Company bodies

Supervisory Board

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

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

Hans-Jörg Gittler
Kestert
CEO of
BAHN-BKK

Helmut Petermann
Essen
Chairman of the
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.

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 affiliated companies of DEVK Rückversicherungs- und Beteiligungs-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.

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 and indirect 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 2017 financial year.

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.

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

As in 2016, the capital markets were shaped throughout 2017 by political anxieties. Though the election of the Europhile candidate Emmanuel Macron as French President in May 2017 allayed fears of a eurozone breakup, the often erratic political style of Donald Trump, as well as the failure of the governing party to win a majority in the UK General Election and the very sluggish pace of Brexit negotiations with the EU, led to continuing uncertainty. In Germany, this was exacerbated at the end of the year by the difficult coalition negotiations in the wake of the Bundestag election, raising the possibility of fresh elections.

Despite the various political risk factors, the majority of companies, including at global level, remain comparatively optimistic about their business prospects. Moreover, continuing low inflation and an improving labour market situation in many industrialised countries have helped to keep consumer demand at a fairly high level. As a result, the global economy was on course for higher GDP growth than the year before (3.7 %, up from 3.2 %).

Overall global monetary policy remained expansive in 2017, buoyed up by persistently low inflation rates. At the end of October, the ECB decided to halve its monthly bond purchase volume from € 60 billion to € 30 billion from January 2018 onwards. The ECB bond-buying program is set to run until at least September 2018. To avoid boosting the value of the euro any further, the ECB has for the time being refrained from announcing any other restrictive monetary policy measures. Thus the ECB is not expected to raise interest rates during 2018.

Meanwhile, US central bank the Fed opted to reduce its bloated balance sheet from October 2017 onwards by reducing, step by step, the proportion of bonds it reinvests on the bond market as they reach maturity. Within a few months, the Fed's balance sheet is set to diminish by $ 50 billion per month. The Fed raised its base rate by 0.25 percentage points in March, June and December 2017. The appointment of Jerome Powell as the new Fed chair is not generally expected to herald any significant changes in US monetary policy, though it may lead to the easing of bank regulations.

With the example of the ten-year euro swap rate, yields on the euro fixed-interest market rose during 2017 from just under 0.7 % to nearly 0.9 % by 31 December 2017, with the figure standing at around 1.0 % on occasions. The risk premiums on corporate bonds fell again in 2017. Here we anticipate growing risk spreads if demand on the bond market stemming from the ECB really does diminish in the wake of the cutback of its monthly bond purchases in 2018.

Political events such as the North Korean crisis briefly depressed the German equities market, with the DAX index dipping below the 12,000-point mark at the end of August. However, within a few weeks, prices recovered in response to the generally healthy economic conditions. After the announcement of the prolonging of the ECB bond-buying programme and a somewhat weaker EUR/USD exchange rate at times, the DAX rose again, ending 2017 at 12,918 points, 12.5 % up on the 2016 year's-end figure.

During 2017, the euro increased in value against most currencies. The 2017 EUR/USD exchange rate fluctuated between 1.04 and 1.21 (year's-end rate 1.20). Political uncertainties in the USA, coupled with the reduced likelihood of a breakup of the eurozone, led to a stronger euro. Meanwhile, the UK pound ranged, depending on the state of news on the Brexit negotiations, between 0.84 and 0.93 to the euro (year's-end rate 0.89).

Due to the German economy's strong dependency on exports, fears grew that the strengthening euro could dampen economic growth. However, this has not thus far come to pass, leading many economists to increase their forecasts for German GDP growth during 2017. Driven not only by strong exports but also rising consumption, German GDP ended 2017 2.2 % up, and GDP growth is again expected to top 2 % during 2018.

The series of hurricanes during the final quarter of 2017 led to major claims in the USA and the Caribbean, with a tangible impact on reinsurers' balance sheets. As a consequence, despite sufficient remaining capacity, a degree of price discipline could be observed, and this induced stabilisation of the rates. As a result the rise in rates across a broad front eagerly anticipated by many reinsurers did not materialise.

Although the forest fires in Portugal and the cutting of the discount rate for liability claims in Great Britain did lead to adjustments of premiums in those countries, in the main this had no discernible influence on other segments or countries.

All in all, however, the deterioration of reinsurance premiums appears to have been halted, and slight increases can be expected over the coming years.

Business trends

In 2017, DEVK Rückversicherungs- und Beteiligungs-AG's gross premiums written were 10.5 % up at € 471.6 million, as expected substantially more than in 2016 (+4.5 %). The number of policies reinsured (non-DEVK only) on 31 December 2017 stood at 1,669 (2016: 1,437). Customer numbers rose slightly to 340 (2016: 296).

The underwriting result before changes to the equalisation provision came to € 11.4 million (2016: € 24.6 million). The result thus lay within the forecast window of € 10 million to € 15 million. The allocation to the equalisation provision was lower than expected, and as a result, the technical result net of reinsurance was € 1.3 million (2016: € – 3.5 million), significantly above the forecast window of € – 16 million to € – 11 million.

Due chiefly to higher ordinary income from participating interests than in 2016, as well as indirectly due to the profit transfer from DEVK Allgemeine Versicherungs-AG, the investment result slightly increased to € 156.4 million (2016: € 150.9 million). Accordingly, rather than the anticipated slight fall, 2017 saw a modest rise in the investment result.

Due to the better than expected technical result and investment result, the result from ordinary activities came to € 95.1 million (2016: € 112.8 million), markedly above the forecast of around € 60 million.

The after-tax net annual profit came to € 45.0 million (2016: € 63.0 million), which has been recognised as net retained profit.

Net assets, financial position and results of operations

Results of operations

	2017 € 000s	2016 € 000s	Change € 000s
Technical account	1,320	– 3,452	4,772
Investment result	156,409	150,860	5,549
Other result	– 62,634	– 34,606	– 28,028
Profit from ordinary activities	**95,095**	112,802	– 17,707
Taxes	50,095	49,802	293
Net profit for the year	**45,000**	63,000	– 18,000

Underwriting result, net of reinsurance

Gross premium receipts rose 10.5 % to € 471.6 million, while earned premiums net of reinsurance were no less than 16.9 % up at € 369.3 million (2016: € 315.9 million). Claims expenses net of reinsurance rose to € 261.3 million (2016: € 209.1 million). The ratio of net claims expenses to earned net premiums thus rose to 70.8 % (2016: 66.2 %). At 26.8 %, the ratio of expenses on insurance business net of reinsurance to earned premiums net of reinsurance was somewhat up on the 2016 figure of 26.4 %.

Gross claims expenses for the year were 17.8 % up and the gross claims ratio stood at 68.0 % (2016: 64.5 %).

The gross operating expenses, which predominantly comprise reinsurance commission, rose by 9.4 %, from € 111.8 million in 2016 to € 122.4 million in 2016.

The 2017 underwriting result before changes to the equalisation provision came to € 11.4 million (2016: € 24.6 million). After a lower € 10.1 million allocation to the equalisation provision compared to the previous year (2016: € 28.1 million), the underwriting result net of reinsurance improved to € 1.3 million (2016: € – 3.5 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	2017	2016	Change	2017	2016	2017	2016
Life	18,253	16,407	11.3 %	–	–	1,067	838
Accident	39,305	37,279	5.4 %	–	–	6,190	4,524
Liability	5,649	4,468	26.4 %	– 2,704	– 334	– 1,152	– 794
Motor vehicles	183,022	170,154	7.6 %	9,426	– 3,286	– 1,991	– 203
Fire and non-life	202,455	174,627	15.9 %	– 16,936	– 21,340	– 4,211	– 9,792
of which:							
Fire	47,530	45,928	3.5 %	– 884	1,959	– 2,719	– 3,058
Household contents	19,924	21,167	– 5.9 %	–	–	2,220	2,164
Homeowners’ building	101,487	78,742	28.9 %	– 8,730	– 3,286	3,490	3,627
Other non-life	33,514	28,790	16.4 %	– 7,322	– 20,013	– 7,202	– 12,525
Other	22,918	24,045	– 4.7 %	97	– 3,115	1,416	1,975
Total	**471,602**	426,980	10.5 %	**– 10,117**	– 28,075	**1,320**	– 3,452

Homeowners’ building insurance showed the greatest premium growth both in percentage terms and as an absolute amount.

As a result, despite a big increase in the allocation to the equalisation provision, the homeowners’ building insurance technical result net of reinsurance remained at around the 2016 level. After a high withdrawal from the equalisation provision, motor vehicle insurance nevertheless registered a loss of around € 2 million.

Investment result

At € 163.1 million, the investment result was well up on the 2016 figure of € 158.6 million. This was due chiefly to higher income from profit transfer agreements with affiliated companies. The income from profit transfer agreements with affiliated companies totalled € 102.5 million (2016: 99.4 million). Also included were € 6.2 million in profits from disposals of investments (2016: € 6.1 million) as well as € 1.7 million in write-ups (2016: € 1.2 million).

At € 6.7 million, investment expenses were lower than in 2016 (€ 7.7 million). This was mainly due to lower write-downs (€ 3.6 million as against € 4.6 million in 2016). Losses from disposals of investments came to € 1.3 million (2016: € 1.0 million). In 2017 there were charges from loss transfers amounting to € 200,000 (2016: € 300,000). 2017 administration costs were € 1.6 million (2016: € 1.8 million).

Total net investment income thus came to € 156.4 million (2016: € 150.9 million).

Other result

The “Other” result, which includes technical interest income, stood at € – 62.6 million (2016: € – 34.6 million). The additional expense was due to higher retirement pension costs. In 2016, these were significantly lower due to the lawmakers’ decision to extend the review period over which the interest rate on which calculation of the pension provision is based is determined.

Profit from ordinary activities

Due to the lower investment result, the profit from ordinary activities fell to € 95.1 million (2016: € 112.8 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 € 50.1 million, the tax expenditure rose minimally from the 2016 figure of € 49.8 million.

Operating result and appropriation of retained earnings

Due to the sharp increase in retirement pension costs, the net annual profit was € 45.0 million, well down on the 2016 figure of € 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 € 10.0 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 € 35.0 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 € 45.6 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 September 2017. As in the years 2008 to 2016, 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 Ratings 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 August 2017 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

	2017 € 000s	2016 € 000s	Change € 000s
Investments (excluding deposits with ceding companies)	2,054,349	1,830,447	223,902
Deposits with ceding companies	239,517	230,846	8,671
Receivables arising out of reinsurance operations	19,695	19,165	530
Other receivables	279,099	355,455	– 76,356
Other assets	15,793	15,212	581
Total assets	**2,608,452**	2,451,125	157,327
Equity	1,169,088	1,139,088	30,000
Technical provisions net of reinsurance	672,291	588,327	83,964
Other provisions	651,285	615,878	35,407
Liabilities arising out of reinsurance operations	110,530	102,296	8,234
Other liabilities	5,024	5,368	– 344
Accruals and deferred income	234	168	66
Total capital	**2,608,452**	2,451,125	157,327

New investments in 2017 led to a modest shift in the composition of our investment portfolio from equities, participating interests and real estate to interest-bearing securities.

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

Of the other receivables, € 107.0 million (2016: € 103.9 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 2017.

Outlook, opportunities and risks

Outlook

During 2018 we are expecting premium growth of 8 % to 10 %. Before changes to the equalisation provision, we are expecting a technical account result of between € 15 million and € 20 million. After an 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 € 5 million to € 10 million.

Despite the sound economic position, DEVK expects volatile capital markets due to persistent political risk, which could hamper the continuing rise of equity markets and bond prices. Ongoing political developments in the eurozone and the USA will play every bit as major a role as the political situation in Great Britain as it prepares to leave the EU, and in Spain after Catalonia's declaration of independence. A further risk for the eurozone can be viewed as arising from the fact that the strong recent economic performance has prompted backsliding in many EU countries on the restructuring initiatives which are vital for the long-term survival of the eurozone.

In 2018, we expect the reduced monthly demand for bonds emanating from the ECB to lead to increasing yields and widening spreads. However, this should remain a moderate trend, as the ECB's continuing high degree of flexibility exerts a calming influence on equity markets. Turning to the Fed, market consensus is that 2018 will see another two to four interest rate hikes, each of 0.25 percentage points, with the precise number depending on the inflation figures. Accordingly, further flattening of the yield curve in the USA cannot be ruled out. It remains to be seen whether the Fed's monetary policies change significantly in the wake of the change of leadership. However, essentially we are expecting a continuation of the current monetary policies in the USA.

Regarding the economic situation in the USA and the eurozone, recent macroeconomic data have been largely positive, with the IFO Business Climate index hitting another record high in January 2018. To date, company results and outlooks have been comparatively upbeat. However, the recent strength of the euro could have a dampening effect on economic growth in the eurozone. The tax reform under way in the US will have an impact on the US equities market. To sum up, it may be noted that the current economic situation remains fairly conducive to stable equities markets, but that valuations, particularly in the USA, cannot be viewed as favourable, while increasing interest rates represent a potential risk.

The conflict generated by Catalonia's efforts to gain independence and deteriorating political relationships between western countries and Turkey have not thus far had any notable negative effects on the economic performance of the eurozone. Possible separatist unrest in various regions of Europe is increasing uncertainties over future investment in these individual economic areas. However, more important for the EU as a whole are the unfolding developments in the wake of the elections in Italy.

As regards the global economy, future economic policy in the USA, after an upturn now lasting for over seven years, and in China, in particular regarding domestic demand and corporate debt, will play a major role from DEVK's viewpoint. In Europe, the most important factors are uncertainties surrounding the Brexit process, political tensions within the eurozone and a possible change in the ECB's monetary policy.

In the field of investments we expect DEVK Rückversicherungs- und Beteiligungs-AG to gain significantly less income in 2018, 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 substantially down on last year's level.

All in all, we are expecting the 2018 profit from ordinary activities to be in the order of € 50 million to € 60 million.

Opportunities report

The successful incorporation of the liability insurance segment into our portfolio has opened up additional commercial potential in other segments too.

We have also found that we are a preferred partner for reinsurance brokers in relation to smaller insurance companies, who expect not just the assumption of risk but also sympathetic awareness of the difficulties they face. We have been able to expand our business in this field and see further potential for the future.

The expansion of our range of agricultural insurance products (a segment in which our Group employs a small but highly experienced team) means we can expect corresponding growth over the next few years.

Furthermore, expansion into the North American regions from 2018 onwards opens up additional medium-term business potential in the non-life and natural disaster segments.

Risk report

In accordance with the German Control and Transparency in Business Act (KonTraG), 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 posed by 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 the reader to the discussion 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.

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	%
2008	68.7	2013	72.6
2009	73.5	2014	68.6
2010	72.6	2015	65.3
2011	70.8	2016	66.2
2012	68.2	2017	70.8

In line with suitable assumption guidelines and signatory powers, 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	%
2008	10.0	2013	13.7
2009	– 15.9	2014	– 4.1
2010	1.2	2015	2.4
2011	2.2	2016	3.0
2012	2.8	2017	3.2

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 2017, their volume totalled € 135.4 million (2016: € 125.3 million).

Risk of defaults by debtors arising from our insurance operations

Amounts receivable from reinsurance business at the end of the year came to € 19.7 million. These include receivables from reinsurers totalling € 5.6 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 +	0.81
A	2.82
A –	1.50
No rating	0.29

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 % 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. 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 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 applicable framework 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, 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 (Asset-Liability Management) process ensures that we are able at all times to meet existing and future obligations.

As of the balance sheet date of 31 December 2017 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 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 2017, 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 multiyear 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, our investments are assigned 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 2017, the Company held interest-bearing investments to a total value of € 967.7 million. A total of € 504.1 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 € 413.7 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 € 42.0 million, a figure that includes € 6.2 million in hidden charges. As of 31 December 2017, the total valuation reserve for our interest-bearing investments came to € 64.1 million. A change in returns of up to +/– 1 % would entail a corresponding value change ranging from € – 60.2 million to € 62.5 million.

This disclosure of the 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, 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 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 bank bonds, though we also invest in corporate bonds. Our direct corporate bond holdings make up 13 % of our total investments. Asset-backed securities make up less than 0.1 % of our total investments. In 2017 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 paper.

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, 13 % in corporate bonds and 28 % 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 (2016):

AA or better	49.0 %	(47.2 %)
A	24.3 %	(24.9 %)
BBB	25.5 %	(24.6 %)
BB or worse	1.1 %	(3.4 %)

The company's rating distribution remains virtually unchanged 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 € 53.3 million. Both the German and European share indices rose during 2017. 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 downward trend in the ratio as compared with 2016. 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 € 88.2 million. Of this, € 74.3 million was invested in direct property holdings and € 13.9 million in real estate funds. 2017 real estate write-downs remained unchanged at € 200,000.

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

With the entry into force of Solvency II on 1 January 2016, the insurance industry has undergone radical changes to its supervisory regime. The full requirements of Solvency II had to be met for the first time in 2016. This laid down obligations such as comprehensive, addressee-appropriate reporting duties from 31 December 2016 onwards. Meeting the tight deadlines involved posed a major challenge.

In 2017, our full reporting duties to the supervisory authorities and the public were implemented for the first time, on the basis of 31 December 2016. This involved notifying BaFin in our Regular Supervisory Report of matters such as DEVK Rückversicherungs- und Beteiligungs-AG's net assets and financial position. In parallel, the public was provided with information of similar scope in our inaugural "Solvency and financial condition report". BaFin is also furnished with comprehensive analytical data via the quarterly "Quantitative reporting templates".

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.

Summary of our risk status

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

Cologne, 15 March 2018

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 2017

Assets	€	€	€	2016, € 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		1,536,577		1,827
II. Payments on account		10,506		1
			1,547,083	1,828
B. Investments				
I. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	816,149,795			774,979
2. Loans to affiliated companies	114,099,545			72,777
3. Participating interests	15,175,958			52,402
4. Loans to companies in which a participating interest is held	260,000			–
		945,685,298		900,158
II. Other investments				
1. Shares, units or shares in investment funds and other variable-interest securities	293,340,545			289,993
2. Bearer bonds and other fixed-interest securities	448,086,752			387,734
3. Other loans	349,422,261			234,383
4. Other investments	17,813,687			18,180
		1,108,663,245		930,289
III. Deposits with ceding companies		239,517,194		230,846
			2,293,865,737	2,061,293
C. Accounts receivable				
I. Receivables arising out of reinsurance operations		19,694,675		19,165
of which:				
Affiliated companies: € 1,519,023				1,160
II. Other receivables		279,098,795		355,456
of which:			**298,793,470**	374,620
Affiliated companies: € 272,080,347				355,285
D. Other assets				
– Tangible assets and inventories			**86,115**	77
E. Prepayments and accrued income				
I. Accrued interest and rent		14,099,560		13,144
II. Other prepayments and accrued income		59,977		162
			14,159,537	13,306
Total assets			**2,608,451,942**	2,451,125

Liabilities and shareholders' equity				
	€	€	€	2016, € 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		623,566,246		575,566
IV. Net retained profit		45,000,000		63,000
			1,169,088,436	1,139,088
B. Technical provisions				
I. Provision for unearned premiums				
1. Gross amount	29,523,501			25,145
2. of which:				
Reinsurance amount	45,237			35
		29,478,264		25,110
II. Premium reserve		203,363,302		198,964
III. Provision for claims outstanding:				
1. Gross amount	377,331,143			314,529
2. of which:				
Reinsurance amount	73,868,848			76,269
		303,462,295		238,260
IV. Equalisation provision and similar provisions		135,422,555		125,306
IV. Other technical provisions				
1. Gross amount	668,135			758
2. of which:				
Reinsurance amount	103,946			72
		564,189		686
			672,290,605	588,327
C. Provisions for other risks and charges				
I. Provisions for pensions and similar commitments		583,800,287		536,884
II. Provisions for taxation		54,353,485		66,273
III. Other provisions		13,131,241		12,721
			651,285,013	615,878
D. Other liabilities				
I. Payables arising out of reinsurance operations		110,530,084		102,297
of which:				
Affiliated companies: € 43,872,328				38,592
II. Other liabilities		5,024,336		5,368
of which:			**115,554,420**	107,665
Tax: € 1,182,171				1,182
Affiliated companies: € 239,724				259
E. Prepayments and accrued income				
			233,468	168
Total liabilities			**2,608,451,942**	2,451,125

Profit and loss account

for the period from 1 January to 31 December 2017

Items	€	€	€	2016, € 000s
I. Technical account				
1. Earned premiums, net of reinsurance				
a) Gross premiums written	471,602,195			426,980
b) Outward reinsurance premiums	97,905,754			107,981
		373,696,441		318,999
c) Change in the gross provision for unearned premiums	– 4,378,340			– 3,118
d) Change in the provision for unearned premiums, reinsurers' share	10,526			– 21
		– 4,367,814		– 3,139
			369,328,627	315,859
2. Allocated investment return transferred from the non-technical account, net of reinsurance			**7,783,194**	7,685
3. Other technical income, net of reinsurance			**1**	5
4. Claims incurred, net of reinsurance				
a) Claims paid				
aa) Gross amount	254,701,510			243,800
bb) Reinsurers' share	58,577,057			64,308
		196,124,453		179,491
b) Change in the provision for claims				
aa) Gross amount	62,801,967			29,359
bb) Reinsurers' share	2,399,950			299
		65,201,917		29,658
			261,326,370	209,149
5. Changes in other technical provisions, net of reinsurance				
a) Premium reserve, net of reinsurance		– 4,399,206		– 4,556
b) Other technical provisions, net of reinsurance		121,794		– 130
			– 4,277,412	– 4,686
6. Net operating expenses, net of reinsurance				
a) Gross operating expenses		122,373,373		111,840
b) of which from: Reinsurance commissions and profit participation		23,546,262		28,396
			98,827,111	83,444
7. Other technical charges, net of reinsurance			**1,243,985**	1,641
8. Subtotal			**11,436,944**	24,623
9. Change in the equalisation provision and similar provisions			**– 10,116,635**	– 28,075
10. Technical result net of reinsurance			**1,320,309**	– 3,452
Balance carried forward:			**1,320,309**	– 3,452

Items	€	€	€	2016, € 000s
Balance carried forward:			1,320,309	– 3,452
II. Non-technical account				
1. Income from other investments				
a) Income from participating interests	6,144,660			5,625
of which:				
from affiliated companies: € 3,914,429				3,393
b) Income from other investments	46,554,618			46,233
of which:				
from affiliated companies: € 4,873,511				4,969
c) Income from write-ups	1,708,716			1,180
d) Gains on the realisation of investments	6,195,657			6,098
e) Income from a profit pooling, profit transfer and partial profit transfer agreements	102,541,212			99,425
		163,144,863		158,561
2. Investment charges				
a) Investment management charges, interest expenses and other charges on capital investments	1,578,483			1,830
b) Write-downs on investments	3,613,337			4,592
c) Losses on the realisation of investments	1,340,337			1,022
d) Charges from loss transfer	203,834			257
		6,735,991		7,701
		156,408,872		150,860
3. Allocated investment return transferred from the non-technical account		7,783,194		7,685
			148,625,678	143,175
4. Other income		15,175,785		7,981
5. Other charges		70,026,353		34,902
			– 54,850,568	– 26,921
6. Profit from ordinary activities			**95,095,419**	112,802
7. Taxes on income		50,090,623		49,762
8. Other taxes		4,796		40
			50,095,419	49,802
9. Net profit for the year/net retained earnings			**45,000,000**	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.

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 of cost and market value.

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.

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 3.68 % (2016: 4.00 %) 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 % p.a., 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.

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.

The gross technical positions 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 2017 financial year

Assets	Balance sheet value 2016 € 000s	Additions € 000s	Transfers € 000s	Disposals € 000s	Write-ups € 000s	Write-downs € 000s	Balance sheet value 2017 € 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	1,827	30	–	–	–	320	1,537
2. Payments on account	1	9	–	–	–	–	10
3. Total A.	1,828	39	–	–	–	320	1,547
B.I. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	774,979	41,251	–	80	–	–	816,150
2. Loans to affiliated companies	72,777	124,427	–	83,104	–	–	114,100
3. Participating interests	52,402	10,421	–	47,648	–	–	15,175
4. Loans to companies in which a participating interest is held	–	260	–	–	–	–	260
5. Total B.I.	900,158	176,359	–	130,832	–	–	945,685
B.II. Other investments							
1. Shares, units or shares in investment funds and other variable-interest securities	289,992	60,165	–	55,912	1,709	2,615	293,339
2. Bearer bonds and other fixed-interest securities	387,734	83,077	–	21,725	–	998	448,088
3. Other loans							
a) Registered bonds	88,000	105,096	–	–	–	–	193,096
b) Notes receivable and loans	126,311	30,002	–	10,041	–	–	146,272
c) Other loans	20,072	–	–	10,016	–	–	10,056
4. Other investments	18,180	1,493	–	1,859	–	–	17,814
5. Total B.II.	930,289	279,833	–	99,553	1,709	3,613	1,108,665
Total	**1,832,275**	**456,231**	**–**	**230,385**	**1,709**	**3,933**	**2,055,897**

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 2017, 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	816,149,795	1,149,282,219
	2. Loans to affiliated companies	114,099,545	114,099,545
	3. Participating interests	15,175,958	16,539,756
	4. Loans to companies in which a participating interest is held	260,000	260,000
B.II.	Other investments		
	1. Shares, units or shares in investment funds and other variable-interest securities	293,340,545	382,763,729
	2. Bearer bonds and other fixed-interest securities	448,086,752	492,007,720
	3. Other loans		
	a) Registered bonds	193,095,682	193,951,741
	b) Notes receivable and loans	146,271,171	162,913,517
	c) Other loans	10,055,408	11,166,783
	4. Other investments	17,813,687	22,675,274
Total		**2,054,348,543**	**2,545,660,284**
of which: Investments valued at costs of acquisition		1,871,348,543	2,362,321,798
of which: Investments in fixed assets pursuant to section 341b paragraph 2 HGB		413,661,769	455,708,097

The revaluation reserves include hidden liabilities totalling € 10.5 million. These relate to participating interests, 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, 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 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, 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.

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	1,108	1,094
Fixed-asset securities	65,423	59,175
Other loans	138,500	134,242

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.

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	1,990	107	117
Registered bonds	Forward purchases	25,000	–	– 223

Valuation methods

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

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	3,674	189,915	36,700	
Bond funds	1,237	56,958	1,615	
Real-estate funds	905	16,965	3,340	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 Lebensversicherungs-AG, Cologne	100.00	155,204,493	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	478,665,662[3]	21,384,222[3]
DEVK Omega GmbH, Cologne	50.00	27,539,773	769,791
DEVK Private Equity GmbH, Cologne	65.00	168,015,124	14,100,239
DEVK Saturn GmbH, Cologne	33.33	27,278,728	635,142
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 RetailCenter Fonds Deutschland SICAV-FIS, Luxembourg (L)	26.88	98,417,340[2]	6,480,566[2]
DEREIF BRUSSEL CARMEN S.A., Brussels (B)	100.00	–	– 738,896
DEREIF Brüssel Lloyd George S.à.r.l., Luxembourg (L)	100.00	5,829,526	1,523,190
DEREIF Hungary Eiffel Palace Kft., Budapest (HU)	100.00	10,030,138	3,281,851
DEREIF Hungary Park Atrium Ltd., Budapest (HU)	100.00	5,317,053	755,532
DEREIF Immobilien 1 S.à.r.l., Luxembourg (L)	100.00	– 19,782,191	7,706,665
DEREIF LISSABON REPUBLICA, UNIP. LDA, Lisbon (P)	100.00	3,747,042	– 198,726
DEREIF Paris 6, rue Lamennais, S.C.I., Yutz (F)	100.00	5,665,485	– 107,104
DEREIF Paris 9, chemin du Cornillon Saint-Denis, S.C.I., Yutz (F)	100.00	6,747,050	377,951
DEREIF Paris 37–39, rue d'Anjou, Yutz (F)	100.00	10,030,138	3,281,851
DEREIF Wien Beteiligungs GmbH, Vienna (A)	100.00	9,086,228	868,807
DEREIF Wien Nordbahnstrasse 50 OG, Vienna (A)	100.00	9,119,029	521,886
DP7, Unipessoal LDA, Lisbon (P)	100.00	11,086,896	1,895,964
DRED SICAV-FIS, Luxembourg (L)	58.00	83,214,102	8,616,632
Aviation Portfolio Fund Nr. 1 GmbH und Co. geschlossene Investment KG, Grünwald	10.79	265,464,323	16,606,589
German Assistance Versicherung AG, Coesfeld	100.00	5,576,607	1,409,724
Hotelbetriebsgesellschaft SONNENHOF mbH, Bad Wörishofen	100.00	356,023	–
HYBIL B.V., Venlo (NL)	80.00	61,918,362	2,370,821
Ictus GmbH, Cologne	60.00	44,801,421	2,192,122
INVESCO Beteiligungsverwaltungs-GmbH&Co. KG, Munich	14.39	8,451,944	– 339,100
Lieb' Assur S.à.r.l., Nîmes (F)	100.00	369,895	13,499
Monega Kapitalanlagegesellschaft mbH, Cologne	45.00	7,205,242	2,005,252
SADA Assurances S.A., Nîmes (F)	100.00	47,751,868	7,676,539
Sireo Immobilienfonds No. 4 Edinburgh Ferry Road S.à.r.l., Luxembourg (L)	100.00	–	– 2,478,594
		GBP	GBP
DEREIF London 10, St. Bride Street S.à.r.l., Luxembourg (L)	100.00	6,154,239	206,897
DEREIF London Birchin Court S.à.r.l., Luxembourg (L)	100.00	6,713,010	– 57,137
DEREIF London Coleman Street S.à.r.l., Luxembourg (L)	100.00	4,984,111	235,632
DEREIF London Eastcheap Court S.à.r.l., Luxembourg (L)	100.00	8,028,440	139,382
DEREIF London Lower Thames Street S.à.r.l., Luxembourg (L)	100.00	6,993,061	470,131
DEREIF London Queen Street S.à.r.l., Luxembourg (L)	100.00	16,692,409	– 1,265,776
		CZK	CZK
DEREIF Prag Oasis s.r.o., Prague (CZ)	100.00	466,433,000	2,243,000
		SEK	SEK
DEREIF Malmö, Kronan 10 & 11 AB, Malmö (S)	100.00	16,369,000	6,454,000
DEREIF Stockholm, Vega 4 AB, Stockholm (S)	100.00	15,268,000	3,733,000

[1] Based on 2016 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.

Re Assets E.II.

Other prepayments and accrued income

Premium on registered bonds	€ 8,583
Advance payments for future services	€ 51,394
	€ 59,977

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

31.12.2016	€ 575,566,246
Allocation	€ 48,000,000
31.12.2017	**€ 623,566,246**

Re Liabilities E.

Accruals and deferred income

Discount points on registered bonds	**€ 233,468**

Notes to the profit and loss account

Reinsurance coverage provided	2017 € 000s	2016 € 000s
Gross premiums written		
– Life	18,253	16,407
– Non-life/accident	453,349	410,573
Total	**471,602**	426,980

Insurance agents' commission and other remuneration, personnel expenses	2017 € 000s	2016 € 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	305	231
4. Social-security contributions and social-insurance costs	–	–
5. Retirement pension costs	–	–
Total	**305**	231

During the year under review, Management Board remuneration totalled € 314,930. The retirement pensions of former Management Board members and their surviving dependants totalled € 248,492. As of 31 December 2017, a pension provision of € 3,501,459 was capitalised for this group of people. The Supervisory Board remuneration totalled € 169,056.

Of the other income, € 411,671 (2016: € 362,623) is attributable to currency conversion. Other expenses include € 1,098,234 (2016: € 2,738,307) from currency conversion.

Appropriation of profit

The overall net annual profit came to € 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 € 10.0 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 € 35.0 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 € 100.0 million (2016: € 78.6 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.

Contingencies and other financial obligations

On the balance sheet date, there were financial obligations totalling € 2.0 million from open short options and € 25.0 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 € 115.7 million. This includes obligations towards affiliated companies amounting to € 60.2 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 2018

The Management Board

Rüßmann **Knaup** **Zens**

Independent audit certificate

To DEVK Rückversicherungs- und Beteiligungs-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 Rückversicherungs- und Beteiligungs-Aktiengesellschaft, Cologne, comprising the balance sheet to 31 December 2017, the profit and loss account for the financial year from 1 January to 31 December 2017, 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 for the financial year from 1 January to 31 December 2017. 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 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, 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 sentence 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 (hereinafter referred to as "EU Audit Regulation") 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 annual financial statements and of the management report" section of our auditor's 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 hereby declare that we have not provided non-audit services which are 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 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon we do not provide a separate opinion on these matters.

Valuation of the shares in affiliated insurance companies

With regard to the accounting policies and methods we refer the reader to the explanations given in the notes to the Company's annual 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 shares in affiliated companies amounted to € 816 million, which represents 31.3 % 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 discounted cash flow method are determined via forecasts of the Company's future net financial surpluses.

The forecast reflects the subjective expectations of the company management regarding future business development. By its very nature, then, this is 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 embodies further assumptions about the industry and the risk to which the individual company is subject, and is therefore subject to the risk inherent in the uncertainty of the estimates made.

The risk consists 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 judge the appropriateness of the assumptions underlying the corporate planning, we gained an understanding of the corporate planning process through interviews with the management board and personnel in the Corporate Planning and Controlling departments.
- 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 life insurance companies' corporate planning, 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.
– With a view to reflecting the uncertainty of the valuation calculus, we discussed results bandwidths with the Company.

OUR OBSERVATIONS
The procedure on which the impairment testing of the shares in affiliated companies is based is appropriate and in accord with the valuation policies. Taken as a whole the assumptions, estimates and parameters employed by the Company are appropriate.

Appropriateness of the estimates in relation to Group-external insurance business undertaken
With regard to the accounting policies and methods we refer the reader to the explanations given in the notes to the Company's annual 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 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 as yet 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 booked during the following year. The difference between the estimates and the actual charges as determined by the true-up process will be recognised in profit or loss.

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 actuaries. 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.
– Moreover, 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 thus gained.

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

Other information
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 annual financial statements and on the management report do not cover the other information, and consequently we do not express an 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
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, liabilities, financial position and financial performance. In addition, management is responsible for such internal control 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, 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 a going concern. They are also responsible for financial reporting founded on the going concern basis of accounting, provided no factual or legal circumstances militate against this.

Furthermore, 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, management is responsible for such arrangements and measures (systems) as they deem necessary to facilitate the preparation of a management report that complies with 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 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) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be 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, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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 internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the 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 accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
– Draw conclusions regarding the appropriateness of 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 opinions. 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, 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 (German) law, and the view of the Company's position it provides.
– Perform audit procedures on the forward-looking information presented by management in the management report. On the basis of sufficient and appropriate audit evidence, we evaluate, in particular, the significant assumptions used by 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 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 engaged in discussions with the persons in charge of governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the persons in charge of 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 in charge of governance, we determine the matters which were of most significance in the audit of the annual financial statements of 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 12 May 2017 and were engaged by the Supervisory Board on 24 May 2017. We have acted as the auditor of DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft, Cologne without interruption since the 1997 financial year.

We hereby declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee 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 oversight 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 (Aktiengesetzt – 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 (Investmentsteuergesetz – InvStG),
– Drawing up the tax balance sheet as well as preparing corporate tax returns.

Chief auditor

The auditor in charge of the audit is Dr Georg Hübner.

Cologne, 6 April 2018

KPMG AG Wirtschaftsprüfungsgesellschaft

Dr Hübner	**Happp**
Auditor	Auditor

Supervisory Board report

During 2017, 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 2017 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. Accordingly, the Supervisory Board hereby approves the 2017 financial statements, which are thus duly adopted.

The Supervisory Board agrees with the Management Board's proposal concerning the appropriation of the 2017 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, 4 May 2018

The Supervisory Board

Kirchner
Chairman