year	Previous year
Accident	164,207	158,426	3.65%	-9	422	30,604	9,597
Liability	124,081	122,390	1.38%	4,602	5,830	22,321	27,401
Motor vehicle liability	631,406	626,355	0.81%	6,092	-1,164	-7,317	59
Other motor vehicle	407,001	397,677	2.34%	-23,183	-2,837	-3,145	-1,959
Fire and non-life	416,247	390,994	6.46%	7,865	2,111	22,488	9,327
of which:							
Fire	2,394	2,255	6.16%	-763	-830	-1,885	-1,311
Household contents	145,578	140,339	3.73%	-	-	27,615	22,517
Homeowners' building	224,649	206,368	8.86%	5,356	3,064	-7,678	-13,272
Other non-life	43,626	42,032	3.79%	3,272	-122	4,437	1,393
Other	17,755	13,747	29.15%	-866	-750	801	782
Legal protection	164,462	151,639	8.46%	-	-	-2,694	-5,810
Total	**1,925,158**	1,861,228	3.43%	**-5,499**	3,613	**63,059**	39,397

Homeowners' building insurance showed the greatest premium growth as an absolute amount. The bulk of the growth registered here is attributable to taking on additional coinsurance business.

In motor vehicle insurance, our largest segment, the premium growth can be put down to both portfolio growth and premium adjustments. Before changes to the equalisation provision, technical gains of € 6.6 million were generated in the motor vehicle segment.

Active reinsurance

Gross premium receipts rose 12.5 % to € 530.5 million. By far the largest portion of the increase originated from non-DEVK business. Earned premiums net of reinsurance rose by 12.9 % to € 417.1 million (previous year € 369.3 million). Claims expenses net of reinsurance increased to € 280.5 million (previous year € 261.3 million). The ratio of net claims expenses to earned net premiums therefore declined to 67.3 % (previous year 70.8 %). At 27.1 %, the ratio of expenses for insurance business net of reinsurance to earned premiums net of reinsurance was slightly up on the previous year figure (26.8 %). Within the framework of the mutual termination of the reinsurance contracts of DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE with DEVK Lebensversicherungsverein a.G. and DEVK Allgemeine Lebensversicherungs-AG, liabilities amounting to € 58.2 million were released to income in 2018. The underwriting result of DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE before changes to the equalisation provision therefore improved to € 79.0 million (previous year € 11.4 million). However, even without the special effect of the contract terminations there was a sharp increase on the result in the previous year. After an allocation to the equalisation provision of € 17.3 million (previous year € 10.1 million), the underwriting result net of reinsurance stood at € 61.7 million (previous year € 1.3 million).

Also included in the consolidated financial statements is Echo Rückversicherungs-AG (Echo Re), which was established at the end of 2008 as a subsidiary of DEVK Sach- und HUK-Versicherungsverein a.G. in Switzerland. Echo Re, which chiefly operates outside Europe, possesses equity capital of 92.1 million Swiss francs (CHF). With premium receipts of CHF 133.1 million (previous year CHF 120.3 million), the national financial statements for Switzerland recorded a loss of CHF 2.9 million (previous year CHF -5.9 million).

DEVK Allgemeine Versicherungs-AG has increased its premium receipts from reinsurance business to € 36.3 million (previous year € 35.1 million). This was exclusively due to intra-Group acquisitions in the motor vehicle, building and rent insurance segments.

DEVK Krankenversicherungs-AG also took on small volumes of intra-Group foreign travel health insurance.

SADA Assurances S.A.

SADA Assurances S.A., which has its headquarters in Nîmes, France, conducts non-life and accident insurance business. It holds equity to a value of € 51.8 million. In 2018, the gross premiums written rose by 4.8 % to € 148.1 million (previous year € 141.3 million). The domestic annual report discloses a net profit of € 8.3 million (previous year € 7.7 million).

Underwriting result net of reinsurance, life and health insurance

In the year under review, gross premiums written declined by € 17.1 million to € 559.4 million (previous year € 576.5 million).

At € 232.9 million, gross income from investments was significantly down on that in the previous year (€ 268.4 million). The reason in particular for this was a fall in income from other investments (€ -15.4 million) and significantly lower gains on the realisation of investments (€ -14.3 million). The income from write-ups was also down on the previous period at € 0.8 million (previous year € 5.5).

The net capital income fell to € 188.3 million (previous year € 254.2 million). Alongside the previously mentioned decrease in investment income, this was also due to a significant rise in write-downs on investments.

Claims expenses net of reinsurance totalled € 379.9 million (previous year € 334.7 million). The DEVK Allgemeine Lebensversicherungs-AG cancellation rate improved to 5.15 % (previous year 5.26 %).

Due to falling acquisition costs, the net operating expenses fell 8.2 % to € 73.3 million.

A total of € 44.2 million (previous year € 68.7 million) was allocated to the provision for bonuses and rebates, representing 8.0 % (previous year 11.8 %) of gross premiums earned.

Technical pension fund result

The gross premiums written rose by € 8.0 million to € 142.3 million by the end of the year (previous year € 134.3 million). This represented a rise of 6.0 % as compared with the previous year. This development was in line with expectations.

Claims expenses fell during 2018 and stood at € 22.6 million, which was significantly down on the previous year figure of € 25.8 million. The cause of the reduction was the loss of special effects during this financial year. In 2018, around 60 % of pension recipients utilised the option of a partial lump-sum payout of up to 30 % with the annuity transition.

The pension fund operating expenses came to € 3.1 million (previous year € 2.9 million). Of this amount, € 1.3 million was attributable to acquisition costs (previous year € 1.6 million).

The net investment result in the year under review came to € 23.0 million (previous year € 25.0 million), and therefore declined somewhat more heavily than expected. The fall resulted from an increase in extraordinary losses and a restructuring of customer funds. The restructuring of customer funds resulted in lower fund yields, but higher extraordinary gains. In 2018 the net interest rate fell overall to 2.9 % (previous year 3.7 %), intensified by the anticipated rise in the investment volume, and therefore more heavily than expected.

Bonus and rebate expenses came to € 7.3 million (previous year € 9.7 million).

Non-technical account investment income

At € 302.6 million, investment income was up on the previous year's figure (€ 279.6 million). Also included were € 35.2 million in profits from disposals of investments (previous year € 28.6 million), as well as € 3.3 million in write-ups (previous year € 8.2 million).

At € 140.7 million, investment expenses were significantly higher than in the previous year (€ 78.0 million). Write-downs on investments rose to € 94.2 million (previous year € 35.9 million), as did administrative costs, to € 42.5 million (previous year € 36.8 million). Losses from disposals of investments fell to € 4.0 million (€ 5.2 million in the previous year).

On balance, our net investment income was significantly down on the previous year's figure at € 161.9 million (previous year € 201.6 million).

Other result

The "Other" result, including the technical interest income, came to € -114.3 million (previous year € -93.1 million). This was a consequence in particular of rising pension costs.

Profit from ordinary activities

Due to the higher technical result in the field of non-life and accident insurance as well as life and health insurance, the result from ordinary activities improved to € 191.4 million (previous year € 148.1 million).

Operating result and appropriation of retained earnings

After very high tax expenditure in comparison to previous years, the net profit for the year stood at € 82.2 million (previous year € 71.0 million).

After an allocation of € 25.6 million to the retained earnings and after deduction of the € 17.8 million portion of the result due to other shareholders, the net retained profit came to € 38.8 million (previous year € 37.2 million).

Group financial position

Cash flow

Availability of the liquidity necessary to meet regular payment obligations is ensured through ongoing liquidity planning, which takes into account prospective liquidity movements over the coming twelve months. The Group receives a continuous influx of liquid funds in the form of regular premium receipts, investment income and return flows from investments of capital. The cash flow statement was prepared according to the provisions of DRS 21. The statement indicates that the cash flow from investment activities in the financial year, in other words the funds required for the net investment volume, amounted to € 102.7 million. The necessary funds were gained both from our ongoing operations (€ 55.8 million) and from financing activities (€ 86.9 million).

Ratings

Each year the internationally renowned rating agencies S&P Global Ratings and Fitch evaluate the financial performance and security of DEVK.

S&P Global Ratings last renewed its rating in August 2018. As in the years 2008 to 2017, DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Allgemeine Versicherungs-AG, DEVK Allgemeine Lebensversicherungs-AG and DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE were once again all assigned a rating of "A+" (very good). S&P Global Ratings assesses our future outlook as "stable". This confirms the very good financial position enjoyed by the DEVK companies.

Meanwhile, the rating agency Fitch came to the same conclusion, with its August 2018 rating of the financial strength of DEVK's core companies remaining unaltered at "A+". The companies rated were DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE, DEVK Allgemeine Versicherungs-AG, DEVK Rechtsschutz-Versicherungs-AG, DEVK Krankenversicherungs-AG and the two life assurance companies DEVK Lebensversicherungsverein a.G. and DEVK Allgemeine Lebensversicherungs-AG. The outlook for all our companies remains "stable".

Echo Rückversicherungs-AG is also rated by S&P Global Ratings and Fitch. Both agencies rate the company as A–, with a stable outlook.

Financial position

	Financial year € 000s	Previous year € 000s	Change € 000s
Investments	13,014,293	12,374,609	639,684
Investments in unit-linked life assurance	199,839	168,500	31,339
Assets for the benefit and at the risk of employees and employers	264,788	293,131	-28,343
Receivables arising out of direct insurance operations, pension fund business and reinsurance business	138,863	129,165	9,698
Other assets	561,788	606,577	-44,789
Total assets	**14,179,570**	13,571,982	607,588
Equity	2,039,410	1,964,987	74,422
- of which other shareholders share T€ 341,696 (previous year T€ 271,595)			
Technical provisions	8,506,561	8,279,675	226,886
Unit-linked life insurance technical provisions	199,839	168,500	31,339
Technical pension fund provisions	829,251	711,162	118,089
Technical pension fund provisions to cover assets for the benefit and risk of employees and employers	264,788	293,131	-28,343
Liabilities arising out of direct insurance operations, pension fund business and reinsurance business, including deposits	698,789	756,736	-57,947
Other liabilities	1,640,932	1,397,790	243,143
Total capital	**14,179,570**	13,571,982	607,588

In the breakdown of the investment portfolio, the percentage attributable to the item “Deposits with ceding companies” fell from 1.3 % to 0.6 %. The reason for this was an mutual termination of the reinsurance contract between DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE and DEVK Lebensversicherungsverein a.G. There have been no other material changes of any significance.

Receivables arising out of reinsurance operations amounting to € 65.0 million relate to various domestic and international reinsurers.

Non-financial performance indicators

Customer satisfaction

Customer satisfaction is the highest strategic goal for DEVK. DEVK therefore analyses the satisfaction of its customers on an annual basis. The findings are based on an insurance market study which uses a points scale to measure customers' satisfaction with 23 top service insurers in Germany. This enables us to measure developments over time and as compared with our competitors in graphic form. In terms of overall customer satisfaction, DEVK currently occupies 3rd place. The aim of DEVK over the coming years is to achieve first place for customer satisfaction.

Customer satisfaction index	2017	2018
Actual	737 points	746 points
Target	740 points	740 points

The target set for 2019 is 749 points.

Employee satisfaction

At DEVK, the opinion of our employees is important to us. The satisfaction of employees with their working environment, as well as their managers, colleagues, the work assigned to them and the corporate culture is central to employer appeal.

In 2018, the company-wide survey of DEVK back office and employed field sales personnel took place for the fourth time. At 81 %, the participation rate was once again above average. The results show that DEVK sits at a good level on the "commitment and enthusiasm" index. The loyalty of DEVK employees is highly pronounced and lies well above the benchmark. A company-wide short survey will take place again in 2019.

Employee satisfaction index	2017	2018
Actual	773 points	775 points
Target	790 points	775 points

The target set for 2019 is 777 points.

Sustainability report[1]

The sustainability report required under the CSR Directive Implementation Act will be published by 30 April 2019 on the DEVK website (www.devk.de).

Social responsibility[1]

DEVK is aware of its social responsibility as a successful insurer. For many years, we have taken on an above-average number of trainees by industry comparison in both back office and sales/marketing roles, with a current trainee ratio of approximately 8 %. Furthermore, prior to possible professional training at DEVK, every year at our headquarters alone we offer the opportunity of work experience to around 50 school-age young people that assists them in deciding what their future career paths might be.

DEVK actively encourages the social commitment of its personnel with so-called Days of Action. In 2018, DEVK employees once again worked hard to provide support to children's nurseries, as well as homes for young people and senior citizens. Over the last five years, over 550 colleagues from back office and field sales areas have dedicated a total of 4,400 working hours over 25 Days of Action to work for good causes. In 2019, DEVK employees will once again be rolling up their sleeves. DEVK releases the colleagues from their work for one day and provides financial support to the activities.

Personnel and sales staff numbers

Personnel are employed by DEVK Sach- und HUK-Versicherungsverein a.G. on the basis of joint contracts and service contracts, whereby they also work for DEVK subsidiary companies. In cases where staff work for both DEVK Sach- und HUK-Versicherungsverein a.G. and DEVK Lebensversicherungsverein a.G., this takes place within the ambit of dual employment contracts. As such, no services are rendered between the two companies.

The company employed an average of 2,954 people internally in 2018, of whom 2,922 had their contracts of employment with DEVK Sach- und HUK-Versicherungsverein a.G. Employees with dual employment contracts are assigned to a given company on the basis of the predominant contractual share. These figures do not include any inactive employment contracts, while part-time employees are recorded as full-time equivalents on the basis of their working hours.

At the end of the year, 1,830 self-employed personnel worked for DEVK (previous year 1,971), on top of which 576 field sales agents were directly employed by DEVK Sach- und HUK-Versicherungsverein a.G. (previous year 573). However, the entire field sales force also operates on behalf of the various other DEVK companies.

A central focus at DEVK is to identify promising employees, and to retain and support them. As such, in 2018 DEVK once again successfully concurrently implemented or initiated a number of development programmes for various target groups. Through the inter-sectoral "Cross-Mentoring Programme" run by Cologne-based enterprises, DEVK supports women with outstanding leadership potential. With the "Förderkreis Talente" (talent support group), young employees undergo two years of intensive training through a wide range of methods to enhance their personal, social and management skills. For the first time, DEVK has also appealed specifically to the 55+ target group with appropriate offers through the "Generations" initiative. Within the framework of a field sales series of initiatives, successful agency representatives benefit from preparation for agency management roles.[1]

For many employees reconciling work and family life poses a great challenge. Here at DEVK, we offer employees alternative solutions tailored to their personal situations and support them with a broad-based range of measures.[1]

Overall verdict on the management report

All in all, the Group's net assets, financial position and results of operations developed in a satisfactory manner throughout 2018.

Outlook, opportunities and risks

Outlook

In 2019, DEVK anticipates comparatively volatile capital markets and the continued existence of risks to economic development. The ongoing political risks in the field of trade and punitive tariffs between the USA and China, as well as the USA and the EU, play just as important a role as the exit of the UK from the European Union and the political development in Italy. A critical factor for Italy is the further increase in the national debt, given the non-conformance with the original budget plan agreed with the EU. In the Euro Zone, but also globally (e.g. in China), there remains a risk of a further weakening of economic development, which began in the third quarter of 2018.

Given the rising economic woes and unchanged low inflation rates in the Euroland, we presently anticipate no sustained increase in the interest rate level in the coming year. Although an initial increase in the interest rate by the ECB cannot be ruled out in 2019 or at least in 2020, this is likely to be relatively low to avoid a negative impact on the economy insofar as possible. A development comparable with that on the US interest market (10-year US government bonds at 2.7 % at the end of 2018, compared with 10-year federal government bonds at 0.2 %) currently appears very unlikely in the short-term. The picture may be somewhat different with corporate bonds and bonds from debtors with low credit ratings. Here, the spreads could certainly witness further increases. According to market consensus, in 2019 the Fed is now only anticipating one or perhaps even no further increase in the interest rate rather than the three to four further 0.25 percentage point interest rate rises calculated in the third quarter of 2018, depending on the development of inflation and the economy in 2019. The interest escalation cycle in the USA is therefore expected to weaken and may already be at an end. As in 2018, we consider further rising risk surcharges for corporate bonds to be a possibility in the near future. Based on current information in 2019, in addition to economic risks it is also necessary to note that the ECB bond-buying program as a support for corporate bonds will no longer apply.

With regards to the economic situation in the USA and the Euroland, the economic framework data has ultimately further deteriorated. Although the economy continues to follow a stable course, early indicators such as the ISM Purchasing Managers Index in the USA and the IFO Business Climate Index in Germany point to a significant weakening of the growth dynamic. The company results have also weakened slightly overall, and the outlooks have become bleaker. For the UK, major question marks still surround the form, manner and time point of the EU exit. The IMF predicts a downturn in GDP for the UK of up to 4 % in the case of a "hard Brexit". According to Bloomberg, economic forecasts for 2019 indicate a weakening of global economic growth in comparison to the previous year (3.5 % following on from 3.7 %). All in all, uncertainty regarding the further development of the capital markets in 2019 is very high.

As regards the global economy and the development of the capital markets, future economic policy in the USA – after an upturn now lasting for over eight years – and in China (the trade dispute with the USA, and in particular also domestic demand and corporate debt are noteworthy here) will play a significant role from the perspective of DEVK. In addition to this, in Europe the most important factors – at the time of reporting – are the complete uncertainty surrounding the outcome of the Brexit process, political and economic development in Italy, a possible toughening of the ECB's monetary policy, as well as further electoral successes of populist political parties.

Non-life and accident insurance

We anticipate increases of around 5 % in the Group's premium receipts from non-life and accident insurance operations. Alongside our domestic direct business, the active reinsurance operations of DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE in particular can be expected to contribute to this growth. Accordingly, after changes to the equalisation provision, we expect the technical account to yield a profit in the order of € 40 million to € 50 million.

Life assurance

In the 2019 financial year, the difficult competitive situation, marked by low interest rates and the effects of the Insurance Distribution Directive (IDD), poses the principal challenges for DEVK Allgemeine Lebensversicherungs-AG. Contrary to the current trends among many of our competitors, in this demanding milieu DEVK Allgemeine Lebensversicherungs-AG will not be selling off any of its life insurance portfolio. Thus DEVK Allgemeine Lebensversicherungs-AG will continue to fulfil all ongoing contracts.

An evaluation of the Life Insurance Reform Act (LVRG) from 2014 took place in 2018. The possible effects of a statutory premium cap for the 2019 financial year cannot be estimated at the present time.

Germany's economy is once again expected to experience moderate growth. Accordingly, the economic circumstances of the population, which are so important in determining demand for insurance products, should remain favourable in 2019.

The Act to Strengthen Occupational Pensions (BRSG), which came into force on 1 January 2018, is designed to boost occupational pension provision and extend it more widely to small and medium-sized enterprises. One measure arising from it is the introduction of a statutory employer contribution for deferred compensation. This applies to all newly concluded contracts from 1 January 2019. The contribution only becomes mandatory for old contracts from 2022. However, it remains to be seen what impact this will have on the premium volume and new policies.

In the 2019 financial year, our company will further complement the product range with respect to pension schemes and capital generation. The introduction of a newly designed unit-linked pension insurance scheme is planned for 2019. With this, the customer will have the option of including multiple classical supplementary insurances (e.g. for protection against biometric risks). Furthermore, this offers a renewed fund selection.

The number of premature contract terminations (cancellations) at DEVK Allgemeine Lebensversicherungs-AG is expected to rise.

DEVK Allgemeine Lebensversicherungs-AG shows continuing profit sharing which is above the level in the previous year for the first time after eleven years. With this, our company has developed against the industry trend. Moreover, for many policies DEVK Allgemeine Lebensversicherungs-AG is raising the final bonus shares payable in 2019.

During the 2019 financial year, we are expecting a similar level of premium receipts. The portfolio will continue to diminish slightly in terms of policy numbers - similarly to in previous years - due to the continuing high level of maturities and redemptions. New business is not expected to fully offset this.

On the investment front, despite further slight to moderate increases in the investment portfolio in 2019, the interest rates mean that we expect DEVK Allgemeine Lebensversicherungs-AG to register a current result slightly below the level in the previous year. However, we anticipate an almost unchanged investment result, in view of which the 2019 net interest rate should come in moderately lower than the 2018 level.

DEVK Allgemeine Lebensversicherungs-AG's net profit for the year 2019 is expected to stand at around the level in the previous year.

Health insurance

Supplementary health insurance has been and remains a central and growing line of business for us. In this field, we still face the need to adjust to more intense competition, which we are addressing via corresponding sales and marketing activities. For 2019 we are forecasting total premium receipts of € 99.5 million. In the case of expenses for claims incurred, net of reinsurance (paid and deferred, including claims settlement expenses), we anticipate a rise to around € 64.5 million, a sum which also includes an increase in the claims reserve.

In 2019, no-claims bonuses on the policy AM-V are expected to be much the same as in 2018.

Of the € 39.2 million provision for bonuses and rebates available on 31 December 2018, € 24.8 million has been earmarked for the limiting of premium adjustments on 1 January 2019 and for the reduction of the premiums paid by older policyholders.

Our mid-term planning is based on the assumption that we will be able to maintain our growth and profitability in the years to come.

In 2019, we expect DEVK Krankenversicherungs-AG to register an absolute result well below the level in the previous year, despite moderate increases in the investment portfolio. This is due to lower than expected write-downs because we do not anticipate the same negative development in equities in 2019 as in 2018. Moreover, in our view, the low interest rates available on new assets and repeat investments will lead to a further slight reduction in the absolute current percentage yields attracted by our investments.

Our objective for the coming years is to maintain the profit transfers at their current level.

Pension fund business

Although the Act to Strengthen Occupational Pensions introduced on 1 January 2018 did not significantly affect our business activities, the occupational pension provision market continues to offer stable sales opportunities, in particular also for DEVK pension funds.

Due to the high product flexibility and market-oriented adjustment of our pension plans, we also expect an expansion of our business in our principal customer segment in the future.

In the upcoming years we expect new business to remain at a positive level, above that in the previous year. As in prior years, this will chiefly result from Deutsche Bahn AG's occupational pension scheme in line with the collective bargaining agreement.

It can be assumed that the premium receipts for 2019 will exceed those in the previous year. The basis for this is the new business generated by Deutsche Bahn AG (new hires and new tariff rules).

In 2019 we expect DEVK Pensionsfonds-AG to register a considerably higher absolute result on a significantly growing investment portfolio. Due to the low interest rates on new assets and repeat investments in comparison to the interest rate on the existing portfolio, we are only forecasting a slight net interest rate rise for 2019.

During the coming year, we will be looking to build on the satisfactory result registered in 2018.

Non-technical account

In the Group's non-technical account, we anticipate a net 2019 investment result above the figure in the previous year (€ 161.9 million). A precondition for this is a fall in write-downs.

The Other result is held back by rising retirement pension costs. Furthermore, in 2019 it is not anticipated that interest income from tax returns will reach the levels in 2018.

Profit from ordinary activities

We expect the overall 2019 profit from ordinary activities to register a marked decline from the previous year figure (€ 191.4 million).

Opportunities report

Opportunities to achieve growth which outstrips the average levels achieved by our competitors are generated if customer demands for quality, service and transparency at attractive prices are met in full measure.

We are available for our customers throughout Germany via our sales network, our regional management units and our headquarters, both by telephone and face-to-face. Communication takes place through all available media. The internet is of ever-growing importance here, and we are well positioned in this respect thanks to the continuous revision and upgrading of our presence.

Through the continuous optimisation of our processes, we ensure that we can execute our business effectively and efficiently.

Thanks to the interplay of competitive products, good service and our efficient sales operation, we view ourselves as very well placed to compete effectively.[1]

The fact that the Group companies are part of an insurance group which offers wide-ranging insurance cover in the private customer segment opens up opportunities to benefit from cross-sectoral synergies.

Additional sales opportunities in the transport industry will arise through the recruitment drive of Deutsche Bahn.

In the field of investments, we see not only risks but also opportunities in 2019, in particular in real values such as equities and real estate. With agreements on the topics of global trade relations, the exit of the UK from the EU (Brexit), and the debt problem in Italy, as well as electoral results with gains by parties from the centre, equity and real estate values could therefore increase.

At the beginning of 2019, the mood on the capital markets is characterised by a high level of uncertainty with a corresponding negative mood and a propensity to hold high levels of liquid assets among many institutional investors. An improvement in the mood could therefore lead to a rise in equities in particular. With the majority of economists predicting a positive cyclical environment it is likely that secure investments such as federal bonds will decrease in value. However, if these instruments are held to maturity, this will not have a negative influence on the profit situation of DEVK due to their non-permanent decline in value. In contrast, rising interest rates would have a marked positive effect on the interest returns on new and repeat investments. A (moderate) loss in the value of the Euro against other currencies also constitutes an opportunity for the investments of DEVK due to foreign currency gains.

Primary non-life and accident insurance

Our three-product-line approach (Active, Comfort and Premium cover) has been met with a very positive response.

In KUBUS, a comprehensive survey of the insurance market carried out in 2018, our customers rated the value for money we offer as “outstanding”.

Reinsurance business

Both the excellent market presence and acceptance of DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE were apparent from the renewals for 2019, with a markedly strong rise in the numbers of offers (+25%).

Surprisingly positive was the feedback from the USA and Canada, where a large number of mutuals established contact with DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE. We are anticipating tangible growth here in the coming years.

We also see further growth opportunities in the agricultural sector. In 2018 we were able to partially develop and expand our relationships in Europe and acquire a number of customers in North America.

Brexit also affords new business opportunities for us. Some of our European customers are avoiding British reinsurers and syndicates, and are increasingly turning to continental European reinsurers. Our good rating and the foundation of trust that we have developed in recent years make us a sought-after alternative.

Life assurance

In 2019, the development of the DEVK Allgemeine Lebensversicherungs-AG product range will focus on pension schemes and capital generation.

The existing product portfolio will be augmented in the 2019 financial year by a newly designed unit-linked pension insurance scheme. With the unit-linked pension insurance scheme, the customer will have the option of including multiple classical supplementary insurances (e.g. for protection against biometric risks).

The product is complemented by further flexibilities such as the adjustment of the pension start date to personal requirements. A highlight will be the three new fund concepts. These will ensure that the customer's investments can react flexibly to the widely varying market situations. This will be achieved through active investment management specially devised for DEVK. With this, the customer can also enjoy adequate profit opportunities in times of low interest rates, depending on their risk appetite. This will further enhance the attractiveness of our pension products in the 2019 financial year.

All in all, this product range means that DEVK Allgemeine Lebensversicherungs-AG is well positioned both to meet the requirements of Solvency II and to satisfy current market demands.

Health insurance

Our underwriting policy and reinsurance concept provide a sound foundation for the company's continuing solid growth.

Furthermore, the ongoing success of our cooperation with statutory health insurance schemes continues to offer major potential for forging new customer relationships, because we can offer members of these schemes products that meet their needs on highly favourable terms.

Pension fund business

Due to the increase in employer-financed occupation pension schemes in line with collective bargaining agreements, sectoral pension schemes continue to have high growth potential for us.

Our close links with Deutsche Bahn AG and the transport industry offer wide-ranging opportunities for the positive growth of our business.

DEVK Pensionsfonds-AG with its product range is well-equipped to cope with future market challenges.

Risk report

In accordance with section 289, paragraph 1 HGB and the requirements laid down in section 26 VAG concerning the minimum requirements for the business organisation of insurance companies (MaGo), we are hereby reporting the risks of future developments.

Risk management system

The board of an insurance company is responsible for appropriate risk management in accordance with section 26 paragraph 1 of the German Insurance Supervision Act (VAG). Within DEVK, the foundations for the risk management and the tasks and responsibilities are set out in the risk strategy and the Solvency II guidelines on risk management.

DEVK's risk management organisation is both centralised and decentralised at the same time. By "decentralised risk management", we mean the risk responsibility borne by individual departments. Thus, departmental and process managers are in charge of and responsible for risk management within their specific operational areas. The central risk management is provided by the Risk Management Function (RMF), with the support of risk management experts from the various individual departments. The RMF is responsible for the risk management methods and techniques employed and for the development and maintenance of the company-wide risk management system. It coordinates the company's risk management processes and supports those responsible for risk within individual departments.

Core elements for controlling the risks of DEVK are the risk-bearing capacity concept and the limit system. The risk-bearing capacity concept guarantees adequate coverage of all significant risks through the company's own funds. It serves to map and operationalise the risk appetite of the company. For this purpose, limit values are determined for the significant controllable risks ("market risk", "underwriting risk" and "default risk"), in order to safeguard the target coverage quota of the company for a predefined safety level. Through this, all controllable risks are assigned new maximum limits annually for the respective risk capital.

In order to operationalise risk controlling, a limit system is applied within DEVK as a monitoring system for prompt risk identification and evaluation. The limit capacity is portrayed in the form of risk ratios.

Additionally, a comprehensive risk inventory is compiled every six months, in which the risks are recorded and classified according to risk categories with the aid of a questionnaire. Wherever possible, the risks are quantified and the action necessary to manage the risks is recorded. Furthermore, risks are considered on an ad hoc basis, if these are significant.

With the aid of the risk-bearing capacity concept, limit system and risk inventory, we are able to react immediately and appropriately to developments that pose a risk to DEVK. The system's effectiveness and suitability are monitored by the Internal Auditing unit.

The decentralised risk session and the Risk Committee assess the risk situation faced by individual companies and by the Group as a whole on the basis of the risk report, taking into account all discernible significant risks, as well as the limit capacities and current risk drivers. Finally, the risk report is presented to the Management Board members responsible for the various risk areas as part of a Management Board submission. The risk report and its key risk management elements (identification, analysis, evaluation, controlling and monitoring) is updated on a quarterly basis.

Technical risks

Principal among the technical risks in **non-life and accident insurance** are the premium/claims risk and the reserves risk.

To this end, we first consider the movement of the claims ratio net of reinsurance over the past ten years.

Gross claims ratio net of reinsurance

Year	%	Year	%
2009	65.9	2014	66.4
2010	68.3	2015	70.1
2011	68.3	2016	69.5
2012	66.5	2017	70.7
2013	67.6	2018	69.6

The figures for DEVK Allgemeine Lebensversicherungs-AG are included in the above claims ratio table. The figures show that the range of fluctuation is low over the 10-year period considered here. Among other things, this is due to the fact that, in line with suitable acceptance guidelines and our signatory powers, we predominantly only underwrite standardised business. Where particularly large volumes of insurance are involved, we limit our risk through coinsurance or reinsurance contracts.

We ensure that we maintain technical reserves through the prudent valuation of claims already filed and by establishing additional reserves to meet claims that are statistically likely but have not yet been filed on the balance sheet date, as well as for claims that will have to be reopened after the balance sheet date. Thus, we take the reserve risk duly into account. This is also demonstrated by our settlement results for the past ten years.

Settlement result net of reinsurance as % of original provision

Year	%	Year	%
2009	9.3	2014	7.5
2010	11.6	2015	7.0
2011	9.9	2016	7.8
2012	9.3	2017	7.3
2013	9.6	2018	7.9

Our equalisation provisions provide an additional safety cushion that contributes to the smoothing of our underwriting results. As of 31 December 2018, their volume totalled € 424.1 million (previous year € 415.3 million).

DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE underwrites the **reinsurance business** of both DEVK and external companies. Within the framework of suitable acceptance guidelines and signatory powers, the company predominantly only underwrites standardised business. The risk of unusually high claims expenses due to extraordinary loss events is counteracted through a corresponding retrocession policy.

The technical risks prevailing in **life assurance** are biometric risk, cost risk, cancellation risk and interest guarantee risk.

Biometric risk lies in the fact that the accounting principles used to determine premium rates, for instance the probabilities of death or invalidity, change over time. In the opinion of the actuary in charge of them, the probability tables used for the portfolio, together with the top-up amounts for supplementary pension and occupational incapacity insurance premium reserves, and also the probability tables used for our new business, include adequate safety margins.

The cancellation risk lies in the fact that the cancellation behaviour of policyholders has changed significantly. Our analyses indicate that the cancellation result does not entail any increase in risk, and no negative consequences are to be expected from it.

The cost risk lies in the fact that the actual costs may exceed the costs assumed for accounting purposes. DEVK prepares regular projections of the cost result, and takes suitable action as and when necessary.

The interest guarantee risk in life assurance is due to the fact that the annual interest rates guaranteed when concluding contracts may prove to be higher than the long-term market returns. Our net interest rate in recent years has always been higher than the mean technical interest rate of our life assurance portfolios. However, due to the low interest environment the interest guarantee risk has risen markedly. Accordingly, pursuant to section 5 paragraph 4 of the Premium Reserve Regulation (DeckRV), a supplementary interest reserve has been in place since 2011, based on a specified reference interest rate. The purpose of the regulation is to ensure that life insurance companies take timely steps to strengthen their premium reserves in times of low interest through the formation of a supplementary interest reserve. With the regulation to amend the Premium Reserve Regulation from 10 October 2018, the so-called corridor method was introduced for calculating the reference interest rate. According to this method, the reference interest rate for the 2018 financial year is 2.09 %. For the portfolio of existing policies, the interest rate was set at 2.05 %. Accordingly, as of 31 December 2018 a supplementary interest reserve in the amount of € 391.7 million was formed for policies with a guaranteed interest rate of 2.25 % or more. According to the old method, the reference interest rate for the 2018 financial year is 1.88 %. Calculated on the basis of this reference interest rate, the supplementary interest reserve is € 483 million. The corridor method therefore gives relief with the establishment of the supplementary interest reserve of € 91 million. The corridor method also delivers significant relief in subsequent years with the establishment of the supplementary interest reserve. We are assuming a reference interest rate of 2.00 % as of 31 December 2019. This would entail a prospective 2019 allocation to the supplementary interest reserve of € 20 million. In both the short and mid-term, adequate buffers are available to finance the technical interest rate and the establishment of the supplementary interest reserve. The corridor method significantly reduces the risk that our regular investment income will no longer be capable of financing the technical interest rate and the cost of maintaining the supplementary interest reserve. We counter the remaining risk through wide diversification of investments across different asset classes (e.g. real estate and infrastructure), regions and maturity bands, as well the steady extension of biometric products.

Through careful product development and continuous actuarial trend analyses, we ensure that the accounting principles applied are suitable and factor in adequate safety margins. In addition, undesirably large fluctuations in our risk results are forestalled through a corresponding reinsurance policy. Furthermore, the unallocated portion of the premium refunds provision provides additional smoothing and stabilisation potential.

The chief technical risks in relation to **health insurance** are risk of changes, risk of error, risk of random fluctuation and interest rate risk.

Risk of changes mainly lies in the risk that the basis on which premiums are calculated changes due to healthcare developments leading to more frequent benefit claims by policyholders or to changes in customer behaviour.

Risk of error lies in the risk of erroneous risk assessment when initially calculating the premium which cannot be corrected by subsequent premium adjustments.

Random fluctuation risk is the risk of claims expenses being higher than expected or calculated, due to chance events.

We counteract the above-mentioned risks through comprehensive working guidelines and continuous training of our employees. Our planning and management instruments enable us to identify undesirable operational, portfolio and claims trends at an early stage and take any necessary action to counteract them. Payments and undertakings are subject to strict regulations concerning authorisation and entitlements, compliance with which is monitored via a multi-stage random sampling process.

Furthermore, through painstaking product development and continuous actuarial trend analyses, we ensure that the accounting principles applied are suitable and factor in adequate safety margins. On top of this, all our general insurance terms and conditions incorporate a premium adjustment clause whereby premiums can be adjusted in the event of changing claims expenses.

In addition, undesirably large fluctuations in the risk results are forestalled through suitable reinsurance contracts.

The interest risk is due to the fact that the technical interest rate agreed when concluding contracts may prove to be higher than the long-term market returns we can achieve. The mean company-specific technical interest rate (MTIR) applied was slightly above the net interest rate for the first time during this financial year. However, in the coming financial year it is likely that the net interest rate will once again lie above the MTIR. Furthermore, sufficient income from the risk result is available to compensate for an interest loss. A technical interest rate ranging from 2.10 % to 2.75 % has been assumed in relation to new business. As of 31 December 2018 the MTIR stood at 2.591 % (previous year 2.859 %).

Technical pension fund risks

The technical pension fund risks chiefly comprise the biometric risk, the interest guarantee risk (minimum benefits) and the cost risk.

The biometric risk exists due to the fact that the accounting principles used to determine premium rates for pension schemes – for instance, the probability of death – change over time.

Since 2014 additional biometric reserves have been set aside to strengthen the safety margin for ongoing benefits.

For newly commencing benefits, we have made the transition to mortality tables incorporating greater safety margins in order to also adequately account for future longevity risk. This transition was conducted in consultation with the Federal Financial Supervisory Authority (BaFin) and with the consent of an independent trustee. Our current view is that the probability tables we otherwise use incorporate adequate safety margins.

Since 21 December 2012, biometric risk has continued to be influenced by the European Court of Justice's gender neutrality ruling, which means that the portfolio's gender composition (composition ratio) has become a calculation parameter requiring continuous monitoring. This gender composition ratio has been selected with care, is monitored regularly and in the view of the actuary in charge it incorporates adequate safety margins.

The interest guarantee risk arises from the possibility of the (minimum) benefits enshrined in the pension plans no longer being financeable due to very low interest rates.

Pursuant to section 23 paragraph 3 of the German Pension Fund Supervision Regulation (PFAV), a supplementary interest reserve was formed in 2018, based on the specified reference interest rate. As of 31 December 2018, the applicable reference interest rate was 2.09 %. Accordingly, the supplementary interest reserve was formed for policies with a guaranteed interest rate of at least 2.25 %. Formally, the requirement to form a supplementary interest reserve applies equally to present and future pension entitlements. However, currently the formation of a supplementary interest reserve is only necessary in relation to those presently drawing pensions. Over the coming years, we expect this supplementary interest reserve to increase markedly in size, even if market interest rates rise.

At the present time, the safety margins in this respect are adequate. We assume based on current trends that this margin will also remain sufficient in future.

A further point to note is that the higher investment results achieved in some cases, both this year and in previous years, mean that the unallocated portion of the premium refunds provision represents an additional buffer in this respect.

Through careful product development and continuous actuarial trend analyses, we ensure that the accounting principles applied are suitable and factor in adequate safety margins. Furthermore, the unallocated portion of the premium refunds provision provides additional smoothing and stabilisation potential.

The cost risk lies in the fact that the actual costs may exceed the costs assumed for accounting purposes. In the case of policies still in the vesting period, due to the contractual provisions it can be assumed that it will be possible in the long term to cover the actual costs.

In the case of older policies on which pensions are currently being paid, additional reserves have been set aside since 2013. All in all, it can be assumed that sufficient revenue will be generated in the long term from policies with ongoing pension payments. DEVK Pensionsfonds-AG's cost situation will continue to be closely monitored and analysed in future.

Risk of defaults by debtors arising from our insurance operations

The risk of defaults by debtors from insurance operations arises from the primary insurance of claims against policyholders and intermediaries as well as from reinsurance underwritten for ceding companies and retrocessionaires.

Over the review period of the past three years, our overdue debts from insurance business averaged 3.3 % of booked gross premiums. Of these, an average of 5.1 % had to be written off. In relation to the booked gross premiums, the average default rate over the past three years was 0.2 %. Accordingly, default risk is of minimal importance for our Group.

As of the balance sheet date, insurance business debts with a maturity of over 90 days totalled € 11.0 million (previous year € 14.2 million).

The accounts receivable from the active and passive reinsurance operations amounted to € 65.0 million at the end of the year, of which € 6.7 million was attributable to outward reinsurance operations. The following table sets out the receivables from outward reinsurance operations, broken down according to rating categories.

Rating category	Receivables in € millions
AA-	1.02
A+	2.53
A	0.88
B+	0.04
No rating	2.26

Investment risks

The risks stemming from investments comprise:
- the risk of unfavourable interest rate, equity price, real estate value or exchange rate movements (market price risks),
- counterparty default risk (credit risk),
- the risk of strongly correlated risks that in turn increase counterparty risk (concentration risk),
- liquidity risk; that is the risk of not always being able to meet payment obligations.

Since 1 January 2017, the internal investments catalogue has prescribed the decisive framework conditions for our investment policies. We counteract exchange/market price risk and interest rate risk by maintaining a balanced mix of investment types. Active portfolio management allows us to exploit opportunities arising from market movements to improve our results. Furthermore, we limit credit risk and concentration risk by imposing very stringent rating requirements and continually monitoring the issuers we select, thus avoiding any potentially ruinous dependence on individual debtors. We ensure a continuous influx of liquidity by maintaining a portfolio of interest-bearing investments with a balanced maturity structure. An ongoing ALM (Asset-Liability Management) process ensures that we are able at all times to meet existing and future obligations.

At the end of 2018, the following measures were in place to hedge against investment risks:
- Flexible management of the investment ratios, in particular in the special equity funds, for instance via index futures and volatility futures,
- Currency-matched refinancing in the field of indirect real estate investments,
- Hedging against currency risks via forward contracts,
- Duration extension via interest rate swaps and the use of bond forward purchases,
- Adjustment of equity risks via options trading,
- Partial hedging of the default risk of Italian and Spanish government bonds via CDS contracts.

Liquidity risks are managed by detailed multi-year investment planning. Should a liquidity shortfall arise in future, countermeasures can be taken at an early stage. Moreover, in order to improve our assessment of liquidity risks, stress scenarios in line with Solvency II stresses are applied and evaluated. On top of this, our investments are allocated to various different liquidity classes. These are assigned lower limits in relation to the investment portfolio which they must not fall below. Compliance with these limits is regularly monitored.

Interest-bearing investments

As of 31 December 2018, the Group held interest-bearing investments to a total value of € 9.7 billion. A total of € 5.2 billion of these investments are in bearer instruments (including the pure pension funds), which could be subject to write-downs if interest rates rise. Of these bearer instruments, pursuant to section 341b paragraph 2 HGB we have assigned a volume of € 4.7 billion to the fixed assets since we intend to hold these papers until maturity and their current market fluctuations are viewed as temporary. Should this second assessment in particular prove wide of the mark, we shall undertake the necessary write-downs in a timely fashion. These investments exhibit a positive valuation reserve of € 418.6 million. This includes hidden liabilities totalling € 39.3 million. A change in returns of up to +/- 1 % points would entail a corresponding value change up to approx € -867.4 million or € 990.7 million.

This intimated impact of a one percentage point interest rate rise only gives an approximate idea of its potential impact on our profitability. This is because, over the course of a year, the diminishing time to maturity of the individual securities will lead to changes in their market value and interest rate sensitivity. Moreover, the bulk of our interest-bearing investments are in bearer bonds or bonds recognised on the balance sheet at their nominal values. In these cases, under the prevailing accounting regulations an increase in the market interest rate does not lead to write-downs. Further to this, the securities currently include hidden reserves which will be reduced in the near future. The exception to this is losses of value due to deteriorating credit ratings that may affect the issuers in question.

Apart from real estate financing and policy loans, which in total represent a 5.7 % share of our overall investments, our interest-bearing investments are predominantly in Pfandbriefe (German covered bonds) and bank bonds. We also invested 16.5 % in corporate bonds. At the end of 2018 there were no investments in asset-backed securities. In 2018 our bond investments focused on international bearer bonds issued by banks and companies, as well as government bonds and government-related bonds. Our pension investments in particular largely involve bearer papers, assigned to the fixed assets, and also registered papers.

We have minor investment exposure to certain countries which remain under the microscope – namely Portugal, Italy, Ireland and Spain. Turning to issuer risks, as proportions of our total investments 11.9 % of the Group's investments are in government bonds, 16.5 % in corporate bonds and 41.0 % in securities and deposits with banks and other financial service providers. The bulk of our investments in banks is either covered by various statutory and private deposit protection schemes or involves interest-bearing securities that are protected in law by special guarantee funds.

The ratings of the issuers of our interest-bearing investments break down as follows (previous year):

AA or better	56.4 %	(54.8 %)
A	24.5 %	(24.8 %)
BBB	16.6 %	(17.6 %)
BB or worse	2.4 %	(2.8 %)

The Group's rating distribution remains much the same as it was last year. We shall continue to make virtually all our new and repeat investments in interest-bearing securities with strong credit ratings.

Equity investments

The bulk of our equity investment is in DAX and EuroStoxx50 companies, as a result of which our portfolio's performance very closely matches that of these indices. A 20.0 % change in market prices would alter the value of our equity portfolio by € 216.9 million. Both German and European share indices witnessed negative development during 2018. In the mid-term, we continue to expect positive development, albeit with high levels of volatility in some cases. We have applied a value protection model to our equity investments in order to limit exchange risks. Should growing economic problems lead to a significant downturn, various courses of action are open to us. In light of the uncertain economic situation, we actively managed our ratio of equity investments throughout the year.

The fixed-asset equities and equity funds show a negative valuation reserve of € 7.0 million. This includes hidden liabilities totalling € 19.3 million.

Real estate

On the balance sheet date, our real-estate investments totalled € 1,555.7 million. Of this total, a sum of € 380.2 million is invested in indirect mandates, including restricted special funds in office and other commercial real estate.

Our consolidated direct holdings worth € 1,175.6 million are subject to scheduled annual depreciation of approximately € 20.7 million. No significant individual risks are currently discernible in connection with these real estate holdings.

Operational risks

Operational risks may stem from inadequate or failed operational processes, the break- down of technical systems, external variables, employee-related incidents and changes in the legal framework conditions. Effective management of the operational risks is ensured through the careful structuring of the internal monitoring system. In addition to this, the main focus of the half-yearly risk inventory is on operational risks. The appropriateness and efficacy of in-house controls are monitored by the Internal Auditing unit.

DEVK's operating procedures are based on internal guidelines. The risk of employee-related incidents is limited via regulations governing authorisation and powers of representation, as well as wide-ranging automated backup for operating procedures.

Access controls and preventive measures are in place in the IT division to ensure the security and integrity of programs, data and ongoing operations. The IT infrastructure is redundant by design in order to cater for a catastrophic breakdown scenario. Restart tests are conducted regularly. Links between internal and external networks are suitably protected by state-of-the-art systems.

The emergency management is founded on corporate emergency analysis. This describes the objectives and framework conditions for precautionary measures against emergencies and how to overcome them if they occur.

Legal risks are also included in the operational risks. DEVK has established a compliance management system designed to ensure compliance with both external requirements and internal guidelines.

Solvency II

With the entry into force of Solvency II on 1 January 2016, the insurance industry has undergone radical changes to its supervisory regime. Implementation of the full requirements of Solvency II became part of regular operations in 2018. The shortening of the reporting deadlines per Solvency II proved to be a major challenge in 2018 and required the further optimisation of processes. Furthermore, in 2018 the risk-bearing capacity concept based on Solvency II and the Solvency II materiality concept were further developed with consideration to the minimum requirements on the business organisation of insurance companies (MaGo).

The DEVK Group solvency calculation required by supervisory law, which also includes DEVK Lebensversicherungsverein a.G., is performed on the basis of a standard formula. With BaFin's approval, this was done for DEVK Lebensversicherungsverein a.G. and DEVK Allgemeine Lebensversicherungs-AG applying the volatility adjustment as well as the transitional measure permitted regarding technical provisions. All in all, the DEVK Group was found to have significant excess cover.

Summary of our risk status

We have complied with the supervisory requirements per Solvency II.[1]

Projections made in connection with the ORSA process have shown that sufficient risk capital cover is assured in both the present and the future.[1]

To sum up, currently there are no discernible developments that could lead to a significant impairment of the Group's net assets, financial position and results of operations and thus jeopardise its continuing existence.

Corporate governance statement[1]

In light of the Act Concerning the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector (Gesetz für die gleichberechtigte Teilhabe von Frauen and Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst), we have set target figures for increasing the proportion of women on the Supervisory Board, Executive Board and at the first and second leadership levels of DEVK Sach- und HUK-Versicherungsverein a.G. These apply for 30 June 2022. These target figures and the situation on the balance sheet date of 31 December 2018 can be found in the following table.

	Target 06/2022	Actual 12/2018
Supervisory Board	17 %	17 %
Management Board	17 %	0 %
1st middle management level	14 % - 18 %	15 %
2nd middle management level	20 % - 24 %	23 %

The actual quotas at the end of 2018 reflect the target quotas with the exception of the board level.

Cologne, 20 March 2019

The Management Board

Rüßmann **Burg** **Knaup** **Scheel** **Zens**

Notes to the Group management report

List of insurance classes covered during the financial year
Insurance class

Direct insurance operations

Life assurance

Health insurance

Accident insurance
General accident insurance
Motor vehicle accident insurance

Liability insurance

Motor vehicle liability insurance

Other motor vehicle insurance
Fully comprehensive motor insurance
Third-party, fire and theft insurance

Legal expenses insurance

Fire and non-life insurance
Fire insurance
Burglary and theft insurance
Water damage insurance
Glass insurance
Windstorm insurance
Household contents insurance
Homeowners' building insurance
Engineering insurance
Repair costs insurance
Universal caravan insurance
Extended coverage insurance
Business interruption insurance
Travel baggage insurance
All-risk insurance

Other insurance policies
Insurance against various financial losses
Bond insurance
Breakdown service insurance
Cheque card insurance
Guarantee insurance

Reinsurance coverage provided

Life assurance

Health insurance
Daily benefits insurance
Hospital daily benefits insurance
Travel health insurance

Accident insurance
General accident insurance
Motor vehicle accident insurance
Travel accident insurance

Liability insurance
General liability insurance
Pecuniary loss liability insurance
Travel liability insurance

Motor vehicle liability insurance

Other motor vehicle insurance
Fully comprehensive motor insurance
Third-party, fire and theft insurance

Legal expenses insurance

Fire and non-life insurance
Fire insurance
Burglary and theft insurance
Water damage insurance
Glass insurance
Windstorm insurance
Household contents insurance
Homeowners' building insurance
Hail insurance
Animal insurance
Engineering insurance
Extended coverage insurance
Travel baggage insurance
All-risk insurance

Goods-in-transit insurance

Other insurance policies
Transport insurance
Credit and bond insurance
Breakdown service insurance
Business interruption insurance
Exhibition insurance
Travel cancellation costs insurance
Rent insurance

Pension fund business

Consolidated financial statements

Consolidated balance sheet to 31 December 2018

Assets	€	€	€	Previous year € 000s
A. Intangible assets				
I. Industrial property rights created in-house and similar rights and assets		109,028		155
II. Licences, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licences in such rights and assets		42,683,780		52,777
III. Goodwill		22,003,340		13,305
IV. Payments on account		3,886,561		1,675
			68,682,709	67,912
B. Investments				
I. Real estate and similar land rights, including buildings on third-party land		1,174,796,475		1,155,403
II. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	66,963,160			67,358
2. Loans to affiliated companies	4,447,000			47
3. Shares in associated companies	31,099,461			28,047
4. Participating interests	379,307,145			309,894
5. Loans to companies in which a participating interest is held	-			1,798
		481,816,766		407,144
III. Other investments				
1. Shares, units or shares in investment funds and other variable-interest securities	1,908,958,789			1,741,210
2. Bearer bonds and other fixed-interest securities	4,908,148,052			4,640,917
3. Mortgage loans and annuity claims	726,573,978			743,874
4. Other loans	3,648,671,187			3,429,674
5. Deposits with banks	10,277,184			10,527
6. Other investments	83,362,088			83,687
		11,285,991,278		10,649,889
IV. Deposits with ceding companies		71,688,292		162,174
			13,014,292,811	12,374,610
C. Investments for the benefit of life assurance policyholders who bear the investment risk				
			199,839,005	168,500
D. Assets for the benefit and at the risk of employees and employers				
- Investments for the benefit of employees and employers			**264,787,850**	293,131
Balance carried forward:			13,547,602,375	12,904,153

Liabilities

	€	€	€	Previous year € 000s
A. Equity				
I. Retained earnings				
1. Loss reserve pursuant to section 193 of VAG	184,406,441			179,666
2. Other retained earnings	1,441,557,154			1,390,052
		1,625,963,595		1,569,718
II. Equity difference due to currency conversion		3,764,646		3,830
III. Profit/loss carried forward		15,598,864		10,496
IV. Net retained profit		38,776,111		37,165
V. Adjusting item due to capital consolidation		342,023		349
VI. Non-controlling interests		354,964,482		343,429
			2,039,409,721	1,964,987
B. Technical provisions				
I. Provision for unearned premiums				
1. Gross amount	103,859,727			112,349
2. of which from: Reinsurance amount	590,040			1,257
		103,269,687		111,092
II. Premium reserve				
1. Gross amount	4,905,836,154			4,833,326
2. of which from: Reinsurance amount	2,721,075			2,433
		4,903,115,079		4,830,893
III. Provision for claims outstanding				
1. Gross amount	3,119,978,564			2,958,521
2. of which from: Reinsurance amount	393,176,085			386,455
		2,726,802,479		2,572,066
IV. Provision for bonuses and rebates				
1. Bonuses	336,425,782			336,444
2. Rebates	1,139,984			1,304
		337,565,766		337,748
V. Equalisation provision and similar provisions		424,112,550		415,260
VI. Other technical provisions				
1. Gross amount	11,767,730			12,749
2. of which from: Reinsurance amount	72,120			132
		11,695,610		12,617
			8,506,561,171	8,279,676
C. Technical reserves in life assurance business, where the investment risk is borne by the policyholders				
- Premium reserve			**199,839,005**	168,500
D. Technical pension fund provisions				
I. Premium reserve		796,241,187		681,555
II. Provision for claims outstanding		1,259,834		2,269
III. Provision for bonuses and rebates		31,749,922		27,338
			829,250,943	711,162
Balance carried forward:			11,575,060,840	11,124,325

Assets	€	€	€	Previous year € 000s
Balance carried forward:			13,547,602,375	12,904,153
E. Receivables				
I. Receivables arising out of direct insurance operations:				
1. Policyholders	56,919,025			63,125
2. Intermediaries	16,555,975			16,250
		73,475,000		79,375
II. Receivables from pension fund business:				
1. Employers and beneficiaries	163,708			147
2. Intermediaries	196,008			166
		359,716		313
III. Receivables arising out of reinsurance operations		65,027,977		49,476
IV. Other receivables		116,786,047		62,381
of which:			**255,648,740**	191,545
Affiliated companies: € 4,048,202				-
from companies in which a participating interest is held: € 66,993				1,240
F. Other assets				
I. Tangible assets and inventories		21,332,741		19,654
II. Cash at banks, cheques and cash in hand		186,733,281		259,070
III. Other assets		19,417,493		13,121
			227,483,515	291,845
G. Prepayments and accrued income				
I. Accrued interest and rent		124,103,701		130,411
II. Other prepayments and accrued income		24,731,721		54,028
			148,835,422	184,439
Total assets			**14,179,570,052**	13,571,982

Liabilities	€	€	€	Previous year € 000s
Balance carried forward:			11,575,060,840	11,124,325
E. Technical pension fund provisions in accordance with the assets for the benefit of employees and employers				
- Premium reserve			**264,787,850**	293,131
F. Provisions for other risks and charges				
I. Provisions for pensions and similar commitments		686,854,032		614,804
II. Provisions for taxation		146,652,783		98,172
III. Other provisions		109,170,597		73,930
			942,677,412	786,906
G. Deposits received from reinsurers				
			125,266,371	126,377
H. Other liabilities				
I. Liabilities arising out of direct insurance operations towards				
1. Policyholders	505,017,888			546,025
2. Intermediaries	8,604,647			8,351
3. Member and sponsoring undertakings	6,904			-
		513,629,439		554,376
II. Liabilities arising out of pension fund business				
- Employers		159,508		193
III. Liabilities arising from reinsurance operations		59,733,673		75,790
IV. Liabilities to banks		548,385,460		466,516
V. Other liabilities		108,223,952		104,158
of which:			**1,230,132,032**	1,201,033
From taxes: € 27,436,521				25,980
Social security € 493,201				575
Against affiliated companies: € 4,084,893				4,057
Against companies in which a participating interest is held: - €				36,134
I. Accruals and deferred income				
			19,512,986	17,559
K. Deferred tax liabilities				
			22,132,561	22,651
Total liabilities			**14,179,570,052**	13,571,982

Consolidated profit and loss account

for the period from 1 January to 31 December 2018

Items	€	€	€	Previous year € 000s
I. Technical account for non-life and accident insurance business				
1. Earned premiums net of reinsurance				
a) Gross premiums written	2,425,120,211			2,296,197
b) Outward reinsurance premiums	147,617,366			131,448
		2,277,502,845		2,164,749
c) Change in the gross provision for unearned premiums	-750,547			-11,886
d) Change in the gross provision for unearned premiums, reinsurers' share	-3,169,286			-893
		-3,919,833		-12,779
			2,273,583,012	2,151,970
2. Allocated interest, net of reinsurance			**4,343,840**	5,298
3. Other technical income, net of reinsurance			**31,389,815**	1,645
4. Claims incurred, net of reinsurance				
a) Claims paid				
aa) Gross amount	1,540,785,289			1,466,700
bb) Reinsurers' share	87,025,864			71,795
		1,453,759,425		1,394,905
b) Change in the provision for claims outstanding				
aa) Gross amount	141,470,870			176,196
bb) Reinsurers' share	-7,294,750			7,771
		134,176,120		183,967
			1,587,935,545	1,578,872
5. Changes in other technical provisions, net of reinsurance				
a) Premium reserve, net of reinsurance		-6,435,047		-2,459
b) Other technical provisions, net of reinsurance		3,922,930		-968
			-2,512,117	-3,427
6. Bonuses and rebates, net of reinsurance			**4,185,770**	-298
7. Net operating expenses, net of reinsurance				
a) Gross operating expenses for insurance operations		594,881,199		536,417
b) of which from: Reinsurance commissions and profit participation		24,269,346		20,671
			570,611,853	515,746
8. Other technical charges, net of reinsurance			**11,816,460**	11,405
9. Subtotal			**132,254,922**	49,761
10. Change to the equalisation provision and similar provisions			**-24,992,201**	-20,380
11. Underwriting result net of reinsurance, non-life and accident insurance			**107,262,721**	29,381

Items	€	€	€	Previous year € 000s
II. Technical account for the life and health insurance business				
1. Earned premiums net of reinsurance				
a) Gross premiums written	559,373,427			576,495
b) Outward reinsurance premiums	4,458,661			3,744
		554,914,766		572,751
c) Change in the net provision for unearned premiums		6,935,414		5,812
			561,850,180	578,563
2. Contributions from the gross premium refunds provision			**14,235,066**	17,270
3. Income from investments				
a) Income from participating interests		3,891,611		4,998
b) Income from other investments		185,056,132		200,419
c) Income from write-ups		788,464		5,511
d) Gains on the realisation of investments		43,167,428		57,489
			232,903,635	268,417
4. Unrealised gains on investments			**-**	5,300
5. Other technical income, net of reinsurance			**427,673**	509
6. Claims incurred, net of reinsurance				
a) Claims paid				
aa) Gross amount	377,151,213			336,900
bb) Reinsurers' share	711,283			708
		376,439,930		336,192
b) Change in the provision for claims outstanding				
aa) Gross amount	3,475,424			-1,387
bb) Reinsurers' share	-63,845			-149
		3,411,579		-1,536
			379,851,509	334,656
7. Changes in other technical provisions, net of reinsurance				
a) Premium reserve				
aa) Gross amount	-201,506,442			-344,706
bb) Reinsurers' share	287,775			273
		-201,218,667		-344,433
b) Other technical provisions, net of reinsurance		19,970		105
			-201,198,697	-344,328
8. Bonuses and rebates, net of reinsurance			**44,180,921**	68,662
9. Net operating expenses, net of reinsurance				
a) Acquisition expenses	60,741,304			66,523
b) Administration costs	14,229,561			14,664
c) of which from:		74,970,865		81,187
Reinsurance commissions and profit participation		1,652,476		1,339
			73,318,389	79,848
10. Investment charges				
a) Investment management charges, interest expenses and other charges on capital investments		7,419,593		5,793
b) Write-downs on investments		34,733,704		6,872
c) Losses on the realisation of investments		2,444,689		1,510
			44,597,986	14,175
11. Unrealised gains on investments			**17,216,608**	1,450
12. Other technical charges, net of reinsurance			**13,186,057**	15,905
13. Underwriting result net of reinsurance, life and health insurance			**35,866,387**	11,035

Items	€	€	Previous year € 000s
III. Pension fund technical account			
1. Earned premiums			
- Premiums written		**142,328,308**	134,293
2. Contributions from the gross premium refunds provision		**2,893,451**	2,621
3. Income from investments			
a) Income from other investments			
- Income from other investments	18,218,218		22,832
b) Gains on the realisation of investments	7,090,741		3,341
		25,308,959	26,173
4. Unrealised gains on investments		**-**	21,271
5. Other technical pension fund income		**2,220,430**	2,096
6. Claims expenses			
a) Claims paid	23,609,139		24,679
b) Change in the provision for claims outstanding	-1,008,998		1,081
		22,600,141	25,760
7. Changes in other technical pension fund provisions			
- Premium reserve		**-86,343,168**	-147,383
8. Bonuses and rebates		**7,304,874**	9,664
9. Pension fund operating expenses			
a) Acquisition expenses	1,306,090		1,604
b) Administration costs	1,802,885		1,268
		3,108,975	2,872
10. Investment charges			
a) Investment management charges, interest expenses and other charges on capital investments	452,261		657
b) Write-downs on investments	553,221		440
c) Losses on the realisation of investments	1,284,642		42
		2,290,124	1,139
11. Unrealised gains on investments		**50,417,005**	377
12. Other technical pension fund expenses		**367**	1
13. Technical pension fund result		**686,494**	-742

Items	€	€	€	Previous year € 000s
IV. Non-technical account				
1. Underwriting result, insurance and pension fund business net of reinsurance				
a) Non-life and accident insurance		107,262,721		29,381
b) Life and health insurance		35,866,387		11,035
c) Pension fund business		686,494		-742
			143,815,602	39,674
2. Investment income where not stated under II 3 or III 3				
a) Income from shares in associated companies	951,400			887
b) Income from participating interests	39,260,037			27,690
of which: from affiliated companies: € 52,000				52
c) Income from other investments	223,956,022			214,256
of which: from affiliated companies: € 3,975,733				1
d) Income from write-ups	3,289,298			8,153
e) Gains on the realisation of investments	35,165,686			28,581
f) Income from profit pooling, profit transfer and partial profit transfer agreements	180			-
		302,622,623		279,567
3. Investment expenses where not stated under II 10 or III 10				
a) Investment management charges, interest expenses and other charges on capital investments	42,463,571			36,837
b) Write-downs on investments	94,228,118			35,918
c) Losses on the realisation of investments	4,001,846			5,232
		140,693,535		77,987
		161,929,088		201,580
4. Allocated interest		6,264,598		7,187
			155,664,490	194,393
5. Other income		89,133,371		66,481
6. Other charges		197,212,882		152,414
			-108,079,511	-85,933
7. Profit from ordinary activities			**191,400,581**	148,134
8. Taxes on income		103,963,197		71,950
9. Deferred tax change		-49,011		5
10. Other taxes		5,279,800		5,155
			109,193,986	77,110
11. Net profit for the year			**82,206,595**	71,024
12. Allocation to retained earnings				
a) in the loss reserve pursuant to section 193 VAG		4,740,000		4,600
b) in other retained earnings		20,878,504		20,240
			25,618,504	24,840
13. Non-controlling interests			**17,811,980**	9,019
14. Net retained profit			**38,776,111**	37,165

Statement of shareholders' equity

Shareholders' equity movements

Figures in € 000s	Equity of the parent company					
	Retained earnings					
	Statutory reserve	Reserves stipulated in the Articles of Association	Other retained earnings	Total	Equity difference due to currency conversion	Profit/loss carried forward
As per 31/12/2017	179,666	-	1,390,401	1,570,067	3,830	10,496
Capital increase/reduction, e.g.:						
Issuing of shares	-	-	-	-	-	-
Acquisition/disposal of own shares	-	-	-	-	-	-
Redemption of shares	-	-	-	-	-	-
Capital increase from company funds	-	-	-	-	-	-
Calling in/payment of deposits not hitherto called in	-	-	-	-	-	-
Allocation to/withdrawal from reserves	-	-	-	-	-	-
Dividends	-	-	-	-	-	-
Currency conversion	-	-	-	-	-65	-
Other changes	-	-	30,620	30,620	-	5,103
Changes to the group of consolidated companies	-	-	-	-	-	-
Consolidated profit/loss for the year	4,740	-	20,879	25,619	-	-
As per 31/12/2018	**184,406**	**-**	**1,441,899**	**1,626,306**	**3,765**	**15,599**

Equity of the parent company		Non-controlling interests				Shareholders equity
net profit or loss for the year which is attributable to the parent company	Total	Non-controlling interests before equity difference due to currency conversion and annual result	Equity difference due to currency conversion attributable to non-controlling interests	Profit/loss attributable to non-controlling interests	Total	Total
37,165	1,621,558	333,406	1,003	9,019	343,429	1,964,987
-	-	11,799	-	-	11,799	11,799
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-2,185	-	-4,482	-6,667	-6,667
-	-65	-	-833	-	-833	-898
-37,165	-1,443	-45,538	-6,585	41,549	-10,575	-12,018
-	-	-	-	-	-	-
38,776	64,395	-	-	17,812	17,812	82,207
38,776	**1,684,445**	**297,481**	**-6,415**	**63,898**	**354,964**	**2,039,410**

Cash flow statement

Cash flow statement to 31 December 2018

Items	Financial year € 000s
Result for year (consolidated net profit/loss for the year including other shareholder's share of the result)	82,207
Increase/decrease in technical provisions, net	347,969
Increase/decrease in deposits with ceding companies and deposits taken from retrocessionaires	74,934
Increase/decrease in accounts payable to ceding companies and retrocessionaires	-17,167
Increase/decrease in other receivables	-23,227
Increase/decrease in other liabilities	-38,032
Changes in other balance sheet items not attributable to investment or financing activities	-642,516
Other off-balance sheet expenses & income as well as adjustments to the result for the year	213,094
Profit/loss from disposals of investments, tangible assets and intangible assets	-77,693
Tax expenses/income	103,963
Income tax payments	-79,350
Cash flow from ongoing operations	**-55,818**
Proceeds from disposals from the group of consolidated companies	-
Proceeds from disposals of tangible assets	72
Proceeds from disposals of intangible assets	74
Payments for additions to the group of consolidated companies	-
Payments for investments in tangible assets	-9,612
Payments for investments in intangible assets	-22,602
Proceeds from the disposal of investments in unit-linked life assurance	264,551
Payments for investments in unit-linked life assurance	-335,180
Cash flow from investment activities	**-102,697**
Proceeds from additions to equity by other shareholders	11,799
Payments to other shareholders for equity reductions	-
Dividends paid to other shareholders	-6,667
Proceeds and payments from other financing activities*	81,731
Cash flow from financing activities	**86,863**
On-balance-sheet changes to cash and cash equivalents	-71,652
Changes in cash and cash equivalents relating to exchange rates and valuations	-685
Changes in cash and cash equivalents relating to the group of consolidated companies	-
Cash and cash equivalents at the start of the year	259,070
Cash and cash equivalents at the end of the year**	**186,733**

The cash flow statement has been drawn up in accordance with the provisions of DRS 21, "Cash Flow Statements". In accordance with the DRS recommendation for insurance undertakings, the indirect method of presentation was chosen.

* The total interest paid during the period under review was T € 960.

** Cash and cash equivalents includes the funds recorded in the balance sheet item "Cash at banks, cheques and cash in hand".

Notes to the consolidated financial statements

Group companies

The following subsidiary companies were included in the consolidated financial statements of DEVK Sach- und HUK-Versicherungsverein a.G., Cologne:

- DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE, Cologne 100 %
- DEVK Allgemeine Versicherungs-AG, Cologne 100 %
- DEVK Rechtsschutz-Versicherungs-AG, Cologne 100 %
- DEVK Krankenversicherungs-AG, Cologne 100 %
- DEVK Allgemeine Lebensversicherungs-AG, Cologne 100 %
- DEVK Pensionsfonds-AG, Cologne 100 %
- DEVK Vermögensvorsorge- und Beteiligungs-AG, Cologne 51 %
- DEVK Asset Management Gesellschaft mbH, Cologne 100 %
- DEVK Omega GmbH, Cologne 75 %
- DEVK Private Equity GmbH, Cologne 65 %
- DEVK Saturn GmbH, Cologne 100 %
- DEVK Service GmbH, Cologne 74 %
- DEVK Unterstützungskasse GmbH, Cologne 100 %
- DEVK Zeta GmbH, Cologne 100 %
- DEVK Europa Real Estate Investment Fonds SICAV-FIS, Luxembourg (L), 68 %
- DEREIF BRUSSEL CARMEN S.A., Brussels (B), 100 %
- DEREIF Brüssel Lloyd George S.à.r.l., Luxembourg (L), 100 %
- DEREIF Hungary Eiffel Palace Kft, Budapest (HU), 100 %
- DEREIF Hungary Park Atrium Ltd., Budapest (HU), 100 %
- DEREIF Immobilien 1 S.à.r.l., Luxembourg (L), 100 %
- DEREIF LISSABON REPUBLICA, UNIPESSOAL LDA, Lisbon (P), 100 %
- DEREIF London Birchin Court S.à.r.l., Luxembourg (L), 100 %
- DEREIF London Coleman Street S.à.r.l., Luxembourg (L), 100 %
- DEREIF London Eastcheap Court S.à.r.l., Luxembourg (L), 100 %
- DEREIF London Lower Thames Street S.à.r.l., Luxembourg (L), 100 %
- DEREIF London Queen Street S.à.r.l., Luxembourg (L), 100 %
- DEREIF London 10, St. Bride Street S.à.r.l., Luxembourg (L), 100 %
- DEREIF Malmö, Kronan 10 & 11 AB, Malmö (S), 100 %
- DEREIF Paris 37-39, rue d'Anjou SCI, Yutz (F), 100 %
- DEREIF Paris 9, chemin du Cornillon Saint-Denis SCI, Yutz (F), 100 %
- DEREIF Paris 6, rue Lamennais SCI, Yutz (F), 100 %
- DEREIF Prag Oasis s.r.o., Prague (CZ), 100 %
- DEREIF Stockholm Vega 4 AB, Stockholm (S), 100 %
- DEREIF Wien Beteiligungs GmbH, Vienna (A), 100 %
- DEREIF Wien Nordbahnstraße 50 OG, Vienna (A), 100 %
- DP7, Unipessoal LDA., Lisbon (P), 100 %
- DRED SICAV-FIS, Luxembourg (L), 68 %
- DRED - Real Estate Deutschland GP S.à.r.l., Luxembourg (L), 100 %
- Assistance Services GmbH, Legden, 100 %
- Echo Rückversicherungs-AG, Zurich (CH), 100 %
- Edinburgh Ferry Road S.à.r.l., Luxembourg (L), 100 %

- GAV Versicherungs-AG, Legden, 100 %
- Grundversorgung S.C.S., Luxembourg (L), 100 %
- HEICO Grundversorgung Invest GmbH, Wiesbaden, 100 %
- HEICO Grundversorgung Invest 1 GmbH & Co. KG, Wiesbaden, 100 %
- HEICO Grundversorgung Invest 2 GmbH & Co. KG, Wiesbaden, 100 %
- HEICO Grundversorgung Invest 3 GmbH & Co. KG, Wiesbaden, 100 %
- HEICO Grundversorgung Invest 4 GmbH & Co. KG, Wiesbaden, 100 %
- HEICO Grundversorgung Invest 5 GmbH & Co. KG, Wiesbaden, 100 %
- Hotelbetriebsgesellschaft SONNENHOF mbH, Bad Wörishofen, 100 %
- HYBIL B.V., Venlo (NL), 100 %
- Ictus GmbH, Cologne 75 %
- OUTCOME Unternehmensberatung GmbH, Cologne 100 %
- Red Luxembourg Main Building S.à.r.l., Luxembourg (L), 100 %
- SADA Assurances S.A., Nîmes (F), 100 %

These companies are thus exempted from the requirement to produce annual financial statements themselves.

The following subsidiary companies:

- DEVK Alpha GmbH, Cologne 100 %
- DEVK Gamma GmbH, Cologne 100 %
- DEVK Versorgungskasse GmbH, Cologne 100 %
- DEVK Web-GmbH, Cologne 100 %
- freeyou AG, Cologne 100 %
- GrundV GP S.à.r.l., Luxembourg (L), 100 %
- JUPITER VIER GmbH, Cologne 100 %
- Kassos Ventures GmbH, Cologne 100 %
- Klugo GmbH, Cologne 100 %
- Lieb´Assur S.à.r.l., Nîmes (F), 100 %
- Pragos Wohnungsunternehmen AG & Co. KG, Cologne
- Reisebüro Frenzen GmbH, Cologne 52 %
- Reisebüro TRAVELWORLD GmbH, Cologne 52 %

were not included in the consolidated financial statements due to their minor importance for the Group's net assets, financial position and results of operations, in accordance with section 296 paragraph 2 sentence 1 of the German Commercial Code (HGB). Even taken as a whole, they remain of minor importance as defined in section 296 paragraph 2 sentence 2 HGB.

The following companies were included in the consolidated financial statements at equity as associated companies or joint ventures:

- Monega Kapitalanlagegesellschaft mbH, Cologne 45 %
- Terra Estate GmbH & Co. KG, Cologne 50 %.

Terra Management GmbH, Cologne, a joint venture in which the Group has a total holding of 50 %, was not included in the consolidated financial statements due to its minor importance for the Group's net assets, financial position and results of operations in accordance with section 296 paragraph 2 sentence 1 HGB.

The following subsidiary companies were not included in the consolidated financial statements in accordance with section 296 paragraph 1 no. 3 HGB due to their intended resale:
- Sireo Immobilienfonds No. 4 Paris II Front de Paris S.à.r.l., Paris (F), 100 %
- Sireo Immobilienfonds No. 4 Paris II S.à.r.l., Luxembourg (L), 100 %
- Sireo Immobilienfonds No. 4 Paris IV Logistique II S.à.r.l., Yutz (F), 100 %
- Sireo Immobilienfonds No. 4 Paris IV S.à.r.l., Luxembourg (L), 100 %
- Sireo Immobilienfonds No. 4 Paris IV Soissons II SCI, Paris (F), 100 %
- Sireo Immobilienfonds No. 4 Warszawa Ren. Plaza, Warsaw (PL), 100 %
- Sireo Immobilienfonds No. 4 Warszawa Par Tower, Warsaw (PL), 100 %
- Sireo Immobilienfonds No. 4 Milano S.à.r.l., Luxembourg (L), 100 %.

Changes to the group of consolidated companies

During the 2018 financial year, the Group companies have not changed.

Consolidation principles

The consolidated financial statements were drawn up in accordance with the provisions of sections 341i and 341j HGB in conjunction with sections 290 ff HGB and sections 58 ff RechVersV.

Pursuant to article 66 paragraph 3 sentence 4 EGHGB in conjunction with section 301 paragraph 1 No. 1 HGB, old version, the capital consolidation was performed by applying the book value method of section 301 paragraph 1 sentence 1 HGB. The initial consolidation was undertaken either at the time of acquisition or on initial inclusion in the annual report. Pursuant to section 309 paragraph 1 sentence 3 HGB, old version, any resultant positive differences were openly offset on the assets side against the other retained earnings. After the introduction of the German Act on Modernisation of Accounting Regulations (BilMoG), any positive differences from the initial consolidation were recognised in the consolidated balance sheet under goodwill. The goodwill is being subjected to scheduled depreciation over a fifteen-year period, in line with its expected useful life. This useful life is derived from the companies' purpose, namely to real estate investment. In these cases, the high current incomes are to the fore, which is why the envisaged average holding period for real estate is at least 15 years.

Negative differences were correspondingly recorded as liabilities in the consolidated balance sheet. The differences result from the capital consolidation and have an equity character.

Prior to the introduction of BilMog, the valuation of the associated company Monega Kapitalanlagegesellschaft mbH was determined at the time of its acquisition pursuant to article 66 paragraph 3 sentence 4 EGHGB in conjunction with section 312 paragraph 1 No. 1 HGB (old version).

The valuation of Terra Estate GmbH & Co. KG took place on the date on which it became a joint venture.

The receivables and liabilities of companies included in the consolidated financial statements were consolidated, while income and expenses from the offsetting of costs and Group-internal reinsurance arrangements were netted out. Inter-company profits were eliminated.

Pursuant to section 299 paragraph 3 HGB, in cases where business events of particular importance for the net assets, financial position and results of operations of a subsidiary with a balance sheet date other than the one used for the consolidated financial statements occur between the subsidiary's balance sheet date and the consolidated financial statements balance sheet date, the option of providing information of equivalent value in the notes to the consolidated financial statements will be exercised.

Foreign currency conversion

The conversion of the asset and liability items in the balance sheet of some consolidated subsidiaries which draw up their annual financial statements in a foreign currency are done at the median foreign currency exchange rate on the closing date, with the exception of the equity capital, which was valued at the historic price. The profit and loss account items were converted at the mean exchange rate.

Foreign currency items in the annual financial statements of consolidated subsidiaries are converted into EUR on the balance sheet date at the median foreign currency exchange rate.

Accounting and valuation methods

The consolidated financial statements were based on the audited and unaudited individual financial statements and single-entity financial statements that, with two exceptions, were drawn up in accordance with uniform accounting and valuation regulations.
Where the consolidated valuation methods were the same as those applied by the Group parent company, we refer the reader to the details given in the parent's individual financial statements.
The annual financial statements of foreign subsidiaries prepared in compliance with domestic accounting regulations were adjusted to comply with German accounting regulations prior to integration into the consolidated financial statements. Valuations based on regulations applying specifically to insurance companies remained unaltered.
Before their incorporation into the consolidated financial statements, the annual financial statements of subsidiaries with different balance sheet dates and recognition methods were adjusted by the 30 November deadline to ensure compliance with the unified recognition and measurement principles laid down by the parent company for use in the consolidated financial statements. Any significant occurrences taking place between then and the consolidated financial statements balance sheet date, to wit 31 December, are recognised and recorded in these subsidiaries' interim financial statements.

The layouts of the consolidated balance sheet and the consolidated profit and loss account comply with financial statement forms 1 and 4 of RechVersV, plus certain Group-specific items.

Pursuant to section 298 paragraph 1 in conjunction with section 248 paragraph 2 HGB, the option of capitalizing self-produced **intangible assets** was exercised. Their value was measured on the basis of the actual overall payroll expenses incurred for the individual employees. The assets are amortised over a useful life of five years.

The **loans and advance payments on insurance certificates** are recognised at their original nominal values less repayments made to date.

Deposits with banks are recorded at their nominal values.

Other investments also include credit default swaps, which have been valued at their costs of acquisition.

Deposits with ceding companies are recorded using the details provided by the ceding companies.

Investments for the benefit of life assurance policyholders who bear the investment risk, for whose policies an investment fund is to be established pursuant to section 125 VAG, are recorded at their current value.

Pursuant to section 341 paragraph 4 sentence 2 and section 341d HGB, **assets for the benefit of employees and employers who bear the investment risk** were valued at their current values and shown in a separate item. Due to provisions included in the pension plans, the value was reported on the basis of the pension fund payment obligation in the event of a pension claim.

Receivables from pension fund business are recognised at their nominal values.

Technical provisions are calculated by application of the following principles:
The **provisions for unearned premiums** for direct insurance operations are calculated separately for each policy, taking into account the individual technical policy start, with due regard to the tax regulations set out by the Finance Minister of North Rhine-Westphalia on 30 April 1974.
For new policies taken out since 1 January 2012, an insurance period of one month generally applies. For these policies, payments on account made where a monthly payment does not apply are also included under the provision for unearned premiums.
Provisions for unearned premiums arising from coinsurance contracts were taken on in accordance with the information from the lead company.

The **premium reserve** in the life assurance business is calculated separately for each policy, taking into account the individual technical policy start and applying actuarial principles according to the prospective method.
For the portfolio of existing policies within the meaning of section 336 VAG and article 16 section 2 of the third Implementation Act/EEC to the VAG, the precepts and accounting principles underlying the calculation were in line with the business plans either approved or submitted for approval. The portfolio of new policies is in line with section 341f HGB and section 88 VAG, as well as the associated Premium Reserve Regulation (Deckungsrückstellungsverordnung). The premium reserve for reinsured insurance business is also calculated separately in accordance with the pro-

visions of the reinsurance contracts and taking the individual technical policy start into account. The premium reserve for coinsurance policies has been taken over by the lead company.

The premium reserve took special account of the future costs in relation to single-premium policies, premium-exempted contracts and policies with plan-related premium exemptions. The resulting administration expenses provision was allocated to the premium reserve. The premium reserve was calculated taking into account the implicit recognised costs. The premium reserve for pensions based on accrued capital was calculated according to the same principles, except applying, from the pension start year 2006 onwards, the accounting precepts regarding rate of return and mortality which were in place when the pensions commenced. The premium reserve for the bonus pensions currently at the future entitlement stage was calculated in each case according to the accounting precepts applying at the time.

All pension insurance plans based on a Table DAV 1987 R or older have in the past been switched to DAV 1994 R, 4.0 %. For all pension insurance plans not based on the mortality table DAV 2004 R, the premium reserve has been adjusted to bring it into line with table DAV 2004 R – B 20. For pension insurance plans with higher annual pensions, the premium reserve was adjusted to 75 % of the DAV 2004 R or the DAV 2004 R-B20.

Depending on the policy generation, the following mortality tables were applied for insurance policies with an assurance character: DAV 2008 T, DAV 1994 T, mortality table 1986, mortality table 1960/62 modified and the company's own tables based on DAV 2008 T and DAV 2004 T. Insurance policies with a survival character are based on the mortality tables DAV 1994 R 80 %, DAV 1994 R and DAV 2004 R.
Depending on the policy generation, calculation of the occupational disability risk was based on the tables DAV 1997 I, DAV 1997 TI and DAV 1997 RI, the 1990 association tables (including reactivation probabilities and morbidity/mortality rates) or the tables derived from research by eleven American companies during the period from 1935 - 1939. For the policy generations from 2003 onwards and from July 2015 onwards, the company-specific table DAV 1997 I was devised, which addresses or differentiates between three or ten different professional groups.
For the supplementary occupational disability insurance up to the 2000 policy generation, the premium reserve was adjusted to the tables DAV 1997 I, DAV 1997 TI and DAV 1997 RI; while the company-specific table DAV 1997 I here addresses or differentiates between three different professional groups.

Depending on the policy generation, the occupational incapacity risk was calculated through the application of accounting principles based either on the tables DAV 1997 I, DAV 1997 TI and DAV 1997 RI or on the tables DAV 1998 E, DAV 1998 TE or DAV 1998 RE. For the (supplementary) occupational disability insurance based on a technical interest rate of 4.0 %, the premium reserve was likewise adjusted to the tables DAV 1998 E, DAV 1998 TE and DAV 1998 RE.

For all (supplementary) occupational disability and incapacity insurance up until policy generation 2008, the premium reserve was also adjusted to table DAV 2008 T.

Depending on the policy generation, accounting principles derived from the HEUBECK 1983 and 1998 actuarial tables or modified accounting principles based on DAV 1997 I were applied to determine the occupational invalidity risk.

For the basic capability risk and the risk of serious illness, the company's own tables were applied, which have been derived from the GenRe mortality tables and DAV 2008 T.

Depending on the policy generation, the technical interest rate applied was either 4.0 %, 3.5 %, 3.25 %, 3.0 %, 2.75 %, 2.25 %, 1.75 %, 1.25 %, 0.9 % or 0.25 %. Furthermore, from the 2016 policy generation onwards we offer pension insurance plans with individual technical interest rates which do not exceed the maximum technical interest rates laid down in the Premium Reserve Regulation. Pursuant to section 5 paragraph 4 DeckRV, a supplementary interest reserve with a reference interest rate of 2.09 % was formed for policies with technical interest rates of 4.0 %, 3.5 %, 3.25 %, 3.0 %, 2.75 % and 2.25 %. A supplementary interest reserve with a valuation interest rate of 2.05 % was formed for the existing policies. The supplementary interest reserve for redeemable endowment life insurance policies is calculated through application of the probability of cancellation and capitalisation.
For insurance policies with regular premium payments, one-off acquisition costs were taken into account in line with the Zillmer adjustment method. For the portfolio of existing policies, the respective Zillmerisation rates have been set in line with the business plan. For the portfolio of new policies, the Zillmerisation rates were a maximum of 3.5 % of the sum insured or 4.0 % of the total premiums. As a rule, from 2015 the Zillmerisation rate stands at 2.5 % of the premium amount.

In the case of insurance policies starting in 2008 or after, the redemption value was calculated on the basis of acquisition costs distributed over five years.
Depending on the policy generation, in the case of capitalisations with regular premium payments in accordance with the Pension Contracts Certification Act (AltZertG) the acquisition costs were distributed over either five years, ten years or the entire accumulation period.
For policies with Zillmerisation which are subject to the Federal Court of Justice rulings of 12 October 2005, 25 July 2012 or 26 June 2013, additional funds were allocated to the premium reserve.

The premium reserve for insurance policies where the investment risk is borne by the policyholders is calculated individually for each policy according to the retrospective method. The calculation was done in compliance with section 341f HGB as well as section 88 VAG and the associated Premium Reserve Regulation. The premium reserve was calculated taking into account the implicit recognised costs. The acquisition costs are distributed over three years, rising to five years from 2008 onwards, and in some cases over the entire premium payment period.

For unit-linked pension insurance up to and including the 2015 policy generation, for which it is likely that the guaranteed pension factors cannot be financed by the fund account, additional funds have been allocated to the premium reserve.

The terminal bonus funds were calculated separately for each policy, taking their individual technical start into account.

For the portfolio of existing policies, the terminal bonus fund was calculated according to principles set out in the business plan,
whereas for new policies it was calculated according to section 28 paragraphs 7a to 7d RechVersV, with a discount rate of 2.3 % p.a.

For insurance with a savings component, a minimum participation in revaluation reserves was introduced on 1 January 2008. This is financed by a fund in the premium refunds provision, which will be structured in the portfolio of new polices in line with the terminal bonus fund. For the portfolio of existing policies, the fund was calculated according to principles set out in the business plan. The discounting rate is likewise 2.3 % p.a.

For all risk types except occupational incapacity, the gross amounts for the **provision for unadjusted insurance claims** were calculated separately for insurance claims arising by the balance sheet date and ones known about by the portfolio determination date. A provision based on updated empirical values has been formed to cover the occupational incapacity risk. This method guarantees risk assessment closely based on reality.

Insurance claims arising by the balance sheet date but not known about until after the determination of the portfolio were assessed over the past three years and their mean value was set aside. Outstanding policy surrender, return and withdrawal payments include the repayments specified in the business plan for the year under review and known to have become due by the portfolio determination date, but which have not been paid out by the balance sheet date. The provision includes amounts designated for claims settlement. The proportion of the insurance business ceded to reinsurance was assessed in line with the contractual terms.

The **provision for bonuses and rebates** was formed in compliance with the Articles of Association, as well as the provisions laid down in the business plan and by law.

In response to the rulings by the European Court of Justice and the German Federal Court of Justice on 19 December 2013/7 May 2014/17 December 2014/23 September 2015, respectively, expenditure arising from the possible cancellation of policies was recognised under **Other technical provisions.** In so doing, a probability of availment of this provision was applied.

The **premium reserve** for health insurance business was calculated individually, taking the actual start of the policy into account, whereas the calculation for long-term care insurance and the basic policy was based on a mean start of coverage of 1 July.
The premium reserve also contains funds for financing the old-age premium relief pursuant to sections 149 and 150 VAG, unless they were retained in the provision for rebates. In the case of the part of the premium reserve attributable to the coinsurance policy of the Association of Private Insurance Companies (GPV), the amount cited by the CEO of the GPV was applied.

The method of calculating the gross amounts for the **provision for outstanding claims** was changed in 2015 to the chain-ladder procedure, taking into account claims payments for prior years made after the balance sheet date but incurred before it. The provision reflects claims settlement expenses in line with the regulations laid down by the Finance Ministry of the state of North-Rhine Westphalia on 22 February 1973 (page 2750 - 24 - VB4).

The **other technical provisions** include a cancellation provision to cover future losses from unexpectedly high levels of early cancellations. The provision was calculated on a percentage basis from the total of all negative ageing provisions.

The **premium reserve** in the pension fund business is calculated separately for each policy, taking into account the individual technical policy start and applying actuarial principles. The calculation was carried out in compliance with section 341f HGB, as well as section 240 sentence 1 No. 10-12 VAG and the associated provisions of the German Pension Fund Supervision Regulation (PFAV). The premium reserve was calculated taking into account the implicit recognised costs. For policies on which a pension is already being drawn, additional reserves have been set aside for future management costs. Furthermore, biometric reserves have also been set aside. The premium reserve for the benefit of employees and employers bearing the investment risk was calculated according to the retrospective method, and other premium reserves according to the prospective method. The minimum premium reserve (to cover pension fund guarantees) for beneficiaries was calculated prospectively on the basis of a technical interest rate, depending on the date on which the policy started, of between 0.9 % and 3.25 %. Depending on the pension start date, the minimum premium reserve for ongoing pensions was calculated on the basis of technical interest rates of between 0.9 % and 2.25 %. Modified HEUBECK 2005 G actuarial tables and DAV 2004 R mortality tables were used.

The terminal bonus funds were calculated separately for each policy, taking their individual technical start into account. The terminal bonus fund was calculated pursuant to section 15 paragraphs 5 and 6 RechVersV. The discounting rate is 1.4 % p.a.

The amounts for the **provision for unadjusted insurance claims** were calculated separately for insurance claims arising by the balance sheet date and ones known about by the portfolio determination date. Insurance claims arising by the balance sheet date but not known about until after the determination of the portfolio were accounted for via a surcharge specified in the business plan on the basis of past experience. Terminated but as yet unsettled pension fund contracts and pension relationships were also taken into account.
The provision also includes amounts to cover claim settlement expenses.

The **premium refunds provision** was formed in compliance with the Articles of Association, prevailing statutory provisions and the bonus participation provisions laid down in the pension plans.

The **pension provision** is calculated according to the projected unit credit method on the basis of the HEUBECK 2018 G actuarial tables. The discounting interest rate was calculated as a 10-year average pursuant to the previously valid German Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung). It was set at 3.21 % (previous year 3.68 %) and calculated on the basis of an assumed residual term of 15 years (section 253 paragraph 2 clause 2 HGB). The financing age on expiry corresponds with the contractual age on expiry.

The assumed rate of pay increase was set at 1.95 % p.a., and the rate of pension increase at 1.0 %, 1.7 % or 2.4 % p.a. depending on undertaking.

The **liabilities arising out of pension fund operations** were measured at their settlement values.

Amounts owed to banks are recognised at their repayment amounts. Financial instruments for interest rate hedging are consolidated with the underlying lending business as a single valuation unit in accordance with section 254 HGB.

Pursuant to section 306 HGB, **deferred tax liabilities** arising from consolidation activities (revaluation on initial consolidation) are recognised in the consolidated financial statements. The calculations were based on the respective country-specific income tax rates of 19 %, 22 % and 33.99 % to which the companies concerned were subject.

The calculations reveal active deferred tax due to tax relief resulting from differences between accounting valuations and valuations for tax purposes. These are expected to diminish in future financial years. However, in exercise of our option under section 274 paragraph 1 HGB, we are not recognising any deferred tax asset.

Changes to Asset Items A., B. I. to II. during the 2018 financial year

Assets		Balance sheet values Previous year € 000s	Additions € 000s	Transfers € 000s	Disposals € 000s	Write-ups € 000s	Write-downs € 000s	Balance sheet values Financial year € 000s
A.	**Intangible assets**							
1.	Industrial property rights created in-house and similar rights and assets	156	2	-	-	-	49	109
2.	Licences, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licences in such rights and assets	52,777	9,494	502	74	-	20,015	42,684
3.	Goodwill	13,305	10,392	-	-	-	1,694	22,003
4.	Payments on account	1,675	2,713	-502	-	-	-	3,886
5.	Total A.	67,913	22,601	-	74	-	21,758	68,682
B. I.	**Real estate and similar land rights, including buildings on third-party land**							
		1,155,403	41,165	-	1,964	-	19,807	1,174,797
B. II.	**Investments in affiliated companies and participating interests**							
1.	Shares in affiliated companies	67,358	13,172	-	13,567	-	-	66,963
2.	Loans to affiliated companies	47	4,400	-	-	-	-	4,447
3.	Shares in associated companies	28,047	3,225	-	172	-	-	31,100
4.	Participating interests	309,894	128,195	761	59,035	1,369	1,877	379,307
5.	Loans to companies in which a participating interest is held	1,798	3	-761	1,040	-	-	-
6.	Total B. II.	407,144	148,995	-	73,814	1,369	1,877	481,817
Total		**1,630,460**	**212,761**	**-**	**75,852**	**1,369**	**43,442**	**1,725,296**

The write-downs of intangible assets and real estate and similar land rights, including buildings on third-party land represent scheduled amortisation and depreciation.

Notes to the consolidated balance sheet

Re Assets A. I.

Industrial property rights created in-house and similar rights and assets

The intangible assets totalling € 68,682,709 (previous year € 67,912,646) include self-produced intangible assets valued at € 109,028 (previous year € 155,786). These include fraud detection software, a software system for Microsoft Office analysis and migration as well as an application for importing from source systems. These were recognised at manufacturing costs, duly reduced via straight-line amortisation over a five-year period.

Re Assets B.

Investments

The valuation reserves include hidden liabilities totalling € 114.6 million. These relate to real estate, participating interests, fund units, bearer bonds, mortgage loans, notes payable, zero bonds and registered bonds capitalised at their nominal values pursuant to section 341c HGB.

Financial instruments within the meaning of section 314 paragraph 1 No. 10 HGB that are capitalised at their fair value

	Book value € 000s	Fair value € 000s
Participating interests	74,131	69,859
Fixed-asset securities	1,335,420	1,270,027
Mortgage loans	73,634	71,500
Other loans	842,205	805,061

We have refrained from applying any write-downs in accordance with section 253 paragraph 3 clause 5 and 6 HGB, as we either intend to hold various securities until maturity or we are assuming that any fall in value is only temporary.

Derivative financial instruments and forward purchases in accordance with section 314 paragraph 1 No. 11 HGB

	Type	Nominal volume € 000s	Book value premium € 000s	Fair value of premium € 000s
Other liabilities	Short put options	32,650	1,644	5,050
	Short call options	5,400	87	1
Registered bonds and notes receivable	Forward purchases	81,000	-	-1,682
Other investments	Credit default swaps	14,000	94	-53
Other prepayments and accrued income	Swaps	100,000	725	16,598

Valuation methods		
Short options:	European options	Black-Scholes
	American options	Barone-Adesi
Forward purchases:	Bloomberg or our own calculations based on market data	
Credit default swaps:	J.P. Morgan	
Swaps:	Present value method	

Units or shareholdings in domestic investment funds in accordance with section 314 paragraph 1 No. 18 HGB				
Investment goal	Dividends € 000s	Fair value € 000s	Hidden reserves/ hidden charges € 000s	Limitation on daily redemption
Equity funds	15,893	875,475	29,025	
Bond funds	4,707	209,028	1,900	
Mixed funds	58	7,942	561	
Real-estate funds	13,719	369,238	34,401	between any time and after 6 months

Re Assets B. I.

Real estate and similar land rights, including buildings on third-party land

The balance sheet value of own land and buildings used for DEVK Group operations is € 9,923,936.

Re Assets B. III.

Other investments

Other loans	Financial year € 000s	Previous year € 000s
a) Registered bonds	2,216,283	2,029,296
b) Notes receivable and loans	1,322,359	1,290,111
c) Loans and advance payments on insurance certificates	7,227	8,452
d) Other loans	102,802	101,815
Total	**3,648,671**	3,429,674

Other loans chiefly comprise registered participation certificates.

Other investments comprise credit default swaps, fund units, silent partnerships within the meaning of KWG and cooperative shares.

Re Assets C.

Investments for the benefit of life assurance policyholders who bear the investment risk	Share units Number	Balance sheet value €
Monega Bestinvest Europa	45,321.62	2,153,683
Monega Chance	136,752.65	4,668,735
Monega Dänische Covered Bonds	286.67	29,387
Monega Ertrag	319,374.82	17,865,827
Monega Euro-Bond	473,195.71	24,331,723
Monega Euro-Land	213,845.11	7,771,131
Monega FairInvest	205,544.08	9,393,365
Monega Germany	148,914.74	9,768,807
Monega Global Bond	75,230.22	3,659,950
Monega Innovation	3,309.48	182,087
Monega Multi Konzept	12,483.71	576,622
Monega Short Track	1,002.31	46,547
SpardaRentenPlus	14,479.90	1,412,804
Sparda Trend 38/200	343,756.96	32,976,605
UniCommodities	2,458.25	93,930
UniDividendenASS A	56,812.15	2,674,148
UniEM Global	29,219.53	2,312,141
UniEuroKapital	1,191.27	76,158
UniEuroRenta	196,144.54	12,719,973
UniFavorit Aktien	26,448.76	3,422,998
UniGlobal	115,178.27	22,096,951
UniRak	384,551.70	41,600,802
UniWirtschaftsaspirant	161.50	4,629
Total		**199,839,005**

Re Assets D.

Assets for the benefit and at the risk of employees and employers	Share units Number	Balance sheet value €
Monega Rentenfonds (bond fund)	441,543	22,704,128
Monega Aktienfonds (equities fund)	5,254,791	242,083,722
Total		**264,787,850**

Re Assets E. I.

Receivables arising out of direct insurance operations

The amounts owed by policyholders comprise:

a)	Due claims	€ 3,028,143
b)	Claims not yet due	€ 23,901,428
		€ 26,929,571

Re Assets G. II.

Other prepayments and accrued income

Premium on registered bonds	€ 4,943,813
Up-front premium interest rate swap	€ 724,647
Advance payments for future services	€ 19,063,261
	€ 24,731,721

Re Liabilities B. III.

Provision for claims outstanding

In keeping with the principle of prudent valuation, a gain arose from the settlement of the provision for claims outstanding carried forward from the previous year.

Re Liabilities B. IV.

Provision for bonuses and rebates	
from life insurance operations	
As per 31/12/2017	€ 276,041,173
Withdrawal in financial year for:	
- Interest-bearing accumulation	€ 5,418,081
- Increase in amount	€ 2,217,549
- Bonus shares paid out	€ 27,694,761
Allocation from the net profit in the financial year	€ 28,493,531
As per 31/12/2018	**€ 269,204,314**

Breakdown	€ millions
already determined but not yet allocated	
- Regular bonus shares	41.54
- Final bonus shares	3.70
- The minimum participation in the revaluation reserves	3.67
Final bonus fund for financing	
- Of bonus pensions	-
- Of final bonus shares	30.88
- The minimum participation in the revaluation reserves	46.52
Non-index-linked part	142.89

Re Liabilities H. I.

Liabilities arising out of direct insurance operations

Liabilities towards policyholders arising out of direct life insurance operations for bonus shares credited amount to	**€ 406,068,544**

Re Liabilities I.

Accruals and deferred income	
Discount points on registered bonds	€ 10,856,712
Advance rental receipts	€ 8,634,038
Other accruals and deferred income	€ 22,236
	€ 19,512,986

Re Liabilities K.

Deferred tax liabilities

The deferred tax liabilities, founded on the revaluation of an acquired subsidiary, reduced in the financial year by € 518,899 to € 22,132,561.

Notes to the profit and loss account

Booked gross premiums in € 000s						
	Financial year					Previous year
	Non-life/ accident	Life	Health	Pension fund	Total	Total
1. Direct insurance operations						
Domestic	1,924,921	466,322	93,051	142,328	2,626,622	2,571,774
Other EEC countries	148,076	-	-	-	148,076	141,311
Total 1.	2,072,997	466,322	93,051	142,328	2,774,698	2,713,085
2. Reinsurance coverage provided						
	352,123	-	-	-	352,123	293,900
Total	**2,425,120**	**466,322**	**93,051**	**142,328**	**3,126,821**	3,006,985

The gross overall expenses on all insurance operations were as follows:

Acquisition expenses	€ 442,047,782
Administration costs	€ 230,913,258

To items II. 3. b)

Income from other investments

aa) Income from real estate and similar land rights, including buildings on third-party land	€ 6,896,049
bb) Income from other investments	€ 178,160,083
	€ 185,056,132

To items IV. 2. c)

Income from other investments

aa) Income from real estate and similar land rights, including buildings on third-party land	€ 76,388,965
bb) Income from other investments	€ 147,567,056
	€ 223,956,021

Personnel expenses
Personnel expenses totalled € 307,931,971 (previous year € 297,046,969). These include expenses for the risk portion of the allocation to the pension provision.

During the year under review, Management Board remuneration totalled € 2,437,456 (previous year € 2,090,149). The retirement pensions of former Management Board members and their surviving dependants totalled € 2,213,676) (previous year € 2,779,597). On 31 December 2018, a pension provision totalling € 30,785,041 (previous year € 30,558,263) was recognised for this group of persons. The Supervisory Board remuneration totalled € 524,802 (previous year € 504,120). Payments to the Advisory Board came to € 73,759 (previous year € 71,619).

Auditors' fees
For services rendered by the Group's auditors (KPMG AG Wirtschaftsprüfungsgesellschaft and its affiliated companies) for the parent company and its subsidiaries in the financial year, a fee of € 1,400,600 was paid (including € 24,079 in additional expenditure for 2017).
This broke down into € 1,061,507 for audit services, € 18,375 for other certification services, € 58,866 for tax advisory services and € 261,852 for other services.

Details of other income and expenses pursuant to section 298 paragraph 1 HGB in conjunction with section 277 paragraph 5 HGB
€ 16,019 (previous year € 53,904) was attributable to the discounting of provisions and € 6,365,390 (previous year € 22,034,648) to currency conversion. Other expenses include € 94,065 (previous year € 123,590) attributable to the discounting of provisions and € 25,569,790 (previous year € 6,869,672) to currency conversion.

Other information

Difference pursuant to section 253 paragraph 6 of the German Commercial Code (HGB)
The difference pursuant to section 253 paragraph 6 HGB on the balance sheet date amounted to € 118.8 million (previous year € 102.2 million). This was due to the pension provision.

Formation of valuation units in accordance with section 314 paragraph 1 no. 15 in conjunction with section 254 HGB
The consolidated financial statements show amounts owed to banks of € 548.4 million, of which € 31.2 million relate to a loan for financing the OASIS Florenc office building in Prague. The liabilities include a roll-over fixed-interest loan, the contractual interest and interest period of which are based on the EURIBOR for three months plus liquidity costs (0.33286 %) and a credit margin (0.80 %).

For the purpose of interest rate hedging, the subsidiary DEREIF Prag Oasis s.r.o. has contractually agreed to take out an interest rate hedge (interest cap) for the financing term from 20 October 2017 to 28 September 2027 in the form of a fixed interest rate ceiling of 4.25 % p.a. On the balance sheet date, a micro valuation unit was formed with a nominal volume of € 31.2 million from the interest cap and the bank loan, as a cash flow hedge in case the 3-month EURIBOR plus the designated liquidity costs and credit margin exceeds 4.25 % p.a.

The net hedge presentation method was selected for reporting on the balance sheet. Cash flows from hedged items and hedging instruments are not reflected insofar as these are related to the hedged risks. Because the hedging relationships and hedging term have been tailored to the loan conditions, the effectiveness measurement of the evaluation unit takes place through the critical terms match method. As a result of this hedging of the risk of increasing interest rates, the DEVK Group recorded an interest obligation on the balance sheet date of € 366,494.

Contingent liabilities and other financial obligations

At the end of the year, other financial obligations arising from private equity funds, real estate holdings, fund units and participating interests totalled € 209.0 million.

On the balance sheet date, we had outstanding financial obligations totalling € 38.1 million from open short options, € 60.0 million from multi-tranches, € 81.0 million from open forward purchases and € 90.8 million from real estate purchase contracts. The payment obligations in relation to approved mortgage loans not yet paid out totalled € 167.3 million.

DEVK Allgemeine Versicherungs-AG is furnishing a default guarantee in the event of policyholder insolvency via a bond insurance policy. As of the balance sheet date this guarantee covers the sum of € 83.8 million. We do not currently anticipate any availment of this guarantee since the risk of the policyholder becoming insolvent is rated as extremely low.

In order to secure a guarantee line of USD 50.0 million, DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE issued a securities deposit with a value of € 2.5 million.

In compliance with the statutory provisions of sections 221 ff VAG, life assurance companies are required to be members of an insurance guarantee scheme. Pursuant to the Insurance Guarantee Scheme Financing Regulation (Sicherungsfonds-Finanzierungs-Verordnung), the guarantee scheme levies annual contributions amounting to a maximum of 0.2 ‰ of the total technical provisions net of reinsurance until a security fund amounting to 1 ‰ of the total technical provisions net of reinsurance has been built up. The accumulation stage of this process is now complete, in view of which the Group has no future liabilities in this respect.

The guarantee scheme levies annual contributions if the company's financial and risk position changes. Since 2017, the criteria of Solvency II have been applied in measuring capital resources and the solvency margin, and this led in 2018 to the levying of an annual contribution of € 509,331.

The insurance guarantee scheme can also levy special contributions totalling a further 1 ‰ of the technical provisions net of reinsurance. This constitutes a maximum commitment of € 6,397,393.

In compliance with the statutory provisions of sections 221 ff VAG, health assurance companies are required to be members of an insurance guarantee scheme. After taking over insurance contracts in fulfilment of its remit, the guarantee scheme levies special contributions totalling a maximum of 2 ‰ of the technical provisions net of reinsurance. Our 2019 payment commitment in this regard is € 541,277.

Under an assumption of debt agreement, the pension provisions for all employees in the DEVK Group have been assigned to DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE in return for the transfer of corresponding investments. This results in a bundling all of the DEVK Group's pension commitments with a single risk bearer and also improves the protection in place for employees' pension rights.
The joint and several liability for the pension commitments capitalised on the DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE balance sheet has given rise to benefit obligations totalling € 582.0 million.

Terra Management GmbH, Cologne, is the general partner with unlimited liability in Terra Estate GmbH & Co. KG, Cologne. DRED-Real Estate Deutschland GP S.à.r.l., Luxembourg, is the general partner with unlimited liability in DRED SICAV-FIS, Luxembourg, while GrundV GP S.à.r.l., Luxembourg, is the general partner with unlimited liability in Grundversorgung S.C.S., Luxembourg.

Occurrences of particular importance for Group companies with differing balance sheet dates pursuant to section 299 paragraph 3 HGB

During the period between the balance sheet date of Grundversorgung S.C.S. (30 September 2018) and the Group balance sheet date (31 December 2018), further investments were made by the investment companies of Grundversorgung S.C.S.
On 16 November 2018, HEICO Grundversorgung Invest 5 GmbH & Co. KG acquired the real estate of a retail park for a price of € 14.8 million. The purchase price was paid on 20 December 2018, meaning that the risk was transferred on 31 December 2018 according to the purchase contract. Accordingly this real estate, acquired for a total cost of € 16.7 million, was not recognised under the item Real estate and similar land rights, including buildings on third-party land, nor was the purchase price payment recognised under Cash and cash equivalents in either the consolidated financial statements of Grundversorgung S.C.S. to 30 September 2018 or the consolidated financial statements to 31 December 2018.

Supplementary report

No occurrences or events took place after the reporting date that could significantly affect the company's future net assets, financial position or results of operations.

General information

DEVK Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn (= Deutsche Bahn Company Welfare Scheme), Cologne, is registered at the local court under Commercial Register Number
HRB 8234.

During the year under review, the average number of employees, disregarding inactive employment contracts and after conversion of part-time employees to full-time equivalents, came to 3,876. This figure is made up of 110 executives and 3,766 salaried employees.

Cologne, 20 March 2019

The Management Board

Rüßmann **Burg** **Knaup** **Scheel** **Zens**

Independent audit certificate

To DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn, Cologne

Report on the audit of the consolidated financial statements and of the consolidated management report

Opinions

We have audited the consolidated financial statements prepared by DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn, Cologne, comprising the consolidated balance sheet to 31 December 2018, the consolidated profit and loss account, the statement of shareholders' equity and the cash flow statement for the financial year from 1 January to 31 December 2018, as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the consolidated management report prepared by DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn, Cologne, for the financial year from 1 January to 31 December 2018. In conformity with German statutory requirements, we have not audited the content of the corporate governance statement contained in the Group management report. We have not audited the details given in the Group management report which are marked as unchecked.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply in all material respects with the prevailing German commercial regulations for insurance undertakings, give a true and fair view, in accordance with German principles of proper accounting, of the assets, liabilities and financial position of the Group as at 31 December 2018 and of its financial performance for the financial year from 1 January to 31 December 2018 and
- the accompanying consolidated management report as a whole provides an appropriate view of the Group's position. In all material respects, the consolidated management report is consistent with the consolidated annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future developments. Our opinion on the Group management report does not extend to the content of the above-mentioned corporate governance statement. Moreover, our opinion on the Group management report does not extend to the content of the details given in the Group management report which are marked as unchecked.

Pursuant to section 322 paragraph 3 clause 1 HGB, we hereby declare that our audit has not led to any reservations relating to the legal compliance of the consolidated annual financial statements and consolidated management report.

Basis for the opinions

We conducted our audit of the consolidated annual financial statements and of the consolidated management report in accordance with section 317 HGB and EU Audit Regulation No. 537/2014 and in compliance with the German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the

"Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Consolidated Management Report" section of our auditor's report. We are independent of the Group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities pursuant to those requirements. Moreover, in accordance with Article 10, paragraph 2, point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5, paragraph 1 of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and the consolidated management report.

Key audit matters in the audit of the consolidated annual financial statements

Key audit matters are those matters which, in our professional judgement, were of greatest significance in our audit of the consolidated annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in conjunction with our audit of the consolidated annual financial statements as a whole, and in forming our audit opinion in this regard; we do not provide a separate audit opinion on these matters.

Measurement of the partial loss provisions for known and unknown claims contained in the gross provision for claims outstanding in our direct non-life and accident insurance.

With regard to the accounting policies and methods, we refer to the explanations given in the notes to the consolidated financial statements in the "Accounting and valuation methods" section. Detailed statements on risk are contained in the management report in the "Risk report" section.

THE FINANCIAL STATEMENT RISK

The gross provisions for claims outstanding total € 3,120 million, which represents 22.0 % of the balance sheet total.

The gross provision for claims outstanding is divided into several partial loss provisions. The provision for known and unknown claims comprises a large part of the gross provision for claims outstanding.

The measurement of the provision for known and unknown claims is subject to a degree of uncertainty regarding the size of the prospective claims, and is therefore very much a matter of judgement. According to commercial principles, the estimate must not be made in a risk-neutral way, in a spirit of equal weighting of opportunities and risk, but rather in observance of the prudence principle required under accountancy law (section 341e paragraph 1 sentence 1 HGB).

The provisions for known claims are estimated according to the likely cost of each individual claim. For as yet unknown claims, a provision for claims incurred but not reported is formed, the extent of which is predominantly based on past experience and calculated through the application of recognised actuarial techniques.

The risk in relation to claims already known on the balance sheet date lies in the fact that insufficient provision may be made for claims payments still outstanding. In the case of claims incurred but not yet reported (unknown outstanding claims), there is the additional risk that they are accounted for either inadequately or not at all.

OUR AUDIT APPROACH

For the audit of the provision for claims outstanding, we engaged the additional services of our own actuaries. We conducted the following specific audit activities:

- We obtained a fundamental overview of the process for calculating provisions, identified key checks and tested the suitability and efficacy of these checks.
- On the basis of deliberate and follow-up random sampling, we reproduced the process of determining the extent of individual known provisions via examination of the records for various segments and types of insurance.
- On the basis of a time series comparison, focusing particularly on claims numbers, financial year and balance sheet claims rates, as well as settlement results, we analysed the development of the claims provision over time.
- On the basis of a deliberate selection, we audited at individual company level to determine the methods of calculating the extent of claims incurred but not reported. In doing so, we paid particular attention to the determination of estimated numbers and claim sizes from historical experience and current developments.
- We carried out our own actuarial calculations for certain segments which we selected on the basis of risk considerations. In doing so we determined a respective points system based on accepted actuarial processes, in order to evaluate the safety level incorporated in the provisions for claims outstanding.

OUR OBSERVATIONS

The methods and underlying assumptions employed in measuring the partial loss provisions for known and unknown claims contained in the gross provision for claims outstanding in the direct non-life and accident insurance business are in accordance with the applicable basis of accounting. The underlying assumptions have been derived in a suitable manner.

Measurement of the premium reserve in the life insurance business

With regard to the accounting policies and methods, we refer the reader to the explanations given in the notes to the Group's consolidated financial statements in the "Accounting and valuation methods" section. Detailed statements on risk are contained in the management report in the "Risk report" section.

THE FINANCIAL STATEMENT RISK

In the consolidated financial statements, the Group recognises a premium reserve (gross) in the amount of € 4,906 million. This represents 34.6 % of the balance sheet total. In our discussion of the matter, we are referring to the premium reserve for life insurance business.

The balance sheet item essentially arises as the sum total of the premium reserves calculated for individual policies. The premium reserves are calculated applying the prospective method, on the basis of the cash values of future benefits less the future contributions. Depending on the policy, these are determined via a large number of automated and manual calculation steps in compliance with the provisions of supervisory and commercial law.

These include provisions governing biometric variables, cost assumptions and interest rate assumptions, as well as ones regulating interest rate reinforcement (supplementary interest reserve or interest-induced reserve reinforcement). In particular, the rules governing interest rate reinforcement were amended in 2018 and the so-called "corridor method" was introduced.

Hence the risk of overvaluing or undervaluing the premium reserves for an individual policy lies in the inconsistent, incorrect application of the calculation parameters.

OUR AUDIT APPROACH
When auditing the premium reserve we used our own actuaries as specialists and conducted the following key audit activities:

- We are confident that the insurance policies in the portfolio management systems are fully reflected in the premium reserve. We based our checks on the controls put in place by the Group, assessing whether they function in a suitable way and are properly implemented. During this process, we performed reconciliation of the portfolio management systems, statistics systems and the general ledger to determine whether the procedures for the transmission of values functioned correctly.
- To confirm the accuracy of the premium reserves for individual polices, we calculated the premium reserves for the key sub-portfolios (in the financial year approx. 83 % of the portfolio) using our own IT programs and compared the figures with the ones produced by the Organisation.
- With respect to the supplementary interest reserve to be formed within the premium reserve, we checked the use of the reference interest rate by the Company, as well as the assumptions it makes in relation to the cancellation and lump-sum settlement probabilities it applies. Furthermore, we recognised the changeover to determination of the reference interest rate for calculation of the supplementary interest reserve by means of the so-called "corridor method".
- We also checked whether the business plans approved by the Federal Financial Supervisory Authority (BaFin) were applied in relation to the existing policies. This also includes the interest-induced reserve reinforcements.
- We checked whether the generally applicable tables published by the German Association of Actuaries (DAV), as well as individually adjusted tables, were applied correctly. In so doing, we employed an internal profit breakdown to assist in assessing whether any long-term negative risk results existed.
- In addition we compared the movements of the premium reserve over time with our own extrapolations, which we calculated both in a time series and for the current financial year.
- To supplement this, we assessed the report by the responsible actuary, in particular checking that the report did not contain any statements contrary to our audit findings.

OUR OBSERVATIONS
The evaluation of the premium reserve is correct and is compliant with the provisions of supervisory and commercial law. The calculation parameters are appropriately derived and applied.

Other information

The Management is responsible for the other information. The other information comprises:

- the corporate governance statement,

– the details in the consolidated management report marked as unaudited, and
– the remaining parts of the annual report, with the exception of the audited consolidated annual financial statements, the consolidated management report and our auditor's report.

Our opinions on the consolidated financial statements and on the consolidated management report do not cover the other information, and consequently we do not express an opinion or offer any other form of assurance in relation said information.

In connection with our audit, our responsibility is to read the other information and consider whether it
– is materially inconsistent with the consolidated financial statements, the consolidated management report and the knowledge we acquired during the audit, or
– otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the consolidated financial statements and the consolidated management report

The management is responsible for the preparation of consolidated annual financial statements that comply, in all material respects, with the prevailing provisions of German commercial law as applied to insurance undertakings and for ensuring that the consolidated annual financial statements, in compliance with German principles of proper accounting, give a true and fair view of the Group's assets and liabilities, financial position and financial performance. In addition, the management is responsible for such internal controls as they deem necessary to allow the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual financial statements, the Group management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. They are also responsible for financial reporting founded on the accounting policy of the going concern, provided no factual or legal circumstances militate against this.

Furthermore, the management is responsible for the preparation of a consolidated management report that, taken as a whole, provides an appropriate view of the Group's position and is consistent in all material respects with the consolidated annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the management is responsible for such arrangements and measures (systems) as they deem necessary to facilitate the preparation of a consolidated management report that complies with the applicable German legal requirements and provides sufficient appropriate evidence for the assertions in the consolidated management report.

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

Auditor's responsibilities for the audit of the consolidated financial statements and of the consolidated management report

Our objective is to obtain reasonable assurance as to whether the consolidated annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the consolidated management report as a whole provides an appropriate view of the Group's position and is consistent in all material respects with the consolidated annual financial statements and the knowledge obtained in the audit, complies with German legal provisions and appropriately presents the opportunities and risks of future developments, as well as to issue an auditor's report that includes our audit opinions on the consolidated annual financial statements and consolidated management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements may arise from fraud or error and are considered material if they could individually or mutually be reasonably expected to influence the economic decisions of users taken on the basis of the consolidated annual financial statements and the consolidated management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- Identify and assess the risks of material misstatements in the consolidated annual financial statements and the consolidated management report, whether due to fraud or error, plan and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the circumvention of internal controls.
- Acquire an understanding of the internal control system relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the consolidated management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of the accounting policies used by the management and the reasonableness of estimates made by the management, as well as the related disclosures.
- Draw conclusions regarding the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, as to whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are obliged to draw attention in the auditor's report to the related disclosures in the consolidated annual financial statements and in the consolidated management report or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may mean the Group is no longer able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual financial statements, including the disclosures, and whether the consolidated annual financial statements present the underlying transactions and events in a manner conducive to ensuring that the consolidated annual financial statements give a true and fair view of the assets and liabilities, financial position and financial performance of the Group in compliance with German principles of proper accounting.
- Obtain sufficient appropriate audit evidence regarding the entity's financial information and business activities within the Group to express opinions on the consolidated financial statements and on the consolidated management report. We are responsible for the direction, supervision and performance of the group audit. We bear sole responsibility for our opinions.
- Evaluate the consistency of the consolidated management report with the consolidated financial statements, its conformity with the law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the management in the consolidated management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the management as a basis for its forward-looking statements, and evaluate the proper derivation of the forward-looking statements from these assumptions. We do not express a separate audit opinion on the forward-looking statements or the assumptions on which they are based. There is a substantial unavoidable risk that future events will differ materially from the forward-looking statements.

We engage in discussions with the persons responsible for governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control system that we identify during our audit.

We also provide the persons responsible for governance with a statement that we have complied with the relevant independence requirements, and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, the related safeguards.

From the matters discussed with the persons responsible for governance, we determine the matters which were of most significance in the audit of the consolidated annual financial statements for the current period and which therefore constitute the key audit matters. We describe these matters in our auditor's report unless public disclosure of the matter is forbidden by legislation or other legal provisions.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as the auditors at the Supervisory Board meeting on 4 May 2018. Furthermore, we were engaged by the Supervisory Board on 4 May 2018. We have been the auditor of DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn without interruption since 1998.

We hereby declare that the opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the audit, we also rendered the following services, which are not stated in the consolidated financial statements or the consolidated management report, for the audited companies or for companies controlled by the audited companies:

- Audit of the annual financial statements and management reports of the parent company and controlled subsidiaries,
- Audit of the solo solvency overviews of the controlled subsidiaries and of the Group's solvency overview,
- Audit of the Management Board's reporting on relationships with affiliated companies pursuant to section 312 paragraph 1 of the German Stock Corporation Act (AktG) (dependent companies report),
- Audit of the propriety of the data made availability to the guarantee scheme for life insurance policies pursuant to section 7 paragraph 5 of the Insurance Guarantee Scheme Financing Regulation (SichLVFinV),
- Audit pursuant to section 24 of the Financial Investment Brokerage Regulation (FinVermV),
- Tax appraisal and advice on individual accounting matters as well as in connection with the German Investment Tax Act (InvStG),
- Drawing up the tax balance sheet, as well as preparing corporate tax returns,
- Other services in connection with compliance and regulatory matters.

Chief auditor

The auditor in charge of the audit is Thorsten Klitsch.

Cologne, 11 April 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Klitsch	**Happ**
Auditor	Auditor

Supervisory Board report

During 2018, the Supervisory Board was briefed by the parent company's Management Board on the Group's commercial performance and financial position at various meetings.

KPMG AG Wirtschaftsprüfungsgesellschaft, having been appointed as auditors in line with statutory requirements, duly audited the 2018 consolidated financial statements and management report. This audit did not reveal any irregularities. An unqualified audit certificate was granted. The Supervisory Board has duly acknowledged the audit findings.

The Supervisory Board's own audit of the consolidated annual financial statements and consolidated management report likewise revealed no irregularities. Accordingly, the Supervisory Board hereby approves the 2018 consolidated financial statements.

The separate obligatory part of the CSR report was appraised by the Supervisory Board at its meeting in March 2019 and approved without reservations.

The Supervisory Board would like to thank the Management Boards and employees of the various Group companies for all their hard work and commitment.

Cologne, 8 May 2019

The Supervisory Board

Kirchner
Chairman

Abbreviations used

ABS	Asset-backed securities
AG	Aktiengesellschaft
AktG	German Stock Corporations Act
ALM	Asset Liability Management
AltZertG	Pension Contracts Certification Act
BaFin	German Financial Supervisory Authority
BGH	German Federal Court of Justice
BilMoG	German Act on Modernisation of Accounting Regulations
CHF	Swiss francs
DAV	Association of German Actuaries
DAX	German Share Index
DeckRV	Regulation concerning accounting principles for premium reserves
Dr	Doctor
DRS	German accounting standards
ECB	European Central Bank
EDP	Electronic data processing – IT
EEC	European Economic Community
EGHGB	Introductory Act to the German Commercial Code
EStG	German Income Tax Act
etc.	Et cetera
e.V.	Registered association (e.V.)
Fed	Federal Reserve System
GBP	British pound (sterling)
GDP	Gross domestic product
GDV	German Insurance Association
GmbH	German private limited company
HGB	German Commercial Code
IDW	Institute of Public Auditors in Germany
KonTraG	German Control and Transparency in Business Act
KWG	German Banking Act
MTIR	Mean company-specific technical interest rate
No.	Number
NRW	North Rhine-Westphalia
ORSA	Own Risk and Solvency Assessment
p.a.	Per annum
RechVersV	German Regulation on Accounting in the Insurance Sector
ret.	In retirement
SEK	Swedish krona
€ 000s	Thousand(s)
VAG	German Insurance Undertakings Supervision Act
VVG	German Insurance Contracts Act

DEVK Central Office, Cologne, Germany

50735 Cologne, Riehler Strasse 190

Principal departments and department heads:

Personnel
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Georg Müller

Sales
Olaf Nohren

Corporate Communication, Bank and Direct Sales
Hans-Joachim Nagel

Life
Jörg Gebhardt

Actuary in Charge / Actuarial Office
Jürgen Weiler

Non-life / HUK Operations
Thomas Doll

KINEX / Accounting / Central Office Applications Partner
Lothar Diehl

Investments
Joachim Gallus

Non-life/HUK claims
Peter Boecker

Revision
Gerd Stubbe

Information Processing and Telecommunications
Klaus Dresbach

Project Portfolio Management / Management Organisation
Martin Meyer

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Elmar Kaube

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- 1 March 2019 -

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(Plus the names of senior management personnel)

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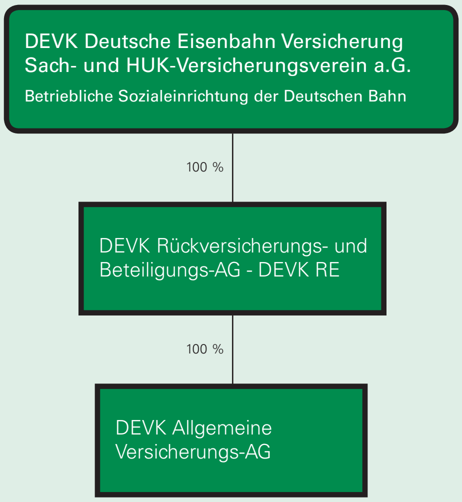
Organizational chart of DEVK Versicherungen



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