## Company bodies

### Supervisory Board

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

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

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

Helmut Petermann
Essen
Chairman of
General Works Council
DEVK Versicherungen

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

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

### Management Board

Gottfried Rüßmann
Cologne
Chairman

Michael Knaup
Cologne
Deputy Board Member

Bernd Zens
Königswinter

# Management report

## Company foundations

### Business model

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

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

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

### Affiliated companies and participating interests

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

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

and its direct and indirect subsidiaries.

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

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

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

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

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

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

### Delegation of functions and organisational cooperation

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

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

## Business performance

### Economic conditions generally and in the industry

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

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

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

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

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

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

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

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

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

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

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

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

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

## Business trends

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

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

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

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

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

## Net assets, financial position and results of operations

### Results of operations

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

### Underwriting result, net of reinsurance

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

The individual insurance segments performed as follows:

**Underwriting result, net of reinsurance**

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

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

### Investment result

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

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

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

### Other result

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

### Profit from ordinary activities

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

### Tax expenditure

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

### Operating result and appropriation of retained earnings

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

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

## Financial position

### Cash flow

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

### Ratings

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

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

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

## Assets position

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

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

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

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

### Non-financial performance indicators

#### Employee satisfaction

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

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

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

The target set for 2019 is 777 points.

### Overall verdict on the management report

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

## Outlook, opportunities and risks

### Outlook

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

In 2019, DEVK anticipates comparatively volatile capital markets and the continued existence of risks to economic development. The ongoing political risks in the field of trade and punitive tariffs

between the USA and China, as well as the USA and the EU, play just as important a role as the exit of the UK from the European Union and the political development in Italy. A critical factor for Italy is the further increase in the national debt, given the non-conformance with the original budget plan agreed with the EU. In the Euro Zone, but also globally (e.g. in China), there remains a risk of a further weakening of economic development, which began in the third quarter of 2018.

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

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

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

In the field of investments we expect DEVK Rückversicherungs- und Beteiligungs-AG - DEVK RE to generate income moderately below the previous year's level in 2019, both from profit transfer agreements and as a result of slightly lower other revenues arising due to the loss of technical

interest income. Furthermore, we also anticipate that a significant reduction in the write-downs will slightly overcompensate for these effects. We anticipate that our net investment result in 2019 will be slightly higher than last year's level.

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

## Opportunities report

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

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

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

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

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

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

## Risk report

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

### Risk management system

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

### Technical risks

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

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

**Gross claims ratio net of reinsurance**

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

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

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

**Settlement result net of reinsurance as % of original provision**

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

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

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

### Risk of defaults by debtors arising from our insurance operations

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

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

### Investment risks

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

The risks stemming from investments comprise:

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

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

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

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

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

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

### Interest-bearing investments

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

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

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

banks and companies. Our pension investments in particular involve bearer papers, predominantly assigned to the fixed assets, and also registered papers.

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

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

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

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

### Equity investments

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

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

### Real estate

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

### Operational risks

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

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

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

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

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

### Solvency II

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

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

## Summary of our risk status

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

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

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

Cologne, 15 March 2019

The Management Board

Rüßmann Knaup Zens

## Notes to the management report

List of insurance classes covered during the financial year

Reinsurance coverage provided

### Life assurance

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

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

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

### Motor vehicle liability insurance

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

### Legal expenses insurance

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

### Goods-in-transit insurance

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

## Financial statements

### Balance sheet to 31 December 2018

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

## Liabilities

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

## Profit and loss account
for the period from 1 January to 31 December 2018

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

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

## Notes to the accounts

### Accounting and valuation methods

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

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

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

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

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

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

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

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

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

Other receivables are shown at their nominal values.

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

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

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

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

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

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

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

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

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

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

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

Amounts owed to banks are recognised at their repayment amounts.

Other creditors are valued at their settlement values.

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

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

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

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

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

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

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

The amortisation of intangible assets is scheduled in nature.

## Notes to the balance sheet

### Re Assets B.

Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Re Assets B. I.

### Investments in affiliated companies and participating interests

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

[2] Based on 2017 financial year

[3] Based on subgroup financial statements

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

## Re Assets B. II.

Other investments

Other loans exclusively comprise registered participation certificates.

## Re Assets E. II.

Other prepayments and accrued income

| | |
|---|---|
| Premium on registered bonds | € 317 |
| Advance payments for future services | € 52,458 |
| | € 52,775 |

## Re Liabilities A. I.

Subscribed capital

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

## Re Liabilities A. III.

Retained earnings

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

## Re Liabilities B. III.

Provision for claims outstanding

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

## Re Liabilities E.

Accruals and deferred income

| | |
|---|---|
| Discount points on registered bonds | € 395,887 |

## Notes to the profit and loss account

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

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

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

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

### Appropriation of profit

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

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

## Other information

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

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

### Parent company guarantee

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

### Contingent liabilities and other financial obligations

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

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

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

### Supplementary report

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

### General information

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

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

Our company does not itself employ any personnel.

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

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

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

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

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

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

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

Cologne, 15 March 2019

The Management Board

Rüßmann Knaup Zens

## Independent audit certificate

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

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

#### Opinions

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

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

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

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

#### Basis for the opinions

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

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

## Key audit matters in the audit of the annual financial statements

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

### Valuation of the shares in affiliated insurance companies

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

THE FINANCIAL STATEMENT RISK

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

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

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

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

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

OUR AUDIT APPROACH

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

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

OUR OBSERVATIONS

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

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

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

THE FINANCIAL STATEMENT RISK

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

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

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

OUR AUDIT APPROACH

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

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

OUR OBSERVATIONS

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

## Other information

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

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

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

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

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

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

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

In preparing the annual financial statements, the management is responsible for assessing the Company's ability to continue as a going concern. They are also responsible for disclosing matters

related to the continuation of the Company's activities, where applicable. They are also responsible for financial reporting founded on the accounting policy of the going concern, provided no factual or legal circumstances militate against this.

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

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

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

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

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

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

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

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

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

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

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

From the matters discussed with the persons responsible for governance, we determine the matters which were of most significance in the audit of the annual financial statements for the current period and which therefore constitute the key audit matters. We describe these matters

in our auditor's report unless public disclosure of the matter is forbidden by legislation or other legal provisions.

## Other legal and regulatory requirements

### Further Information pursuant to Article 10 of the EU Audit Regulation

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

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

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

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

## Chief auditor

The auditor in charge of the audit is Thorsten Klitsch.

Cologne, 5 April 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Klitsch | Happ |
| Auditor | Auditor |

## Supervisory Board report

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

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

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

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

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

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

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

Cologne, 8 May 2019

The Supervisory Board

Kirchner
Chairman