Company bodies

Supervisory Board

Alexander Kirchner
Runkel
Chairman
Chairman of the Eisenbahn- und Transport Union (EVG)

Manfred Stevermann
Selm-Bork
Deputy Chairman
CEO of
Sparda-Bank West eG

Gerd Becht
Bad Homburg
Director of Compliance, Data Protection, Law and Group Security, Deutsche Bahn AG and DB Mobility Logistics AG (ret.)
(until 12 May 2016)

Hans-Jörg Gittler
Kestert
CEO of
BAHN-BKK

Helmut Petermann
Essen
Chairman of the General Works Council
DEVK Versicherungen

Ronald Pofalla
Weeze
Director of Infrastructure
Deutsche Bahn AG
(from 12 May 2016)

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

Management Board

Friedrich Wilhelm Gieseler
Bergisch Gladbach
Chairman
(until 14 May 2016)

Gottfried Rüßmann
Cologne
Chairman (from 15 May 2016)

Bernd Zens
Königswinter

Michael Knaup
Cologne
Deputy Board Member
(from 1 October 2016)

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.

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.

Affiliated companies and participating interests

The companies affiliated with DEVK Rückversicherungs- und Beteiligungs-AG are

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

and its direct and indirect subsidiaries.

Our company's share capital of approximately € 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. There is a profit transfer agreement with DEVK Asset Management GmbH and a control agreement with German Assistance Versicherung AG.

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

Pursuant to section 312 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 2016 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, investments and investment 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

In 2016 the capital markets were shaped by political events such as the United Kingdom's vote to leave the EU and the election of the new US President, as well as by the central banks' monetary policy actions, both executed and anticipated. However, in the USA and in Europe the economy remained relatively stable through 2016.

From the start of the year to mid-February the leading German share index, the DAX, fell by over 15 % against a backdrop of growing concerns about the Chinese economy. On 11 February 2016 the DAX sank to 8,753 points, which proved to be its lowest point of the year, before recovering through the spring and returning to 10,000 points. Triggered by uncertainties in the wake of the narrow vote in favour of so-called Brexit on 23 June, the DAX slipped back below 9,500 points, before rising again by autumn 2016 to a level of somewhat over 10,500 points and to 11,481 points by the end of the year. Tensions within the EU, as well as with Turkey, triggered or exacerbated by the refugee crisis and the Turkish regime's reaction to the attempted coup, led to increased uncertainty on the European capital markets, coupled with increased price volatility and rises which fell short of the US stock market's performance.

Whereas the US central bank, the Fed, chose not to embark on any new bond-buying programmes, and even slightly increased the base rate in December 2016, the ECB continued pursuing an expansionary monetary policy. On 10 March, ECB President Mario Draghi announced a slight reduction of the base rate to 0.00 % and of the deposit rate to – 0.40 %, as well as an increase in the bond-buying programme from € 60 billion to € 80 billion a month until the end of March 2017. Furthermore, from June 2016 onwards the bond-buying programme was broadened to include corporate bonds. As a result the interest premiums on European corporate bonds fell sharply. Then in December 2016 the bond-buying programme was extended until at least December 2017, albeit at a somewhat reduced rate of € 60 billion from April 2017 onwards.

After an initial shock-induced reaction characterised by falling returns and share prices, the surprise result of the US presidential election raised expectations of rising inflation in the USA, leading to higher yields and the prospect of higher corporate profits. This was founded on hopes of an economic upturn in the USA, albeit a short term one, fuelled by tax cuts, deregulation of the financial sector, reduced environmental protection and a programme of infrastructure spending. As a result the US stock market hit an all-time high after the election, with the Dow Jones Index up 7.8 % by the end of the year on its election day closing price. The yields on ten-year US treasuries rose in November by more than 50 basis points, and hand in hand with this development the US dollar rose further in value, not only against the euro but also again many emerging economy currencies, which suffered corresponding capital outflows.

Returns on European government bonds increased significantly on the back of developments in the USA. For instance, the yield on ten-year German government bonds rose from – 0.19 % to over 0.30 % for a time, before settling back to a year's-end figure of 0.19 %. The yield on Italian government bonds with a maturity of ten years even rose from below 1.4 % at the end of October 2016 to over 2.0 % by the end of November 2016, and at the end of 2016 stood at 1.82 %. All in all, the interest rates on bonds with longer maturities rose proportionately more than the rates on short-term bonds.

As in 2015, overall 2016 economic growth in Germany and the eurozone was positive but modest. In Germany, real gross domestic product was 1.9 % up on the 2015 figure, and across the eurozone it rose 1.7 %, while unemployment again fell slightly in Germany, from 6.4 % to 6.1 %, and in the eurozone from 10.9 % to 10.0 %. A slight weakening of export growth in Germany was offset by somewhat stronger domestic demand and a strong construction industry.

Despite various mergers and takeovers of reinsurers, the overcapacity in the reinsurance industry has not diminished significantly. The frequency of natural disasters in Europe did not increase, and the size of the claims generated by the events which did occur had no significant impact on the capacity providers. Alternative capacity has gained a foothold in the reinsurance sector, but the proportion of traditional reinsurance companies in coverage systems has at least remained stable.

On the German reinsurance market, BaFin's interpretative decision regarding the conduct of reinsurance business in Germany by insurance undertakings situated in a third country has caused an upheaval and led to relocations when placing business with non-European reinsurers. This is because, in Germany, Solvency II equivalence is now only conceded to reinsurers from Europe, Bermuda and Japan. Accordingly, reinsurers from third countries barely come into consideration in relation to the placement of business in 2017.

Business trends

In 2016, DEVK Rückversicherungs- und Beteiligungs-AG's gross premiums written were 4.5 % up at € 427.0 million, a stronger rise than expected (forecast rise 2 – 3 %). This growth was the result of both non-DEVK business (+ 5.6 % at € 206.1 million) and DEVK-internal business (+ 3.4 % at € 220.9 million). The number of policies reinsured (non-DEVK only) on 31 December 2016 stood at 1,437 (2015: 1,252). Customer numbers rose slightly to 296 (2015: 270).

The underwriting result before changes to the equalisation provision improved to € 24.6 million (forecast: from € 14 million to € 18 million; 2015: € 21.9 million). After a very high allocation of € 28.1 million to the equalisation provision (2015: € 23.5 million), the underwriting result net of reinsurance stood at € – 3.5 million (2015: € – 1.6 million). The result thus came in below the forecast window of € 0 to € 6 million.

Due chiefly to lower income from disposals of investments than in 2015, as well as indirectly due to the profit transfer from DEVK Allgemeine Versicherungs-AG, the investment result decreased to € 150.9 million (2015: € 172.3 million). The decrease was therefore less sharp than expected.

Due to the better than expected investment result, the result from ordinary activities came to € 112.8 million (2015: € 131.8 million), exceeding the forecast range of € 80 to 90 million.

As in 2015, after taxes the net annual profit came to € 63.0 million, which is recognised as net retained profit.

Net assets, financial position and results of operations

Results of operations

	2016 € 000s	2015 € 000s	Change € 000s
Technical account	– 3,452	– 1,630	– 1,822
Investment result	150,860	172,287	– 21,427
Other result	– 34,606	– 38,888	4,282
Profit from ordinary activities	**112,802**	131,769	– 18,967
Taxes	49,802	68,769	– 18,967
Net profit for the year	**63,000**	63,000	–

Underwriting result, net of reinsurance

Gross premium receipts rose 4.5 % to € 427.0 million. Earned premiums net of reinsurance totalled € 315.9 million (2015: € 285.9 million), and claims expenses net of reinsurance came to € 209.1 million (2015: € 186.8 million). The ratio of net claims expenses to earned net premiums thus rose to 66.2 % (2015: 65.3 %). At 26.4 %, the ratio of expenses on insurance business net of reinsurance to earned premiums net of reinsurance remained unaltered as compared with the 2015 figure.

Gross claims expenses for the year were 5.3 % up and the gross claims ratio stood at 64.5 % (2015: 64.4 %).

The gross operating expenses, which predominantly comprise reinsurance commission, rose by 4.3 %, from € 107.2 million in 2015 to € 111.8 million in 2016.

The 2016 underwriting result before changes to the equalisation provision improved to € 24.6 million (2015: € 21.9 million). After a very high € 28.1 million allocation to the equalisation provision (2015: € 23.5 million), the underwriting result net of reinsurance totalled € – 3.5 million (2015: € – 1.6 million).

Life assurance

The greatest contribution to the results for this segment was made by reinsurance contracts with DEVK Lebensversicherungsverein a.G. and DEVK Allgemeine Lebensversicherungs-AG. Gross premiums written totalled € 16.4 million (2015: € 17.0 million), and the underwriting result came to € 800,000 (2015: € 1.7 million).

Accident insurance

Gross booked premium receipts amounted to € 37.3 million (2015: € 36.5 million). and at € 4.5 million the underwriting result was somewhat down on the 2015 figure of € 5.8 million.

Liability insurance

With gross booked premiums of € 4.5 million (2015: € 3.2 million), and after a € 300,000 allocation to the equalisation provision (2015: € 47,000 withdrawal), the underwriting result came to € – 800,000 (2015: € – 700,000).

Motor vehicle insurance

This segment comprises both motor vehicle liability insurance and comprehensive & partial comprehensive motor insurance. Gross motor vehicle liability insurance receipts totalled € 170.2 million (2015: € 158.4 million). After a € 3.3 million allocation to the equalisation provision (2015: € 3.2 million), the underwriting result net of reinsurance came to € – 200,000 (2015: € – 1.2 million).

Fire and non-life insurance

Total gross booked fire and non-life insurance premiums rose to € 176.6 million (2015: € 170.7 million). In detail, our individual fire and non-life segments performed as follows.

Gross household contents insurance premiums amounted to € 21.2 million, up on the 2015 figure of € 20.0 million. The underwriting result fell to € 2.2 million (2015: € 3.9 million).

With premium receipts of € 78.7 million (2015: € 78.8 million), and after a € 3.3 million allocation to the equalisation provision (2015: € 9.0 million), our combined property insurance registered an underwriting profit of € 3.6 million (2015: € 3.8 million).

In the other classes of fire and non-life insurance, gross premiums written totalled € 76.7 million (2015: € 72.0 million). Due to a very large allocation to the equalisation provision (€ 18.1 million; 2015: € 14.5 million), the underwriting result saw a loss of € 13.0 million (2015: € – 13.7 million).

Other insurance policies

With premium receipts of € 21.9 million (2015: € 22.6 million), after a € 3.0 million allocation to the equalisation provision (2015: € 3.2 million withdrawal), the underwriting result came in at € – 600,000 (2015: € – 1.2 million).

Investment result

At € 158.6 million, the investment result was significantly down on the 2015 figure of € 188.9 million. This was due chiefly to lower income, as expected, from disposals of investments, as well as lower income from capital transfer agreements with affiliated companies, also as expected. The income from profit transfer agreements with affiliated companies totalled € 99.4 million (2015: 106.7 million). Also included was € 6.1 million in profits from disposals of investments (2015: € 28.3 million) as well as € 1.2 million in write-ups (2015: € 300,000). Current income was moderately down, thus falling more sharply than expected.

At € 7.7 million, investment expenses were significantly lower than in 2015 (€ 16.6 million). This was the result of lower write-downs on investments (€ 4.6 million; 2015: € 12.7 million) as well as smaller losses on disposals of investments (€ 1.0 million; 2015: € 2.6 million). In 2016 there were charges from loss transfers amounting to € 300,000 (2015: € 100,000). 2016 real estate write-downs came to € 1.8 million (2015: € 1.3 million).

On balance, our net investment income was lower at € 150.9 million (2015: € 172.3 million). The investment result thus fell somewhat less than expected.

Other result

The "Other" result, which includes technical interest income, stood at € – 34.6 million (2015: € – 38.9 million). The lower expenditure was the result of lower interest on tax back payments.

Profit from ordinary activities

Due to the lower investment result the result from ordinary activities fell to € 112.8 million (2015: € 131.8 million).

Tax expenditure

As the parent company of a fiscal unit for trade tax and corporation tax purposes, DEVK Rückversicherungs- und Beteiligungs-AG assumes the tax expenses incurred by the Group companies. At € 49.8 million, our tax expenditure fell disproportionately sharply as compared with the change in the profit from ordinary activities.

Operating result and appropriation of retained earnings

As in 2015 the net annual profit came to € 63.0 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 € 48.0 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 12 months. The company 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 € 2.5 million. The necessary funds were generated by the company's ongoing operations.

Ratings

The ratings, commissioned by S&P Global Rating for the first time in 2008, are updated each year. As in the years 2008 to 2015, in 2016 DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Allgemeine Versicherungs-AG, DEVK Allgemeine Lebensversicherungs-AG and DEVK Rückversicherungs- und Beteiligungs-AG were all once again assigned ratings of A+. S&P Global Rating assesses our future outlook as "stable", thus confirming the very sound financial position enjoyed by DEVK companies generally.

Meanwhile, the rating agency Fitch came to the same conclusion, with its 2016 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. Their outlook, too, is rated as stable.

Assets position

	2016 € 000s	2015 € 000s	Change € 000s
Investments (excluding deposits with ceding companies)	1,830,447	1,858,910	– 28,463
Deposits with ceding companies	230,846	222,912	7,934
Receivables arising out of reinsurance operations	19,165	20,624	– 1,459
Other receivables	355,455	279,057	76,398
Other assets	15,212	16,049	– 837
Total assets	**2,451,125**	2,397,552	53,573
Equity	1,139,088	1,091,088	48,000
Technical provisions net of reinsurance	588,327	522,768	65,559
Other provisions	615,878	607,580	8,298
Liabilities arising out of reinsurance operations	102,296	95,537	6,759
Amounts owed to banks	–	72,000	– 72,000
Other liabilities	5,368	8,337	– 2,969
Accruals and deferred income	168	242	– 74
Total capital	**2,451,125**	2,397,552	53,573

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

The deposits arise chiefly from intra-Group life reinsurance contracts with DEVK's two life insurance companies.

Of the other receivables, € 103.9 million (2015: € 111.2 million) concerns receivables under profit transfer agreements. The other receivables arose almost exclusively from liquidity offsetting within the DEVK Group.

Overall verdict on the management report

All in all, the company's net assets, financial position or results of operations proved satisfactory throughout 2016.

Outlook, opportunities and risks

Outlook

In 2017 we anticipate significantly stronger premium growth than in 2016. Before changes to the equalisation provision, we are expecting a technical account result of between € 10 million and € 15 million. After a further high allocation to the equalisation provision, roughly equal to that of the previous year, we are currently expecting an underwriting result net of reinsurance in the order of € – 16 million to € – 11 million.

Movements on the capital markets are usually determined by economic developments. However, from time to time political issues can exert an influence which overshadows economic factors. In DEVK's view 2016 was a year in which political risks had a major impact on the capital markets, and we expect this state of affairs to persist during 2017. Apart from the open question of the political and economic impact of the US election result, many questions remain unanswered in relation to the implementation of Brexit. The outcome of the negotiations between Great Britain and the EU concerning the terms of departure will be of vital importance. Moreover, an ever wider drifting apart in terms of economic development, and its consequences for government budgets, also has explosive implications for the cohesion of the EU today. Further political risks arise from the parliamentary elections in the Netherlands in March 2017, the Presidential election in France in May 2017 and the German Bundestag election in autumn 2017, as well as the possibility of further elections in Italy. Almost every country in the EU is undergoing shifts in the political landscape towards the respective political extremes. Further political risks worthy of mention are thrown up by the current deterioration in the EU's relations with Russia and Turkey. A general overall point to note is that protectionist sentiment has gained significant ground in various countries, and this could lead to economic losses and exert a drag on the performance of the world economy.

In December 2016 the ECB extended its bond-buying program until at least December 2017. As long as additional liquidity continues to flow into the capital markets it will keep prices high and yields low, particularly in the case of short-term bonds. However, both in the interest field and the real estate sector there are signs of a degree of bubble formation. Equities are performing fairly well, and provided the majority of companies can satisfy investors' expectations regarding returns, share values should increase slightly during 2017. Turning to the US central bank, further increases in the base rate can be expected during the course of 2017. At present, early indicators suggest that a continuation of positive economic performance is likely. Current real economic growth in the USA remains fairly low, with an OECD forecast of 2.3 % for 2017. Other countries, including some eurozone countries (e.g. Ireland at 3.2 %) and also emerging economies, such as China (6.4 %) and India (7.6 %), are experiencing higher growth rates.

Further strengthening of the US dollar of the kind experienced in the 4th quarter of 2016, as well as rising interest rates in Europe as a consequence of the US rate hikes, could lead to a renewed flare-up of the debt problems suffered by some emerging economies and peripheral European countries. Accordingly we are expecting a continuation of elevated levels of uncertainty regarding future capital market developments, with a corresponding persistence throughout 2017 of the fairly volatile market movements seen last year.

In the field of investments we expect DEVK Rückversicherungs- und Beteiligungs-AG to gain slightly less income in 2017, both from profit transfer agreements and as a result of slightly falling absolute current income due to lower interest rates. Accordingly we anticipate that our net investment result will be slightly down on last year's level.

All in all, we are expecting the 2017 profit from normal business activities to come in at around 60 million euros.

Opportunities report

Our decision to also trade in the long tail segments motor vehicle liability insurance and general liability insurance has opened up additional business potential. Taking on these risks is frequently a precondition for acquiring business in other segments.

Adhering to underwriting discipline on the European market is a further guarantor of further profitable growth, along with BaFin's decision in relation to third countries trading in Germany, as a result of which we sense increasing demand. The likelihood exists that other European supervisory authorities will follow BaFin's lead, and this should also open up further opportunities for us.

Our background in mutual insurance also opens up opportunities, along with the relationship based on partnership which we maintain with our clients.

Risk report

In accordance with the German Control and Transparency in Business Act (KonTraG), and the requirements laid down in section 26 VAG, we are hereby reporting the risks posed by future developments.

Technical risks

Principal among the technical risks 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.

Claims ratio net of reinsurance

Year	%	Year	%
2007	66.1	2012	68.2
2008	68.7	2013	72.6
2009	73.5	2014	68.6
2010	72.6	2015	65.3
2011	70.8	2016	66.2

In line with suitable assumption guidelines, in the vast majority of cases we only underwrite straightforward, standardised business, while counteracting the risk of unusually high claims expenses attendant upon 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	%
2007	7.2	2012	2.8
2008	10.0	2013	13.7
2009	– 15.9	2014	– 4.1
2010	1.2	2015	2.4
2011	2.2	2016	3.0

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 2016, their volume totalled € 125.3 million (2015: € 97.2 million).

Risk of defaults by debtors arising from our insurance operations

Amounts receivable from reinsurance at the end of the year came to € 19.2 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	0.41
AA –	2.16
A+ +	0.01
A+	2.34
A	5.92
A –	2.14
BBB+	0.02
BBB	0.14
BBB–	0.04
BB+	0.02
B+	0.02
B	0.01
No rating	5.92

Investment risks

In the investment sphere, DEVK Rückversicherungs- und Beteiligungs-AG is exposed for the most part to equity holding risk. This arises from its 100 % participating interests, as well as the 51 per cent holding in DEVK Vermögensvorsorge- und Beteiligungs-AG. They chiefly concern the company's obligation under various control agreements to assume any annual losses suffered by its subsidiaries.

Further risks stemming from investments include:
- the risk of unfavourable interest rate, equity price, real estate value or exchange rate movements (market price risks),
- counterparty 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.

In 2016 our capital investments continued to comply with the investment ordinance which remained officially in force until 31 December 2015 and which we decided, by Executive Board resolution, to retain as the principal foundation of 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, while 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 process ensures that we are able at all times to meet existing and future obligations.

We have subjected our investment holdings to a stress test similar to the one applied to our non-life and accident insurance. We performed this during the course of the year, applying the stress test discontinued by BaFin after the entry into force of Solvency II, and successfully passed the test in all scenarios. As of 31 December 2016 we subjected our investments to an in-house stress test. The 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 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 stress test assumes the following scenarios: 1) a downturn on the equity markets while the bond market remains stable, 2) a simultaneous crash on the equity and bond markets and 3) a simultaneous crash on the equity and real estate markets.

At the end of 2016 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 recourse to detailed multi-year investment planning. Should a liquidity shortfall arise in future, this enables countermeasures to be taken at an early stage. Moreover, to improve our assessment of liquidity risks stress scenarios in line with Solvency II stresses are played out and evaluated. On top of this the investments are divided into 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 2016, the Group held interest-bearing investments to a total value of € 745.1 million. A total of € 437.9 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 € 355.0 million to the fixed assets since we intend to hold this paper until maturity and any market fluctuations are viewed as temporary. Should this second view in particular prove wide of the mark, we shall undertake the necessary write-downs in a timely fashion. These capital investments show a positive valuation reserve of € 51.8 million, a figure that includes € 2.2 million in hidden charges. As of 31 December 2016 the total valuation reserve for our interest-bearing investments came to € 89.6 million. A change in returns of up to +/– 1 % would entail a corresponding value change ranging from € – 45.5 million to € 50.2 million.

This disclosure of the impact of a 1 % interest rate rise only gives an approximate idea of the potential effect on our profitability. The reason for this is that over a year, all things being equal, the portfolio’s average time to maturity diminishes, and the stated change in value thus also decreases accordingly. On top of this, the bulk of our interest-bearing investments are in bearer bonds or bonds recognised on the balance sheet at their nominal values, and in these cases, under the prevailing accounting regulations, an increase in the market interest rate does not lead to write-downs. The securities currently include high levels of 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 Pfandbriefe (German covered bonds) and notes receivable, though we also invest in corporate bonds. Our direct corporate bond holdings make up 10 % of our total investments. In 2016 our bond investments focused on international bearer bonds issued by banks and companies. These involve bearer papers assigned to the fixed assets and also registered securities.

We continue to have a minor investment exposure to certain eurozone countries which remain under the microscope, namely Italy and Spain.

Turning to issuer risks, as proportions of our total investments, 6 % of the company’s investments are in government bonds, 10 % in corporate bonds and 24 % 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 (2015):

AA or better	47.2 %	(54.9 %)
A	24.9 %	(22.6 %)
BBB	24.6 %	(18.6 %)
BB or worse	3.4 %	(3.9 %)

In 2016 the proportion of such investments with ratings of AA or better fell as compared with 2015. This was chiefly due to maturities and repayments. 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 investments 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 € 52.7 million. Both the German and European share indices rose during 2016. In the medium term we continue to expect a positive performance, 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.

In light of the uncertain economic situation, we actively managed our ratio of equity investments throughout the year. There has been an upward trend in the ratio as compared with 2015. 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 € 106.5 million. Of this, € 92.1 million was invested in direct property holdings and € 13.9 million in real estate funds. 2016 real estate write-downs came to € 200,000 (2016: € 2.2 million).

Operational risks

Operational risks may stem from inadequate or failed operational processes, the breakdown of technical systems, external variables, employee-related incidents and changes in the legal framework. Effective management of the operational risk 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, while 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 field to ensure the security and integrity of programmes, data and ongoing operations. The IT Infrastructure is redundant in design in order to cater for a catastrophic breakdown scenario, and 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 which describes the objectives and framework for precautionary measures against emergencies and how to overcome them if they occur.

Legal risks number among the operational risks. DEVK has established a compliance management system designed to ensure compliance with both external requirements and internal guidelines.

Solvency II

The insurance industry has undergone radical changes to its supervisory regime. On 17 January 2015 the European Commission published Delegated Regulation 2015/35 in the Official Journal of the European Union, and in March 2015 the German Bundesrat passed the Act to Modernise Financial Supervision of Insurance Undertakings (Gesetz zur Modernisierung der Finanzaufsicht über Versicherungen [VAG-Novelle]), thereby implementing the EU Solvency II Directive in German law. The provisions of Solvency II have been mandatory since 1 January 2016.

These provisions lay down comprehensive duties to provide the supervisory authorities with information. For instance, we were required to furnish BaFin with "Day 1 Reporting" on our company's net assets and financial position as of 1 January 2016, and further quarterly reports have followed. In each case the solvency calculation required by supervisory law, which is based on a standard formula, showed that DEVK Rückversicherungs- und Beteiligungs-AG has significant excess cover.

We shall publish further information on DEVK Rückversicherungs- und Beteiligungs-AG's solvency pursuant to Solvency II in the solvency and financial report which we shall be preparing, pursuant to section 40 VAG, for the first time in 2017.

Summary of our risk status

We have complied with the supervisory requirements in place since Solvency II came into effect.

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

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 continuing existence.

Cologne, 15 March 2017

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
Partial comprehensive motor insurance
(third-party, fire and theft)

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 2016

Assets	€	€	€	2015, € 000s
A. Intangible assets				
I. Licenses, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licenses in such rights and assets		1,826,634		2,084
II. Payments on account		1,797		–
			1,828,431	2,084
B. Investments				
I. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	774,978,887			758,799
2. Loans to affiliated companies	72,776,750			116,657
3. Participating interests	52,402,429			27,637
		900,158,066		903,093
II. Other investments				
1. Shares, units or shares in investment funds and other variable-interest securities	289,993,247			278,548
2. Bearer bonds and other fixed-interest securities	387,733,576			424,255
3. Other loans	234,382,528			233,437
4. Other investments	18,179,656			19,577
		930,289,007		955,817
III. Deposit with ceding companies		230,845,982		222,912
			2,061,293,055	2,081,822
C. Accounts receivable				
I. Receivables arising out of reinsurance operations		19,164,629		20,624
of which:				
Affiliated companies: € 1,160,472				785
II. Other receivables		355,455,603		279,057
of which:			**374,620,232**	299,681
Affiliated companies: € 355,285,199				273,086
D. Other assets				
– Tangible assets and inventories			**77,401**	87
E. Prepayments and accrued income				
I. Accrued interest and rent		13,144,234		13,814
II. Other prepayments and accrued income		162,045		65
			13,306,279	13,879
Total assets			**2,451,125,398**	2,397,552

Liabilities and shareholders' equity	€	€	€	2015, € 000s
A. Capital and reserves				
I. Subscribed capital		306,775,129		306,775
II. Capital reserve		193,747,061		193,747
III. Retained earnings				
– Other retained earnings		575,566,246		527,566
IV. Net retained profit		63,000,000		63,000
			1,139,088,436	1,091,088
B. Technical provisions				
I. Provision for unearned premiums				
1. Gross amount	25,145,161			22,027
2. of which:				
Reinsurance amount	34,711			56
		25,110,450		21,971
II. Premium reserve		198,964,095		194,408
III. Provision for claims outstanding:				
1. Gross amount	314,529,175			285,171
2. of which:				
Reinsurance amount	76,268,797			76,568
		238,260,378		208,602
IV. Equalisation provision and similar provisions		125,305,920		97,230
V. Other technical provisions				
1. Gross amount	757,544			726
2. of which:				
Reinsurance amount	71,561			170
		685,983		556
			588,326,826	522,768
C. Provisions for other risks and charges				
I. Provisions for pensions and similar commitments		536,883,526		529,973
II. Provisions for taxation		66,273,216		66,794
III. Other provisions		12,720,838		10,813
			615,877,580	607,580
D. Other liabilities				
I. Payables arising out of reinsurance operations		102,296,500		95,538
of which:				
Affiliated companies: € 38,591,697				39
II. Amounts owed to banks		–		72,000
III. Other liabilities		5,368,135		8,337
of which:			**107,664,635**	175,874
Tax: € 1,182,171				1,182
Affiliated companies: € 258,972				959
E. Prepayments and accrued income				
			167,921	242
Total liabilities			**2,451,125,398**	2,397,552

Profit and loss account

for the period from 1 January to 31 December 2016

Items	€	€	€	2015, € 000s
I. Technical account				
1. Earned premiums, net of reinsurance				
a) Gross premiums written	426,980,140			408,666
b) Outward reinsurance premiums	107,981,307			116,792
		318,998,833		291,875
c) Change in the gross provision for unearned premiums	–3,118,261			–5,923
d) Change in the provision for unearned premiums, reinsurers' share	–21,203			–13
		–3,139,464		–5,936
			315,859,369	285,939
2. Allocated investment return transferred from the non-technical account, net of reinsurance			**7,684,609**	7,424
3. Other technical income, net of reinsurance			**5**	–
4. Claims incurred, net of reinsurance				
a) Claims paid				
aa) Gross amount	243,799,615			235,700
bb) Reinsurers' share	64,308,314			71,550
		179,491,301		164,150
b) Change in the provision for claims				
aa) Gross amount	29,358,516			23,653
bb) Reinsurers' share	299,415			–976
		29,657,931		22,676
			209,149,232	186,827
5. Changes in other technical provisions, net of reinsurance				
a) Premium reserve, net of reinsurance		–4,556,058		–7,707
b) Other technical provisions, net of reinsurance		–130,292		–142
			–4,686,350	–7,849
6. Net operating expenses				
a) Gross operating expenses		111,839,551		107,192
b) of which: Reinsurance commissions and profit participation		28,395,603		31,707
			83,443,948	75,485
7. Other technical charges, net of reinsurance			**1,640,962**	1,344
8. Subtotal			**24,623,491**	21,857
9. Change in the equalisation provision and similar provisions			**–28,075,451**	–23,486
10. Underwriting result, net of reinsurance			**–3,451,960**	–1,629
Balance carried forward:			–3,451,960	–1,629

Items	€	€	€	2015, € 000s
Balance carried forward:			– 3,451,960	– 1,629
II. Non-technical account				
1. Income from other investments				
a) Income from participating interests	5,624,666			4,663
of which:				
from affiliated companies: € 3,392,811				2,674
b) Income from other investments	46,233,019			48,935
of which:				
from affiliated companies: € 4,968,865				3,956
c) Income from write-ups	1,179,772			271
d) Gains on the realisation of investments	6,097,706			28,317
e) Income from a profit pooling, profit transfer and partial profit transfer agreements	99,425,369			106,702
		158,560,532		188,889
2. Investment charges				
a) Investment management charges, interest expenses and other charges on capital investments	1,829,793			1,270
b) Write-downs on investments	4,592,032			12,671
c) Losses on the realisation of investments	1,022,093			2,563
d) Charges from loss transfer	256,836			97
		7,700,754		16,602
		150,859,778		172,287
3. Allocated investment return transferred from the non-technical account		7,684,609		7,424
			143,175,169	164,864
4. Other income		7,980,543		70,213
5. Other charges		34,901,879		101,678
			– 26,921,336	– 31,465
6. Profit from ordinary activities			**112,801,873**	131,769
7. Taxes on income		49,761,739		70,443
8. Other taxes		40,134		– 1,674
			49,801,873	68,769
9. Net profit for the year/net retained earnings			**63,000,000**	63,000

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, or they are recorded as operating expenses in their year of acquisition.

Shares in affiliated companies and **participating interests** are shown either at their costs of acquisition or at the lower of cost or market value. **Loans to affiliated companies** are recognised at their nominal values.

Equities, fund units or shares and other variable-yield securities, 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. Said write-ups were to the lower of cost or market value.

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.

Other investments are recognised at the lower of cost or 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 not constituting operating or office equipment are recognised at their nominal values. Operating or office equipment is shown at its cost of acquisition or production as 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, or they are recorded as operating expenses in their year of acquisition.

Interest claims not yet due are the principal item recorded, at their nominal values, under **Prepayments and accrued income**.

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 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 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. They were recognised on the basis of details provided by the ceding companies.

The **other provisions** are formed on the following basis:
The **pension provision** is calculated according to the projected unit credit method on the basis of the HEUBECK 2005 G actuarial tables. The discounting interest rate was calculated as a ten-year average pursuant to the hitherto prevailing Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung). It was set at 4.00 % (2015: 3.89 %) 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 2.1 %, and the rate of pension increase at between 1.0 % and 1.7 % p.a.

The **tax provisions** and **other provisions**, calculated according to anticipated needs, 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 into euros on the balance sheet date at the median foreign currency exchange rate.

The **allocated investment return transferred from the non-technical account, 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.

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 2016 financial year

Assets	Balance sheet value 2015 € 000s	Additions € 000s	Transfers € 000s	Disposals € 000s	Write-ups € 000s	Write-downs € 000s	Balance sheet value 2016 € 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	2,084	87	–	–	–	344	1,827
2. Payments on account	–	1	–	–	–	–	1
3. Total A.	2,084	88	–	–	–	344	1,828
B.I. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	758,799	16,180	–	–	–	–	774,979
2. Loans to affiliated companies	116,657	–	–	43,880	–	–	72,777
3. Participating interests	27,637	33,121	–	8,085	–	271	52,402
4. Total B.I.	903,093	49,301	–	51,965	–	271	900,158
B.II. Other investments							
1. Shares, units or shares in investment funds and other variable-interest securities	278,547	66,166	–	51,879	1,180	4,022	289,992
2. Bearer bonds and other fixed-interest securities	424,256	13,904	–	50,127	–	299	387,734
3. Other loans							
a) Registered bonds	77,000	31,000	–	20,000	–	–	88,000
b) Notes receivable and loans	126,349	2	–	40	–	–	126,311
c) Other loans	30,088	–	–	10,016	–	–	20,072
4. Other investments	19,577	924	–	2,321	–	–	18,180
5. Total B.II.	955,817	111,996	–	134,383	1,180	4,321	930,289
Total	**1,860,994**	**161,385**	**–**	**186,348**	**1,180**	**4,936**	**1,832,275**

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 2016, 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	774,978,887	1,066,737,303
2. Loans to affiliated companies	72,776,750	72,776,750
3. Participating interests	52,402,429	54,404,857
B.II. Other investments		
1. Shares, units or shares in investment funds and other variable-interest securities	289,993,247	355,406,580
2. Bearer bonds and other fixed-interest securities	387,733,576	442,291,219
3. Other loans		
a) Registered bonds	88,000,000	92,373,173
b) Notes receivable and loans	126,310,902	154,105,199
c) Other loans	20,071,626	20,686,666
4. Other investments	18,179,656	25,359,781
Total	**1,830,447,073**	**2,284,141,528**
of which:		
Investments valued at costs of acquisition	1,742,447,073	2,191,768,356
of which:		
Investments in fixed assets pursuant to section 341b paragraph 2 HGB	355,048,436	406,887,908

The revaluation reserves include hidden liabilities totalling € 3.5 million. These relate to bearer bonds and registered bonds.

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, German Assistance Versicherung AG and SADA Assurances S.A. is calculated on the basis of gross rental values. 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 value of the zero notes payable was calculated on the basis of the year-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 in line with the current euro swap curve plus a risk premium, which take 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's-end exchange rates.

Details of financial instruments within the meaning of section 285 paragraph 18 HGB that are capitalised at their fair value

	Book value € 000s	Fair value € 000s
Fixed-asset securities	39,383	37,224

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 various securities until maturity or we are assuming that any fall in value is only temporary.

Details of derivative financial instruments and forward purchases in accordance with section 285 paragraph 19 HGB

	Type	Nominal volume € 000s	Book value premium € 000s	Fair value of premium € 000s
Other liabilities	Short put options	3,401	137	50
	Forward purchase GBP	24,745	–	71
Registered bonds	Forward purchases	20,000	–	– 451

Valuation methods

Short options:	European options	Black-Scholes
	American options	Barone-Adesi
Forward purchase GBP:	Present value method	

Details of units or shareholdings in domestic investment funds in accordance with section 285 paragraph 26 HGB

Investment goal	Dividends € 000s	Current value € 000s	Hidden reserves/ hidden charges € 000s	Limitation on daily redemption
Equity funds	2,804	174,151	25,044	
Bond funds	1,088	51,754	2,245	
Real-estate funds	997	17,157	3,244	Between any time and after five months

Re Assets B.I.

Investments in affiliated companies and participating interests

	% share	Equity €	Results from previous financial year €
DEVK Allgemeine Versicherungs-AG, Cologne	100.00	342,170,794	–
DEVK Rechtsschutz-Versicherungs-AG, Cologne	100.00	60,563,459	–
DEVK Krankenversicherungs-AG, Cologne	100.00	26,177,128	–
DEVK Allgemeine Lebensversicherungs-AG, Cologne	100.00	143,364,493	400,000
DEVK Pensionsfonds-AG, Cologne	100.00	14,333,766	17,500
DEVK Vermögensvorsorge- und Beteiligungs-AG, Cologne	51.00	191,000,000	–
DEVK Asset Management GmbH, Cologne	100.00	750,000	–
DEVK Europa Real Estate Investment Fonds SICAV-FIS, Luxembourg, (L)	68.00	390,974,669 [2]	11,240,947 [2]
DEVK Omega GmbH, Cologne	75.00	26,769,982	797,945
DEVK Private Equity GmbH, Cologne	65.00	158,414,885	23,258,646
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	–
DEREIF Brüssel Lloyd George S.a.r.l., Luxembourg, (L)	100.00	4,306,336	898,030
DEREIF Hungary Park Atrium Ltd., Budapest, (HU)	100.00	6,454,840	– 2,397,665
DEREIF Immobilien 1 S.a.r.l., Luxembourg, (L)	100.00	– 32,524,436	– 11,429,445
DEREIF LISSABON REPUBLICA, UNIP. LDA, Lisbon, (P)	100.00	3,945,768	2,306,732
DEREIF Paris 6, rue Lammenais, S.C.I., Yutz, (F)	100.00	5,772,590	1,358,738
DEREIF Paris 9, chemin du Cornillon Saint-Denis, S.C.I., Yutz, (F)	100.00	6,589,942	365,148
DEREIF Paris 37 – 39, rue d'Anjou, Yutz, (F)	100.00	6,748,287	1,780,213
DEREIF Wien Beteiligungs GmbH, Vienna, (A)	100.00	10,000	– 126,037
DEREIF Wien Nordbahnstrasse 50 OG, Vienna, (A)	100.00	9,597,143	548,414
DP7, Unipessoal LDA, Lisbon, (P)	100.00	8,190,932	6,741,568
DRED SICAV-FIS, Luxembourg, (L)	68.00	55,539,985	3,290,123
German Assistance Versicherung AG, Coesfeld	100.00	4,166,883	419,695
Hotelbetriebsgesellschaft SONNENHOF mbH, Bad Wörishofen	100.00	356,023	–
HYBIL B.V., Venlo, (NL)	100.00	61,703,009	2,563,843
Ictus GmbH, Cologne	75.00	40,259,299	1,849,814
JARA Grundstücksgesellschaft mbH & Co. KG, Grünwald	5.00	157,612,662 [1]	9,964,744 [1]
Lieb'Assur S.a.r.l., Nîmes, (F)	100.00	356,395	24,110
Monega Kapitalanlagegesellschaft mbH, Cologne	45.00	7,744,807	1,639,879
SADA Assurances S.A., Nîmes, (F)	100.00	40,377,009	4,267,301
Sirio Immobilienfonds No. 4 SICAV, Luxembourg, (L)	24.99	187,789,243 [1]	– 21,221,315 [1]
Sirio Immobilienfonds No. 5 SICAV, Luxembourg, (L)	5.36	128,547,926 [1]	2,470,090 [1]
		GBP	GBP
DEREIF London 10, St. Bride Street S.a.r.l., Luxembourg, (L)	100.00	5,947,343	– 257,272
DEREIF London Birchin Court S.a.r.l., Luxembourg, (L)	100.00	6,770,141	– 14,786
DEREIF London Coleman Street S.a.r.l., Luxembourg, (L)	100.00	4,748,479	472,932
DEREIF London Eastcheap Court S.a.r.l., Luxembourg, (L)	100.00	7,889,058	– 22,428
DEREIF London Lower Thames Street S.a.r.l., Luxembourg, (L)	100.00	6,522,930	– 2,567,720
		SEK	SEK
DEREIF Malmö Kronan 10 & 11 AB, Malmö, (S)	100.00	13,373,000	3,458,000
DEREIF Stockholm, Vega 4 AB, Stockholm, (S)	100.00	11,536,000	2,814,000

[1] Based on 2015 financial year [2] 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.

Other investments comprise fund units and silent partnerships within the meaning of the KWG.

Re Assets E.II.

Other prepayments and accrued income

Premium on registered bonds	€ 16,848
Advance payments for future services	€ 145,197
	€ 162,045

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

31.12.2015	€ 527,566,246
Allocation	€ 48,000,000
31.12.2016	**€ 575,566,246**

Re Liabilities E.

Accruals and deferred income

Discount points on registered bonds	**€ 167,921**

Notes to the profit and loss account

Reinsurance coverage provided	2016 € 000s	2015 € 000s
Gross premiums written		
– Life	16,407	16,992
– Non-life/accident	410,573	391,674
Total	**426,980**	408,666

Insurance agents' commission and other remuneration, personnel expenses	2016 € 000s	2015 € 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	231	318
4. Social-security contributions and social-insurance costs	–	–
5. Retirement pension costs	–	415
Total	**231**	733

During the year under review, Management Board remuneration totalled € 246,192. The retirement pensions of former Management Board members and their surviving dependants totalled € 182,046. As of 31 December 2016, a pension provision of € 2,532,673 was capitalised for this group of people. The Supervisory Board remuneration totalled € 168,551.

Appropriation of profit

As in 2015 the net annual profit came to € 63.0 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 € 48.0 million being allocated to other retained earnings.

Other information

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

The difference pursuant to section 253 paragraph 6 HGB on the balance sheet date amounted to € 78,628,862. 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.

Contingencies and other financial obligations

On the balance sheet date, there were financial obligations totalling € 3.4 million from open short options and € 20.0 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 € 57.5 million. This includes obligations towards affiliated companies amounting to € 30.9 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, Cologne, is registered at the local court under Commercial Register Number (Handelsregisternummer) 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 was 100 % owned by DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn, Cologne, who have disclosed, pursuant to section 20 paragraph 4 AktG, that they hold a majority of the voting rights.

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 given in the consolidated notes.

Our company is exempted 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 thus 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, Germany

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

Cologne, 15 March 2017

The Management Board

Rüßmann **Knaup** **Zens**

Audit certificate

We have audited the annual financial statements, comprising the balance sheet, income statement and notes, as well as the accounting and management report of **DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft**, Cologne, for the financial year from 1 January to 31 December 2016. The accounting and the preparation of the annual financial statements and management report in accordance with German commercial regulations and the supplementary provisions of the articles of association are the responsibility of the company's Management Board. Our remit is to express an opinion on the annual financial statements, accounting and management report on the basis of our audit.

We conducted our audit pursuant to section 317 of the German Commercial Code (HGB) and the generally accepted standards for auditing financial statements promulgated by the German Institute of Auditors (IDW), which require us to plan and perform the audit in such a way that misstatements materially affecting the presentation of assets, finances and earnings in the annual financial statements in accordance with the German principles of proper accounting and in the management report are detected with reasonable certainty. Knowledge of the company's business activities, the economic and legal circumstances, and expectations concerning possible errors are taken into account when determining the audit activities. The effectiveness of the internal auditing system and the accuracy of the evidence supporting the information contained in the accounting, annual financial statements and management report are predominantly tested on the basis of random sampling. The audit includes an evaluation of the accounting principles applied and the principal estimates made by the Executive Board, as well as an appraisal of the overall view conveyed by the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any objections.

In our opinion, based on the findings of our audit, subject to the above-mentioned reservation, the annual financial statements comply with the legal regulations, and convey an accurate and fair view of the company's assets, finances and earnings in keeping with generally accepted accounting principles. Furthermore, the management report is in conformity with the annual financial statements, complies with the relevant legal provisions, provides an accurate description of the company's overall position, and accurately sets out the risks and opportunities inherent in future developments.

Cologne, 24 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr Hübner	**Offizier**
Auditor	Auditor

Supervisory Board report

During 2016, 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 2016 annual financial statements and management report prepared by the Management Board. Their audit did not reveal any irregularities and 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, and accordingly the Supervisory Board hereby approves the 2016 financial statements, which are thus duly adopted.

The Supervisory Board agrees with the Management Board's proposal concerning the appropriation of the 2016 net retained earnings and hereby recommends that the Annual General Meeting frames 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 factual details in the report are correct and
2. that the payments made by the company in connection with the legal transactions discussed in the report were not excessive."

We share this judgement and 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, 12 May 2017

The Supervisory Board

Kirchner
Chairman