Annual Report | 2016

GESAGT. GETAN. GEHOLFEN.

DEVK

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

DEVK Rückversicherungs- und Beteiligungs-
Aktiengesellschaft

DEVK Allgemeine Versicherungs-Aktiengesellschaft

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

Business progress 1948/49 to 2016

of Sach-/HUKR-, Krankenversicherungs- und Pensionsfondsbereich of DEVK Versicherungen

	Figures in € 000s						
Year	Motor vehicles	Non-life [1]	Liability	Accident [2]	Legal protection	Health [3]	Premiums € millions
1948/49	–	283	–	–	–	–	0.6
1954	–	450	242	37	–	–	1.7
1960	24	558	532	83	–	–	7.3
1965	196	629	651	94	–	–	23.6
1970	293	700	752	128	–	–	47.0
1975	509	819	913	201	–	–	130.8
1976	568	852	937	215	–	–	151.5
1977	625	882	947	231	–	–	182.3
1978	669	912	912	249	–	–	203.6
1979	699	948	926	276	–	–	233.6
1980	715	1,003	937	304	2	–	244.6
1981	710	1,052	954	306	65	–	262.0
1982	720	1,084	961	326	85	–	277.2
1983	740	1,135	969	340	101	–	298.6
1984	760	1,182	972	356	123	–	321.7
1985	782	1,227	992	369	141	–	351.7
1986	810	1,292	1,009	380	161	–	371.0
1987	845	1,370	1,019	394	183	–	404.7
1988	883	1,476	1,033	412	204	–	449.4
1989	923	1,569	1,049	434	223	–	488.6
1990	959	1,632	1,115	453	245	–	517.2
1991	1,269	1,740	1,183	490	278	–	592.9
1992	1,333	1,880	1,259	518	309	–	663.7
1993	1,437	1,988	1,314	547	346	–	753.2
1994	1,518	2,072	1,353	569	377	31	877.7
1995	1,635	2,155	1,388	585	403	158	953.3
1996	1,775	2,228	1,439	861	433	252	981.9
1997	1,872	2,289	1,467	879	457	362	1,019.3
1998	1,940	2,333	1,498	886	480	457	1,041.9
1999	1,971	2,370	1,514	880	504	515	1,065.1
2000	1,978	2,406	1,530	872	530	581	1,111.6
2001	2,013	2,435	1,535	864	550	630	1,158.2
2002	2,060	2,480	1,544	868	575	685	1,222.1
2003	2,107	2,527	1,554	877	596	717	1,273.1
2004	2,193	2,562	1,572	879	621	747	1,329.6
2005	2,235	2,586	1,584	889	650	777	1,349.1
2006	2,282	2,612	1,604	912	678	826	1,363.5
2007	2,293	2,636	1,616	950	702	885	1,383.6
2008	2,465	2,673	1,634	988	724	967	1,394.2
2009	2,617	2,730	1,658	1,022	754	1,041	1,566.2
2010	2,741	2,563	1,689	1,068	781	1,100	1,594.9
2011	2,755	2,584	1,715	1,105	800	1,150	1,679.8
2012	2,748	2,596	1,732	1,127	814	1,190	1,794.1
2013	2,762	2,604	1,745	1,145	829	1,309	1,956.3
2014	2,896	2,620	1,759	1,157	846	1,345	2,137.2
2015	2,911	2,649	1,778	1,164	866	1,378	2,295.0
2016	**2,961**	**2,677**	**1,798**	**1,176**	**894**	**1,414**	**2,391.1**

[1] Changed payment method since 2010 [2] Including motor vehicle/accident since 1996 [3] Number of tariff policyholders

Foreword

Dear Readers

During 2016, the German insurance industry as a whole registered 0.2 % growth in premium receipts. In the life insurance segment (excluding pension funds), our regular pension business registered a slight fall in premiums of 0.3 %, while single premiums were 4.4 % down. According to the German Insurance Association (GDV) estimate, our non-life and accident insurance premium receipts were 2.9 % up.

All in all, 2016 was a successful year for DEVK Versicherungen. In fact, with € 747 million in new business premiums it was the third-best year for sales in our company's history. At 1.7 %, DEVK's premium growth in the field of German primary insurance was above the industry average. In both non-life and accident insurance and health insurance we further increased our market share and strengthened our position in the German primary insurance industry.

Our life insurance companies achieved a satisfactory operating result. The proportion of new business generated by products with low risk capital requirements has been increased significantly. DEVK Lebensversicherungen's gross premiums written in the narrower sense were slightly down on the 2015 level, chiefly due to the deliberate reduction of single premium business. DEVK Pensionsfonds-AG registered higher premium receipts than in 2015.

DEVK Sach- und HUK-Versicherungsverein's **consolidated financial statements** registered very satisfactory results. Alongside DEVK's German primary insurers, the consolidated statements also incorporate the results of our foreign subsidiaries, our active reinsurance operations and other Group companies.

In the non-life and accident insurance segment the ratio of claims expenses and costs to premium receipts fell from 97.0 % in 2015 to 95.0 % last year. As a result, the non-life and accident insurance underwriting result improved to € 13.2 million (2015: € – 21.6 million). This was despite a very high and increased allocation to the equalisation provision of € 58.0 million (2015: € 30.5 million), as well as bonus and rebate expenses totalling € 4.9 million (2015: € 400,000).

Due chiefly to lower profits from the disposal of investments, which came to € 198.0 million, the non-technical account **investment result** was below the 2015 level of € 246.4 million. Based on the underwriting and non-underwriting result, the DEVK insurance Group recorded a profit from ordinary activities of € 153.2 million (2015: € 174.3 million). After taxes, the net profit for the year stood at a very satisfactory € 80.1 million (2015: € 88.5 million).

Gottfried Rüßmann

Gottfried Rüßmann
Chairman of the Management Board DEVK Versicherungen

2016 financial year

Company bodies

Board of Members

Helmut Diener
Marktredwitz
Chairman of the Board of Members

Karl de Andrade-Huber
Frankfurt am Main

Werner Balschun
Wesseling

Uwe Bertram
Ilsede
(from 1 July 2016)

Heinz Bodammer
Friedrichshafen

Dirk Bohlmann
Bremen

Jörgen Boße
Wolgast

Jens Brenner
Reichenbach

Otto Brunner
Munich

Sandra Bühler
Bruchsal

Detlef Clever
Hamm

Manuela Dittmann
Linden

Dirk Dupré
Saarbrücken

Stephan Est
Dorsten
(until 30 June 2016)

Arnold Fischer
Neustadt (Wied)

Katrin Fröchtenicht
Kalefeld

Jenny Gliese
Tübingen

Ulrike Schuldt
Grünberg

Günter Staaden
Eschenburg

Christiana Tinneberg
Aschaffenburg

Olaf Tinz
Duisburg
(from 1 July 2016)

Frank-Michael Hänel
Freiburg

Berthold Hillebrand
Kassel

Ralf Ingwersen
Hamburg

Manfred John
Stadtbergen

Klaus-Dieter Just
Forst (Lausitz)
(until 31 December 2016)

Axel Kleich
Leipzig

Ina Knecht-Hoyer
Berlin
(from 1 January 2017)

Christine Knerr
Hamm
(from 1 July 2016)

Hanka Knoche
Idstein

Dr-Ing. Siegfried Krause
Berlin

Michael Krienke
Hosenfeld

Günter Leckel
Bad Endorf

Manfred Leuthel
Nuremberg

Christian Magiera
Minden

Dr med. Ludwig Mandelartz
Aachen

Michelle Mauritz
Sonsbeck

Hans-Joachim Möller
Aschersleben

Rita Tüshelmann
Düsseldorf

Harald Vorhauer
Dortmund

Sylvia Weigel
Guntersblum

Torsten Westphal
Magdeburg

Regina Müller
Berlin

Wolfgang Müller
Gau-Bischofsheim

Frank Nachtigall
Frankfurt (Oder)

Hans-Jürgen Nehrkorn
Braunschweig
(deceased on 28 May 2016)

Mario Noack
Erfurt

Jessica Nohren
Rösrath

Hartmut Petersen
Bargteheide

Helga Petersen
Hamburg

Thomas Pfeifer
Reichelsheim

Dieter Pielhop
Wietzen

Heiner Reichert
Mannheim

Ada Reinhardt
Essen

Raimund Reinhart
Fulda

Ulrich Rötzheim
Idstein

Georg Sautmann
Greven

Andreas Schäfer
Schwalmstadt

Maike Schlott
Sylt

Sven Schmitte
Cologne

Ute Weyl-Thieme
Dillenburg

Wolfgang Wilde
Herne
(until 30 June 2016)

Cindy Winter-Thiel
Wurzen

Joachim Ziekau
Stendal

Supervisory Board

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

Jörg Hensel
Hamm
First Deputy Chairman
Chairman of the European Works Council, Deutsche Bahn AG
Chairman of the General Works Council, DB Cargo AG and Chairman of the Divisional Works Council (GF-BR)

Helmut Petermann*
Essen
Second Deputy Chairman
Chairman of the DEVK General Works Council Versicherungen (Insurance)

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

Doris Fohrn*
Wesseling
Chairwoman of the Works Council DEVK Versicherungen, Cologne Headquarters
Member of the General Works Council DEVK Versicherungen

Ralf Gajewski*
Berlin
Employee of DEVK Versicherungen Regional Management Unit Berlin (release phase)
(until 10 June 2016)

Dr Rüdiger Grube
Hamburg
Former CEO of Deutsche Bahn AG

Horst Hartkorn
Hamburg
Chairman of the Regional Committee of the Eisenbahn- und Verkehrsgewerkschaft (EVG) in Hamburg
(until 10 June 2016)

Martin Hettich
Stuttgart
Chairman of the Board,
Sparda-Bank Baden-Württemberg eG

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

Wolfgang Müller*
Zülpich
Member of the Works Council,
DEVK Versicherungen, Cologne Headquarters
(from 10 June 2016)

Ralf Poppinghuys
BE-Raeren
Personnel and Social Affairs Director
Transdev GmbH

Jürgen Putschkun*
Fellbach
Executive Officer,
Kunden Kompetenz Center (Customer Competence Centre) (KKC)
DEVK Versicherungen,
Stuttgart Regional Management Unit
(until 10 June 2016)

Dr Karl-Friedrich Rausch
Weiterstadt
Chairman of Transport und Logistik,
DB Mobility Logistics AG (ret.)
(until 10 June 2016)

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

Ulrich Weber
Krefeld
Personnel Director
Deutsche Bahn AG

* Employees' representatives

Management Board

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

Gottfried Rüßmann
Cologne
Chairman (from 15 May 2016)

Dr Veronika Simons
Walluf
(until 8 December 2016)

Bernd Zens
Königswinter

Michael Knaup
Cologne
Deputy Board Member
(until 15 May 2016)

Dietmar Scheel
Bad Berka
Deputy Board Member

Advisory Board

Rudi Schäfer
Bad Friedrichshall
– Honorary Chairman –
Chairman of
Railway Workers Union
Germany (ret.)

Kay Uwe Arnecke
Hamburg
Management Spokesman
of S-Bahn Hamburg GmbH

Werner Bayreuther
Heroldsberg
Lawyer
Adviser Deutsche Bahn AG

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

Dr Christian Heidersdorf
Kleinmachnow
Managing Director of DVA Deutsche-
Verkehrs-Assekuranz-Vermittlungs-
GmbH

Johannes Houben
Hückelhoven
Departmental Head at Eisenbahn- und
Verkehrsgewerkschaft (EVG), Cologne

Klaus Koch
Paderborn
Chairman of the Divisional Works Council
Services Division
DB Dienstleistungen GmbH

Hans Leister
Berlin
Managing Director Passenger Service
Europe der Railroad Development
Corporation in Europa

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

Ronald R. F. Lünser
Holzwickede
Chairman of the Management Board
and Railway Operations Manager of
Abellio Rail NRW GmbH

Rolf Lutzke
Berlin
CEO of EVA Bildung & Beratung GmbH

Heike Moll
Munich
Chairwoman of the General Works Council,
DB Station & Service AG

Beate Müller
Heidelberg
Head of the Mid Office
of the Federal Office for Railway Assets

Ottmar Netz
Hohenahr
Deputy Chairman of the
Verband Deutscher Eisenbahn-
fachschulen (VDEF)

Jürgen Niemann
Berlin
Personnel Director,
DB Dienstleistungen GmbH

Ute Plambeck
Hamburg
Personnel Director, DB Netz AG

Stefan Schindler
Nuremberg
Chairman of the Board,
Sparda-Bank Nürnberg eG

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

Heino Seeger
Hausham
CEO of Tegernsee Bahn
Betriebsgesellschaft mbH

Martin Selig
Ulm
Regional Personnel Manager,
Baden-Württemberg Region, DB Regio AG

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

Josef Vogel
Hechingen
Director, Landes-Bau-Genossen-
schaft Württemberg eG

Management report

Company foundations

Business model

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

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

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

Throughout Germany, the DEVK Group runs 19 subsidiaries and has around 1,240 branch offices.

Affiliated companies and participating interests

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

Delegation of functions and organisational cooperation

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

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

Under the existing joint contracts and service contracts, we provide the necessary internal staff for the Group companies DEVK Rückversicherungs- und Beteiligungs-AG, DEVK Allgemeine Versicherungs-AG, DEVK Rechtsschutz-Versicherungs-AG, DEVK Krankenversicherungs- AG, DEVK Allgemeine Lebensversicherungs-AG, DEVK Pensionsfonds-AG, DEVK Vermögensvorsorge- und Beteiligungs-AG and DEVK Service GmbH, as well as various smaller Group companies.

Business performance

Economic conditions generally and in the industry

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

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

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

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

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

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

In November 2016 the GDV projected a rise in gross non-life and accident insurance premium receipts of 2.9 %. At around 96 %, the combined ratio (the ratio of claims expenses and costs to premium receipts) is estimated to remain at the 2015 level (96.0 %). Thus the non-life and accident sector's profitability remained stable as compared with the previous year.

In the motor vehicle insurance segment, premium receipts lost further momentum during 2016, with anticipated growth of some 2.5 %. The GDV is expecting the combined ratio to rise to around 99 % (2015: 97.9 %).

Business trends

During 2016 the overall portfolio of DEVK Sach- und HUK-Versicherungsverein a.G., measured in terms of numbers of policies, fell by 0.6 % to 2,710,623 policies. The motor vehicle liability insurance, comprehensive and partially comprehensive motor insurance (third-party, fire and theft) risks were counted separately here, and moped insurance policies were not taken into account.

At + 2.2 %, premium growth stood at the level forecast in the previous annual report (around 2 %).

At € – 200,000, the underwriting result net of reinsurance was significantly better than predicted last year (forecast € – 10 million to € – 15 million). This was due both to favourable claims trends and reinsurers meeting a high proportion of the claims expenses, as well as to lower retirement pension costs. Contrary to our expectation, expenses for claims incurred, net of reinsurance, were 7.6 % down at € 17.6 million. Moreover, expenses on insurance business were also lower than in 2015, being down 5.2 % or € 4.2 million. These welcome business trends allowed us in 2015 to make an unplanned voluntary allocation of € 4.0 million to the provision for bonuses. Before changes to the equalisation provision the underwriting result net of reinsurance was significantly positive at € 9.0 million.

As expected, despite a growing investment portfolio, at € 49.2 million the investment income was lower than in 2015 (€ 52.3 million). However, lower profits from investment disposals were largely offset by reduced investment expenses. As forecast, at 3.2 % the net interest rate fell short of the 2015 level of 3.5 %.

As a consequence, the result from ordinary activities came in at € 37.1 million, exceeding the forecast figure of € 19 to 23 million.

After taxes, the net profit for the year stood at a very satisfactory € 27.0 million (2015: € 18.0 million).

Net assets, financial position and results of operations

Results of operations

	2016 € 000s	2015 € 000s	Change € 000s
Technical account	– 164	– 14,617	14,453
Investment result	49,195	52,338	– 3,143
Other result	– 11,941	– 10,964	– 977
Profit from ordinary activities	**37,090**	26,757	10,333
Taxes	10,090	8,757	1,333
Net profit for the year	**27,000**	18,000	9,000
Allocation to other retained earnings	27,000	18,000	9,000
Net retained profit	**–**	–	–

Underwriting result, net of reinsurance

DEVK Sach- und HUK-Versicherungsverein a.G.'s gross premiums rose by 2.2 % to € 362.4 million. 2016 earned premiums net of reinsurance rose by 2.2 % to € 304.4 million. Claims incurred, net of reinsurance, were 7.6 % down at € 211.9 million, and their share of earned net premiums thus came to 69.6 % (2015: 77.0 %). At 25.4 %, the ratio of expenses on insurance business net of reinsurance to earned premiums net of reinsurance was slightly down on the 2015 figure of 27.3 %.

Gross claims expenses for the year were 2.7% down on 2015 (2015: + 6.6 %). Profits from the settlement of previous years' claims were somewhat higher than in 2015 (+ 1.5 %). As a result gross claims expenses were 3.5 % lower than in 2015, and the gross claims ratio improved to 69.9 % (2015: 74.0 %).

Gross operating expenses rose by 4.1 % to € 89.5 million (2015: € 93.3 million). This fall can chiefly be put down to lower pension provision expenses.

After bonus and rebate expenses totalling € 4.1 million (2015: € 100,000) and an allocation to the equalisation provision totalling € 9.2 million (2015: € 300,000 withdrawal), the underwriting result net of reinsurance came to € – 200,000 (2015: € – 14.6 million).

Accident insurance

This item comprises both general accident insurance and motor vehicle accident insurance. As of 31 December 2016, the total number of accident insurance policies stood at 262,695 (2015: 262,931). Gross premiums increased by 4.7 % to € 46.2 million, and the underwriting result net of reinsurance came to € 2.1 million (2015: € 3.9 million).

Liability insurance

At the end of the year, our total liability insurance portfolio comprised 579,420 policies (2015: 584,788). This figure includes 80,341 employees' liability insurance policies, including railway workers' professional liability insurance. At € 34.3 million, gross premiums were unchanged (2015: € 34.3 million). An allocation of € 4.0 million was made to the provision for bonuses and rebates (2015: € 0). After a € 4.0 million withdrawal from the equalisation provision (2015: € 600,000 allocation), the underwriting result net of reinsurance rose to € 9.5 million (2015: € 4.8 million).

Motor vehicle liability insurance

As of 31 December 2016, our portfolio of motor vehicle liability insurance comprised 553,217 policies (2015: 554,618), plus 9,075 moped policies. Gross premium receipts rose 1.9 % to € 102.0 million. Despite the formation of a € 7.3 million equalisation provision, the underwriting result improved to € –4.4 million (2015: € –12.7 million).

Other motor vehicle insurance

Other motor vehicle insurance comprises our comprehensive and partial comprehensive motor insurance (third-party, fire and theft). The total number of risks covered at the end of the year was 452,897 (2015: 453,932 policies), and we also managed 1,552 partial-coverage moped policies. Gross premium receipts rose 0.6 % to € 77.4 million. After a € 4.6 million allocation to the equalisation provision (2015: € 1.5 million), the underwriting result net of reinsurance stood at € –4.7 million (2015: € –5.3 million).

Fire and non-life insurance

At the end of 2016, our fire and non-life-insurance portfolio comprised a total of 862.212 policies (2015: 869.979). Gross premiums increased by 3.3 % to € 100.9 million. A total of € 1.1 million was allocated to the equalisation provision (2015: € 2.4 million withdrawal). Despite this, the underwriting result net of reinsurance improved to € –2.7 million (2015: € –5.5 million).

In detail, our individual fire and non-life segments performed as follows.

The household contents insurance portfolio at the end of 2015 comprised 419,112 policies (2015: 423,674). Gross premium receipts rose 2.7 % to € 38.9 million, and at € 2.3 million the underwriting result net of reinsurance was up on the 2015 figure of € 1.5 million.

The building insurance portfolio increased to a total of 182,247 policies (2015: 181,232), while gross premium receipts rose 5.8 % to € 48.6 million. After a € 2.6 million allocation to the equalisation provision (2015: € 1.3 million withdrawal), the underwriting result net of reinsurance stood at € – 4.8 million (2015: € – 4.4 million).

In the other fire and non-life insurance classes, our end-of-year portfolio comprised 260,853 policies (2015: 265,073). Premium receipts fell by 3.7 % to € 13.3 million (2015: € 13.9 million). After a € 1.4 million withdrawal from the equalisation provision (2015: € 1.1 million), the underwriting result net of reinsurance came to € – 100,000 (2015: € 2.6 million).

Other insurance policies

"Other insurance policies" primarily comprises the results of our breakdown service and travel health insurance policies. Gross premiums totalled € 1.6 million (2015: € 1.5 million): After the formation of a € 100,000 equalisation provision, the underwriting result net of reinsurance came to € 100,000 (2015: € 200,000).

Investment result

At € 57.9 million, investment income was down on the 2015 figure of € 69.2 million. This fall was due to lower extraordinary income. As in 2015, the investment income includes a € 15 million dividend payment from DEVK Rückversicherungs- und Beteiligungs-AG. Also included was € 6.5 million in profits from disposals of investments (2015: € 19.3 million) as well as € 2.8 million in write-ups (2015: € 100,000).

At € 8.7 million, investment expenses were somewhat down on the 2015 level of € 16.8 million. Alongside a lower write-down requirement (€ 4.6 million as against € 9.9 million in 2015), losses from investment disposals were also down, at € 500,000 as compared with € 2.4 million in 2015.

On balance, our net investment income was down on the previous year's figure at € 49.2 million (2015: € 52.3 million). This is in line with last year's forecast. As expected, our investment portfolio has grown and, also as expected, the net interest rate on the portfolio has fallen as a result.

Other result

The "Other" result, which includes technical interest income, stood at € – 11.9 million (2015: € – 11.0 million).

Tax expenditure

Tax expenditure increased to € 10.1 million (2015: € 8.8 million).

Operating result and appropriation of retained earnings

The net profit for the year rose to € 27.0 million (2015: € 18.0 million). Pursuant to section 193 of the German Insurance Supervision Act (VAG – Versicherungsaufsichtsgesetz), € 5.4 million of the net profit was allocated to the loss reserve and € 21.6 million to other retained earnings.

Return on sales

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

The 2016 return on sales came to an encouraging 11.0 % (2015: 6.6 %).

Financial position

Cash flow

Availability of the liquidity necessary to meet regular payment obligations is ensured through ongoing liquidity planning which takes into account prospective liquidity movements over the coming 12 months. DEVK receives a continuous influx of liquid funds in the form of regular premium receipts, investment income and return flows from investments of capital. In the current financial year, the cash flow from investments – that is, the funds required for the net investment volume – amounted to € 52.4 million. The necessary funds were generated by the company's ongoing operations (€ 127.1 million).

Ratings

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

Meanwhile, the rating agency Fitch came to the same conclusion, with its 2016 rating of the financial strength of DEVK's core companies remaining unaltered at A+. The companies rated were DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Rückversicherungs- und Beteiligungs-AG, DEVK 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

	2016 € 000s	2015 € 000s	Change € 000s
Investments	1,566,310	1,509,589	56,721
Receivables arising out of direct insurance operations	10,507	13,538	– 3,031
Receivables arising out of reinsurance operations	3,681	3,392	289
Other receivables	196,347	293,907	– 97,560
Means of payment	97,891	23,176	74,715
Other assets	42,711	39,017	3,694
Total assets	**1,917,447**	1,882,619	34,828
Equity	1,012,531	985,531	27,000
Technical provisions	416,145	399,390	16,755
Other provisions	66,352	63,834	2,518
Deposits received from reinsurers	56,701	59,713	– 3,012
Liabilities arising out of direct insurance operations	22,419	21,735	684
Liabilities arising out of reinsurance operations	3,795	476	3,319
Other liabilities	339,418	351,832	– 12,414
Accruals and deferred income	86	108	– 22
Total capital	**1,917,447**	1,882,619	34,828

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

Of the accounts receivable from reinsurance business, in 2016 € 2,153,000 (2015: € 2,353,000), was attributable to DEVK Rückversicherungs- und Beteiligungs-AG. The other receivables related to various domestic and international reinsurers.

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

Non-financial performance indicators

Customer satisfaction

Customer satisfaction is an important strategic goal for DEVK, which is why we measure the satisfaction of our customers every year. For this purpose, we draw on a sectoral index which assesses our own customer satisfaction against that of our rivals via a points scale. This enables us to measure developments over time and as compared with our competitors in graphic form. Currently, DEVK scores above the industry average, but our aim over the coming years is for DEVK to achieve a leading position in the customer satisfaction ratings.

Employee satisfaction

At DEVK the opinion of our employees is important to us. Employees' satisfaction with their working environment, as well as with their bosses, colleagues, the work assigned to them and the corporate culture, go right to the heart of employer attractiveness.

In 2016 the third exhaustive company-wide survey of DEVK back office and field sales personnel took place. At 78 %, the participation rate was once again very high. All in all the survey revealed a good level of satisfaction. Among back office staff the overall satisfaction rating once again increased, whereas it had fallen among our field sales personnel. The fields of action flagged up by the survey responses will now be tackled one after another.

Social responsibility

DEVK is aware of its social responsibility as a successful insurer. For many years, we have taken on an above-average number of trainees by industry comparison in both back office and sales/marketing roles, with a current trainee ratio of over 10 %. Furthermore, prior to possible professional training at DEVK, every year at our headquarters alone we offer more than 60 school-age young people work experience that assists them in deciding what their future career paths might be. This gives young people a positive start to their working lives and helps them to integrate well into society.

Via a series of “days of action” (Tatkraft-Tagen) the DEVK meets its social responsibility towards disadvantaged groups in our society in a special way. Over the past three years we have carried out a total of 17 practical projects with the help of our action teams (Tatkraft-Teams). Volunteers from the regional management units and headquarters, from the back office and field sales all join forces to form an action team for one day. During these days of action we have for example undertaken the renovation and refurnishing of kindergartens, schools and retirement homes.

Personnel and sales staff numbers

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

The company employed an average of 2,904 people internally in 2016, of whom 2,877 had their contracts of employment with DEVK Sach- und HUK-Versicherungsverein a.G. Employees with dual employment contracts are assigned to a given company on the basis of the predominant contractual share. These figures do not include any inactive employment contracts, while part-time employees are recorded as full-time equivalents on the basis of their working hours.

At the end of 2016, 2,084 self-employed personnel worked for DEVK (2015: 2,110), on top of which 628 field sales agents were directly employed by DEVK Sach- und HUK-Versicherungsverein a.G. (2015: 677). However, the entire field sales force also operates on behalf of the various other DEVK companies.

Through the Förderkreis Talente (Talent Support Group) programme DEVK encourages promising young employees to qualify for career-independent, with a view to advancing their prospects. The participants, 50 % of whom are young female personnel, undergo two years of intensive training via a wide range of methods to enhance their personal, social and management skills.

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

Overall verdict on the management report

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

Outlook, opportunities and risks

Outlook

During 2017 we are expecting premium growth of 2.7 %. After the fall in gross claims expenses during 2016, we anticipate rising claims expenses in 2017. No allocation to the provision for bonuses is currently planned. Both before and after changes to the equalisation provision, we expect the 2017 technical account to register a result approximating to € +/– 0 million.

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

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

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

At DEVK Sach- and HUK-Versicherungsverein a.G., in the field of capital investments we anticipate a modest fall in the absolute result coupled with a slight increase in our investment portfolio. As a result our planning is founded on expectations of a net interest rate significantly lower than last year's figure.

All in all, we are expecting the 2017 profit from normal business activities to be in the order of € 25 to 30 million.

Opportunities report

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

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

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

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

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

Risk report

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

Risk management system

A risk management system is employed within the DEVK Group to identify and assess risks at an early stage. The system is based on a risk-bearing capacity model that guarantees adequate coverage of all significant risks via the company's own funds. To control risks, DEVK has put in place a consistent system of limits whereby the limit capacity is portrayed in the form of risk ratios. The risk ratios operationalise the risk strategy in DEVK's most important organisational areas. On top of this, a comprehensive risk inventory is compiled every six months, in which risks are recorded and classified according to risk categories with the aid of a questionnaire. Wherever possible, risks are quantified and the action necessary to manage the risks is recorded. This system enables us to react immediately and appropriately to developments that pose a risk to the Group. The system's effectiveness and suitability are monitored by the Internal Auditing unit.

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

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

Technical risks

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

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

Claims ratio net of reinsurance			
Year	%	Year	%
2007	68.2	2012	72.9
2008	67.2	2013	75.5
2009	71.1	2014	73.4
2010	76.4	2015	77.0
2011	71.5	2016	69.6

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

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

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

Settlement result, net of reinsurance, as % of original provision			
Year	%	Year	%
2007	15.9	2012	16.8
2008	16.0	2013	15.1
2009	16.0	2014	13.4
2010	18.4	2015	13.9
2011	17.5	2016	15.9

Our equalisation provisions provide an additional safety cushion that contributes to the smoothing of our underwriting results. As of 31 December 2016, their volume totalled € 34.7 million (2015: € 25.6 million).

Risk of defaults by debtors arising from our insurance operations

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

Over the review period (the past three years), our overdue debts from insurance business averaged 6.8 % of booked gross premiums. Of these, an average of 2.3 % had to be written off. In relation to the booked gross premiums, the average default rate over the past three years was 0.2 %. Accordingly, default risk is of minimal importance for DEVK.

Amounts receivable from reinsurance at the end of the year came to € 3.7 million, of which € 2.1 million applies to DEVK Rückversicherungs- und Beteiligungs-AG alone, which is rated as A+. 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	0.09
AA –	0.70
A+	2.55
A	0.17
A –	0.03
No rating	0.14

Investment risks

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

In 2016 our capital investments continued to comply with the investment ordinance which remained officially in force until 31 December 2015 and which we decided, by Executive Board resolution, to retain as the principal foundation of our investment policies. We counteract exchange/market price risk and interest rate risk by maintaining a balanced mix of investment types. Active portfolio management allows us to exploit opportunities arising from market movements to improve our results, while we limit credit risk and concentration risk by imposing very stringent rating requirements and continually monitoring the issuers we select, thus avoiding any potentially ruinous dependence on individual debtors. We ensure a continuous influx of liquidity by maintaining a portfolio of interest-bearing investments with a balanced maturity structure. An ongoing ALM process ensures that we are able at all times to meet existing and future obligations.

With the introduction of Solvency II the BaFin stress test was discontinued. However, during the year we still subjected our investment portfolio to an internal stress test based on BaFin Circular 1/2004 (VA). As of the balance sheet date of 31 December 2016 we conducted our own stress test. The stress test determines whether an insurance undertaking would be in a position to meet its obligations towards its clients even if the capital markets underwent a protracted crisis. The stress test simulates a short-term adverse change on the capital markets and examines the impact on the insurance undertaking’s balance sheet and accounts. The target horizon is the next balance sheet date. The stress test assumes the following scenarios: 1) a downturn on the equity markets while the bond market remains stable, 2) a simultaneous crash on the equity and bond markets and 3) a simultaneous crash on the equity and real estate markets.

At the end of 2016 the following measures were in place to hedge against investment risks:
- flexible management of the investment ratios in the special fund, in particular in the equities sphere, for instance via index futures and volatility futures,
- currency-matched refinancing in the field of indirect real estate investments,
- hedging against currency risks via forward contracts,
- adjustment of equity risks via options trading.

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

Interest-bearing investments

As of 31 December 2016, the Group held interest-bearing investments to a total value of € 604.5 million. A total of € 228.8 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 € 173.9 million to the fixed assets since we intend to hold this paper until maturity and their current market fluctuations are viewed as temporary. Should this second view in particular prove wide of the mark, we shall undertake the necessary write-downs in a timely fashion. These capital investments show a positive valuation reserve of € 19.6 million, a figure that includes € 800,000 in hidden charges. As of 31 December 2016 the total valuation reserve for our interest-bearing investments came to € 66.8 million. A change in returns of up to +/– 1 % would entail a corresponding value change ranging from approximately € –40.7 million to € 45.9 million.

This disclosure of the impact of a 1 % interest rate rise only gives an approximate idea of the potential effect on our profitability. The reason for this is that over a year, all things being equal, the portfolio's average time to maturity diminishes, and the stated change in value thus also decreases accordingly. On top of this, the bulk of our interest-bearing investments are in bearer bonds or bonds recognised on the balance sheet at their nominal values, and in these cases, under the prevailing accounting regulations, an increase in the market interest rate does not lead to write-downs. The securities currently include hidden reserves which will be reduced in the near future. The exception to this is losses of value due to deteriorating credit ratings that may affect the issuers in question.

Apart from real estate financing, which in total represents 11.5 % of our overall investments, our interest-bearing investments are predominantly in Pfandbriefe (German covered bonds) and notes receivable. though we also invest in corporate bonds. At the end of 2016 DEVK did not have any investments in asset-backed securities. In 2016 our bond investments focused on international bearer bonds issued by banks and companies, as well as government bonds and government-related bonds. These involve bearer papers assigned to the fixed assets and also registered securities.

We continue to have a minor investment exposure to certain eurozone countries which remain under the microscope, namely Portugal, Italy and Spain. As regards issuer risk, just 2.8 % of the company's total investments are in government bonds. The bulk of our investments in banks is either covered by various statutory and private deposit protection schemes or involves interest-bearing securities that are protected in law by special guarantee funds.

The ratings of the issuers of our interest-bearing investments break down as follows (2015):

AA – or better	55.2 %	(54.8 %)
A	27.9 %	(31.1 %)
BBB	14.4 %	(11.6 %)
BB or worse	2.5 %	(2.5 %)

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

Equity investments

The bulk of our equity investments is in DAX and EuroStoxx50 companies, as a result of which our portfolio's performance very closely matches that of these indices. A 20 % change in market prices would alter the value of our equity portfolio by € 43.8 million. Both the German and European share indices rose during 2016. In the medium term we continue to expect a positive performance, albeit with high levels of volatility in some cases. We have applied a value protection model to our equity investments in order to limit market risks. Equities to a value of € 110.3 million have been assigned to the fixed assets. The fixed-asset equities and equity funds show a positive valuation reserve of € 17.8 million, and contain no hidden liabilities.

In light of the uncertain economic and political situation, we actively managed our ratio of equity investments throughout the year. There has been an upward trend in the ratio as compared with 2015. Should growing economic problems lead to a significant downturn, various courses of action are open to us.

Real estate

On the balance sheet date, our real-estate investments totalled € 83.9 million. Of this total, a sum of € 74.8 million is invested in indirect mandates, including restricted special funds in office and other commercial real estate. Our direct holdings worth € 9.1 million are subject to scheduled annual depreciation of approximately € 500,000. No risks are currently discernible in connection with these real estate holdings.

Operational risks

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

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

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

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

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

Solvency II

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

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

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

Summary of our risk status

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

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

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

Corporate governance statement

After the entry into force of the Act Concerning the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst), the target figures for increasing the proportion of women on the Supervisory Board, Executive Board and at the first and second leadership levels, with 1 September 2015 as the starting date, have been set as follows:

Supervisory Board	13 %
Management Board	17 %
Top management level	11 % – 13 %
Middle management level	18 % – 22 %

The deadline for the achievement of these target figures is 30 June 2017.

Cologne, 15 March 2017

The Management Board

Rüßmann **Knaup** **Scheel** **Zens**

Notes to the management report

List of insurance classes covered during the financial year

Accident insurance
General accident insurance
Motor vehicle accident insurance

Liability insurance

Motor vehicle liability insurance

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

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

Other insurance policies
Breakdown service insurance
Cheque card insurance

Foreign travel sickness insurance

Financial statements

Balance sheet to 31 December 2016

Assets	€	€	€	2015, € 000s
A. Intangible assets				
I. Licenses, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licenses in such rights and assets		11,324,996		13,299
II. Payments on account		37,086		–
			11,362,082	13,299
B. Investments				
I. Real estate and similar land rights, including buildings on third-party land		9,093,074		10,886
II. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	678,669,613			635,564
2. Participating interests	19,767,193			17,096
		698,436,806		652,660
III. Other investments				
1. Shares, units and shares in investment funds and other variable-interest securities	280,179,691			275,573
2. Bearer bonds and other fixed-interest securities	193,386,187			193,712
3. Mortgage loans and annuity claims	179,610,271			169,785
4. Other loans	185,955,812			185,967
5. Other investments	19,648,097			21,006
		858,780,058		846,043
			1,566,309,938	1,509,589
C. Accounts receivable				
I. Receivables arising out of direct insurance operations:				
1. Policyholders	731,324			603
2. Intermediaries	9,775,591			12,935
		10,506,915		13,538
II. Receivables arising out of reinsurance operations		3,680,758		3,392
of which:				
Affiliated companies: € 2,152,579				2,353
III. Other receivables		196,347,372		293,907
of which:			**210,535,045**	310,837
Affiliated companies: € 183,086,949				183,070
D. Other assets				
I. Tangible assets and inventories		10,271,498		9,379
II. Cash at bank, cheques and cash in hand		97,890,882		23,176
III. Other assets		5,414,420		1,483
			113,576,800	34,038
E. Prepayments and accrued income				
I. Accrued interest and rent		7,091,288		7,064
II. Other prepayments and accrued income		8,571,447		7,792
			15,662,735	14,856
Total assets			**1,917,446,600**	1,882,619

I hereby confirm that the premium provision of € 11,529,329.26, recorded on the balance sheet under item B.II or B.III. of the liabilities and shareholders' equity, has been calculated in compliance with sections 341f and 341g of the German Commercial Code (HGB) as well as the Regulation issued pursuant to section 88 paragraph 3 of the Insurance Supervision Act.

Cologne, 14 March 2017 **The Actuary in Charge | Weiler**

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

Cologne, 14 March 2017 **The Trustee | Thommes**

Liabilities and shareholders' equity	€	€	€	2015, € 000s
A. Capital and reserves				
– Retained earnings				
1. Loss reserve pursuant to section 193 VAG		175,066,441		169,667
2. Other retained earnings		837,464,200		815,864
			1,012,530,641	985,531
B. Technical provisions				
I. Provision for unearned premiums				
1. Gross amount	149,563			149
2. of which:				
Reinsurance amount	10,308			9
		139,255		140
II. Premium reserve		6,204		8
III. Provision for claims outstanding				
1. Gross amount	513,546,524			503,936
2. of which:				
Reinsurance amount	148,397,980			142,096
		365,148,544		361,840
IV. Provision for bonuses and rebates		14,395,288		10,383
V. Equalisation provision and similar provisions		34,714,442		25,557
VI. Other technical provisions				
1. Gross amount	1,878,175			1,606
2. of which:				
Reinsurance amount	137,118			144
		1,741,057		1,462
			416,144,790	399,390
C. Provisions for other risks and charges				
I. Provisions for taxation		28,955,785		27,244
II. Other provisions		37,396,091		36,590
			66,351,876	63,834
D. Deposits received from reinsurers				
			56,701,241	59,713
E. Other liabilities				
I. Liabilities arising out of direct insurance operations				
1. Policyholders	19,120,395			20,284
2. Intermediaries	3,298,425			1,451
		22,418,820		21,735
II. Liabilities arising out of reinsurance operations		3,795,264		476
of which:				
Affiliated companies: € 24,652				8
III. Other liabilities		339,417,586		351,832
of which:			**365,631,670**	374,043
Tax: € 8,309,979				7,743
Affiliated companies: € 321,830,286				330,442
F. Accruals and deferred income				
			86,382	108
Total liabilities			**1,917,446,600**	1,882,619

Profit and loss account

for the period from 1 January to 31 December 2016

Items	€	€	€	2015, € 000s
I. Technical account				
1. Earned premiums, net of reinsurance				
a) Gross premiums written	362,357,038			354,637
b) Outward reinsurance premiums	57,968,645			56,811
		304,388,393		297,826
c) Change in the gross provision for unearned premiums	– 461			– 60
d) Change in the provision for unearned premiums, reinsurers' share	737			4
		276		– 56
			304,388,669	297,770
2. Allocated investment return transferred from the non-technical account, net of reinsurance			**134,971**	120
3. Other technical income, net of reinsurance			**132,306**	146
4. Claims incurred, net of reinsurance				
a) Claims paid				
aa) Gross amount	243,560,396			249,277
bb) Reinsurers' share	34,963,000			35,135
		208,597,396		214,142
b) Change in the provision for unadjusted insurance claims				
aa) Gross amount	9,610,035			13,138
bb) Reinsurers' share	– 6,302,186			2,149
		3,307,849		15,287
			211,905,245	229,429
5. Changes in other technical provisions, net of reinsurance				
a) Premium reserve, net of reinsurance		1,461		1
b) Other technical provisions, net of reinsurance		– 301,702		109
			– 300,241	110
6. Bonuses and rebates, net of reinsurance			**4,119,126**	92
7. Net operating expenses				
a) Gross operating expenses		89,466,060		93,307
b) of which:				
Reinsurance commissions and profit participation		12,295,307		11,897
			77,170,753	81,410
8. Other technical charges, net of reinsurance			**2,167,593**	2,101
9. Subtotal			**8,992,988**	– 14,886
10. Change in the equalisation provision and similar provisions			**– 9,157,430**	269
11. Underwriting result, net of reinsurance			**– 164,442**	– 14,617
Balance carried forward:			– 164,442	– 14,617

Items	€	€	€	€	2015, € 000s
Balance carried forward:				– 164,442	– 14,617
II. Non-technical account					
1. Income from other investments					
a) Income from participating interests		16,854,740			15,864
of which:					
from affiliated companies: € 16,369,411					15,782
b) Income from other investments					
aa) Income from real estate and similar land rights, including buildings on third-party land	2,131,039				2,263
bb) Income from other investments	29,592,618				31,625
		31,723,657			33,888
c) Income from write-ups		2,834,244			64
d) Gains on the realisation of investments		6,508,629			19,347
			57,921,270		69,163
2. Investment charges					
a) Investment management charges, interest expenses and other charges on capital investments		3,641,671			4,449
b) Write-downs on investments		4,554,322			9,935
c) Losses on the realisation of investments		530,764			2,441
			8,726,757		16,825
			49,194,513		52,338
3. Allocated investment return transferred from the non-technical account			963,261		1,019
				48,231,252	51,319
4. Other income			411,658,743		425,866
5. Other charges			422,635,200		435,811
				– 10,976,457	– 9,945
6. Profit from ordinary activities				**37,090,353**	26,757
7. Taxes on income			9,624,070		7,825
8. Other taxes			466,283		932
				10,090,353	8,757
9. Net profit for the year				**27,000,000**	18,000
10. Allocation to retained earnings					
a) to the loss reserve pursuant to section 193 of the Insurance Supervision Act (VAG)			5,400,000		3,600
b) to other retained earnings			21,600,000		14,400
				27,000,000	18,000
11. Net retained profit				**–**	–

Notes to the accounts

Accounting and valuation methods

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

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

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

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

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

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

Notes receivable, loans and **other loans** are recognised at their amortised cost plus or minus the cumulative amortisation of the difference between the cost of acquisition and the redemption amounts, applying the effective interest method.
Zero notes receivable were capitalised at their costs of acquisition plus the interest entitlement as determined on the basis of the capital volume and the interest agreement.

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

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

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

Other receivables are shown at their nominal values.

Other assets not constituting operating or office equipment are recognised at their nominal values. Operating or office equipment is shown at its cost of acquisition or production as reduced by scheduled depreciation. Depreciation was calculated according to the straight-line method. Low-value assets were written off in the year of acquisition. Low-value assets are either assigned to a pool of such assets, in which case they are depreciated over a five-year period, beginning from the year of acquisition, or they are recorded as operating expenses in their year of acquisition.

Interest claims not yet due were recorded at their nominal values under **Prepayments and accrued income**.

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

The **premium reserve** required for the child accident insurance was calculated individually according to the prospective method, taking implicit recognised costs duly into account. The calculation was based on the DAV 2006 HUR mortality table. The technical interest rate stands at between 1.25 % and 4.0 %, depending on the time of initial formation of the provision.

The **provision for claims outstanding** is calculated individually for each claim. A provision for IBNR losses is established according to general blanket criteria. The provision includes amounts designated for claims settlement.

The **pensions premium reserve** was calculated in accordance with section 341f and 341g HGB The calculation was based on the DAV 2006 HUR mortality table. The technical interest rate stands at between 1.25 % and 4.0 %, depending on the time of initial formation of the provision.

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

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

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

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

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

The **provision for partial retirement benefit obligations** is calculated according to the projected unit credit method on the basis of the HEUBECK 2005 G actuarial tables. The discounting interest rate was set at 1.79 % (2015: 2.33 %), calculated on the basis of an assumed residual term of three years. The financing age on expiry corresponds with the contractual age on expiry. The rate of pay increase was set at 2.1 % per annum.

The **anniversary payments provision** was also calculated according to the projected unit credit method on the basis of the HEUBECK 2005 G actuarial tables. The discounting interest rate was set at 3.22 % (2015: 3.89 %), calculated on the basis of an assumed residual term of 15 years (cf. section 253 paragraph 2 sentence 2 HGB). The financing age on expiry corresponds with the contractual age on expiry. The rate of pay increase was set at 2.1 % per annum.

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

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

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

Accruals and deferred income comprise the discount points on registered bonds and advance rent receipts.

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

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

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

Changes to Asset Items A., B.I. to III. during the 2016 financial year

Assets	Balance sheet value 2015 € 000s	Additions € 000s	Transfers € 000s	Disposals € 000s	Write-ups € 000s	Write-downs € 000s	Balance sheet value 2016 € 000s
A. Intangible assets							
1. Licences, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licences in such rights and assets	13,299	1,660	–	–	–	3,634	11,325
2. Payments on account	–	37	–	–	–	–	37
3. Total A.	13,299	1,697	–	–	–	3,634	11,362
B.I. Real estate and similar land rights, including buildings on third-party land							
	10,886	–	–	1,309	–	484	9,093
B.II. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	635,564	43,106	–	–	–	–	678,670
2. Participating interests	17,096	3,330	–	632	–	27	19,767
3. Total B.II.	652,660	46,436	–	632	–	27	698,437
B.III. Other investments							
1. Shares, units or shares in investment funds and other variable-interest securities	275,573	64,425	–	59,015	2,774	3,577	280,180
2. Bearer bonds and other fixed-interest securities	193,712	24	–	–	–	350	193,386
3. Mortgage loans and annuity claims	169,785	53,968	–	44,143	–	–	179,610
4. Other loans							
a) Registered bonds	92,000	–	–	–	–	–	92,000
b) Notes receivable and loans	91,410	2	–	13	–	–	91,399
c) Other loans	2,557	–	–	–	–	–	2,557
5. Other investments	21,006	462	–	1,820	–	–	19,648
6. Total B.III.	846,043	118,881	–	104,991	2,774	3,927	858,780
Total	**1,522,888**	**167,014**	**–**	**106,932**	**2,774**	**8,072**	**1,577,672**

Notes to the balance sheet

Re Assets B.

Investments

Pursuant to section 341b paragraph 2 HGB, we have assigned investments for long-term retention in the investment portfolio. As of 31 December 2016, our investments had the following book and current values:

Investments	Book value €	Current value €
B.I. Real estate and similar land rights, including buildings on third-party land	9,093,074	23,990,000
B.II. Investments in affiliated companies and participating interests		
1. Shares in affiliated companies	678,669,613	1,354,683,306
2. Participating interests	19,767,193	20,320,860
B.III. Other investments		
1. Shares, units or shares in investment funds and other variable-interest securities	280,179,691	324,304,582
2. Bearer bonds and other fixed-interest securities	193,386,187	215,887,855
3. Mortgage loans and annuity claims	179,610,271	197,202,320
4. Other loans		
a) Registered bonds	92,000,000	104,841,610
b) Notes receivable and loans	91,399,352	103,402,769
c) Other loans	2,556,460	2,724,333
5. Other investments	19,648,097	24,682,947
Total	**1,566,309,938**	**2,372,040,582**
of which:		
Investments valued at costs of acquisition	1,474,309,938	2,267,198,973
of which:		
Investments in fixed assets pursuant to section 341b paragraph 2 HGB	284,224,953	321,660,780

The revaluation reserves include hidden liabilities totalling € 1.1 million. These relate to real estate, mortgage loans, notes receivable and loans, as well as bearer bonds.

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

Real estate is valued according to the gross rental method. All real estate held on 31 December 2016 was revalued with effect from that date.

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

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

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

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

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

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

	Book value € 000s	Fair value € 000s
Fixed-asset securities	16,513	15,676
Mortgage loans	8,223	8,013
Other loans	5,000	4,909

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

Details of derivative financial instruments and forward purchases in accordance with section 285 paragraph 19 HGB				
	Type	Nominal volume € 000s	Book value premium € 000s	Fair value of premium € 000s
Other liabilities	Short put options	3,328	148	33

Valuation methods

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

Details of units or shareholdings in domestic investment funds in accordance with section 285 paragraph 26 HGB				
Investment goal	Dividends € 000s	Current value € 000s	Hidden reserves/ hidden charges € 000s	Limitation on daily redemption
Equity funds	3,332	157,990	19,389	
Bond funds	724	36,098	682	
Real-estate funds	1,268	30,680	2,693	Between any time and after six months

Re Assets B.I.

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

Real estate to a book value of € 1,369,490 is predominantly used by DEVK Sach- und HUK-Versicherungsverein a.G. and other DEVK Group companies. The proportion of each property used by the DEVK Group in square metres is calculated by deducting the area used by third parties from the overall area.

Re Assets B.II.

Investments in affiliated companies and participating interests

	% share	Equity €	Results from previous financial year €
DEVK Rückversicherungs- und Beteiligungs-AG, Cologne	100.00	1,139,088,436	63,000,000
DEVK Allgemeine Versicherungs-AG, Cologne	100.00	342,170,794	–
DEVK Rechtsschutz-Versicherungs-AG, Cologne	100.00	60,563,459	–
DEVK Krankenversicherungs-AG, Cologne	100.00	26,177,128	–
DEVK Allgemeine Lebensversicherungs-AG, Cologne	100.00	143,364,493	400,000
DEVK Pensionsfonds-AG, Cologne	100.00	14,333,766	17,500
DEVK Vermögensvorsorge- und Beteiligungs-AG, Cologne	51.00	191,000,000	–
DEVK Asset Management GmbH, Cologne	100.00	750,000	–
DEVK Europa Real Estate Investment Fonds SICAV-FIS, Luxembourg, (L)	68.00	390,974,669 [2]	11,240,947 [2]
DEVK Omega GmbH, Cologne	75.00	26,769,982	797,945
DEVK Private Equity GmbH, Cologne	65.00	158,414,885	23,258,646
DEVK Saturn GmbH, Cologne	100.00	26,643,585	707,316
DEVK Service GmbH, Cologne	74.00	1,470,379	–
DEVK Web GmbH, Cologne	100.00	25,000	–
DEVK Zeta GmbH, Cologne	100.00	775,000	–
Aviation Portfolio Fund Nr. 1 GmbH & Co. geschlossene Investment KG, Grünwald	16.50	134,474,942	9,896,330
DEREIF Brüssel Lloyd George S.a.r.l., Luxembourg, (L)	100.00	4,306,336	898,030
DEREIF BRUSSEL CARMEN S.A., Brussels, (B)	100.00	474,826	–365,639
DEREIF Hungary Park Atrium Ltd., Budapest, (HU)	100.00	6,454,840	–2,397,665
DEREIF Immobilien 1 S.a.r.l., Luxembourg, (L)	100.00	–32,524,436	–11,429,445
DEREIF LISSABON REPUBLICA, UNIP, LDA, Lisbon, (P)	100.00	3,945,768	2,306,732
DEREIF Paris 6, rue Lamennais, S.C.I., Yutz, (F)	100.00	5,772,590	1,358,738
DEREIF Paris 9, chemin du Cornillon Saint-Denis, S.C.I., Yutz, (F)	100.00	6,589,942	365,148
DEREIF Paris 37 – 39, rue d'Anjou, Yutz, (F)	100.00	6,748,287	1,780,213
DEREIF Wien Beteiligungs GmbH, Vienna, (A)	100.00	10,000	–126,037
DEREIF Wien Nordbahnstrasse 50 OG, Vienna, (A)	100.00	9,597,143	548,414
DP7, Unipessoal LDA, Lisbon, (P)	100.00	8,190,932	6,741,568
DRED SICAV-FIS, Luxembourg, (L)	68.00	55,539,985	3,290,123
German Assistance Versicherung AG, Coesfeld	100.00	4,166,883	419,695
Hotelbetriebsgesellschaft SONNENHOF mbH, Bad Wörishofen	100.00	356,023	–
HYBIL B.V., Venlo, (NL)	100.00	61,703,009	2,563,843
Ictus GmbH, Cologne	75.00	40,259,299	1,849,814
Lieb'Assur S.a.r.l., Nîmes, (F)	100.00	356,395	24,110
Oppenheim Private Equity GmbH & Co. KG, Cologne	14.29	675,713 [1]	1,861,515 [1]
SADA Assurances S.A., Nîmes, (F)	100.00	40,377,009	4,267,301
Sireo Immobilienfonds No. 4, SICAV, Luxembourg, (L)	50.00	187,789,243 [1]	–21,221,315 [1]
Terra Estate GmbH & Co. KG, Cologne	25.00	47,096,328	81,517
		GBP	GBP
DEREIF London 10, St. Bride Street S.a.r.l., Luxembourg, (L)	100.00	5,947,343	–257,272
DEREIF London Birchin Court S.a.r.l., Luxembourg, (L)	100.00	6,770,141	–14,786
DEREIF London Eastcheap Court S.a.r.l., Luxembourg, (L)	100.00	7,889,058	–22,428
DEREIF London Coleman Street S.a.r.l., Luxembourg, (L)	100.00	4,748,479	472,932
DEREIF London Lower Thames Street S.a.r.l., Luxembourg, (L)	100.00	6,522,930	–2,567,720
		SEK	SEK
DEREIF Malmö, Kronan 10 & 11 AB, Malmö, (S)	100.00	13,373,000	3,458,000
DEREIF Stockholm, Vega 4 AB, Stockholm, (S)	100.00	11,536,000	2,814,000
		CHF	CHF
Echo Rückversicherungs-AG, Zurich, (CH)	100.00	83,876,625	–14,591,255

[1] Based on 2015 financial year [2] Based on subgroup financial statements

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

Re Assets B.III.

Other investments

Other loans exclusively comprise registered participation certificates.

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

Re Liabilities A.–

Retained earnings

1. Loss reserve pursuant to section 193 of the Insurance Supervision Act (VAG)

31.12.2015	€ 169,666,441
Allocation from the 2016 net profit	€ 5,400,000
31.12.2016	**€ 175,066,441**

2. Other retained earnings

31.12.2015	€ 815,864,200
Allocation from the 2016 net profit	€ 21,600,000
31.12.2016	**€ 837,464,200**

Re Liabilities B.

Technical provisions

Figures in € 000s	Total gross provision		of which: Provision for claims outstanding		of which: Equalisation provision and similar provisions	
Insurance class	2016	2015	2016	2015	2016	2015
Accident	83,388	75,873	83,188	75,685	–	–
Liability	47,467	49,286	35,774	37,607	7,236	11,222
Motor vehicle liability	365,090	354,119	356,784	353,145	7,319	–
Other motor vehicle	29,484	24,764	11,593	11,437	8,798	4,211
Fire and non-life	38,988	37,445	26,053	25,909	11,241	10,124
of which:						
Fire	439	3,469	439	3,367	–	–
Household contents	8,158	7,101	7,062	6,006	–	–
Homeowners' building	23,378	18,817	13,072	11,467	9,774	7,210
Other non-life	7,013	8,058	5,480	5,069	1,467	2,914
Other	273	153	155	153	120	–
Total	**564,690**	541,640	**513,547**	503,936	**34,714**	25,557

Re Liabilities B.IV.

Provision for bonuses and rebates

a) Bonuses

31.12.2015	€ 10,273,382
Allocation	€ 4,011,906
31.12.2016	**€ 14,285,288**

b) Rebates

31.12.2015	€ 110,000
Withdrawal	€ 106,282
Allocation	€ 106,282
31.12.2016	**€ 110,000**

Re Liabilities F.

Accruals and deferred income

Discount points on registered bonds	€ 60,353
Advance rental receipts	€ 26,029
	€ 86,382

Notes to the profit and loss account

Direct insurance operations and reinsurance coverage provided

2016, € 000s	Gross booked premiums	Gross premiums earned	Net premiums earned	Gross expenses on: Insurance claims	Gross expenses on: Insurance operations	Reinsurance balance	Underwriting result, net of reinsurance
Accident	46,194	46,194	35,543	26,013	15,616	– 2,863	2,051
Liability	34,321	34,321	33,686	9,746	14,622	– 455	9,483
Motor vehicle liability	101,966	101,968	92,382	90,351	12,252	3,809	– 4,361
Other motor vehicle	77,394	77,391	56,737	65,978	9,907	– 1,621	– 4,713
Fire and non-life	100,900	100,900	84,796	59,887	36,953	– 3,183	– 2,682
of which:							
Fire	739	739	520	– 405	389	– 933	– 148
Household contents	38,921	38,921	37,728	19,684	15,014	– 856	2,270
Homeowners' building	48,644	48,644	34,966	32,982	15,529	– 1,032	– 4,826
Other non-life	12,596	12,596	11,582	7,626	6,021	– 362	22
Other	1,582	1,583	1,245	1,195	116	– 94	58
Total	**362,357**	**362,357**	**304,389**	**253,170**	**89,466**	**– 4,407**	**– 164**

2015, € 000s	Gross booked premiums	Gross premiums earned	Net premiums earned	Gross expenses on: Insurance claims	Gross expenses on: Insurance operations	Reinsurance balance	Underwriting result, net of reinsurance
Accident	44,112	44,112	34,001	21,953	16,030	– 2,570	3,911
Liability	34,280	34,280	33,590	13,442	15,590	80	4,761
Motor vehicle liability	100,071	100,024	90,673	97,141	13,248	– 2,101	– 12,687
Other motor vehicle	76,941	76,929	56,267	67,749	10,813	– 2,174	– 5,349
Fire and non-life	97,719	97,720	82,054	61,146	37,496	– 4,985	– 5,475
of which:							
Fire	970	970	667	– 173	454	– 2,265	– 1,521
Household contents	37,885	37,885	36,611	18,513	15,602	– 1,168	1,534
Homeowners' building	45,984	45,984	32,862	34,170	14,979	– 1,579	– 4,390
Other non-life	12,880	12,881	11,914	8,636	6,461	27	– 1,098
Other	1,511	1,511	1,184	984	130	– 175	222
Total	354,634	354,576	297,769	262,415	93,307	– 11,925	– 14,617

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

Acquisition expenses	€ 45,819,650
Administration costs	€ 43,646,411

Insurance agents' commission and other remuneration, personnel expenses	2016 € 000s	2015 € 000s
1. Insurance agents' commission of all types within the meaning of section 92 HGB for direct insurance operations	32,466	31,546
2. Other insurance agents' remuneration within the meaning of section 92 HGB	1,847	1,888
3. Wages and salaries	219,965	210,283
4. Social-security contributions and social-insurance costs	37,741	35,821
5. Retirement pension costs	3,752	57,223
Total	**295,771**	336,761

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

During the year under review, Management Board remuneration totalled € 593,998. The retirement pensions of former Management Board members and their surviving dependants totalled € 1,127,018. On 31 December 2016, DEVK Rückversicherungs- und Beteiligungs-AG capitalised a pension provision of € 11,828,627 for this group of persons. The Supervisory Board remuneration totalled € 377,124, and payments to the Advisory Board came to € 61,203.

Other information

Contingencies and other financial obligations

On the balance sheet date, there were financial obligations totalling € 3.3 million from open short options and € 10.0 million from multi-tranches. The payment obligations in relation to approved mortgage loans not yet paid out totalled € 10.3 million.

At the end of the year, other financial obligations arising from real estate holdings, fund units, shares in affiliated companies and participating interests totalled € 56.1 million. This includes obligations towards affiliated companies amounting to € 21.9 million.

Under an assumption of debt agreement, the pension provisions for all employees in the DEVK Group have been assigned to DEVK Rückversicherungs- und Beteiligungs-AG in return for the transfer of corresponding investments, thereby bundling all of the DEVK Group's pension commitments with a single risk bearer and improving the protection in place for employees' pension rights. The joint and several liability for the pension commitments capitalised on the DEVK Rückversicherungs- und Beteiligungs-AG balance sheet has given rise to benefit obligations totalling € 471.4 million.

Supplementary report

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

General information

Number of insurance contracts concluded directly by the Group with a term of at least one year	2016	2015
Accident	262,695	262,931
Liability	579,420	584,788
Motor vehicle liability	553,217	554,618
Other motor vehicle	452,897	453,932
Fire and non-life	862,212	869,979
of which:		
Fire	2,654	2,529
Household contents	419,112	423,674
Homeowners' building	182,247	181,232
Other non-life	258,199	262,544
Other	182	227
Total	**2,710,623**	2,726,475

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

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

During the year under review, the average number of employees, disregarding inactive employment contracts and after converting part-time employees to full-time equivalents, came to 3,537, made up of 71 executives and 3,466 salaried employees.

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

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

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

Cologne, 15 March 2017

The Management Board

Rüßmann **Knaup** **Scheel** **Zens**

Audit certificate

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

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

Our audit has not led to any objections.

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

Cologne, 24 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr Hübner	**Offizier**
Auditor	Auditor

Supervisory Board report

During 2016, the Supervisory Board regularly monitored the Management Board's leadership on the basis of written and verbal reporting, as well as being briefed on the company's commercial performance, corporate policies and financial position at various meetings.

KPMG AG Wirtschaftsprüfungsgesellschaft, having been appointed as auditors in line with statutory requirements, duly audited the 2016 annual financial statements and management report prepared by the Management Board. Their audit did not reveal any irregularities and an unqualified audit certificate was granted. The Supervisory Board has duly acknowledged the audit findings.

The Supervisory Board's own audit of the annual financial statements and management report likewise revealed no irregularities, and accordingly the Supervisory Board hereby approves the 2016 financial statements, which are thus duly adopted.

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

Cologne, 12 May 2017

The Supervisory Board

Kirchner
Chairman

Company bodies

Supervisory Board

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

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

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

Hans-Jörg Gittler
Kestert
CEO of
BAHN-BKK

Helmut Petermann
Essen
Chairman of the
General Works Council
DEVK Versicherungen

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

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

Management Board

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

Gottfried Rüßmann
Cologne
Chairman (from 15 May 2016)

Bernd Zens
Königswinter

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

Management report

Company foundations

Business model

The company's exclusive insurance purpose is to provide reinsurance for the insurance operations undertaken in various segments and types of non-life, accident, health and life insurance. Details of this can be found in the notes to the management report. Reinsurance is provided for both affiliated and non-Group companies.

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

Affiliated companies and participating interests

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

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

and its direct and indirect subsidiaries.

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

There are control and profit transfer agreements with DEVK Allgemeine Versicherungs-AG, DEVK Rechtsschutz-Versicherungs-AG, DEVK Krankenversicherungs-AG, DEVK Vermögensvorsorge- und Beteiligungs-AG, DEVK Service GmbH, DEVK-Web GmbH and OUTCOME Unternehmensberatung GmbH. There is a profit transfer agreement with DEVK Asset Management GmbH and a control agreement with German Assistance Versicherung AG.

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

Pursuant to section 312 AktG, the Management Board is required to prepare a report on its relationships with affiliated companies. At the end of the report, the Management Board states that, in light of the circumstances of which it was aware at the time of undertaking legal transactions with affiliated companies, it received appropriate consideration for all such transactions. No action requiring reporting had to be taken in the 2016 financial year.

Delegation of functions and organisational cooperation

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

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

Business performance

Economic conditions generally and in the industry

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

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

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

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

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

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

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

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

Business trends

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

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

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

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

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

Net assets, financial position and results of operations

Results of operations

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

Underwriting result, net of reinsurance

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

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

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

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

Life assurance

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

Accident insurance

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

Liability insurance

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

Motor vehicle insurance

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

Fire and non-life insurance

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

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

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

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

Other insurance policies

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

Investment result

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

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

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

Other result

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

Profit from ordinary activities

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

Tax expenditure

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

Operating result and appropriation of retained earnings

As in 2015 the net annual profit came to € 63.0 million. The net annual profit is shown as net retained profit.

The Management Board hereby proposes to the Annual General Meeting that the sum of € 15.0 million should be appropriated from the net retained earnings and paid as a dividend to DEVK Sach- und HUK-Versicherungsverein a.G., with the remaining € 48.0 million being allocated to other retained earnings.

Financial position

Cash flow

Availability of the liquidity necessary to meet regular payment obligations is ensured through ongoing liquidity planning which takes into account prospective liquidity movements over the coming 12 months. The company receives a continuous influx of liquid funds in the form of regular premium receipts, investment income and return flows from investments of capital. In the current financial year, the cash flow from investments – that is, the funds required for the net investment volume – amounted to € 2.5 million. The necessary funds were generated by the company's ongoing operations.

Ratings

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

Meanwhile, the rating agency Fitch came to the same conclusion, with its 2016 rating of the financial strength of DEVK's core companies remaining unaltered at A+. Alongside our company, the individual companies rated were DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Allgemeine Versicherungs-AG, DEVK Rechtsschutz-Versicherungs-AG, DEVK Krankenversicherungs-AG and the two life assurance companies DEVK Lebensversicherungsverein a.G. and DEVK Allgemeine Lebensversicherungs-AG. Their outlook, too, is rated as stable.

Assets position

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

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

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

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

Overall verdict on the management report

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

Outlook, opportunities and risks

Outlook

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

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

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

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

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

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

Opportunities report

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

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

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

Risk report

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

Technical risks

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

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

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

In line with suitable assumption guidelines, in the vast majority of cases we only underwrite straightforward, standardised business, while counteracting the risk of unusually high claims expenses attendant upon extraordinary loss events through a corresponding retrocession policy.

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

Settlement result, net of reinsurance, as % of original provision			
Year	%	Year	%
2007	7.2	2012	2.8
2008	10.0	2013	13.7
2009	– 15.9	2014	– 4.1
2010	1.2	2015	2.4
2011	2.2	2016	3.0

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

Our equalisation provisions provide an additional safety cushion that contributes to the smoothing of our underwriting results. As of 31 December 2016, their volume totalled € 125.3 million (2015: € 97.2 million).

Risk of defaults by debtors arising from our insurance operations

Amounts receivable from reinsurance at the end of the year came to € 19.2 million. An overview of amounts receivable broken down according to the ratings of our reinsurance partners is given in the following table:

Rating category	Receivables in € millions
AA	0.41
AA –	2.16
A+ +	0.01
A+	2.34
A	5.92
A –	2.14
BBB+	0.02
BBB	0.14
BBB–	0.04
BB+	0.02
B+	0.02
B	0.01
No rating	5.92

Investment risks

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

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

In 2016 our capital investments continued to comply with the investment ordinance which remained officially in force until 31 December 2015 and which we decided, by Executive Board resolution, to retain as the principal foundation of our investment policies. We counteract exchange/market price risk and interest rate risk by maintaining a balanced mix of investment types. Active portfolio management allows us to exploit opportunities arising from market movements to improve our results, while we limit credit risk and concentration risk by imposing very stringent rating requirements and continually monitoring the issuers we select, thus avoiding any potentially ruinous dependence on individual debtors. We ensure a continuous influx of liquidity by maintaining a portfolio of interest-bearing investments with a balanced maturity structure. An ongoing ALM process ensures that we are able at all times to meet existing and future obligations.

We have subjected our investment holdings to a stress test similar to the one applied to our non-life and accident insurance. We performed this during the course of the year, applying the stress test discontinued by BaFin after the entry into force of Solvency II, and successfully passed the test in all scenarios. As of 31 December 2016 we subjected our investments to an in-house stress test. The stress test determines whether an insurance undertaking would be in a position to meet its obligations towards its clients even if the capital markets underwent a protracted crisis. The stress test simulates a short-term adverse change on the capital markets and examines the impact on the insurance undertaking's balance sheet and accounts. The target horizon is the next balance sheet date. The stress test assumes the following scenarios: 1) a downturn on the equity markets while the bond market remains stable, 2) a simultaneous crash on the equity and bond markets and 3) a simultaneous crash on the equity and real estate markets.

At the end of 2016 the following measures were in place to hedge against investment risks:
- flexible management of the investment ratios in the special fund, in particular in the equities sphere, for instance via index futures and volatility futures,
- currency-matched refinancing in the field of indirect real estate investments,
- hedging against currency risks via forward contracts,
- use of bond forward purchases,
- adjustment of equity risks via options trading.

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

Interest-bearing investments

As of 31 December 2016, the Group held interest-bearing investments to a total value of € 745.1 million. A total of € 437.9 million of these investments are in bearer instruments, including the pure pension funds, which could be subject to write-downs if interest rates rise. Of these bearer instruments, pursuant to section 341b HGB we have assigned a volume of € 355.0 million to the fixed assets since we intend to hold this paper until maturity and any market fluctuations are viewed as temporary. Should this second view in particular prove wide of the mark, we shall undertake the necessary write-downs in a timely fashion. These capital investments show a positive valuation reserve of € 51.8 million, a figure that includes € 2.2 million in hidden charges. As of 31 December 2016 the total valuation reserve for our interest-bearing investments came to € 89.6 million. A change in returns of up to +/– 1 % would entail a corresponding value change ranging from € – 45.5 million to € 50.2 million.

This disclosure of the impact of a 1 % interest rate rise only gives an approximate idea of the potential effect on our profitability. The reason for this is that over a year, all things being equal, the portfolio's average time to maturity diminishes, and the stated change in value thus also decreases accordingly. On top of this, the bulk of our interest-bearing investments are in bearer bonds or bonds recognised on the balance sheet at their nominal values, and in these cases, under the prevailing accounting regulations, an increase in the market interest rate does not lead to write-downs. The securities currently include high levels of hidden reserves which will be reduced in the near future. The exception to this is losses of value due to deteriorating credit ratings that may affect the issuers in question.

Our interest-bearing investments are predominantly in Pfandbriefe (German covered bonds) and notes receivable, though we also invest in corporate bonds. Our direct corporate bond holdings make up 10 % of our total investments. In 2016 our bond investments focused on international bearer bonds issued by banks and companies. These involve bearer papers assigned to the fixed assets and also registered securities.

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

Turning to issuer risks, as proportions of our total investments, 6 % of the company's investments are in government bonds, 10 % in corporate bonds and 24 % in securities and deposits with banks and other financial service providers. The bulk of our investments in banks is either covered by various statutory and private deposit protection schemes or involves interest-bearing securities that are protected in law by special guarantee funds.

The ratings of the issuers of our interest-bearing investments break down as follows (2015):

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

In 2016 the proportion of such investments with ratings of AA or better fell as compared with 2015. This was chiefly due to maturities and repayments. We shall continue to make virtually all our new and repeat investments in interest-bearing securities with strong credit ratings.

Equity investments

The bulk of our equity investments is in DAX and EuroStoxx50 companies, as a result of which our portfolio's performance very closely matches that of these indices. A 20 % change in market prices would alter the value of our equity portfolio by € 52.7 million. Both the German and European share indices rose during 2016. In the medium term we continue to expect a positive performance, albeit with high levels of volatility in some cases. We have applied a value protection model to our equity investments in order to limit market risks.

In light of the uncertain economic situation, we actively managed our ratio of equity investments throughout the year. There has been an upward trend in the ratio as compared with 2015. Should growing economic problems lead to a significant downturn, various courses of action are open to us.

Real estate

On the balance sheet date, we held indirect mandates to a value of € 106.5 million. Of this, € 92.1 million was invested in direct property holdings and € 13.9 million in real estate funds. 2016 real estate write-downs came to € 200,000 (2016: € 2.2 million).

Operational risks

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

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

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

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

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

Solvency II

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

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

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

Summary of our risk status

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

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

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

Cologne, 15 March 2017

The Management Board

Rüßmann **Knaup** **Zens**

Notes to the management report

List of insurance classes covered during the financial year

Reinsurance coverage provided

Life assurance

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

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

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

Motor vehicle liability insurance

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

Legal expenses insurance

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

Goods-in-transit insurance

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

Financial statements

Balance sheet to 31 December 2016

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

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

Profit and loss account

for the period from 1 January to 31 December 2016

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

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

Notes to the accounts

Accounting and valuation methods

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

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

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

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

Notes receivable, loans and **other loans** are recognised at their amortised cost plus or minus the cumulative amortisation of the difference between the cost of acquisition and the redemption amounts, applying the effective interest method.
Zero notes receivable were capitalised at their costs of acquisition plus the interest entitlement as determined on the basis of the capital volume and the interest agreement.

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

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

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

Other receivables are shown at their nominal values.

Other assets not constituting operating or office equipment are recognised at their nominal values. Operating or office equipment is shown at its cost of acquisition or production as reduced by scheduled depreciation. Depreciation was calculated according to the straight-line method. Low-value assets are either assigned to a pool of such assets, in which case they are depreciated over a five-year period, beginning from the year of acquisition, or they are recorded as operating expenses in their year of acquisition.

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

Technical provisions are calculated by application of the following principles:
Provisions for unearned premiums are recognised on the basis of the contracts with the primary insurers. When calculating the unearned premium provisions, we complied with the regulation laid down by the Finance Minister of North Rhine-Westphalia on 30 April 1974. The provision for unearned premiums attributable to the reinsurers is calculated on the basis of the contracts with the reinsurers.

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

The gross amounts for the **provisions for claims outstanding** were recorded on the basis of the details provided by the ceding companies. The reinsurance amount was calculated in accordance with the contractual agreements in this respect.

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

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

The **other provisions** are formed on the following basis:
The **pension provision** is calculated according to the projected unit credit method on the basis of the HEUBECK 2005 G actuarial tables. The discounting interest rate was calculated as a ten-year average pursuant to the hitherto prevailing Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung). It was set at 4.00 % (2015: 3.89 %) and calculated on the basis of an assumed residual term of 15 years (section 253 paragraph 2 sentence 2 HGB). The financing age on expiry corresponds with the contractual age on expiry. The assumed rate of pay increase was set at 2.1 %, and the rate of pension increase at between 1.0 % and 1.7 % p.a.

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

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

Amounts owed to banks are recognised at their repayment amounts.

Other creditors are valued at their settlement values.

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

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

The **allocated investment return transferred from the non-technical account, net of reinsurance**, was recorded on the basis of the details provided by the ceding company. The reinsurance amount was calculated in accordance with the contractual agreements in this respect.

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

Changes to Asset Items A., B.I. to II. during the 2016 financial year

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

Notes to the balance sheet

Re Assets B.

Investments

Pursuant to section 341b paragraph 2 HGB, we have assigned investments for long-term retention in the investment portfolio. As of 31 December 2016, our investments had the following book and current values:

Investments

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

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

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

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

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

Both dividend-bearing securities and fixed-interest securities capitalised at their costs of acquisition are valued using the year-end market prices. Pursuant to section 56 RechVersV, the current values of the registered bonds, notes receivable and loans were calculated at normal market conditions on the basis of the yield curve. The current value of the zero notes payable was calculated on the basis of the year-end prices reported by an independent financial enterprise.
The current values of the other loans and silent participating interests within the meaning of the German Banking Act (KWG) (equity surrogates) were calculated on the basis of the discounted cash flow method in line with the current euro swap curve plus a risk premium, which take into account the anticipated future payment streams in light of debtor-specific assumptions.

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

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

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

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

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

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

Valuation methods

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

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

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

Re Assets B.I.

Investments in affiliated companies and participating interests

	% share	Equity €	Results from previous financial year €
DEVK Allgemeine Versicherungs-AG, Cologne	100.00	342,170,794	–
DEVK Rechtsschutz-Versicherungs-AG, Cologne	100.00	60,563,459	–
DEVK Krankenversicherungs-AG, Cologne	100.00	26,177,128	–
DEVK Allgemeine Lebensversicherungs-AG, Cologne	100.00	143,364,493	400,000
DEVK Pensionsfonds-AG, Cologne	100.00	14,333,766	17,500
DEVK Vermögensvorsorge- und Beteiligungs-AG, Cologne	51.00	191,000,000	–
DEVK Asset Management GmbH, Cologne	100.00	750,000	–
DEVK Europa Real Estate Investment Fonds SICAV-FIS, Luxembourg, (L)	68.00	390,974,669 [2]	11,240,947 [2]
DEVK Omega GmbH, Cologne	75.00	26,769,982	797,945
DEVK Private Equity GmbH, Cologne	65.00	158,414,885	23,258,646
DEVK Service GmbH, Cologne	74.00	1,470,379	–
DEVK-Web GmbH, Cologne	100.00	25,000	–
DEVK Zeta GmbH, Cologne	100.00	775,000	–
DEREIF Brüssel Lloyd George S.a.r.l., Luxembourg, (L)	100.00	4,306,336	898,030
DEREIF Hungary Park Atrium Ltd., Budapest, (HU)	100.00	6,454,840	– 2,397,665
DEREIF Immobilien 1 S.a.r.l., Luxembourg, (L)	100.00	– 32,524,436	– 11,429,445
DEREIF LISSABON REPUBLICA, UNIP. LDA, Lisbon, (P)	100.00	3,945,768	2,306,732
DEREIF Paris 6, rue Lammenais, S.C.I., Yutz, (F)	100.00	5,772,590	1,358,738
DEREIF Paris 9, chemin du Cornillon Saint-Denis, S.C.I., Yutz, (F)	100.00	6,589,942	365,148
DEREIF Paris 37 – 39, rue d'Anjou, Yutz, (F)	100.00	6,748,287	1,780,213
DEREIF Wien Beteiligungs GmbH, Vienna, (A)	100.00	10,000	– 126,037
DEREIF Wien Nordbahnstrasse 50 OG, Vienna, (A)	100.00	9,597,143	548,414
DP7, Unipessoal LDA, Lisbon, (P)	100.00	8,190,932	6,741,568
DRED SICAV-FIS, Luxembourg, (L)	68.00	55,539,985	3,290,123
German Assistance Versicherung AG, Coesfeld	100.00	4,166,883	419,695
Hotelbetriebsgesellschaft SONNENHOF mbH, Bad Wörishofen	100.00	356,023	–
HYBIL B.V., Venlo, (NL)	100.00	61,703,009	2,563,843
Ictus GmbH, Cologne	75.00	40,259,299	1,849,814
JARA Grundstücksgesellschaft mbH & Co. KG, Grünwald	5.00	157,612,662 [1]	9,964,744 [1]
Lieb'Assur S.a.r.l., Nîmes, (F)	100.00	356,395	24,110
Monega Kapitalanlagegesellschaft mbH, Cologne	45.00	7,744,807	1,639,879
SADA Assurances S.A., Nîmes, (F)	100.00	40,377,009	4,267,301
Sirio Immobilienfonds No. 4 SICAV, Luxembourg, (L)	24.99	187,789,243 [1]	– 21,221,315 [1]
Sirio Immobilienfonds No. 5 SICAV, Luxembourg, (L)	5.36	128,547,926 [1]	2,470,090 [1]
		GBP	GBP
DEREIF London 10, St. Bride Street S.a.r.l., Luxembourg, (L)	100.00	5,947,343	– 257,272
DEREIF London Birchin Court S.a.r.l., Luxembourg, (L)	100.00	6,770,141	– 14,786
DEREIF London Coleman Street S.a.r.l., Luxembourg, (L)	100.00	4,748,479	472,932
DEREIF London Eastcheap Court S.a.r.l., Luxembourg, (L)	100.00	7,889,058	– 22,428
DEREIF London Lower Thames Street S.a.r.l., Luxembourg, (L)	100.00	6,522,930	– 2,567,720
		SEK	SEK
DEREIF Malmö Kronan 10 & 11 AB, Malmö, (S)	100.00	13,373,000	3,458,000
DEREIF Stockholm, Vega 4 AB, Stockholm, (S)	100.00	11,536,000	2,814,000

[1] Based on 2015 financial year [2] Based on subgroup financial statements

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

Re Assets B.II.

Other investments
Other loans exclusively comprise registered participation certificates.
Other investments comprise fund units and silent partnerships within the meaning of the KWG.

Re Assets E.II.

Other prepayments and accrued income

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

Re Liabilities A.I.

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

Re Liabilities A.III.

Retained earnings

– Other retained earnings	
31.12.2015	€ 527,566,246
Allocation	€ 48,000,000
31.12.2016	**€ 575,566,246**

Re Liabilities E.

Accruals and deferred income

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

Notes to the profit and loss account

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

Insurance agents' commission and other remuneration, personnel expenses	2016 € 000s	2015 € 000s
1. Insurance agents' commission of all types within the meaning of section 92 HGB for direct insurance operations	–	–
2. Other insurance agents' remuneration within the meaning of section 92 HGB	–	–
3. Wages and salaries	231	318
4. Social-security contributions and social-insurance costs	–	–
5. Retirement pension costs	–	415
Total	**231**	733

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

Appropriation of profit

As in 2015 the net annual profit came to € 63.0 million. The net annual profit is shown as net retained profit.

The Management Board hereby proposes to the Annual General Meeting that the sum of € 15.0 million should be appropriated from the net retained earnings and paid as a dividend to DEVK Sach- und HUK-Versicherungsverein a.G., with the remaining € 48.0 million being allocated to other retained earnings.

Other information

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

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

Parent company guarantee

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

Contingencies and other financial obligations

On the balance sheet date, there were financial obligations totalling € 3.4 million from open short options and € 20.0 million from forward purchases.

At the end of the year, other financial obligations arising from real estate holdings, fund units, shares in affiliated companies and participating interests totalled € 57.5 million. This includes obligations towards affiliated companies amounting to € 30.9 million.

Supplementary report

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

General information

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

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

Our company does not itself employ any personnel.

On the balance sheet date, our Company was 100 % owned by DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn, Cologne, who have disclosed, pursuant to section 20 paragraph 4 AktG, that they hold a majority of the voting rights.

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

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

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

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

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

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

Cologne, 15 March 2017

The Management Board

Rüßmann **Knaup** **Zens**

Audit certificate

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

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

Our audit has not led to any objections.

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

Cologne, 24 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr Hübner	**Offizier**
Auditor	Auditor

Supervisory Board report

During 2016, the Supervisory Board regularly monitored the Management Board's leadership on the basis of written and verbal reporting, as well as being briefed on the company's commercial performance, corporate policies and financial position at various meetings.

KPMG AG Wirtschaftsprüfungsgesellschaft, having been appointed as auditors in line with statutory requirements, duly audited the 2016 annual financial statements and management report prepared by the Management Board. Their audit did not reveal any irregularities and an unqualified audit certificate was granted. The Supervisory Board has duly acknowledged the audit findings.

The Supervisory Board's own audit of the annual financial statements and management report likewise revealed no irregularities, and accordingly the Supervisory Board hereby approves the 2016 financial statements, which are thus duly adopted.

The Supervisory Board agrees with the Management Board's proposal concerning the appropriation of the 2016 net retained earnings and hereby recommends that the Annual General Meeting frames a corresponding resolution.

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

"After our statutory audit and evaluation, we hereby confirm that
1. the factual details in the report are correct and
2. that the payments made by the company in connection with the legal transactions discussed in the report were not excessive."

We share this judgement and do not have any objections to the Management Board's statement at the end of the report concerning relationships with affiliated companies.

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

Cologne, 12 May 2017

The Supervisory Board

Kirchner
Chairman

Company bodies

Supervisory Board

Wolfgang Zell
Neustadt in Holstein
Chairman
Federal Director of the
Eisenbahn- und Verkehrs-
gewerkschaft (EVG)

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

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

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

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

Ekhard Zinke
Flensburg
President of the
Federal Motor Transport Authority

Management Board

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

Gottfried Rüßmann
Cologne
Chairman (from 15 May 2016)

Dr Veronika Simons
Walluf
(until 8 December 2016)

Bernd Zens
Königswinter

Michael Knaup
Cologne
Deputy Board Member
(from 15 May 2016)

Dietmar Scheel
Bad Berka
Deputy Board Member

Advisory Board

Rudi Schäfer
Bad Friedrichshall
– Honorary Chairman –
Chairman of the German
Railway Workers Union

Antje Böttcher
Halle (Saale)
Chair of the
Verband Deutscher
Eisenbahnfachschulen (VDEF)

Heiko Büttner
Munich
Personnel Director,
DB Vertrieb GmbH

Andreas Dill
Dortmund
Chairman of the Management Board
Sparda-Bank Hannover eG

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

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

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

Günther Köhnke
Rotenburg
Member of the Regional Management,
DB Regio Bus, Bavaria Region
Chairman for the Franconia Market Region
CEO of OVF, KOB and VU

Wilhelm Lindenberg
Hannover
Operations and Personnel Director,
üstra Hannoversche
Verkehrsbetriebe AG
(üstra Hanoverian Transport Company)

Wilfried Messner
Wolfenbüttel
Chairman of the Federal Association
Bundesverband Führungskräfte
Deutscher Bahnen e.V.
(BF Bahnen)

Silvia Müller
Berlin
Ombudswoman
Deutsche Bahn AG

Dr Sigrid Nikutta
Berlin
CEO of
Berliner Verkehrsbetriebe

Ulrich Nölkenbockhoff
Nordkirchen
Chairman of the Special
Staff Council for the
President of the
Federal Office for Railway Assets

Roger Paeth
Burgwedel
Head of Group Personnel Services
and Personnel Director,
Deutsche Bahn AG

Dr Doris Radatz
Berlin
Head of Employment Law, Codetermination,
Employment Contract Principles
Head of Committee Work Management,
Projects and Social Affairs
Deutsche Bahn AG

Peter Rahm
Crailsheim
Chairman of the General
Works Council of DB
Kommunikationstechnik GmbH
(DB Communications Technology)

Marion Rövekamp
Munich
Personnel Director, DB Regio AG

Lars Scheidler
Berlin
Departmental Manager at the Eisenbahn-
und Verkehrsgewerkschaft (EVG)
(Railway and Transport Union)

Martin Schmitz
Rodgau
Director of the Verband
Deutscher Verkehrs-
unternehmen e.V.

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

Oliver Wolff
Düsseldorf
Managing Director and
Managing Board
Member, Verband Deutscher
Verkehrsunternehmen (VDV)

Margarete Zavoral
Sulzbach
CEO of the
Railway Social Work Foundation
CEO of the
Stiftung Eisenbahn Waisenhort
(EWH)

Management report

Company foundations

Business model

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

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

Throughout Germany, the DEVK Group runs 19 subsidiaries and has around 1,240 branch offices.

Affiliated companies and participating interests

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

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

and its direct and indirect subsidiaries.

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

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

Delegation of functions and organisational cooperation

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

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

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

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

Business performance

Economic conditions generally and in the industry

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

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

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

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

Returns on European government bonds increased significantly on the back of developments in the USA. For instance, the yield on ten-year German government bonds rose from – 0.19 % to over 0.30 % for a time, before settling back to a year's-end figure of

0.19 %. The yield on Italian government bonds with a maturity of ten years even rose from below 1.4 % at the end of October 2016 to over 2.0 % by the end of November 2016, and at the end of 2016 stood at 1.82 %. All in all, the interest rates on bonds with longer maturities rose proportionately more than the rates on short-term bonds.

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

In November 2016 the GDV projected a rise in gross non-life and accident insurance premium receipts of 2.9 %. At around 96 %, the combined ratio (the ratio of claims expenses and costs to premium receipts) is estimated to remain at the 2015 level (96.0 %). Thus the non-life and accident sector's profitability remained stable as compared with the previous year.

In the motor vehicle insurance segment, premium receipts lost further momentum during 2016, with anticipated growth of some 2.5 %. The GDV is expecting the combined ratio to rise to around 99 % (2015: 97.9 %).

Business trends

During 2016, our overall portfolio of insurance policies rose by 2.0 % to 7,961,106 policies (2015: 7,803,667). The motor vehicle liability insurance, comprehensive and partially comprehensive motor insurance (third-party, fire and theft) risks were counted separately here, and moped insurance policies were not taken into account.

At +4.4 %, the rise in gross premiums written is above the market average and in line with last year's forecast of over 4 %. This development was chiefly due to the growth of our motor vehicle insurance portfolio, as well as premium adjustments in that segment. At 7.8 % up, building insurance rose sharply.

Contrary to our expectations, the increase in technical charges (+1.1 % net) was less than the growth in premium receipts. Alongside favourable claims trends, this is chiefly due to lower pension provision expenses. Before changes to the equalisation provision, the underwriting result net of reinsurance was therefore better than in 2015, and even after a large allocation to the equalisation provision, at € 30.8 million it significantly exceeded our 2015 expectations, when we forecast a result in the single-figure millions.

The investment result came to € 64.7 million, as against a forecast figure in the order of € 70.0 million. This difference is due to somewhat higher investment write-downs than expected. As expected, the net interest rate of 3.4 % was down on the 2015 figure of 4.8 %.

In consequence, at € 88.8 million the profit from ordinary activities far exceeded our forecast of € 55 million to € 65 million.

After taxes, the profit transfer to DEVK Rückversicherungs- und Beteiligungs-AG was € 88.0 million (2015: € 97.0 million). The profit transfer thus once again reached a very satisfactory level.

Net assets, financial position and results of operations

Results of operations

	2016 € 000s	2015 € 000s	Change € 000s
Technical account	30,783	15,210	15,573
Investment result	64,670	90,452	– 25,782
Other result	– 6,688	– 8,208	1,520
Profit from ordinary activities	**88,765**	97,454	– 8,689
Taxes	844	461	383
Profit transfer	87,921	96,993	– 9,072
Net profit for the year	**–**	–	–

Underwriting result, net of reinsurance

DEVK Allgemeine Versicherungs-AG's gross premiums written rose by 4.4 % to € 1,294.0 million. 2016 earned premiums net of reinsurance rose by 4.2 % to € 1,098.3 million. Claims incurred, net of reinsurance, were just 0.8 % up at € 795.9 million, as a result of which their share of net earned premiums fell to 72.5 % (2015: 74.8 %). The ratio of expenses on insurance operations net of reinsurance to earned premiums improved to 22.1 % (2015: 22.8 %).

Despite the spring storms Elvira and Friederike, the 2016 claims figures remained moderate. Gross claims expenses for the year were 4.7 % up (2015: +8.0 %), but this was offset by profits from the settlement of prior year claims, which were 6.4 % higher than in 2015. As a result, gross claims expenses and premium receipts rose by approximately the same amount, and the gross claims ratio stood at 73.2 %, as compared with 73.1 % in 2015.

Gross operating expenses rose by 1.7 %, from € 275.7 million in 2015 to € 280.5 million in 2016. This comparatively slight rise is due to a special effect in the field of pension provision expenses.

After a € 22.4 million allocation to the premium refunds provision (2015: € 5.5 million), the underwriting result net of reinsurance increased to € 30.8 million (2015: € 15.2 million).

Accident insurance

Under accident insurance, we include both general accident insurance and motor vehicle accident insurance. In 2016 the total number of accident insurance policies rose to 912,944 (2015: 901,222). Gross premiums rose to € 105.9 million, a 5.2 % increase on the 2015 figure. After a € 100,000 allocation to the equalisation provision (2015: € 300,000), the underwriting result net of reinsurance stood at € 2.8 million (2015: € 4.9 million).

Liability insurance

Our overall liability insurance portfolio increased to 1,218,893 policies (2015: 1,192,916). In line with the portfolio growth, gross premiums rose 3.2 % to € 86.4 million. After a € 4.2 million withdrawal from the equalisation provision (2015: € 1.9 million), the underwriting result net of reinsurance came to € 26.8 million (2015: € 20.0 million).

Motor vehicle liability insurance

At the year's end, our portfolio comprised 2,278,328 policies (2015: 2,226,286), plus 119,705 moped policies. Due both to the portfolio growth and premium adjustments, at € 511.7 million gross premium receipts were up 3.7 % on the 2015 figure. After a € 2,000 allocation to the equalisation provision (2015: € 13.3 million withdrawal), the underwriting result net of reinsurance improved to € 3.5 million (2015: € – 700,000).

Other motor vehicle insurance

Other motor vehicle insurance comprises our comprehensive and partial comprehensive (third-party, fire and theft) motor insurance. The number of risks covered in this segment stood at 1,736,025 (2015: 1,704,879), and we also managed 22,593 partial-coverage moped policies. Gross premiums (including mopeds) rose by 1.4 % to € 313.3 million. After a € 15.8 million allocation to the equalisation provision (2015: € 15.4 million), the underwriting result net of reinsurance came to € 3.6 million (2015: € 400,000).

Fire and non-life insurance

At the end of 2016, our fire and non-life-insurance portfolio comprised a total of 1,814,492 policies (2015: 1,777,762), and gross premiums rose by an impressive 9.6 % to € 264.6 million. After a € 10.7 million allocation to the equalisation provision (2015: € 5.0 million), the underwriting result net of reinsurance came to € – 5.7 million (2015: € – 9.8 million).

In detail, our individual fire and non-life segments performed as follows:

The household contents insurance portfolio increased to 929,265 policies (2015: 914,216), while gross premiums were up from € 93.0 million to € 96.9 million, a rise of 4.2 %. The underwriting result net of reinsurance came to € 13.1 million (2015: 7.2 million).

At the end of the year, our homeowners' building insurance business comprised 398,555 policies (2015: 385,236). Gross premiums increased to € 134.6 million (2015: € 124.9 million), representing impressive growth of 7.8 %. After a € 9.8 million allocation to the equalisation provision (2015: € 3.5 million), the underwriting result net of reinsurance came to € – 15.6 million (2015: € – 17.7 million).

In the other fire and non-life insurance classes, our portfolio as of 31 December 2016 comprised 486,672 policies (2016: 478,310), while premium receipts rose 40.1 % to € 33.1 million. After a € 900,000 allocation to the equalisation provision (2015: € 1.5 million), the underwriting result net of reinsurance totalled € – 3.2 million (2015: € 700,000).

Other insurance policies

Other insurance policies primarily comprise the results of our breakdown service policies as well as insurance against various financial losses. Total premium receipts here were € 12.0 million (2015: € 11.5 million). After a € 100,000 allocation to the equalisation provision (2015: € 100,000), the underwriting result net of reinsurance stood at € – 200,000 (2015: € 300,000).

Investment result

The investment result was down on the 2015 figure. This can chiefly be put down to lower extraordinary income.

As expected, the investment portfolio rose slightly, and total investment income came to € 77.3 million (2015: € 105.8 million). Alongside the regular income, which experienced a moderate fall that was somewhat greater than expected, the company booked profits totalling € 6.6 million from disposals of investments (2015: € 29.7 million) plus income from write-ups of € 4.6 million (2015: € 5.7 million).

Investment expenses fell from € 15.4 million in 2015 to € 12.6 million in 2016.

Our net 2016 investment result came to € 64.7 million, as against € 90.5 million in 2015. The investment result thus came in moderately lower than the planned figure of approximately € 70 million, due to a combination of higher than expected write-downs and lower than expected current income.

Other result

Due to a special effect which has improved the result, the “Other” result including technical interest income improved to € – 6.7 million (2015: € – 8.2 million).

Tax expenditure

The control and profit transfer agreement entered into with DEVK Rückversicherungs- und Beteiligungs-AG in 2002 established a fiscal unit for corporation tax and trade tax purposes. The parent company DEVK Rückversicherungs- und Beteiligungs-AG has refrained from making a Group allocation for tax purposes on the income of the consolidated company since the entire profit or loss is transferred to DEVK Rückversicherungs- und Beteiligungs-AG under the profit transfer agreement. Taxes on income, which came to € 306,000 (2015: € 180,000), exclusively comprised foreign withholding taxes.

Operating result and appropriation of retained earnings

The result before profit transfer came to € 88.8 million (2015: € 97.0 million). This sum was transferred to DEVK Rückversicherungs- und Beteiligungs-AG in line with the Control and Profit Transfer Agreement.

Return on sales

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

The 2016 return on sales came to 9.4 % (2015: 11.4 %).

Financial position

Cash flow

Availability of the liquidity necessary to meet regular payment obligations is ensured through ongoing liquidity planning which takes into account prospective liquidity movements over the coming 12 months. The company receives a continuous influx of liquid funds in the form of regular premium receipts, investment income and return flows from investments of capital. In the current financial year, the cash flow from investments – that is, the funds required for the net investment volume – amounted to € 20.7 million. The necessary funds were generated by the company's ongoing operations.

Ratings

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

Meanwhile, the rating agency Fitch came to the same conclusion, with its 2016 rating of the financial strength of DEVK's core companies remaining unaltered at A+. Alongside our company, the individual companies rated were DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Rückversicherungs- und Beteiligungs-AG, DEVK Rechtsschutz-Versicherungs-AG, DEVK Krankenversicherungs-AG and the two life assurance companies DEVK Lebensversicherungsverein a.G. and DEVK Allgemeine Lebensversicherungs-AG. Their outlook, too, is rated as stable.

Assets position

	2016 € 000s	2015 € 000s	Change € 000s
Investments	1,957,196	1,879,120	78,076
Receivables arising out of direct insurance operations	11,243	9,910	1,333
Receivables arising out of reinsurance operations	13,182	9,455	3,727
Other receivables	154,279	164,006	– 9,727
Means of payment	55	119	– 64
Other assets	56,320	60,680	– 4,360
Total assets	**2,192,275**	2,123,290	68,985
Equity	342,171	342,171	–
Technical provisions	1,594,499	1,513,961	80,538
Other provisions	10,354	9,186	1,168
Deposits received from reinsurers	59,367	66,428	– 7,061
Liabilities arising out of direct insurance operations	80,894	81,702	– 808
Liabilities arising out of reinsurance operations	5,546	2,456	3,090
Other liabilities	98,394	106,187	– 7,793
Accruals and deferred income	1,050	1,199	– 149
Total capital	**2,192,275**	**2,123,290**	**68,985**

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

Non-financial performance indicators

Customer satisfaction

Customer satisfaction is an important strategic goal for DEVK, which is why we measure the satisfaction of our customers every year. For this purpose, we draw on a sectoral index which assesses our own customer satisfaction against that of our rivals via a points scale. This enables us to measure developments over time and as compared with our competitors in graphic form. Currently, DEVK scores above the industry average, but our aim over the coming years is for DEVK to achieve first place for customer satisfaction.

Overall verdict on the management report

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

Outlook, opportunities and risks

Outlook

During 2017, we are expecting total premium receipts to increase by more than 5 %. We are expecting a stronger increase in technical charges of almost 7 %. Accordingly, before adjustments to the equalisation provision we expect to register a poorer underwriting result in 2016. and after changes to the equalisation provision, we currently estimate that the underwriting result net of reinsurance will come in at around € 25 to € 30 million.

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

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

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

On the investment front, in 2017 we expect DEVK Allgemeine Versicherungs-AG to register a result moderately lower than the 2016 level, on a slightly growing investment portfolio. Despite a somewhat larger investment portfolio, due to the lower interest rates on new assets and repeat investments, we anticipate slightly lower current income in 2017. Accordingly we expect a moderate fall in the net interest rate during 2017.

All in all, we are expecting the 2017 profit from normal business activities to be in the order of € 75 to 85 million.

Opportunities report

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

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

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

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

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

Risk report

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

Technical risks

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

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

Claims ratio net of reinsurance

Year	%	Year	%
2007	70.0	2012	74.3
2008	73.6	2013	75.2
2009	77.3	2014	71.4
2010	78.1	2015	74.8
2011	77.1	2016	72.5

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

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

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

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

Year	%	Year	%
2007	11.3	2012	9.0
2008	10.5	2013	8.7
2009	10.3	2014	8.7
2010	11.7	2015	8.0
2011	10.0	2016	9.3

Our equalisation provisions provide an additional safety cushion that contributes to the smoothing of our underwriting results. As of 31 December 2016, their volume totalled € 227.0 million (2015: € 204.6 million).

Risk of defaults by debtors arising from our insurance operations

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

Over the review period (the past three years), our overdue debts from insurance business averaged 2.9 % of booked gross premiums. Of these, an average of 15.9 % had to be written off. In relation to the booked gross premiums, the average default rate over the past three years was 0.5 %. Accordingly, default risk is of minimal importance for our company.

Amounts receivable from reinsurance at the end of the year came to € 13.2 million. of which € 7.6 million apply to DEVK Rückversicherungs- und Beteiligungs-AG alone, which is rated as A+ by S&P Global Ratings. 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+	0.05
AA–	0.60
AA	0.20
A+	8.04
A–	0.06
A	0.27
No rating	3.96

Investment risks

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

In 2016 our capital investments continued to comply with the investment ordinance which remained officially in force until 31 December 2015 and which we decided, by Executive Board resolution, to retain as the principal foundation of our investment policies. We counteract exchange/market price risk and interest rate risk by maintaining a balanced mix of investment types. Active portfolio management allows us to exploit opportunities arising from market movements to improve our results, while we limit credit risk and concentration risk by imposing very stringent rating requirements and continually monitoring the issuers we select, thus avoiding any potentially ruinous dependence on individual debtors. We ensure a continuous influx of liquidity by maintaining a portfolio of interest-bearing investments with a balanced maturity structure. An ongoing ALM process ensures that we are able at all times to meet existing and future obligations.

With the introduction of Solvency II the BaFin stress test was discontinued. However, during the year we still subjected our investment portfolio to an internal stress test based on BaFin Circular 1/2004 (VA). As of the balance sheet date of 31 December 2016 we conducted our own stress test. The stress test determines whether an insurance undertaking would be in a position to meet its obligations towards its clients even if the capital markets underwent a protracted crisis. The stress test simulates a short-term adverse change on the capital markets and examines the impact on the insurance undertaking's balance sheet and accounts. The target horizon is the next balance sheet date. The stress test assumes the following scenarios: 1) a downturn on the equity markets while the bond market remains stable, 2) a simultaneous crash on the equity and bond markets and 3) a simultaneous crash on the equity and real estate markets.

At the end of 2016 the following measures were in place to hedge against investment risks:
- flexible management of the investment ratios in the special fund, in particular in the equities sphere, for instance via index futures and volatility futures,
- currency-matched refinancing in the field of indirect real estate investments,
- hedging against currency risks via forward contracts,
- use of bond forward purchases,
- adjustment of equity risks via options trading.

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

Interest-bearing investments

As of 31 December 2016, the Group held interest-bearing investments to a total value of € 1.54 billion. A total of € 708.7 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 € 643.0 million to the fixed assets since we intend to hold this paper until maturity and their current market fluctuations are viewed as temporary. Should this second view in particular prove wide of the mark, we shall undertake the necessary write-downs in a timely fashion. These capital investments show a positive valuation reserve of € 74.5 million, a figure that includes € 2.5 million in hidden charges. As of 31 December 2016 the total valuation reserve for our interest-bearing investments came to € 171.0 million. A change in returns of up to +/– 1 % would entail a corresponding value change ranging from € – 108.6 million to € 121.9 million.

This disclosure of the impact of a 1 % interest rate rise only gives an approximate idea of the potential effect on our profitability. The reason for this is that over a year, all things being equal, the portfolio's average time to maturity diminishes, and the stated change in value thus also decreases accordingly. On top of this, the bulk of our interest-bearing investments are in bearer bonds or bonds recognised on the balance sheet at their nominal values, and in these cases, under the prevailing accounting regulations, an increase in the market interest rate does not lead to write-downs. The securities currently include high levels of hidden reserves which will be reduced in the near future. The exception to this is losses of value due to deteriorating credit ratings that may affect the issuers in question.

Apart from real estate financing, which represents 7 % of our overall investments, our interest-bearing investments are predominantly in Pfandbriefe (German covered bonds) and notes receivable. though we also invest in corporate bonds. Our direct corporate bond holdings make up 16 % of our total investments, while At the end of 2016 DEVK did not have any investments in asset-backed securities. In 2016 our bond investments focused on international bearer bonds issued by banks and companies, as well as government bonds and government-related bonds. These involve bearer papers assigned to the fixed assets and also registered securities.

We have minor investment exposure to the peripheral European countries Portugal, Italy and Spain. Turning to issuer risks, as proportions of our total investments, 6 % of the company's investments are in government bonds, 16 % in corporate bonds and 49 % in securities and deposits with banks and other financial service providers. The bulk of our investments in banks is either covered by various statutory and private deposit protection schemes or involves interest-bearing securities that are protected in law by special guarantee funds.

The ratings of the issuers of our interest-bearing investments break down as follows (2015):

AA or better	57.0 %	(58.5 %)
A	25.1 %	(26.7 %)
BBB	15.3 %	(12.1 %)
BB or worse	2.5 %	(2.7 %)

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

Equity investments

The bulk of our equity investments is in DAX and EuroStoxx50 companies, as a result of which our portfolio's performance very closely matches that of these indices. A 20 % change in market prices would alter the value of our equity portfolio by € 48 million.

Both the German and European share indices rose during 2016. In the medium term we continue to expect a positive performance, albeit with high levels of volatility in some cases.

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

The fixed-asset equities and equity funds show a positive valuation reserve of € 8.2 million and contain no hidden liabilities.

Real estate

On the balance sheet date, our real-estate investments totalled € 122.1 million. Of this total, a sum of € 107.5 million is invested in indirect mandates, including restricted special funds in office and other commercial real estate. Our direct holdings worth € 14.6 million are subject to scheduled annual depreciation of approximately € 200,000. No special risks are currently discernible in connection with these real estate holdings.

Operational risks

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

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

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

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

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

Solvency II

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

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

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

Summary of our risk status

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

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

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

Cologne, 15 March 2017

The Management Board

Rüßmann **Knaup** **Scheel** **Zens**

Notes to the management report

List of insurance classes covered during the financial year

Direct insurance operations

Accident insurance
General accident insurance
Motor vehicle accident insurance

Liability insurance

Motor vehicle liability insurance

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

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

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

Foreign travel sickness insurance

Reinsurance coverage provided

Motor vehicle liability insurance

Other motor vehicle insurance

Legal expenses insurance

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

Other insurance policies
Rent insurance

Financial statements

Balance sheet to 31 December 2016

Assets	€	€	€	2015 € 000s
A. Intangible assets				
I. Licenses, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licenses in such rights and assets		24,313,950		27,779
II. Payments on account		98,261		–
			24,412,211	27,779
B. Investments				
I. Real estate and similar land rights, including buildings on third-party land		14,588,238		16,106
II. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	104,241,227			83,173
2. Participating interests	31,867,645			38,794
		136,108,872		121,967
III. Other investments				
1. Shares, units or shares in investment funds and other variable-interest securities	316,064,372			326,442
2. Bearer bonds and other fixed-interest securities	653,954,906			612,285
3. Mortgage loans and annuity claims	139,732,820			118,651
4. Other loans	669,221,155			655,930
5. Other investments	27,525,815			27,739
		1,806,499,068		1,741,047
			1,957,196,178	1,879,120
C. Accounts receivable				
I. Receivables arising out of direct insurance operations:				
1. Policyholders	11,090,692			9,758
2. Intermediaries	152,667			153
		11,243,359		9,911
II. Receivables arising out of reinsurance operations		13,182,016		9,455
of which:				
Affiliated companies: € 11,312,120				8,007
III. Other receivables		154,278,766		164,006
of which:			**178,704,141**	183,372
Affiliated companies: € 60,845,910				163,156
D. Other assets				
I. Tangible assets and inventories		5,984,852		6,563
II. Cash at bank, cheques and cash in hand		55,093		120
III. Other assets		334,622		276
			6,374,567	6,959
E. Prepayments and accrued income				
I. Accrued interest and rent		25,171,275		25,542
II. Other prepayments and accrued income		416,823		518
			25,588,098	26,060
Total assets			**2,192,275,195**	2,123,290

I hereby confirm that the premium provision of € 20,572,803.55, recorded on the balance sheet under item B.II. or B.III. of the liabilities and shareholders' equity, has been calculated in compliance with sections 341f and 341g of the German Commercial Code (HGB) as well as the Regulation issued pursuant to section 88 paragraph 3 of the Insurance Supervision Act (VAG).

Cologne, 14 March 2017 **The Actuary in Charge | Weiler**

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

Cologne, 14 March 2017 **The Trustee | Thommes**

Liabilities and shareholders' equity	€	€	€	2015 € 000s
A. Capital and reserves				
I. Subscribed capital		195,000,000		195,000
II. Capital reserve		100,302,634		100,303
III. Retained earnings				
1. Statutory reserve	383,469			383
2. Other retained earnings	46,484,692			46,485
		46,868,161		46,868
			342,170,795	342,171
B. Technical provisions				
I. Provision for unearned premiums				
1. Gross amount	10,511,090			10,651
2. of which:				
Reinsurance amount	148,895			143
		10,362,195		10,508
II. Premium reserve		24,835		26
III. Provision for claims outstanding:				
1. Gross amount	1,710,081,884			1,617,182
2. of which:				
Reinsurance amount	376,378,968			339,763
		1,333,702,916		1,277,419
IV. Provision for bonuses and rebates		14,971,040		14,851
V. Equalisation provision and similar provisions		227,026,296		204,634
VI. Other technical provisions				
1. Gross amount	8,860,771			7,012
2. of which:				
Reinsurance amount	449,286			490
		8,411,485		6,522
			1,594,498,767	1,513,960
C. Provisions for other risks and charges				
I. Provisions for pensions and similar commitments		9,215,900		8,429
II. Provisions for taxation		–		251
III. Other provisions		1,138,226		506
			10,354,126	9,186
D. Deposits received from reinsurers				
			59,366,475	66,428
E. Other liabilities				
I. Liabilities arising out of direct insurance operations				
– Policyholders		80,894,158		81,703
II. Liabilities arising out of reinsurance operations				
of which:		5,546,281		2,456
Affiliated companies: € 323,430				1,436
III. Other liabilities		98,394,474		106,187
of which:			**184,834,913**	190,346
Tax: € 9,409,807				8,046
Affiliated companies: € 88,106,105				97,056
F. Accruals and deferred income				
			1,050,119	1,199
Total liabilities			**2,192,275,195**	2,123,290

Profit and loss account

for the period from 1 January to 31 December 2016

Items	€	€	€	2015 € 000s
I. Technical account				
1. Earned premiums, net of reinsurance				
a) Gross premiums written	1,293,969,131			1,240,016
b) Outward reinsurance premiums	195,851,964			185,539
		1,098,117,167		1,054,477
c) Change in the gross provision for unearned premiums	140,408			50
d) Change in the provision for unearned premiums, reinsurers' share	6,244			–32
		146,652		18
			1,098,263,819	1,054,495
2. Allocated investment return transferred from the non-technical account, net of reinsurance			**621,535**	600
3. Other technical income, net of reinsurance			**1,146,180**	1,148
4. Claims incurred, net of reinsurance				
a) Claims paid				
aa) Gross amount	853,693,893			833,524
bb) Reinsurers' share	114,093,299			109,685
		739,600,594		723,839
b) Change in the provision for claims				
aa) Gross amount	92,900,151			72,441
bb) Reinsurers' share	–36,615,857			–7,003
		56,284,294		65,438
			795,884,888	789,277
5. Changes in other technical provisions, net of reinsurance				
a) Premium reserve, net of reinsurance		977		1
b) Other technical provisions, net of reinsurance		–2,000,121		–1,248
			–1,999,144	–1,247
6. Bonuses and rebates, net of reinsurance			**772,019**	349
7. Net operating expenses				
a) Gross operating expenses		280,509,961		275,710
b) of which: Reinsurance commissions and profit participation		37,333,890		35,798
			243,176,071	239,912
8. Other technical charges, net of reinsurance			**5,024,555**	4,716
9. Subtotal			**53,174,857**	20,742
10. Change in the equalisation provision and similar provisions			**–22,391,759**	–5,533
11. Underwriting result, net of reinsurance			**30,783,098**	15,209
Balance carried forward:			30,783,098	15,209

Items	€	€	€	€	2015 € 000s
Balance carried forward:				30,783,098	15,209
II. Non-technical account					
1. Income from other investments					
a) Income from participating interests		3,665,733			3,428
of which:					
from affiliated companies: € 3,151,057					2,371
b) Income from other investments					
aa) Income from real estate and similar land rights, including buildings on third-party land	1,027,747				1,263
bb) Income from other investments	61,433,368				65,657
		62,461,115			66,920
c) Income from write-ups		4,566,113			5,726
d) Gains on the realisation of investments		6,577,228			29,739
			77,270,189		105,813
2. Investment charges					
a) Investment management charges, interest expenses and other charges on capital investments		3,514,661			2,523
b) Write-downs on investments		8,235,392			10,756
c) Losses on the realisation of investments		850,181			2,082
			12,600,234		15,361
			64,669,955		90,452
3. Allocated investment return transferred from the non-technical account			2,047,260		1,994
				62,622,695	88,458
4. Other income			3,809,524		1,673
5. Other charges			8,450,095		7,886
				– 4,640,571	– 6,213
6. Profit from ordinary activities				**88,765,222**	97,454
7. Taxes on income			375,403		180
8. Other taxes			468,406		281
				843,809	461
9. Profit transferred under a profit pooling, profit transfer or partial profit transfer agreement				**87,921,413**	96,993
10. Net profit for the year				**–**	–

Notes to the accounts

Accounting and valuation methods

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

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

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

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

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

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

Notes receivable, loans and **other loans** are recognised at their amortised cost plus or minus the cumulative amortisation of the difference between the cost of acquisition and the redemption amounts, applying the effective interest method.
Zero notes receivable were capitalised at their costs of acquisition plus the interest entitlement as determined on the basis of the capital volume and the interest agreement.

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

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

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

Other receivables are shown at their nominal values.

Other assets not constituting operating or office equipment are recognised at their nominal values. Operating or office equipment is shown at its cost of acquisition or production as reduced by scheduled depreciation. Depreciation was calculated according to the straight-line method. Low-value assets are either assigned to a pool of such assets, in which case they are depreciated over a five-year period, beginning from the year of acquisition, or they are recorded as operating expenses in their year of acquisition.

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

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

The **premium reserve** required for the child accident insurance was calculated individually according to the prospective method, taking implicit recognised costs duly into account. The calculation was based on the DAV 2006 HUR mortality table. The technical interest rate stands at between 1.25 % and 4.0 %, depending on the time of initial formation of the provision.

The gross amounts for the **provisions for claims outstanding from direct insurance operations** are calculated individually for each claim. A provision for IBNR losses is established according to general blanket criteria. The provision includes amounts designated for claims settlement.
Gross provisions for unearned premiums in relation to reinsurance cover provided were formed on the basis of the details provided by the ceding insurance companies.

The **pensions premium reserve** was calculated in accordance with section 341f and 341g HGB. The calculation was based on the DAV 2006 HUR mortality table. The technical interest rate stands at between 1.25 % and 4.0 %, depending on the time of initial formation of the provision.
The reinsurance amount was calculated in accordance with the contractual agreements in this respect.

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

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

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

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

The **other provisions** are formed on the following basis:
The **pension provision** was calculated according to the projected unit credit method on the basis of the HEUBECK 2005 G actuarial tables. The discounting interest rate was calculated as a ten-year average pursuant to the hitherto prevailing Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung). It was set at 4.00 % (2015: 3.89 %) and calculated on the basis of an assumed residual term of 15 years (section 253 paragraph 2 sentence 2 HGB).
The financing age on expiry corresponds with the contractual age on expiry.
The assumed rate of pay increase was set at 1.95 %, and the rate of pension increase at between 1.0 % and 1.7 % p.a.

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

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

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

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

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

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

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

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

Changes to Asset Items A., B.I. to III. during the 2016 financial year

Assets	Balance sheet value 2015 € 000s	Additions € 000s	Transfers € 000s	Disposals € 000s	Write-ups € 000s	Write-downs € 000s	Balance sheet value 2016 € 000s
A. Intangible assets							
1. Licences, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licences in such rights and assets	27,779	3,913	–	–	–	7,378	24,314
2. Payments on account	–	98	–	–	–	–	98
3. Total A.	27,779	4,011	–	–	–	7,378	24,412
B.I. Real estate and similar land rights, including buildings on third-party land							
	16,106	–	–	1,309	–	209	14,588
B.II. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	83,173	21,068	–	–	–	–	104,241
2. Participating interests	38,794	3,255	–	10,143	–	38	31,868
3. Total B.II.	121,967	24,323	–	10,143	–	38	136,109
B.III. Other investments							
1. Shares, units or shares in investment funds and other variable-interest securities	326,442	59,548	–	67,469	4,543	7,000	316,064
2. Bearer bonds and other fixed-interest securities	612,285	47,087	–	4,833	–	584	653,955
3. Mortgage loans and annuity claims	118,651	49,417	–	28,335	–	–	139,733
4. Other loans							
a) Registered bonds	313,000	62,000	–	33,000	–	–	342,000
b) Notes receivable and loans	317,930	10,679	–	26,388	–	–	302,221
c) Other loans	25,000	–	–	–	–	–	25,000
5. Other investments	27,739	462	–	675	–	–	27,526
6. Total B.III.	1,741,047	229,193	–	160,700	4,543	7,584	1,806,499
Total	**1,906,899**	**257,527**	**–**	**172,152**	**4,543**	**15,209**	**1,981,608**

Notes to the balance sheet

Re Assets B.

Investments

Pursuant to section 341b paragraph 2 HGB, we have partially assigned investments for long-term retention in the investment portfolio.
As of 31 December 2016, our investments had the following book and current values:

Investments	Book value €	Current value €
B.I. Real estate and similar land rights, including buildings on third-party land	14,588,238	14,550,000
B.II. Investments in affiliated companies and participating interests		
1. Shares in affiliated companies	104,241,227	137,452,107
2. Participating interests	31,867,645	32,697,908
B.III. Other investments		
1. Shares, units or shares in investment funds and other variable-interest securities	316,064,372	350,871,607
2. Bearer bonds and other fixed-interest securities	653,954,906	729,832,610
3. Mortgage loans and annuity claims	139,732,820	154,395,971
4. Other loans		
a) Registered bonds	342,000,000	393,279,843
b) Notes receivable and loans	302,221,155	329,962,573
c) Other loans	25,000,000	24,890,873
5. Other investments	27,525,815	31,730,856
Total	**1,957,196,178**	**2,199,664,348**
of which:		
Investments valued at costs of acquisition	1,615,196,177	1,806,384,506
of which:		
Investments in fixed assets pursuant to section 341b paragraph 2 HGB	759,875,384	842,500,018

The revaluation reserves include hidden liabilities totalling € 7.9 million.
These relate to bearer bonds, mortgage claims, notes receivable, registered bonds, other loans and real estate.

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

Real estate is valued according to the gross rental method. All real estate held on 31 December 2016 was revalued with effect from that date.

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

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

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

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

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

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

	Book value € 000s	Fair value € 000s
Fixed-asset securities	61,474	59,004
Mortgage loans	715	438
Other loans	45,000	43,697

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

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

	Type	Nominal volume € 000s	Book value premium € 000s	Fair value of premium € 000s
Other liabilities	Short put options	5,760	275	58
Registered bonds	Forward purchases	20,000	–	451

Valuation methods

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

Details of units or shareholdings in domestic investment funds in accordance with section 285 paragraph 26 HGB				
Investment goal	Dividends € 000s	Current value € 000s	Hidden reserves/ hidden charges € 000s	Limitation on daily redemption
Equity funds	3,404	157,089	2,596	
Bond funds	313	14,799	–	
Mixed funds	2,271	40,971	47	
Real-estate funds	1,607	23,352	3,253	Between any time and after five months

Re Assets B.II.

Investments in affiliated companies and participating interests			
	% share	Equity €	Results from previous financial year €
DEVK Europa Real Estate Investment Fonds SICAV-FIS, Luxembourg, (L)	16.00	390,974,669 [2]	1,269,975 [2]
DEVK Private Equity GmbH, Cologne	20.00	158,414,885	23,258,646
Aviation Portfolio Fund Nr. 1 GmbH und Co. geschlossene Investment KG, Grünwald	3.73	134,474,942	9,896,330
CORPUS SIREO RetailCenter Fonds Deutschland SICAV-FIS, Luxembourg, (L)	10.75	93,758,142 [1]	1,066,632 [1]
DRED SICAV-FIS, Luxembourg, (L)	16.00	55,539,985	3,290,123
Ictus GmbH, Cologne	15.00	40,259,299	1,849,814

[1] Based on 2015 financial year

[2] Based on subgroup financial statements

Re Assets B.III.

Other investments

Other loans exclusively comprise registered participation certificates.

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

Re Assets E.II.

Other prepayments and accrued income

Premium on registered bonds	€ 8,460
Advance payments for future services	€ 408,363
	€ 416,823

Re Liabilities A.I.

Subscribed capital

The subscribed capital totalling € 195,000,000 is divided into 195 million shares (2015: € 195,000,000).

Re Liabilities B.

Technical provisions						
Figures in € 000s	Total gross provision		of which: Provision for claims outstanding		of which: Provision for claims outstanding	
Insurance class	2016	2015	2016	2015	2016	2015
Accident	160,644	142,776	159,695	141,843	–	–
Liability	81,937	85,285	65,165	64,339	16,702	20,878
Motor vehicle liability	1,491,890	1,436,252	1,365,413	1,309,821	120,792	120,790
Other motor vehicle	109,683	92,700	36,998	35,774	57,441	41,615
Fire and non-life	113,309	83,212	80,227	62,730	26,784	16,115
of which:						
Fire	11,894	2,870	11,363	2,678	–	100
Household contents	12,265	13,650	12,212	13,603	–	–
Homeowners' building	71,202	56,938	45,481	42,395	20,168	10,357
Other non-life	17,948	9,754	11,171	4,054	6,616	5,658
Other	14,013	14,133	2,584	2,675	5,307	5,237
Total	**1,971,476**	1,854,358	**1,710,082**	1,617,182	**227,026**	204,635

Re Liabilities B.IV.

Provision for bonuses and rebates

a) Bonuses

31.12.2016	**€ 14,491,040**

b) Rebates

31.12.2015	€ 360,000
Withdrawal	€ 652,224
Allocation	€ 772,224
31.12.2016	**€ 480,000**

Re Liabilities F.

Accruals and deferred income

Discount points on registered bonds	**€ 1,036,981**

Notes to the profit and loss account

Direct insurance operations and reinsurance coverage provided

2016, € 000s	Gross premiums written	Gross premiums earned	Net premiums earned	Gross expenses on Insurance claims	Gross expenses on Insurance operations	Reinsurance balance	Underwriting result, net of reinsurance
Accident insurance	105,863	105,863	82,217	56,125	43,749	– 3,719	2,820
Liability insurance	86,379	86,379	84,343	29,336	34,499	68	26,816
Motor vehicle liability	511,735	511,765	446,727	449,586	64,800	5,580	3,493
Other motor vehicle	313,341	313,348	255,174	244,678	41,801	– 7,422	3,566
Fire and non-life	264,646	264,642	218,430	156,504	94,464	– 1,885	– 5,735
of which:							
Fire	1,495	1,495	1,273	11,495	616	7,423	– 3,658
Household contents	96,916	96,916	84,930	40,350	36,146	– 4,838	13,074
Homeowners' building	134,631	134,627	101,631	87,106	44,140	– 5,534	– 15,635
Other non-life	31,604	31,604	30,596	17,553	13,562	1,064	484
Other	12,005	12,112	11,373	10,366	1,197	– 425	– 177
Total	**1,293,969**	**1,294,109**	**1,098,264**	**946,595**	**280,510**	**– 7,803**	**30,783**

2015, € 000s	Gross premiums written	Gross premiums earned	Net premiums earned	Gross expenses on Insurance claims	Gross expenses on Insurance operations	Reinsurance balance	Underwriting result, net of reinsurance
Accident insurance	100,601	100,601	78,095	46,264	44,027	– 5,606	4,936
Liability insurance	83,729	83,729	81,588	29,167	33,660	– 2,828	20,016
Motor vehicle liability	493,643	494,025	433,337	437,382	66,649	– 4,544	– 672
Other motor vehicle	308,924	308,925	251,777	241,227	42,783	– 9,283	376
Fire and non-life	241,569	241,530	199,151	143,142	87,227	– 10,354	– 9,769
of which:							
Fire	1,345	1,345	1,148	– 2,327	602	– 1,854	1,097
Household contents	92,998	92,998	81,436	44,142	34,969	– 4,319	7,186
Homeowners' building	124,945	124,906	95,172	91,395	40,994	– 3,480	– 17,658
Other non-life	22,281	22,281	21,395	9,932	10,662	– 701	– 394
Other	11,550	11,256	10,547	8,784	1,364	– 470	323
Total	1,240,016	1,240,066	1,054,495	905,966	275,710	– 33,085	15,210

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

Acquisition expenses	€ 171,605,717
Administration costs	€ 108,904,244

Insurance agents' commission and other remuneration, personnel expenses

	2016 € 000s	2015 € 000s
1. Insurance agents' commission of all types within the meaning of section 92 HGB for direct insurance operations	161,070	158,073
2. Oher insurance agents' remuneration within the meaning of section 92 HGB	–	–
3. Wages and salaries	460	484
4. Social security contributions and social insurance costs	–	–
5. Retirement pension costs	970	944
Total	**162,500**	159,501

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

During the year under review, Management Board remuneration totalled € 484,422. The retirement pensions of former Management Board members and their surviving dependants totalled € 717,383. As of 31 December 2016, a pension provision of € 7,401,799 was capitalised for this group of people. The Supervisory Board remuneration totalled € 166,044, and payments to the Advisory Board came to € 61,422.

Other information

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

The difference pursuant to section 253 paragraph 6 HGB on the balance sheet date amounted to € 885,339. This was due to the pension provision.

Contingencies and other financial obligations

On the balance sheet date, we had outstanding financial obligations totalling € 5.8 million from open short put options, € 14.0 million in multi-tranche notes payable and € 20.0 million from forward purchases. The payment obligations in relation to approved mortgage loans not yet paid out totalled € 68.2 million.

At the end of the year, remaining payment obligations arising from real-estate holdings, fund units, participating interests and shares in affiliated companies totalled € 71.8 million. This includes obligations towards affiliated companies amounting to € 45.5 million.

Via a bond insurance policy DEVK Allgemeine Versicherungs-AG is furnishing a default guarantee in the event of the policyholder's insolvency. As of the balance sheet date this guarantee covers the sum of € 73.6 million. Currently we do not anticipate any availment of this guarantee since the risk of the policyholder becoming insolvent is rated as extremely low.

Supplementary report

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

General information

Number of insurance contracts concluded directly by the Group with a term of at least one year

	2016	2015
Accident	912,944	901,222
Liability	1,218,893	1,192,916
Motor vehicle liability	2,278,328	2,226,286
Other motor vehicle	1,736,025	1,704,879
Fire and non-life	1,814,492	1,777,762
of which:		
Fire	6,989	6,443
Household contents	929,265	914,216
Homeowners' building	398,555	385,236
Other non-life	479,683	471,867
Other	424	602
Total	**7,961,106**	7,803,667

DEVK Allgemeine Versicherungs-AG, Cologne, is registered at the local court under Commercial Register Number (Handelsregisternummer) HRB 7935.

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

Our company does not itself employ any personnel.

On the balance sheet date, our company was wholly owned by DEVK Rückversicherungs- und Beteiligungs-AG, Cologne, who have disclosed, pursuant to section 20 paragraph 4 AktG, that they hold a majority of the voting rights.

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

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

Our company is 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 thus exempted and in which it is included:

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

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

Cologne, 15 March 2017

The Management Board

Rüßmann **Knaup** **Scheel** **Zens**

Audit certificate

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

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

Our audit has not led to any objections.

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

Cologne, 24 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr Hübner	**Offizier**
Auditor	Auditor

Supervisory Board report

During 2016, the Supervisory Board regularly monitored the Management Board's leadership on the basis of written and verbal reporting, as well as being briefed on the company's commercial performance, corporate policies and financial position at various meetings.

KPMG AG Wirtschaftsprüfungsgesellschaft, having been appointed as auditors in line with statutory requirements, duly audited the 2016 annual financial statements and management report prepared by the Management Board. Their audit did not reveal any irregularities and an unqualified audit certificate was granted. The Supervisory Board has duly acknowledged the audit findings.

The Supervisory Board's own audit of the annual financial statements and management report likewise revealed no irregularities, and accordingly the Supervisory Board hereby approves the 2016 financial statements, which are thus duly adopted.

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

Cologne, 11 May 2017

The Supervisory Board

Zell
Chairman

Group management report

Group foundations

Group structure

At the head of the Group is DEVK Sach- und HUK-Versicherungsverein a.G., a mutual insurance company that is a self-help organisation for railway workers recognised as a company welfare scheme by Deutsche Bahn and the Federal Office for Railway Assets. It offers its members, who are predominantly railway workers and other transport sector employees, comprehensive bespoke, economically priced insurance cover.

DEVK Sach- und HUK-Versicherungsverein a.G. has a 100 % holding in its subsidiary DEVK Rückversicherungs- und Beteiligungs-AG, which acts as the reinsurer and intermediate holding company controlling the Group's principal insurance companies operating for the general private-client market, as well as other participating interests.

The Group companies included in the 2016 consolidated financial statements have changed since last year. Details of them can be found in the consolidated notes.

The reader is referred to the notes to the management report for details of the classes of insurance marketed by Group companies.

The companies of the DEVK Sach- und HUK Group and the DEVK Lebensversicherungs Group largely share a joint organisation and management set-up, and various general agency agreements are also in place.

The bulk of our sales is made by our field sales force, which comprises both our own salaried field sales agents and self-employed representatives. We also engage in a variety of sales cooperation arrangements. Of particular importance in this connection are our collaborations with the Sparda Bank Group and with the Association of German Transport Companies (VDV). Our central direct sales operation and corresponding links with brokers round off our sales channel mix.

Throughout Germany, the DEVK Group runs 19 subsidiaries and has around 1,240 branch offices.

Delegation of functions and organisational cooperation

Under the existing general agency contracts with other DEVK insurance companies, DEVK Sach- und HUK-Versicherungsverein a.G. has been assigned overall responsibility for all DEVK insurance brokerage operations and associated tasks.

The general operational areas of accountancy, collection, EDP, asset management, personnel, auditing and general administration are centrally organised for all DEVK companies. DEVK Sach- and HUK-Versicherungsverein a.G.'s portfolio management and claims management are carried out together with DEVK Allgemeine Versicherungs-AG, and the same applies to the portfolio management and claims management of DEVK Allgemeine Lebensversicherungs-AG and DEVK Lebensversicherungsverein a.G. However, each company has separate lease contracts and its own inventory and equipment based on its own needs.

The existing joint contracts and service contracts stipulate that the Group parent company provides the necessary internal staff for the Group companies DEVK Rückversicherungs- und Beteiligungs-AG, DEVK Allgemeine Versicherungs-AG, DEVK Rechtsschutz-Versicherungs-AG, DEVK Krankenversicherungs- AG, DEVK Allgemeine Lebensversicherungs-AG, DEVK Pensionsfonds-AG, DEVK Vermögensvorsorge- und Beteiligungs-AG and DEVK Service GmbH, as well as various smaller Group companies.

Business performance

Economic conditions generally and in the industry

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

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

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

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

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

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

In November 2016 the GDV projected a rise in gross non-life and accident insurance premium receipts of 2.9 %. At around 96 %, the combined ratio (the ratio of claims expenses and costs to premium receipts) is estimated to remain at the 2015 level (96.0 %). Thus the non-life and accident sector's profitability remained stable as compared with the previous year.

In the motor vehicle insurance segment, premium receipts lost further momentum during 2016, with anticipated growth of some 2.5 %. The GDV is expecting the combined ratio to rise to around 99 % (2015: 97.9 %).

Due to lower single premiums, German life insurance premium receipts (including pension funds and schemes) have fallen by 2.2 % (2015: – 1.1 %).

Private health insurance, including long-term care insurance, saw a premium increase of 1.1 %.

Business trends

Non-life and accident insurance business trends

At 3.9 %, premium growth was much as expected (forecast: around 4 %). In volume terms the greatest growth came from DEVK Allgemeine Versicherungs-AG and DEVK Rechtsschutz-Versicherungs-AG, as well as the continuing expansion of our active reinsurance operations.

Before changes to the equalisation provision, at € 71.2 million the underwriting result (2015: € 8.9 million) greatly exceeded last year's forecast of € 10 million to € 20 million). This was chiefly due to the positive impact of favourable claims trends plus a sharp fall in pension provision expenses.

After a greatly increased, very large allocation of € 58.0 million to the equalisation provision (2015: € 30.5 million), at € 13.2 million (2015: € – 21.6 million) the underwriting result net of reinsurance improved and indeed came in ahead of our forecast of a result close to the zero mark.

Life assurance business trends

The overall performance of the life insurance operations undertaken by the DEVK Allgemeine Lebensversicherungs-AG Group was in line with expectations. As forecast, premium receipts are slightly up.

During 2016 we pushed ahead with the Solvency II-compliant restructuring of the product range and associated efforts to reduce our risk capital requirements. Through the launch of the DEVK-Garantierente vario (DEVK Guaranteed Pension vario) in mid-2016, plus the new occupational incapacity insurance policy for young people, the DEVK-JobStarter BU, the proportion of new business generated by products with low risk capital requirements has been increased significantly.

The DEVK-JobStarter BU opens up the opportunity to more effectively tap into the young professionals market. Its performance to date indicates that the product is enjoying a good level of market acceptance, with sales expectations being exceeded. In contrast, to date the DEVK-Garantierente vario, a pension insurance scheme featuring flexible guarantees, has not fully met sales expectations.

In the investment field, the net investment result, as expected, registered a slight rise in the absolute result. This is due both to the increased size of the investment portfolio and lower write-downs than in 2015.

During 2016, DEVK Allgemeine Lebensversicherungs-AG concluded a total of 72,081 new policies (2015: 70,940). The sum insured under these new policies amounted to € 3.23 billion (2015: € 2.59 billion), which corresponds to total premiums generated by new business of € 1.21 billion (2015: € 1.11 billion).

In line with our expectations, the sum insured under the main insurance policies within our portfolio as a whole rose 6.2 % to € 23.05 billion (2015: € 21.70 billion). As forecast, at 804,968 (2015: 809,087), the number of policies remained virtually unchanged from the previous year. Also as forecast, the number of cancellations remained virtually constant.

Health insurance business trends

This segment is operated by DEVK Krankenversicherungs-AG.

As in recent years, the most important contributor of new business was supplementary insurance for members of statutory health insurance schemes. At DEVK we are continuing to more than hold our own in the ever more fiercely contested supplementary insurance segment, having further increased our market share.

Although the sales figures fell short of the 2015 level, when a large-scale mailshot generated over 25,000 transactions, the overall business volume once again increased significantly, with the monthly target premium in the overall portfolio up to € 6.74 million by the end of the year (2015: € 6.44 million).

All in all, this meant that our medium-term growth and income forecasts were borne out.

In the investment sphere we achieved a satisfactory result in 2016. As expected, thanks to the greater investment volume we registered a slight increase in absolute investment income. However, also as expected, lower interest rates on new assets and repeat investments meant a moderate fall in net interest income.

Pension fund business trends

The Group's pension fund business is conducted by DEVK Pensionsfonds-AG.

2016 business performance was satisfactory.

The number of people enrolled in pension plans fell slightly during 2016 (– 2.4 %). However, premium receipts were 9.3 % up.

As planned, expenditure on payments of benefits and pension fund business was higher than in 2015 (+ 38.3 %).

The most important source of new business continued to be defined-contribution pension plans pursuant to section 3 No. 63 of the German Income Tax Act (Einkommenssteuergesetz – EStG).

In 2016 we registered 9,388 new enrolments in pension plans with present or future entitlements (2015: 7,619). This figure was in line with our expectations.

The settlement of the entitlements of departing employees, and of the minor entitlements of those in continuing employment, has not been fully offset by new business. Accordingly the portfolio reduced in size slightly (– 2.7 %). The portfolio comprises 154,607 pension schemes currently in the vesting period (of which 114,257 are for men and 40,350 for women) (2015: 158,933, 117,567 men and 41,366 women).

The number of pension schemes now drawing pensions rose again and now amounts to 2,168 ongoing pensions (2015: 1,642).

About 50 % of the existing portfolio and approximately 70 % of the new business results from pension contributions in connection with collective bargaining agreements (the so-called 2 % rule), as well as deferred compensation for employees of Deutschen Bahn AG.

Overall business trends

The Group's gross premium receipts rose 2.8 % to € 2,895.9 million. 2016 earned premiums net of reinsurance rose by 3.4 % to € 2,743.6 million. Expenditure on insured events and pensions net of reinsurance increased by 2.8 % to € 1,838.7 million, and their share of earned net premiums thus came to 67.0 % (2015: 67.4 %). The ratio of expenses on insurance and pension fund operations net of reinsurance to earned premiums net of reinsurance fell to 21.0 % (2015: 21.4 %).

After a € 58.0 million allocation to the equalisation provision in the field of non-life and accident insurance (2015: € 30.5 million), the consolidated profit and loss account recognised an insurance and pension fund underwriting result net of reinsurance of € 26.5 million (2015: € – 9.2 million).

Due chiefly to lower profits from the disposal of investments, which came to € 198.0 million, the non-technical account investment result was below the 2015 level of € 246.4 million.

The "Other" result, which includes technical interest income, fell to € – 71.2 million (2015: € – 62.8 million).

The result from ordinary activities came to € 153.2 million (2015: € 174.3 million).

The after-tax net annual profit came to € 80.1 million (2015: € 88.5 million). In light of the very substantial allocation to the equalisation provision, the profit may be regarded as highly satisfactory.

Net assets, financial position and results of operations

Results of operations

	2016 € 000s	2015 € 000s	Change € 000s
Underwriting result net of reinsurance, non-life and accident insurance	13,216	– 21,579	34,795
Underwriting result net of reinsurance, life and health insurance	12,964	12,521	443
Technical pension fund result	274	– 165	439
Non-underwriting result	121,943	182,057	– 60,114
Result before taxes on income	**148,397**	172,834	– 24,437
Taxes on income	68,320	84,366	– 16,046
Consolidated net profit for the year (before taking minority shareholders into account)	**80,077**	88,468	– 8,391
Allocation to retained earnings	27,418	18,018	9,400
Result attributable to minority shareholders	8,942	19,050	– 10,108
Net retained profit (after taking minority shareholders into account)	**43,717**	51,400	– 7,683

Underwriting result net of reinsurance, non-life and accident insurance

Gross premium receipts rose 3.9 % to € 2,194.1 million. 2016 earned premiums net of reinsurance rose by 4.8 % to € 2,041.2 million. Claims incurred, net of reinsurance, were just 1.3 % up at € 1,468.1 million, as a result of which their share of net earned premiums fell to 71.9 % (2015: 74.4 %). At 23.9 %, the ratio of expenses on insurance business net of reinsurance to earned premiums net of reinsurance was likewise down on the 2015 figure of 24.7 %.

In 2016 gross claims expenses rose disproportionately as compared with premium receipts, and the claims ratio therefore fell to 71.5 % (2015: 72.7 %).

Gross operating expenses rose by 0.7 %, from € 510.8 million in 2015 to € 514.5 million in 2016. In relation to gross premiums earned, this represented a ratio of 23.5 % (2015: 24.3 %).

After a sharply rising, very high allocation to the equalisation provision of € 58.0 million (2015: € 30.5 million), the underwriting result net of reinsurance improved to € 13.2 million (2015: € – 21.6 million).

The following section outlines the performance of the individual insurance segments, classes and types in which we undertook direct operations. Included are the results of DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Allgemeine Versicherungs-AG, DEVK Rechtsschutz-Versicherungs-AG and German Assistance Versicherung AG. Below we discuss our active reinsurance operations and our French subsidiary SADA Assurances S.A. in Nîmes.

Accident insurance

This section includes both general accident insurance and motor vehicle accident insurance. The portfolio increased by 11,486 policies or 1.0 %, making a year's-end total of 1,175,639 policies, while gross premium receipts rose 5.1 % to € 152.1 million. After a € 10,000 allocation to the equalisation provision (2015: € 300,000), the underwriting result net of reinsurance came to € 4.9 million (2015: € 8.8 million).

Liability insurance

Our total liability insurance portfolio grew 1.2 % to a year's-end total of 1,798,313 policies. Gross premiums rose 2.3 % to € 120.7 million. After an € 8.2 million withdrawal from the equalisation provision (2015: € 1.3 million), the underwriting result improved to € 36.3 million (2015: € 24.8 million).

Motor vehicle liability insurance

Our end-of-year motor vehicle liability insurance portfolio totalled 2,831,545 policies (2015: 2,780,904), plus 128,780 moped policies. Thanks to a combination of portfolio growth and price adjustments, gross premium receipts were 3.4 % up at € 610.5 million (2015: € 590.5 million). Despite a € 6.3 million allocation to the equalisation provision (2015: € 15.2 million withdrawal), the underwriting result net of reinsurance improved to € – 100,000 (2015: € – 12.4 million).

Other motor vehicle insurance

We include both comprehensive and partial comprehensive (third party, fire and theft) motor insurance under "other motor vehicle insurance". The total number of policies at the end of the year was 2,188,922 (2015: 2,158,811), on top of which came 24,145 partial-coverage moped policies. At € 387.8 million, the premium receipts are 1.3 % up. Despite the fact that the € 20.5 million allocated to the equalisation provision was higher than the 2015 allocation of € 17.3 million, the shortfall in the underwriting result fell to € – 1.2 million (2015: € – 5.0 million).

Fire and non-life insurance

At the end of the year, our fire and non-life insurance portfolio comprised a total of 2,687,992 policies (2015: 2,668,210). The gross premium receipts rose 4.9 % to € 344.5 million. Despite a € 7.7 million allocation to the equalisation provision (2015: € 2.5 million withdrawal), the underwriting result net of reinsurance improved to € 1.0 million (2015: € – 5.5 million).

In detail, our individual fire and non-life segments performed as follows.

The household contents insurance portfolio at the end of 2016 comprised 1,348,377 policies (2015: 1,337,890), while gross premium receipts rose 3.8 % to € 135.8 million. The underwriting result increased to € 15.3 million (2015: € 8.7 million).

Our homeowners' building insurance portfolio increased to 580,802 policies (2015: 566,468). Gross premiums rose strongly to € 165.1 million (2015: € 153.0 million), representing growth of 7.9 %. After an € 8.3 million allocation to the equalisation provision (2015: € 1.3 million withdrawal), the underwriting result stood at € – 14.3 million, an improvement on the 2015 figure of € – 16.0 million).

In the other non-life segments (including fire), the number of policies in the portfolio totalled 758,813 (2015: 763,852). Gross premiums in 2016 fell by 2.3 % to € 43.6 million. After a € 600,000 withdrawal from the equalisation provision (2015: € 1.3 million) the underwriting result net of reinsurance was € – 100,000 (2015: € 1.7 million).

Legal expenses insurance

This segment is operated by DEVK Rechtsschutz-Versicherungs-AG. In 2016, our portfolio grew by 3.2 % to 893,999 policies, while gross premium receipts rose 8.7 % to € 140.7 million. At € – 5.9 million, the underwriting result was better than in 2015 (€ – 8.5 million).

Other insurance policies

Other insurance policies primarily comprise the results of our breakdown service, guarantee, travel health, bond and cheque card insurance policies as well as insurance against various financial losses. With premiums totalling € 15.4 million (2015: € 17.4 million), after a € 200,000 allocation to the equalisation provision (2015: € 100,000), the underwriting result net of reinsurance registered a loss of € 700,000 (2015: € – 800,000).

Active reinsurance

In 2016 DEVK Rückversicherungs- und Beteiligungs-AG's net premiums written before consolidation rose by 4.5 % to € 427.0 million. Income from DEVK-external business came to € 211.0 million (2015: € 200.4 million). The 2016 underwriting result before changes to the equalisation provision improved to € 24.6 million (2015: € 21.9 million). Due to an increased € 28.1 million allocation to the equalisation provision (2015: € 23.5 million), the underwriting result net of reinsurance fell to € – 3.5 million (2015: € – 1.6 million).

Also included in the consolidated financial statements is Echo Rückversicherungs-AG (Echo Re), which was established at the end of 2008 as a subsidiary of DEVK Sach- und HUK-Versicherungsverein a.G. in Switzerland. Echo Re, which chiefly operates outside Europe, possesses equity capital of 83.9 million Swiss francs (CHF). With premium receipts of CHF 102.6 million (2015: CHF 90.5 million), the domestic financial statements for Switzerland recognised a loss of CHF 14.6 million (2015: CHF – 17.3 million).

DEVK Allgemeine Versicherungs-AG has increased its premium receipts from reinsurance business to € 33.0 million (2015: € 24.1 million) This exclusively concerns intra-Group acquisitions of motor vehicle and building insurance as well as in the newly added field of loss of rent insurance.

DEVK Krankenversicherungs-AG also took on small volumes of intra-Group foreign travel health insurance.

SADA Assurances S.A.

SADA Assurances S.A., which has its headquarters in Nîmes, France, conducts non-life and accident insurance business. It holds equity to a value of € 40.4 million. In 2016, SADA's gross premiums written rose by 2.4 % to € 138.9 million (2015: € 135.7 million). Its domestic annual report discloses a net profit of € 4.3 million (2015: € 3.3 million).

Underwriting result net of reinsurance, life and health insurance

In 2016 gross premiums written fell by € 16.0 million to € 576.0 million (2015: € 592.0 million).

At € 235.0 million, gross income from investments was much the same as in 2015 (€ 238.4 million). Write-ups on securities totalling € 4.5 million (2015: € 500,000) were recognised. Profits from disposals of investments fell to € 25.1 million (2015: € 31.9 million).

Due to reduced investment expenses, the net investment income increased to € 214.9 million (2015: € 204.3 million).

Claims expenses net of reinsurance totalled € 349.9 million (2015: € 325.1 million). DEVK Allgemeine Lebensversicherungs-AG's cancellation rate rose to 5.16 % (2015: 4.92 %).

Net operating expenses rose by 1.1 % to € 85.5 million.

A total of € 59.0 million (2015: € 47.0 million) was allocated to the provision for bonuses and rebates, representing 10.2 % (2015: 8.0 %) of gross premiums earned.

Technical pension fund result

DEVK Pensionsfonds-AG premiums written increased by € 10.7 million and totalled € 125.8 million by the year's end. This represented a rise of 9.3 % as compared with the previous year.

At € 20.8 million (2015: € 14.8 million), claims expenses increased by 40.1 %.

Pension fund operating expenses totalled € 2.9 million (2015: € 2.3 million). Of this amount, € 1.7 million was attributable to acquisition costs (2015: € 1.3 million).

The 2015 net investment profit came to € 18.6 million (2015: € 16.9 million). This rise was the result of growing investment holdings.

Bonus and rebate expenses came to € 7.3 million (2015: € 3.1 million).

Non-technical account investment income

Due to lower profits from disposals of investments, at € 264.6 million the investment income was well below the 2015 figure of € 325.8 million. € 23.4 million in profits were realised from disposals of investments (2015: € 85 million), and write-ups to a value of € 11.1 million were carried out (2015: € 7.4 million).

At € 66.6 million, investment expenses were lower than in 2015 (€ 79.4 million). Write-downs on investments fell to € 36.4 million (2015: € 49.9 million) and losses on investment disposals to € 2.5 million (2015: € 8.4 million). In contrast, administrative expenses increased to € 27.2 million (2015: € 21.2 million).

On balance, at € 198.0 million our net investment income was significantly down on the 2015 figure of € 246.4 million.

Other result

The "Other" result, including the technical interest income, came to € – 71.2 million (2015: € – 62.8 million).

Profit from ordinary activities

Chiefly due to the lower investment result, the profit from ordinary activities fell to € 153.2 million (2015: € 174.3 million).

Operating result and appropriation of retained earnings

After taxes the net profit for the year came to € 80.1 million (2015: € 88.5 million), thus reaching a highly satisfactory level in view of the very high allocation to the equalisation provision.

After an allocation of € 27.4 million to the retained earnings and deduction of the € 8.9 million portion of the result due to other shareholders, the net retained profit came to € 43.7 million (2015: € 51.4 million).

Group financial position

Cash flow

Availability of the liquidity necessary to meet regular payment obligations is ensured through ongoing liquidity planning which takes into account prospective liquidity movements over the coming 12 months. The Group receives a continuous influx of liquid funds in the form of regular premium receipts, investment income and return flows from investments of capital. The cash flow statement was prepared according to the provisions of DRS 21. The statement indicates that the 2016 cash flow from investment activities, in other words the funds required for the net investment volume, amounted to € 113.1 million. The necessary funds were gained both from our ongoing operations (€ 158.6 million) and from financing activities (€ 91.2 million).

Ratings

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

Meanwhile, the rating agency Fitch came to the same conclusion, with its 2016 rating of the financial strength of DEVK's core companies remaining unaltered at A+. The companies rated were DEVK Sach- und HUK-Versicherungsverein a.G., DEVK Rückversicherungs- und Beteiligungs-AG, DEVK 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".

Financial position

	2016 € 000s	2015 € 000s	Change € 000s
Investments	11,427,754	10,818,537	609,217
Unit-linked life assurance investments	115,547	87,061	28,486
Assets for the benefit and at the risk of employees and employers	251,893	228,145	23,748
Receivables arising out of direct insurance operations, pension fund business and reinsurance business	153,110	147,452	5,658
Other assets	619,285	487,784	131,501
Total assets	**12,567,589**	11,768,979	798,610
Equity	1,843,722	1,719,911	123,811
– of which other shareholders share € 271,595,000 (2015: € 219,205,000)			
Technical provisions	7,768,476	7,295,004	473,472
Unit-linked life insurance technical provisions	115,547	87,061	28,486
Technical pension fund provisions	596,893	492,616	104,277
Technical pension fund provisions to cover assets for the benefit of employees and employers	251,893	228,145	23,748
Liabilities arising out of direct insurance operations, pension fund business and reinsurance business, including deposits	784,009	803,767	– 19,758
Other liabilities	1,207,049	1,142,475	64,574
Total capital	**12,567,589**	11,768,979	798,610

In the breakdown of the investment portfolio, the percentage attributable to the item "Land, land rights and buildings including buildings on third-party land" has increased from 6.4 % to 8.1 %. There have been no other material changes of any significance.

The receivables from reinsurers relate to various domestic and international reinsurers.

Non-financial performance indicators

Customer satisfaction

Customer satisfaction is an important strategic goal for DEVK, which is why we measure the satisfaction of our customers every year. For this purpose, we draw on a sectoral index which assesses our own customer satisfaction against that of our rivals via a points scale. This enables us to measure developments over time and as compared with our competitors in graphic form. Currently, DEVK scores above the industry average, but our aim over the coming years is for DEVK to achieve a leading position in the customer satisfaction ratings.

Employee satisfaction

At DEVK the opinion of our employees is important to us. Employees' satisfaction with their working environment, as well as with their bosses, colleagues, the work assigned to them and the corporate culture, go right to the heart of employer attractiveness.

In 2016 the third exhaustive company-wide survey of DEVK back office and field sales personnel took place. At 78 %, the participation rate was once again very high. All in all the survey revealed a good level of satisfaction. Among back office staff the overall satisfaction rating once again increased, whereas it had fallen among our field sales personnel. The fields of action flagged up by the survey responses will now be tackled one after another.

Social responsibility

DEVK is aware of its social responsibility as a successful insurer. For many years, we have taken on an above-average number of trainees by industry comparison in both back office and sales/marketing roles, with a current trainee ratio of over 10 %. Furthermore, prior to possible professional training at DEVK, every year at our headquarters alone we offer more than 60 school-age young people work experience that assists them in deciding what their future career paths might be. This gives young people a positive start to their working lives and helps them to integrate well into society.

Via a series of "days of action" (Tatkraft-Tagen) the DEVK meets its social responsibility towards disadvantaged groups in our society in a special way. Over the past three years we have carried out a total of 17 practical projects with the help of our action teams (Tatkraft-Teams). Volunteers from the regional management units and headquarters, from the back office and field sales all join forces to form an action team for one day. During these days of action we have for example undertaken the renovation and refurnishing of kindergartens, schools and retirement homes.

Personnel and sales staff numbers

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

The company employed an average of 2,904 people internally in 2016, of whom 2,877 had their contracts of employment with DEVK Sach- und HUK-Versicherungsverein a.G. Employees with dual employment contracts are assigned to a given company on the basis of the predominant contractual share. These figures do not include any inactive employment contracts, while part-time employees are recorded as full-time equivalents on the basis of their working hours.

At the end of 2016, 2,084 self-employed personnel worked for DEVK (2015: 2,110), on top of which 628 field sales agents were directly employed by DEVK Sach- und HUK-Versicherungsverein a.G. (2015: 677). However, the entire field sales force also operates on behalf of the various other DEVK companies

Through the Förderkreis Talente (Talent Support Group) programme DEVK encourages promising young employees to qualify for career-independent, with a view to advancing their prospects. The participants, 50 % of whom are young female personnel, undergo two years of intensive training via a wide range of methods to enhance their personal, social and management skills.

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

Overall verdict on the management report

All in all, the Group’s net assets, financial position and results of operations proved satisfactory throughout 2016.

Outlook, opportunities and risks

Outlook

Macroeconomic trends

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

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

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

Non-life and accident insurance
We anticipate increases of around 6 % in the Group's premium receipts from non-life and accident insurance operations. Alongside our domestic direct business, the active reinsurance operations of DEVK Rückversicherungs- und Beteiligungs-AG in particular can be expected to contribute to this growth. Accordingly, before changes to the equalisation provision, we are expecting the technical account to yield a profit in the order of € 25 to 35 million. After allocations to the equalisation provision, we are currently expecting the underwriting result net of reinsurance to come in at around € 10 million.

Life assurance
As regards our performance during 2017, the tough macroeconomic environment and the competitive situation will continue to be the main determining factors.

Germany's economy is once again expected to experience moderate growth. Accordingly, the economic circumstances of the population, which are so important in determining demand for insurance products, should remain favourable in 2017.

The Flexi-Rentengesetz (Flexible Pensions Act), which is expected to come into force on 1 January 2017, is designed to facilitate a gradual transition from working life to retirement. The act is stimulating stronger demand for flexible occupational and private pension provision, thereby opening up opportunities in the life insurance sphere.

Despite the reduction in guaranteed interest to 0.9 % with effect from 1 January 2017, DEVK Allgemeine Lebensversicherungs-AG offers an attractive product range. The reduction in guaranteed interest has a minimal impact on the biometric products and pensions with flexible guarantees launched in 2015 and 2016.

Meanwhile, the number of early cancellations of policies is likely to remain constant.

However, we remain in a favourable competitive situation vis a vis other forms of investment. DEVK Allgemeine Lebensversicherungs-AG continues to enjoy comparatively good returns.

In 2017 a slight increase in premium receipts is expected. As in prior years, the portfolio will continue over the coming year to diminish slightly in terms of policy numbers, due to the continuing high level of maturities and redemptions, which new business is not expected to fully offset.

On the investment front, despite moderate increases in the investment portfolio in 2017, due to low interest rates we expect DEVK Allgemeine Lebensversicherungs-AG to register a current result at around the 2016 level. All in all we anticipate a significant rise in the investment result for the financing of the supplementary interest reserve. Accordingly in 2017 we expect the net interest rate to be significantly above the 2016 level, and DEVK Allgemeine Lebensversicherungs-AG's 2017 profit is likely to rise slightly.

Health insurance

Supplementary health insurance has been and remains a central and growing line of business for us. In this field, we are having to adjust to more intense competition, which we are combating via correspondingly vigorous marketing activities. For 2017 we are forecasting total premium receipts of € 86.5 million. We are expecting an increase of approximately € 5.75 million in claims expenses net of reinsurance (paid and deferred, including claims settlement expenses). This amount also includes an increase in the claims reserve.

In 2017, no-claims bonuses on the policy AM-V are expected to be much the same as in 2016.

Of the € 34.2 million provision for bonuses and rebates available on 31 December 2016, € 15.5 million has been earmarked for the limiting of premium adjustments on 1 January 2017 and for the reduction of the premiums paid by older policyholders.

Our medium-term planning is based on the assumption that we will be able to maintain our growth and profitability in years to come.

In 2017 we expect DEVK Krankenversicherungs-AG to register a significantly higher absolute result in the investments field due to profits on disposals, coupled with a moderately growing investment portfolio. Accordingly our planning is based on the assumption of a slight increase in the net interest rate. However, in our view the low interest rates available on new assets and repeat investments will lead to a further moderate reduction in the current percentage yields attracted by our investments.

Our objective for the coming years is to maintain the profit transfers at their current level.

Pension fund business

We expect the occupational pension provision market, and in particular pension funds, to continue offering stable future sales opportunities.

Over the next few years we expect the registration of around 6,000 new pension entitlements per year to continue. As in prior years, these will chiefly result from DB AG's occupational pension scheme in line with the collective bargaining agreement (the so-called 2 % rule).

It can be assumed that the premium receipts for 2017 will exceed those for 2016, due chiefly to Deutschen Bahn AG's new business.

In 2017 we expect DEVK Pensionsfonds-AG to register a moderately higher absolute result on a significantly growing investment portfolio. In our view, the low interest rates available on new assets and repeat investments will lead to a moderate reduction in the net interest rates they attract.

During the coming year, we expect to be able to build on the satisfactory result registered in 2016.

Non-technical account

In the Group's non-technical account we expect the net 2017 investment result to come in at around € 160 million, below the 2016 figure of € 198.0 million.

In addition, the "Other" result will be detrimentally affected by rising pension provision expenses.

Profit from ordinary activities

All in all, we are expecting the 2017 profit from ordinary activities to be around € 100 million (2016: € 153.2 million).

Opportunities report

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

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

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

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

The fact that the Group companies are part of an insurance group which offers wide-ranging insurance cover in the private customer segment opens up opportunities to benefit from cross-sectoral synergies.

Primary non-life and accident insurance

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

In KUBUS, a comprehensive survey of the insurance market carried out in 2016, our customers rated the value for money we offer as "good".

Reinsurance business

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

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

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

Life assurance

After the successful restructuring of our product range, in 2017 the proportion of new business attributable to products with low risk capital requirements will rise significantly.

The launch of the new occupational incapacity and risk policies in 2015 had already led to a steady rise in the number of biometric products in the portfolio, and this increase was significantly boosted in 2016 by the launch of an occupational incapacity policy for young people.

The process of restructuring the product range forged ahead in 2016 with the introduction of a pension featuring alternative guarantees. Thanks to its flexible components this product also allows us to meet individual customer requirements and needs.

In 2017 a new fund will be added to our range. The new fund will permit flexible investment in the capital market in response to longer-term changes. This should enable us to minimise customers' investment risk in the event of downward trends.

This product range means that DEVK Allgemeine Lebensversicherungs-AG is well positioned both to meet the requirements of Solvency II and to satisfy current market needs.

Health insurance

Our underwriting policy and reinsurance methods provide a sound foundation for the company's continuing solid growth.

Furthermore, the ongoing success of our cooperation with statutory health insurance schemes continues to offer great potential for forging new customer relationships as we can offer members of these schemes products meeting their needs on highly favourable terms.

Pension fund business

Due to the increase in employer-financed occupation pension schemes in line with collective bargaining agreements, sectoral pension schemes have high growth potential.

Our close links with Deutsche Bahn AG and with the transport industry holds out wide-ranging opportunities for the ongoing growth of DEVK Pensionsfonds-AG.

DEVK Pensionsfonds-AG's product range means it is well equipped to cope with any market challenges.

Risk report

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

Risk management system

A risk management system is employed within the DEVK Group to identify and assess risks at an early stage. The system is based on a risk-bearing capacity model that guarantees adequate coverage of all significant risks via the company's own funds. To control risks, DEVK has put in place a consistent system of limits whereby the limit capacity is portrayed in the form of risk ratios. The risk ratios operationalise the risk strategy in DEVK's most important organisational areas. On top of this, a comprehensive risk inventory is compiled every six months, in which risks are recorded and classified according to risk categories with the aid of a questionnaire. Wherever possible, risks are quantified and the action necessary to manage the risks is recorded. This system enables us to react immediately and appropriately to developments that pose a risk to the Group. The system's effectiveness and suitability are monitored by the Internal Auditing unit.

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

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

Technical risks

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

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

Claims ratio net of reinsurance			
Year	%	Year	%
2007	63.2	2012	66.5
2008	64.8	2013	67.6
2009	65.9	2014	66.4
2010	68.3	2015	70.1
2011	68.3	2016	69.5

The figures for DEVK Allgemeine Lebensversicherungs-AG are included in the above claims ratio table. As we can see, over the ten-year period considered here the range of fluctuation is low. Among other things, this is due to the fact that, in line with the reasonable acceptance guidelines we apply, we generally only underwrite straightforward, standardised business. Where particularly large volumes of insurance are involved, we limit our risk through co-insurance or reinsurance contracts.

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

Settlement result, net of reinsurance, as % of original provision			
Year	%	Year	%
2007	11.2	2012	9.3
2008	11.0	2013	9.6
2009	9.3	2014	7.5
2010	11.6	2015	7.0
2011	9.9	2016	7.8

Our equalisation provisions provide an additional safety cushion that contributes to the smoothing of our underwriting results. As of 31 December 2016, their volume totalled € 396.0 million (2015: € 336.4 million).

DEVK Rückversicherungs- und Beteiligungs-AG underwrites the **reinsurance business** done by both DEVK and external companies. In line with our acceptance guidelines, we predominantly only take on standardised business, and we counteract the risk of unusually high claims expenses attendant upon extraordinary loss events through a corresponding reinsurance policy. To smooth our underwriting results, equalisation provisions in compliance with the provisions of accounting law are formed.

The technical risks prevailing in **life assurance** are biometric risk, cost risk, cancellation risk and interest guarantee risk.

The biometric risk consists in the fact that the accounting principles used to determine premium rates, for instance the probabilities of death or invalidity, change over time. In the opinion of the actuary in charge for them, the probability tables used for the portfolio, together with the top-up amounts for supplementary pension and occupational incapacity insurance premium reserves, and also the probability tables used for our new business, include adequate safety margins.

In our life assurance business, we do not apply accounting principles to cater for the cancellation risk. However, even a moderately higher cancellation rate than we have experienced in recent years would have no significant impact on our annual results.

The cost risk consists in the fact that the actual costs may exceed the costs assumed for accounting purposes. DEVK prepares regular projections of cost results, and if necessary takes suitable action to ensure a positive cost result.

The interest guarantee risk in life assurance is due to the fact that the annual interest rates guaranteed when concluding contracts may prove to be higher than the long-term market returns we can achieve. Our net interest rate in recent years has always been higher than the mean technical interest rate of our life assurance portfolios. However, due to the low interest environment the interest guarantee risk has risen markedly.

Pursuant to section 5 paragraph 4 of the Premium Reserve Regulation (DeckRV), a supplementary interest reserve has been in place since 2011, based on a specified reference interest rate. The purpose of the regulation is to ensure that life insurance companies take timely steps to strengthen their premium reserves in times of low interest through the formation of a supplementary interest reserve. The 2016 reference interest rate is 2.54 %. For the portfolio of existing policies the interest rate was set at 2.40 %. Accordingly, as of 31 December 2016 a supplementary interest reserve in the amount of € 253.9 million needs to be formed for policies with a guaranteed interest rate of 2.75 % or more. Over the coming years, we expect this supplementary interest reserve to increase markedly in size as compared with 2016, even if market interest rates rise. We are assuming a reference interest rate of 2.20 % as of 31 December 2017. This would entail a prospective 2017 allocation to the supplementary interest reserve of € 98.4 million. In both the short and medium terms, adequate buffers are available to finance the technical interest rate and the establishment of the supplementary interest reserve. However, if interest rates remain over the long term at the level of the first quarter of 2017, the risk will grow that our regular investment income will no longer be capable of financing the technical interest rate and the cost of maintaining the supplementary interest reserve. We counter this risk through wide diversification of investments across different asset classes (focusing more strongly on real estate & infrastructure, for instance), regions and maturity bands, as well the steady extension of biometric products.

Through painstaking product development and continual actuarial trend analyses, we ensure that the accounting principles applied are suitable and factor in adequate safety margins. In addition, undesirably large fluctuations in the risk results are forestalled through a corresponding reinsurance policy. Furthermore, the unallocated portion of the premium refunds provision provides additional smoothing and stabilisation potential.

The chief technical risks in relation to **health insurance** are risk of changes, risk of error, risk of random fluctuation and interest rate risk.

Risk of changes mainly consists in the risk that the basis on which premiums are calculated changes due to health-care developments leading to more frequent benefit claims by policyholders or to changed customer behaviour.

Risk of error consists in the risk of erroneous risk assessment when initially calculating the premium which cannot be corrected by subsequent premium adjustments.

Random fluctuation risk is the risk of claims expenses being higher than expected or calculated due to chance events.

We counteract the above-mentioned risks through comprehensive working guidelines and continuous training of our employees. Our planning and management instruments enable us to identify undesirable operational, portfolio and claims trends at an early stage and take any necessary action to counteract them. Payments and undertakings are subject to strict regulations concerning authorisation and entitlements, compliance with which is monitored via a multi-stage random sampling process.

Furthermore, through painstaking product development and continual actuarial trend analyses, we ensure that the accounting principles applied are suitable and factor in adequate safety margins. On top of this, all our general insurance terms and conditions incorporate a premium adjustment clause whereby premiums can be adjusted in the event of changing claims expenses.

In addition, undesirably large fluctuations in the risk results are forestalled through suitable reinsurance contracts.

The interest risk inherent in our health insurance arises due to the fact that the interest rate assumed when concluding contracts (the technical interest rate) may be higher than the long-term market returns. To date the mean company-specific technical interest rate (MTIR) applied has been achieved every year since operations commenced in 1994. We are confident that our safety margins in this respect are adequate. A technical interest rate ranging from 2.4 % to 2.75 % has been assumed in relation to new business. In 2016, the MTIR was 3.042 %.

Technical pension fund risks

The technical pension fund risks chiefly comprise the biometric risk, the interest guarantee risk (minimum benefits) and the cost risk.

The biometric risk exists due to the fact that the accounting principles used to determine premium rates, for instance the probability of death, change over time.

Since 2014 additional biometric reserves have been set aside to strengthen the safety margin for ongoing benefits.

For newly commencing benefits we have made the transition to mortality tables incorporating greater safety margins in order to adequately account for future longevity risk. This transition was conducted in consultation with BaFin and with the consent of an independent trustee. Our current view is that the probability tables we otherwise use incorporate adequate safety margins.

Since 21 December 2012, biometric risk has continued to be influenced by the European Court of Justice's gender neutrality ruling, which means that the portfolio's gender composition has become a calculation parameter requiring continuous monitoring. This gender composition ratio has been selected with car, is monitored regularly, and in the view of the actuary in charge it incorporates adequate safety margins.

The interest guarantee risk arises from the possibility of the minimum benefits enshrined in the pension plans no longer being financeable due to very low interest rates. However, adequate safety margins do currently exist here, and we assume based on current trends that this margin will remain sufficient in future.

A further point to note is that the higher investment results achieved in some cases, both this year and in recent years, mean that the unallocated portion of the premium refunds provision represents an adequate buffer in this respect.

Through painstaking product development and continual actuarial trend analyses, we ensure that the accounting principles applied are suitable and factor in adequate safety margins. Furthermore, the unallocated portion of the premium refunds provision provides additional smoothing and stabilisation potential.

The cost risk consists in the fact that the actual costs may exceed the costs assumed for accounting purposes. In the case of policies still in the vesting period, due to the contractual provisions it can be assumed that it will be possible in the long term to cover the actual costs.

In the case of older policies on which pensions are currently being paid, additional reserves have been set aside since 2013. All in all it can be assumed that sufficient revenue will be generated in the long term from policies with ongoing pension payments. DEVK Pensionsfonds-AG's cost situation will continue to be closely monitored and analysed in future.

Risk of defaults by debtors arising from our insurance operations

The risk of defaults by debtors from insurance operations arises from the primary insurance of claims against policyholders and intermediaries as well as from reinsurance underwritten for ceding companies and retrocessionaires.

Over the review period (the past three years), our overdue debts from insurance business averaged 4.4 % of booked gross premiums. Of these, an average of 3.1 % had to be written off. In relation to the booked gross premiums, the average default rate over the past three years was 0.3 %. Accordingly, default risk is of minimal importance for our Group.

As of the balance sheet date, insurance business debts with a maturity of over 90 days totalled € 20.8 million (2015: € 25.8 million).

Amounts receivable from reinsurance at the end of the year came to € 66.2 million. An overview of amounts receivable broken down according to the ratings of our reinsurance partners is given in the following table:

Rating category	Receivables in € millions
AA+	0.56
AA	0.97
AA–	3.77
A++	0.01
A+	3.64
A	5.96
A–	1.06
BBB+	0.02
BBB	0.40
BBB-	0.04
BB+	0.02
B+	0.02
B	0.01
No rating	49.70

Investment risks

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

In the investment field, in 2016 we continued to comply with the provisions of the German investment ordinance which prevailed officially until 31 December 2015, in line with a Management Board decision to continue applying this as the fundamental framework for our investment policies. We counteract exchange/market price risk and interest rate risk by maintaining a balanced mix of investment types. Active portfolio management allows us to exploit opportunities arising from market movements to improve our results, while we limit credit risk and concentration risk by imposing very stringent rating requirements and continually monitoring the issuers we select, thus avoiding any potentially ruinous dependence on individual debtors. We ensure a continuous influx of liquidity by maintaining a portfolio of interest-bearing investments with a balanced maturity structure. An ongoing ALM process ensures that we are able at all times to meet existing and future obligations.

At the end of 2016 the following measures were in place to hedge against investment risks:
- flexible management of the investment ratios, in particular in the special equity funds, for instance via index futures and volatility futures,
- currency-matched refinancing in the field of indirect real estate investments,
- hedging against currency risks via forward contracts,
- duration extension via interest rate swaps and the use of bond forward purchases,
- adjustment of equity risks via options trading,
- partial hedging of the default risk of Italian and Spanish government bonds via CDS contracts.

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

Interest-bearing investments

As of 31 December 2016, the Group held interest-bearing investments to a total value of € 8.6 billion. Of these, a total of € 4.5 billion (including the pure pension funds) are bearer instruments which could be subject to write-downs if interest rates rise. Of these bearer instruments, pursuant to section 341b HGB we have assigned a volume of € 3.8 billion to the fixed assets, since we intend to hold this paper until maturity and view any market fluctuations as temporary. Should this second view in particular prove wide of the mark, we shall undertake the necessary write-downs in a timely fashion. These capital investments show a positive valuation reserve of € 599.4 million, a figure that includes € 20.7 million in hidden charges. A change in returns of up to +/– 1 % would entail a corresponding value change ranging from € – 738.8 million to € 842.8 million.

This disclosure of the impact of a 1 % interest rate rise only gives an approximate idea of the potential effect on our profitability. The reason for this is that over a year, all things being equal, the portfolio’s average time to maturity diminishes, and the stated change in value thus also decreases accordingly. On top of this, the bulk of our interest-bearing investments are in bearer bonds or bonds recognised on the balance sheet at their nominal values, and in these cases, under the prevailing accounting regulations, an increase in the market interest rate does not lead to write-downs. The securities currently include high levels of hidden reserves which will be reduced in the near future. The exception to this is losses of value due to deteriorating credit ratings that may affect the issuers in question.

Apart from real estate financing and policy loans, which in total represent a 6.6 % share of our overall investments, our interest-bearing investments are predominantly in Pfandbriefe (German covered bonds) and notes receivable. We also invest in corporate bonds and, on a small scale, in asset-backed securities (ABS). Directly held asset-backed securities make up less than 0.5 % of our total investments. In 2016 our bond investments focused on international bearer bonds issued by banks and companies, as well as government bonds and government-related bonds. These chiefly involve bearer papers which are assigned to the fixed assets, and also registered securities.

We have minor investment exposure to certain eurozone countries which remain under the microscope, namely Portugal, Italy, Ireland and Spain. As regards issuer risks, as proportions of our total investments, 11.8 of the Group's investments are in government bonds, 14.6 % in corporate bonds and 43.5 % in securities and deposits with banks and other financial service providers. The bulk of our investments in banks is either covered by various statutory and private deposit protection schemes or involves interest-bearing securities that are protected in law by special guarantee funds.

The ratings of the issuers of our interest-bearing investments break down as follows (2015):

AA or better	54.6 %	(54.2 %)
A	24.6 %	(27.5 %)
BBB	17.1 %	(14.4 %)
BB or worse	3.7 %	(3.9 %)

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

Equity investments

The bulk of our equity investment is in DAX and EuroStoxx50 companies, as a result of which our portfolio's performance very closely matches that of these indices. A 20 % change in market prices would alter the value of our equity portfolio by € 240.7 million. Both German and European share indices rose during 2016. In the medium term we continue to expect a positive performance, albeit with high levels of volatility in some cases. We have applied a value protection model to our equity investments in order to limit market risks. Should growing economic problems lead to a significant downturn, various courses of action are open to us. In light of the uncertain economic situation, we actively managed our ratio of equity investments throughout the year.

The fixed-asset equities and equity funds show a positive valuation reserve of € 51.3 million and contain no hidden liabilities.

Real estate
On the balance sheet date, our real-estate investments totalled € 1,311.0 million. Of this total, a sum of € 384.2 million is invested in indirect mandates, including restricted special funds in office and other commercial real estate.

Our direct holdings worth € 926.8 million are subject to scheduled annual depreciation of approximately € 14.5 million. No significant risks are currently discernible in connection with these real estate holdings.

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

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

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

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

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

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

These provisions lay down comprehensive duties to provide the supervisory authorities with information. For instance, we were required to furnish BaFin with "Day 1 Reporting" on the DEVK Group's net assets and financial position as of 1 January 2016, and further quarterly reports have followed. In this connection, the solvency calculations required under supervisory law have revealed coverage ratios of well over 200 %.

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

Summary of our risk status

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

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

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

Corporate governance statement

The target figures for increasing the proportion of women on the Supervisory Board, Executive Board and at the first and second leadership levels, with 1 September 2015 as the starting date, have been set as follows:

Supervisory Board	13 %
Management Board	17 %
1. Management level	11 % – 13 %
Middle management level	18 % – 22 %

The deadline for the achievement of these target figures is 30 June 2017.

Cologne, 24 March 2017

The Management Board

Rüßmann **Knaup** **Scheel** **Zens**

Notes to the Group management report

List of insurance classes covered during the financial year

Direct insurance operations

Life assurance

Health insurance

Accident insurance
General accident insurance
Motor vehicle accident insurance

Liability insurance

Motor vehicle liability insurance

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

Legal expenses insurance

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

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

Reinsurance coverage provided

Life assurance

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

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

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

Motor vehicle liability insurance

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

Legal expenses insurance

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

Goods-in-transit insurance

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

Pension fund business

Consolidated financial statements

Consolidated balance sheet to 31 December 2016

Assets	€	€	€	2015, € 000s
A. Intangible assets				
I. Industrial property rights created in-house and similar rights and assets		145,199		94
II. Licences, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licences in such rights and assets		58,418,728		63,532
III. Goodwill		6,166,013		5,570
IV. Payments on account		672,525		126
			65,402,465	69,322
B. Investments				
I. Real estate and similar land rights, including buildings on third-party land		926,145,796		693,305
II. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	5,141,330			33,633
2. Loans to affiliated companies	47,000			51,797
3. Shares in associated companies	100,852,300			26,889
4. Participating interests	267,204,516			266,508
5. Loans to companies in which a participating interest is held	1,694,710			3,327
		374,939,856		382,154
III. Other investments				
1. Shares, units or shares in investment funds and other variable-interest securities	1,667,791,758			1,664,667
2. Bearer bonds and other fixed-interest securities	4,257,418,899			4,053,962
3. Mortgage loans and annuity claims	729,690,066			717,962
4. Other loans	3,230,319,261			3,065,179
5. Deposits with banks	679,833			2,121
6. Other investments	85,852,558			90,674
		9,971,752,375		9,594,565
IV. Deposits with ceding companies		154,916,347		148,514
			11,427,754,374	10,818,538
C. Investments for the benefit of life assurance policyholders who bear the investment risk				
			115,546,607	87,061
D. Assets for the benefit and at the risk of employees and employers				
– Investments for the benefit and at the risk of employees and employers			**251,892,937**	228,145
Balance carried forward:			11,860,596,383	11,203,066

Liabilities and shareholders' equity	€	€	€	2015, € 000s
A. Capital and reserves				
I. Retained earnings				
1. Loss reserve pursuant to section 193 of the Insurance Supervision Act (VAG)	175,066,441			169,667
2. Other retained earnings	1,319,300,064			1,249,950
		1,494,366,505		1,419,617
II. Equity difference due to currency conversion		14,113,501		14,412
III. Profit/loss carried forward		19,798,691		15,145
IV. Net retained profit		43,717,066		51,400
V. Adjusting item due to capital consolidation		131,746		131
VI. Non-controlling interests		271,594,838		219,205
			1,843,722,347	1,719,910
B. Technical provisions				
I. Provision for unearned premiums				
1. Gross amount	104,166,292			102,907
2. of which: Reinsurance amount	765,459			1,616
		103,400,833		101,291
II. Premium reserve				
1. Gross amount	4,539,114,226			4,288,022
2. of which: Reinsurance amount	2,160,086			1,677
		4,536,954,140		4,286,345
III. Provision for claims outstanding:				
1. Gross amount	2,789,268,081			2,645,123
2. of which: Reinsurance amount	393,566,536			382,742
		2,395,701,545		2,262,381
IV. Provision for bonuses and rebates				
1. Bonuses	322,714,338			297,340
2. Rebates	1,653,353			1,519
		324,367,691		298,859
V. Equalisation provision and similar provisions		396,014,070		336,377
VI. Other technical provisions				
1. Gross amount	12,219,135			10,266
2. of which: Reinsurance amount	181,278			515
		12,037,857		9,751
			7,768,476,136	7,295,004
C. Technical reserves in life assurance business, where the investment risk is borne by the policyholders				
– Premium reserve			**115,546,607**	87,061
D. Technical pension fund provisions				
I. Premium reserve		575,409,963		477,035
II. Provision for claims outstanding		1,187,857		304
III. Provision for bonuses and rebates		20,295,200		15,277
			596,893,020	492,616
Balance carried forward:			10,324,638,110	9,594,591

Assets	€	€	€	2015, € 000s
Balance carried forward:			11,860,596,383	11,203,066
E. Receivables				
I. Receivables arising out of direct insurance operations:				
1. Policyholders	69,930,061			77,796
2. Intermediaries	16,723,454			18,713
3. Third-party shareholders	117			–
		86,653,632		96,509
II. Receivables from pension fund business				
1. Employers and beneficiaries	108,118			98
2. Intermediaries	165,997			136
		274,115		234
III. Receivables arising out of reinsurance operations		66,181,950		50,710
IV. Other receivables		133,318,882		137,151
of which:			**286,428,579**	284,604
Affiliated companies: € 197				19
from companies in which a participating interest is held: € 1,215,951				1,137
F. Other assets				
I. Tangible assets and inventories		20,850,971		21,029
II. Cash at banks, cheques and cash in hand		233,169,594		97,865
III. Other assets		8,927,376		4,215
			262,947,941	123,109
G. Prepayments and accrued income				
I. Accrued interest and rent		137,598,178		140,370
II. Other prepayments and accrued income		20,017,512		17,830
			157,615,690	158,200
Total assets			**12,567,588,593**	11,768,979

Liabilities and shareholders' equity	€	€	€	2015, € 000s
Balance carried forward:			10,324,638,110	9,594,591
E. Technical pension fund provisions in accordance with the assets for the benefit of employees and employers				
– Premium reserve			**251,892,937**	228,145
F. Provisions for other risks and charges				
I. Provisions for pensions and similar commitments		566,458,681		556,795
II. Provisions for taxation		100,367,016		97,566
III. Other provisions		59,849,747		51,978
			726,675,444	706,339
G. Deposits received from reinsurers				
			118,797,936	128,423
H. Other liabilities				
I. Liabilities arising out of direct insurance operations				
1. Policyholders	579,977,600			611,466
2. Intermediaries	7,198,136			5,455
3. Third-party shareholders	–			3
		587,175,736		616,924
II. Liabilities arising out of pension fund business towards				
1. Employers	202,261			208
2. Beneficiaries	10			11
		202,271		219
III. Liabilities arising out of reinsurance operations		77,833,034		58,202
IV. Amounts owed to banks		390,763,579		348,843
V. Other liabilities		58,053,341		64,259
of which:			**1,114,027,961**	1,088,447
Tax: € 25,008,812				22,974
Social security: € 563,096				657
Affiliated companies: € 4,097,718				4,007
I. Accruals and deferred income				
			13,535,066	10,918
K. Deferred tax liabilities				
			18,021,139	12,116
Total liabilities			**12,567,588,593**	11,768,979

Consolidated profit and loss account

for the period from 1 January to 31 December 2016

Items	€	€	€	2015, € 000s
I. Technical account for non-life and accident insurance business				
1. Earned premiums, net of reinsurance				
a) Gross premiums written	2,194,083,720			2,111,249
b) Outward reinsurance premiums	147,112,998			154,147
		2,046,970,722		1,957,102
c) Change in the gross provision for unearned premiums	– 4,962,817			– 9,554
d) Change in the provision for unearned premiums, reinsurers' share	– 850,279			– 322
		– 5,813,096		– 9,876
			2,041,157,626	1,947,226
2. Allocated investment return transferred from the non-technical account, net of reinsurance			**5,227,739**	5,311
3. Other technical income, net of reinsurance			**1,985,012**	1,783
4. Claims incurred, net of reinsurance				
a) Claims paid				
aa) Gross amount	1,415,814,048			1,385,318
bb) Reinsurers' share	86,406,098			90,047
		1,329,407,950		1,295,271
b) Change in the provision for claims				
aa) Gross amount	149,526,095			142,867
bb) Reinsurers' share	– 10,872,835			10,443
		138,653,260		153,310
			1,468,061,210	1,448,581
5. Changes in other technical provisions, net of reinsurance				
a) Premium reserve, net of reinsurance		– 2,470,711		– 4,383
b) Other technical provisions, net of reinsurance		– 2,426,578		– 1,306
			– 4,897,289	– 5,689
6. Bonuses and rebates, net of reinsurance			**4,891,145**	441
7. Net operating expenses				
a) Gross operating expenses		514,462,660		510,775
b) of which: Reinsurance commissions and profit participation		26,423,662		29,931
			488,038,998	480,844
8. Other technical charges, net of reinsurance			**11,235,742**	9,858
9. Subtotal			**71,245,993**	8,907
10. Change in the equalisation provision and similar provisions			**– 58,029,713**	– 30,486
11. Underwriting result net of reinsurance, non-life and accident insurance			**13,216,280**	– 21,579

Items	€	€	€	2015, € 000s
II. Technical account for the life and health insurance business				
1. Earned premiums, net of reinsurance				
a) Gross premiums written	575,950,830			591,955
b) Outward reinsurance premiums	2,924,789			2,276
		573,026,041		589,679
c) Change in the net provision for unearned premiums		3,614,056		2,328
			576,640,097	592,007
2. Contributions from the gross premium refunds provision			**4,400,534**	8,896
3. Income from other investments				
a) Income from participating interests		3,208,428		3,775
b) Income from other investments		202,098,104		202,262
c) Income from write-ups		4,536,158		536
d) Gains on the realisation of investments		25,129,962		31,856
			234,972,652	238,429
4. Unrealised gains on investments			**2,004,710**	2,828
5. Other technical income, net of reinsurance			**574,583**	614
6. Claims incurred, net of reinsurance				
a) Claims paid				
aa) Gross amount	354,089,815			325,358
bb) Reinsurers' share	1,048,113			1,429
		353,041,702		323,929
b) Change in the provision for claims				
aa) Gross amount	–3,190,721			1,021
bb) Reinsurers' share	47,998			164
		–3,142,723		1,185
			349,898,979	325,114
7. Changes in other technical provisions, net of reinsurance				
a) Premium reserve				
aa) Gross amount	–277,107,168			–320,185
bb) Reinsurers' share	482,940			270
		–276,624,228		–319,915
b) Other technical provisions, net of reinsurance		–366,193		87
			–276,990,421	–319,828
8. Bonuses and rebates, net of reinsurance			**59,004,944**	46,978
9. Net operating expenses				
a) Acquisition costs	71,587,889			70,967
b) Administration costs	14,804,780			14,359
c) of which:		86,392,669		85,326
Reinsurance commission and profit participation		932,681		765
			85,459,988	84,561
10. Investment charges				
a) Investment management charges, interest expenses and other charges on capital investments		5,043,867		4,807
b) Write-downs on investments		13,197,336		25,450
c) Losses on the realisation of investments		1,783,735		3,888
			20,024,938	34,145
11. Unrealised gains on investments			**391,780**	830
12. Other technical charges, net of reinsurance			**13,857,488**	18,797
13. Underwriting result net of reinsurance, life and health insurance			**12,964,038**	12,521

Items	€	€	2015, € 000s
III. Pension fund technical account			
1. Earned premiums			
– Premiums written		**125,849,534**	115,109
2. Contributions from the gross premium refunds provision		**2,234,842**	2,483
3. Income from other investments			
a) Income from other investments			
– Income from other investments	19,472,344		17,500
b) Income from write-ups	310		–
c) Gains on the realisation of investments	563,333		584
		20,035,987	18,084
4. Unrealised gains on investments		**4,765,511**	9,595
5. Other technical pension fund income		**1,928,342**	1,752
6. Claims expenses			
a) Claims paid	19,881,468		14,994
b) Change in the provision for claims	884,128		– 177
		20,765,596	14,817
7. Changes in other technical pension fund provisions			
– Premium reserve		**– 122,122,885**	– 125,489
8. Bonuses and rebates		**7,253,502**	3,062
9. Pension fund operating expenses			
a) Acquisition costs	1,722,049		1,291
b) Administration costs	1,130,138		965
		2,852,187	2,256
10. Investment charges			
a) Investment management charges, interest expenses and other charges on capital investments	735,085		834
b) Write-downs on investments	–		20
c) Losses on the realisation of investments	745,681		372
		1,480,766	1,226
11. Unrealised gains on investments		**64,115**	337
12. Other technical pension fund expenses		**1,400**	1
13. Technical pension fund result		**273,765**	– 165

Items	€	€	€	2015, € 000s
IV. Non-technical account				
1. Underwriting result, insurance and pension fund business net of reinsurance:				
a) Non-life and accident insurance		13,216,280		– 21,579
b) Life and health insurance		12,964,038		12,521
c) Pension fund business		273,765		– 165
			26,454,083	– 9,223
2. Investment income where not stated under II 3 or III 3.				
a) Income from shares in associated companies	–			680
b) Income from participating interests	33,022,795			33,809
of which:				
from affiliated companies: € 52,000				52
c) Income from other investments	197,110,488			198,951
of which:				
from affiliated companies: € 583				11
d) Income from write-ups	11,087,900			7,398
e) Gains on the realisation of investments	23,374,054			84,958
f) Income from a profit pooling, profit transfer and partial profit transfer agreements	197			–
		264,595,434		325,796
3. Investment expenses where not stated under II 10 or III 10.				
a) Investment management charges, interest expenses and other charges on capital investments	27,225,960			21,170
b) Write-downs on investments	36,400,102			49,900
c) Losses on the realisation of investments	2,547,643			8,376
d) Charges arising from shares in associated companies	421,256			–
		66,594,961		79,446
		198,000,473		246,350
4. Allocated investment return transferred from the non-technical account		7,181,590		7,057
			190,818,883	239,293
5. Other income		60,569,033		63,652
6. Other charges		124,614,759		119,422
			– 64,045,726	– 55,770
7. Profit from ordinary activities			**153,227,240**	174,300
8. Taxes on income		68,365,954		84,419
9. Deferred tax change		– 45,069		– 54
10. Other taxes		4,829,811		1,467
			73,150,696	85,832
11. Net profit for the year			**80,076,544**	88,468
12. Allocation to retained earnings				
a) to the loss reserve pursuant to section 193 of the Insurance Supervision Act (VAG)		5,400,000		3,600
b) to other retained earnings		22,017,500		14,418
			27,417,500	18,018
13. Non-controlling interests			**8,941,978**	19,050
14. Net retained profit			**43,717,066**	51,400

Cash flow statement

Cash flow statement to 31 December 2016

Items	
	2016, € 000s
Result for year (consolidated net profit/loss for the year including other shareholder's share of the result)	80,077
Increase/decrease in technical provisions, net of reinsurance	629,983
Increase/decrease in deposits with ceding companies and deposits taken from retrocessionaires	– 21,874
Increase/decrease in accounts payable to ceding companies and retrocessionaires	10,006
Increase/decrease in other receivables	13,647
Increase/decrease in other liabilities	– 35,903
Changes in other balance sheet items not attributable to investment or financing activities	– 523,574
Other off-balance sheet expenses & income as well as adjustments to the result for the year	45,974
Profit/loss from disposals of investments, tangible assets and intangible assets	– 43,990
Tax expenses/income	68,366
Income tax payments	– 64,122
Cash flow from ongoing operations	**158,590**
Proceeds from disposals from the group of consolidated companies	35,951
Proceeds from disposals of tangible assets	124
Proceeds from disposals of intangible assets	–
Payments for additions to the group of consolidated companies	– 81,424
Payments for investments in tangible assets	– 8,882
Payments for investments in intangible assets	– 12,958
Proceeds from the disposal of investments in unit-linked life assurance	9,429
Payments for investments in unit-linked life assurance	– 55,348
Cash flow from investment activities	**– 113,108**
Proceeds from additions to equity by other shareholders	55,529
Payments to other shareholders for equity reductions	–
Dividends paid to other shareholders	– 6,162
Proceeds and payments from other financing activities*	41,852
Cash flow from financing activities	**91,219**
On-balance-sheet changes to cash and cash equivalents	136,701
Changes in cash and cash equivalents relating to exchange rates and valuations	–
Changes in cash and cash equivalents relating to the group of consolidated companies	– 1,396
Cash and cash equivalents at the start of the year	97,865
Cash and cash equivalents at the end of the year**	**233,170**

The cash flow statement has been drawn up in accordance with the provisions of DRS 21, "Cash Flow Statements" In accordance with the DRS recommendation for insurance undertakings, the indirect method of presentation was chosen.

* The total interest paid during the period under review was € 430,000.
** Cash and cash equivalents includes the funds recorded in the balance sheet item "Cash at banks, cheques and cash in hand".

Statement of shareholders’ equity

Shareholders’ equity movements

Statement of shareholders’ equity									
	Parent company				Minority shareholders				Shareholders’ equity
	Generated shareholders’ equity	Cumulative other consolidated result		Equity	Minority capital	Cumulative other consolidated result		Equity	
		Equity difference due to currency conversion	Other neutral transactions			Equity difference due to currency conversion	Other neutral transactions		
	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
31.12.2014	**1,551,543**	**10,906**	**– 135,592**	**1,426,857**	**196,661**	**–**	**– 12,464**	**184,197**	**1,611,054**
Issuing of shares	–	–	–	–	21,994	–	–	21,994	21,994
Dividends paid out	–	–	–	–	– 6,442	–	–	– 6,442	– 6,442
Changes to the group of consolidated companies	–	–	–	–	–	–	– 1	– 1	– 1
Other changes	–	3,506	925	4,431	–	1,118	– 711	407	4,838
Consolidated net profit for the year	69,418	–	–	69,418	19,050	–	–	19,050	88,468
31.12.2015	**1,620,961**	**14,412**	**– 134,667**	**1,500,706**	**231,263**	**1,118**	**– 13,176**	**219,205**	**1,719,911**
Issuing of shares	–	–	–	–	38,809	–	–	38,809	38,809
Dividends paid out	–	–	–	–	– 6,362	–	–	– 6,362	– 6,362
Changes to the group of consolidated companies	–	–	–	–	15,162	–	–	15,162	15,162
Other changes	–	– 299	586	287	–	– 3,636	– 525	– 4,161	– 3,874
Consolidated net profit for the year	71,135	–	–	71,135	8,942	–	–	8,942	80,077
31.12.2016	**1,692,096**	**14,113**	**– 134,081**	**1,572,128**	**287,814**	**– 2,518**	**– 13,701**	**271,595**	**1,843,723**

Notes to the consolidated financial statements

Group companies

The following subsidiary companies were included in the consolidated financial statements of DEVK Sach- und HUK-Versicherungsverein a.G., Cologne, thus being exempted from the requirement to produce annual financial statements themselves:

– DEVK Rückversicherungs- und Beteiligungs-AG, Cologne, 100 %
– DEVK Allgemeine Versicherungs-AG, Cologne, 100 %
– DEVK Rechtsschutz-Versicherungs-AG, Cologne, 100 %
– DEVK Rechtsschutz-Versicherungs-AG, Cologne, 100 %
– DEVK Allgemeine Versicherungs-AG, Cologne, 100 %
– DEVK Rechtsschutz-Versicherungs-AG, Cologne, 100 %
– DEVK Vermögensvorsorge- und Beteiligungs-AG, Cologne, 51 %
– DEVK Asset Management Gesellschaft mbH, Cologne, 100 %
– DEVK Omega GmbH, Cologne, 75 %
– DEVK Private Equity GmbH, Cologne, 65 %
– DEVK Saturn GmbH, Cologne, 100 %
– DEVK Service GmbH, Cologne, 74 %
– DEVK Unterstützungskasse GmbH, Cologne, 100 %
– DEVK Zeta GmbH, Cologne, 100 %
– DEVK Europa Real Estate Investment Fonds SICAV-FIS, Luxembourg (L), 68 %
– DEREIF BRUSSEL CARMEN S.A., Brussels, (B)
– DEREIF Brüssel Lloyd George S.à.r.l., Luxembourg (L), 100 %
– DEREIF Hungary Park Atrium Ltd., Budapest, (H), 100 %
– DEREIF Immobilien 1 S.à.r.l., Luxembourg (L), 100 %
– DEREIF London Birchin Court S.a.r.l., Luxembourg (L), 100 %
– DEREIF London Coleman Street S.a.r.l., Luxembourg (L), 100 %
– DEREIF London Eastcheap Court S.a.r.l., Luxembourg (L), 100 %
– DEREIF London Lower Thames Street S.a.r.l., Luxembourg (L), 100 %
– DEREIF London 10, St. Bride Street S.á.r.l., Luxembourg (L), 100 %
– DEREIF Malmö, Kronan 10 & 11 AB, Malmö (S),100 %
– DEREIF Paris 37 – 39, rue d'Anjou, Yutz (F), 100 %
– DEREIF Paris 9, chemin du Cornillon Saint-Denis S.C.I., Yutz (F), 100 %
– DEREIF Paris 8, rue Lamennais, SCI, Yutz (F), 100 %
– DEREIF LISSABON REPUBLICA, UNIPESSOAL LDA, Lisbon, (P), 100 %
– DEREIF Stockholm Vega 4 AB, Stockholm (S), 100 %
– DEREIF Wien Beteiligungs GmbH, Vienna (A), 100 %
– DEREIF Wien Nordbahnstrasse 50 OG, Vienna (A), 100 %
– DP7, Unipessoal LDA, Lisbon (P), 100 %
– DRED SICAV-FIS, Luxembourg (L), 68 %
– DRED-Real Estate Deutschland GP S.a.r.l., Luxembourg (L), 100 %
– Assistance Services GmbH, Coesfeld, 100 %
– ECHO Rückversicherungs-AG, Zürich (CH), 100 %
– German Assistance Versicherung AG, Coesfeld, 100 %
– Hotelbetriebsgesellschaft SONNENHOF mbH, Bad Wörishofen, 100 %
– HYBIL B.V., Venlo (NL), 100 %
– Ictus GmbH, Cologne, 75 %
– OUTCOME Unternehmensberatung GmbH, Cologne, 100 %
– SADA Assurances S.A., Nîmes (F), 100 %.

The subsidiaries
– DEVK Alpha GmbH, Cologne, 100 %
– DEVK Beta GmbH, Cologne, 100 %
– DEVK Gamma GmbH, Cologne, 100 %
– DEVK Versorgungskasse GmbH, Cologne, 100 %
– DEVK Web-GmbH, Cologne, 100 %
– DEVK Zeus Vermögensverwaltungs-AG, Cologne, 100 %
– JUPITER VIER GmbH, Cologne, 100 %
– KASSOS Beteiligungs- und Verwaltungs-GmbH, Cologne, 100 %
– Lieb'Assur S.a.r.l., Nîmes (F), 100 %
– Reisebüro Frenzen GmbH, Cologne, 52 %
– Reisebüro TRAVELWORLD GmbH, Cologne, 52 %
– Pragos Wohnungsunternehmen AG & Co. KG, Cologne
were not included in the consolidated financial statements due to their minor importance for the Group's net assets, financial position and results of operations. Even taken as a whole, they remain of minor importance as defined in section 296 paragraph 2 sentence 2 HGB.

The following companies were included in the consolidated financial statements at equity as associated companies or joint ventures:
– Monega Kapitalanlagegesellschaft mbH, Cologne, 45 %
– Terra Estate GmbH & Co. KG, Cologne, 48.75 %
– Sireo Immobilienfonds No. 4 SICAV, Luxembourg, (L), 50 %.

Pursuant to section 311 paragraph 2 HGB, Terra Management GmbH, Cologne, an associated company in which the Group has a total holding of 50 %, was not included in the consolidation due to its minor importance for the Group's net assets, financial position and results of operations.

Changes to the group of consolidated companies

In 2016 DEVK Europa Real Estate Investment Fonds SICAV-FIS and DEREIF Immobilien 1 either founded or acquired four new property companies (referred to as subsidiaries from now on).

The companies DEREIF London Lower Thames Street, which holds real estate in London and DEREIF LISSABON REPUBLICA, UNIP, which holds real estate in Lisbon, were founded during 2016, while DEVK Europa Real Estate Investment Fonds SICAV-FIS and DEREIF Immobilien 1 acquired 100 % of the shares in the companies DEREIF BRUSSEL CARMEN, which has its headquarters in Brussels, and DEREIF Hungary Park Atrium, which has its headquarters in Budapest, also during 2016.
The initial consolidation of these four companies took place in 2016, applying the revaluation method.
The capital consolidation of the newly established companies was carried out pursuant to section 301 paragraph 2 sentence 1 HGB on the basis of the valuation made on the date on which the companies became subsidiaries.
The equity capital of the two newly founded subsidiaries at the time of their founding was equal to the cost of acquisition of the shares held by the participating companies.

The capital consolidation of the two companies acquired during the financial year was done on the basis of a revaluation on the date of acquisition. The resultant goodwill will be amortised in line with its useful life in equal instalments over a 15-year period.
The hidden reserves of these subsidiaries as revealed during the initial consolidation, and the associated differences between the company's revaluation balance sheets and the tax balance sheets, led to the recognition of deferred tax liabilities of € 1,814,172 and € 4,714,873 respectively.

All the property companies prepare their domestic annual financial statements in their respective national currencies by 31 August.
Before their incorporation into the consolidated financial statements, the annual financial statements of subsidiaries with different balance sheet dates and recognition methods were adjusted by the 30 November deadline to ensure compliance with the unified recognition and measurement principles laid down by the parent company for use in the consolidated financial statement.
Any significant occurrences taking place between then and the consolidated financial statements balance sheet date, to wit 31 December 2016, are recognised and recorded in these subsidiaries' interim financial statements.

DRED SICAV-FIS was founded in July 2015 by DRED-Real Estate Deutschland GP S.a.r.l., the general partner and fund manager, and DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G., the founding limited partner. After its formation three further Group companies made investments in DRED SICAV-FIS. The Group's total holding in this subsidiary is 68 %.
The company's purpose is the direct acquisition of real estate, as well as the construction, management, letting and sale of the real estate it holds.
The company's first financial year commenced on the day of its formation and ended on 30 September 2016. The first annual financial statements were prepared to 30 September 2016.

The initial consolidation of this subsidiary took place in 2016 applying the revaluation method.
Pursuant to section 301 paragraph 2 HGB, the capital consolidation was carried out on the basis of the valuations on the date on which the company became a subsidiary. The equity capital of this company on the date of their consolidation was equal to the cost of acquisition of the shares held by all participating Group companies.

DRED-Real Estate Deutschland GP S.a.r.l. was founded in July 2015 by CORPUS SIREO Investment Management S.a.r.l. The company purpose is to serve as the general partner for DRED SICAV-FIS.
The company's first financial year commenced on the day of its formation and ended on 30 September 2016.
As agreed, the shares in DRED-Real Estate Deutschland GP were transferred during the 2016 financial year to DEVK Rückversicherungs- und Beteiligungs-AG.
From the 2016 financial year onwards DRED-Real Estate Deutschland GP was consolidated into the Group applying the revaluation method.
Pursuant to section 301 paragraph 2 HGB, the capital consolidation was carried out on the basis of the valuations on the date on which the company became a subsidiary. The

equity capital of this subsidiary at the time of its transfer was equal to the cost of acquisition of the shares held by the participating companies.

Before their incorporation into the consolidated financial statements, the annual financial statements of the two subsidiaries with different balance sheet dates and recognition methods were adjusted to ensure compliance with the unified recognition and measurement principles laid down by the parent company for use in the consolidated financial statement. In line with the domestic financial statements, the balance sheet dates for these adjusted financial statements will be 30 September. Any significant occurrences taking place between then and the consolidated financial statements balance sheet date, to wit 31 December 2016, are recognised and recorded in these financial statements.

During 2016 two Group subsidiaries acquired further shares in Sireo Immobilienfonds No. 4 SICAV, a real estate company limited by shares, with its headquarters in Luxembourg, in which they already had minor holdings prior to that date. After acquiring these hew shares the Group now has a 50 % holding in this company, with the other 50 % being held by a company not in the Group.
This real estate fund company invests, via its property companies, in European office and logistics real estate.
Pursuant to section 310 HGB, this company constitutes a joint venture within the Group since it is managed jointly with a company external to the Group.

The holding in the joint venture was first consolidated into the Group with effect from 1 July, applying the equity method. During the first year the shares in this company were recognised at their book value. The calculated active difference on initial consolidation came to € 553,168.

A further 1.25 % holding in Terra Estate GmbH & Co. KG was acquired during 2016, after which the Group had a 50 % holding in the company. The company had already been consolidated into the Group in prior years, applying the equity method. Acquiring these new shares did not alter its status within the Group since the Group-external company also acquired a further 1.25 % of shares, thus likewise taking its holding to 50 %.
Terra Estate GmbH & Co. KG will therefore continue to be consolidated in the Group applying the equity method.

Consolidation principles

The consolidated financial statements were drawn up in accordance with the provisions of section 341i and 341j HGB in conjunction with section 290ff HGB and section 58ff RechVersV.

Pursuant to article 66 paragraph 3 sentence 4 EGHGB in conjunction with section 301 paragraph 1 No. 1 HGB, old version, the capital consolidation was done applying the book value method of section 301 paragraph 1 sentence 1 HGB.
The initial consolidation was undertaken either at the time of acquisition or on initial inclusion in the annual report. Pursuant to section 309 paragraph 1 sentence 3 HGB, old version, any resultant positive differences were openly offset on the assets side against the other retained earnings.

After the introduction of the German Act on Modernisation of Accounting Regulations (BilMoG), any positive differences from the initial consolidation were recognised in the consolidated balance sheet under goodwill. The goodwill is being subject to scheduled depreciation over a fifteen-year period, in line with its expected useful life.
Said useful life derives from the companies' purpose, to wit real estate investment. In these cases the high current incomes are to the fore, which is why the envisaged average holding period for real estate is at least 15 years.

Negative differences were recorded correspondingly as liabilities in the consolidated balance sheet.

Prior to the introduction of BilMog, the valuation of the associated company Monega Kapitalanlagegesellschaft mbH was determined at the time of its acquisition pursuant to article 66 paragraph 3 sentence 4 EGHGB in conjunction with section 312 paragraph 1 No. 1 HGB (old version).

The valuation of Terra Estate GmbH & Co. KG took place on the date on which it became a joint venture.

The receivables and liabilities of companies included in the consolidated financial statements were consolidated, while income and expenses from the offsetting of costs and Group-internal reinsurance arrangements were netted out. Inter-company profits were eliminated.

Foreign currency conversion

The conversion of the asset and liability items in the balance sheet of some consolidated subsidiaries which draw up their annual financial statements in a foreign currency are done at the median foreign currency exchange rate on the closing date, with the exception of the equity capital, which was valued at the historic price. The profit and loss account items were converted at the mean exchange rate.

Foreign currency items in the annual financial statements of consolidated subsidiaries are converted into euros on the balance sheet date at the median foreign currency exchange rate.

Accounting and valuation methods

The consolidated financial statements were based on the audited and unaudited individual financial statements and single-entity financial statements that, with two exceptions, were drawn up in accordance with uniform accounting and valuation regulations.
Where the consolidated valuation methods were the same as those applied by the Group parent company, we refer the reader to the details given in the parent's individual financial statements.
The annual financial statements of foreign subsidiaries prepared in compliance with domestic accounting regulations were adjusted to comply with German accounting regulations prior to integration into the consolidated financial statements. Valuations based on regulations applying specifically to insurance companies remained unaltered.

Before their incorporation into the consolidated financial statements, the annual financial statements of subsidiaries with different accounting dates and recognition methods were adjusted by the 30 November deadline to ensure compliance with the unified recognition and measurement principles laid down by the parent company for use in the consolidated financial statements. Any significant occurrences taking place between then and the consolidated financial statements balance sheet date, to wit 31 December 2016, are recognised and recorded in these subsidiaries' interim financial statements.

The layouts of the consolidated balance sheet and the consolidated profit and loss account comply with financial statement forms 1 and 4 of RechVersV, plus certain Group-specific items.

The **loans and advance payments on insurance certificates** are recognised at their original nominal values less repayments made to date.

Deposits with banks are recorded at their nominal values.

Other investments also include credit default swaps, which have been valued at their costs of acquisition.

Investments for the benefit of life assurance policyholders who bear the investment risk, for whose policies an investment fund is to be established pursuant to section 125 paragraph 5 VAG, are recorded at their current value.

Pursuant to section 341 paragraph 4 sentence 2 and 341d HGB, **assets for the benefit of employees and employers who bear the investment risk** were valued at their current values and shown in a separate item. Due to provisions included in the pension plans, the value was reported on the basis of the pension fund payment obligation in the event of a pension claim.

Receivables from pension fund business are recognised at their nominal values.

Technical provisions are calculated by application of the following principles:
The **provisions for unearned premiums** for direct insurance operations are calculated separately for each policy, taking into account the individual technical policy start, with due regard to the tax regulations laid down by the Finance Minister of North Rhine-Westphalia on 30 April 1974.
For new policies taken out since 1 January 2012, an insurance period of one month generally applies. For these policies, payments on account made where a monthly payment does not apply are also included under the provision for unearned premiums.
Provisions for unearned premiums arising from coinsurance contracts were taken on in accordance with the information
furnished by the lead company.

The **premium reserve** in the life assurance business is calculated separately for each policy, taking into account the individual technical policy start and applying actuarial principles according to the prospective method.
For the portfolio of existing policies within the meaning of section 336 VAG and article 16 section 2 of the 3rd Implementation Act/EEC to the VAG, the precepts and accounting

principles underlying the calculation were in line with the business plans either approved, prevailing or submitted for approval. The portfolio of new policies is in line with section 341f HGB and section 88 VAG, as well as the associated Premium Reserve Regulation (Deckungsrückstellungsverordnung). The premium reserve for reinsured insurance business is also calculated separately in accordance with the provisions of the reinsurance contracts and taking the individual technical policy start into account. The premium reserve for coinsurance policies has been taken over by the lead company.

The premium reserve took special account of the future costs in relation to single-premium policies, premium-exempted contracts and policies with plan-related premium exemptions. The resulting administration expenses provision was allocated to the premium reserve. The premium reserve was calculated taking into account the implicit recognised costs. The premium reserve for the bonus pensions was calculated according to the same principles, except applying the accounting precepts regarding rate of return and mortality applied at the start of the pensions. The premium reserve for the bonus pensions currently at the future entitlement stage was calculated in each case according to the accounting precepts applying at the time.

All pension insurance plans based on a Table DAV 1987 R or older have in the past been switched to DAV 1994 R, 4.0 %. For all pension insurance plans not based on the mortality table DAV 2004 R, the premium reserve has been adjusted to bring it into line with table DAV 2004 R – B 20.

Depending on the policy generation, the following mortality tables were applied for insurance policies with an assurance character: DAV 2008 T, company's in-house tables based on DAV 2008 T, DAV 1994 T, mortality table 1986 and mortality table 1960/62. Insurance policies with a survival character are based on the mortality tables DAV 1994 R, 80 %, DAV 1994 R and DAV 2004 R.
Depending on the policy generation, calculation of the occupational disability risk was based on the tables DAV 1997 I, DAV 1997 TI and DAV 1997 RI, the 1990 association tables (including reactivation probabilities and morbidity/mortality rates) or the tables derived from research by eleven American companies during the period from 1935 – 1939. For the policy generations from 2003 onwards and from July 2016 onwards, the company-specific table DAV 1997 I was devised, which addresses or differentiates between ten different professional groups.
For the supplementary occupational disability insurance up to the 2000 policy generation, the premium reserve was adjusted to the tables DAV 1997 I, DAV 1997 TI and DAV 1997 RI; while the company-specific table DAV 1997 I here addresses or differentiates between three different professional groups.

Depending on the policy generation, the occupational incapacity risk was calculated from accounting principles based on the tables DAV 1997 I, DAV 1997 TI and DAV 1997 RI or on the tables DAV 1998 E, DAV 1998 TE or DAV 1998 RE. For the supplementary occupational disability insurance based on a technical interest rate of 4.0 %, the premium reserve was likewise adjusted to the tables DAV 1998 E, DAV 1998 TE and DAV 1998 RE.

For all (supplementary) occupational disability and incapacity insurance up until policy generation 2008 the premium reserve was also adjusted to table DAV 2008 T.

Depending on the policy generation, accounting principles derived from the HEUBECK 1983 and 1998 actuarial tables or modified accounting principles based on DAV 1997 I were applied to determine the occupational invalidity risk.

Depending on the policy generation, the technical interest rate applied was either 4.0 %, 3.5 %, 3.25 %, 3.0 %, 2.75 %, 2.25 %, 1.75 % or 1.25 %. Pursuant to section 5 paragraph 4 DeckRV, a supplementary interest reserve with a reference interest rate of 2.54 % was formed for policies with technical interest rates of 4.0 %, 3.5 %, 3.25 %, 3.0 % and 2.75 %. A supplementary interest reserve with a valuation interest rate of 2.40 % was formed for the existing policies. In accordance with a publication by BaFin, the supplementary interest reserve for redeemable endowment life insurance policies is calculated through application of the probability of cancellation and capitalisation. Applying this approach, the supplementary interest reserve for the portfolio of existing polices is 7 % smaller and for new business 10 % smaller.
For insurance policies with regular premium payments, one-off acquisition costs were taken into account in line with the zillmerisation method. For the portfolio of existing policies, the respective zillmerisation rates have been set in line with the business plan. For the portfolio of new policies, the zillmerisation rates were a maximum of 3.5 % of the sum insured or 4.0 % of the total premiums. As a rule, from 2016 the zillmerisation rate stands at 2.5 % of the premium amount.

In the case of insurance policies starting in 2008 or after, the redemption value was calculated on the basis of acquisition costs distributed over five years. In the case of special insurance plans beginning between 2008 and 2012, the acquisition costs were as a rule distributed over the entire premium payment period. Pursuant to the German Insurance Contracts Act (VVG), only in the case of a few special tariffs will the above-mentioned five-year distribution apply.
Depending on the policy generation, in the case of capitalisations with regular premium payments in accordance with the Pension Contracts Certification Act (AltZertG) the acquisition costs were distributed over either five years, ten years or the entire accumulation period.
The premium reserve for insurance policies where the investment risk is borne by the policyholders is calculated individually for each policy according to the retrospective method. The calculation was done in compliance with section 341f HGB as well as section 88 VAG and the associated Premium Reserve Regulation. The premium reserve was calculated taking into account the implicit recognised costs. The acquisition costs are distributed over three years, rising to five years from 2008 onwards, and in some cases over the entire premium payment period.

For policies with zillmerisation which are subject to the Federal Court of Justice rulings of 12 October 2005, 25 July 2012 or 26 June 2013, additional funds were allocated to the premium reserve.

The terminal bonus funds were calculated separately for each policy, taking their individual technical start into account.
For the portfolio of existing policies, the terminal bonus fund was calculated according to principles set out in the business plan, whereas for new policies it was calculated according to section 28 paragraph 7a to 7d RechVersV, with a discount rate of 3.0 % p.a.

For insurance with a savings component, a minimum participation in revaluation reserves was introduced on 1 January 2008. This will be financed via a fund in the provision for returns of premiums which will be structured in line with the terminal bonus fund and also with a discount rate of 3.0 % p.a.

For all risk types except occupational incapacity, the gross amounts for the **provision for unadjusted insurance claims** were calculated separately for insurance claims arising by the balance sheet date and ones known about by the portfolio determination date. A provision based on updated empirical experience has been formed to cover the occupational incapacity risk. This method guarantees risk assessment closely based on reality. Insurance claims arising by the balance sheet date but not known about until after the determination of the portfolio were assessed over the past three years and their mean value was set aside. Outstanding policy surrender, return and withdrawal payments include the repayments specified in the business plan for the year under review and known to have become due by the portfolio determination date, but which have not been paid out by the balance sheet date. The provision includes amounts designated for claims settlement. The proportion of the insurance business ceded to reinsurance was assessed in line with the contractual terms.

In response to the rulings by the European Court of Justice and the German Federal Court of Justice on 19 December 2013, 7 May 2014 and 23 September 2015 respectively, expenditure arising from the possible cancellation of policies was recognised under **Other technical provisions.** In so doing, a probability of availment [of this provision] was applied.

The **provision for bonuses and rebates** on life assurance was formed in compliance with the Articles of Association, as well as the provisions laid down in the business plan and by law.

The **premium reserve** in the pension fund business is calculated separately for each policy, taking into account the individual technical policy start and applying actuarial principles. The calculation was done in compliance with section 341f HGB as well as section 240 sentence 1 Nos. 10 – 12 VAG and the associated Premium Reserve Regulation. The premium reserve was calculated taking into account the implicit recognised costs. For policies on which a pension is already being drawn additional reserves have been set aside for future management costs. In the case of pension policies near to maturity and policies on which a pension is already being drawn additional biometric reserves are being set aside. The premium reserve for the benefit of employees and employers bearing the investment risk was calculated according to the retrospective method, and other premium reserves according to the prospective method. The minimum premium reserve (to cover pension fund guarantees) for beneficiaries was calculated prospectively on the basis of a technical interest rate, depending on the date on which the policy started, of between 1.25 % and 3.25 %. Depending on the pension start date, the minimum premium reserve for ongoing pensions was calculated on the basis of technical interest rates of between 1.25 % and 2.25 %. Modified HEUBECK 2005 G actuarial tables and DAV 2004 R mortality tables were used.

The terminal bonus funds were calculated separately for each policy, taking their individual technical start into account. The terminal bonus fund was calculated pursuant to section 28 paragraphs 7a to 7d RechVersV, with a discount rate of 2.1 % p.a.

The amounts for the **provision for unadjusted insurance claims** were calculated separately for insurance claims arising by the balance sheet date and ones known about by the portfolio determination date. Insurance claims arising by the balance sheet date but not known about until after the determination of the portfolio were accounted for via a surcharge specified in the business plan on the basis of past experience. Terminated but as yet unsettled pension fund contracts and pension relationships were also taken into account.
The provision also includes amounts to cover claim settlement expenses.

The **premium refunds provision** was formed in compliance with the Articles of Association, prevailing statutory provisions and the bonus participation provisions laid down in the pension plans.

The **pension provision** was calculated according to the projected unit credit method on the basis of the HEUBECK 2005 G actuarial tables. The discounting interest rate was calculated as a ten-year average pursuant to the Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung).
It was set at 4.00 % (2015: 3.89 %) and calculated on the basis of an assumed residual term of 15 years (section 253 paragraph 2 sentence 2 HGB).
The financing age on expiry corresponds with the contractual age on expiry.
The assumed rate of pay increase was set at 1.95 % or 2.1 % p.a., and the rate of pension increase at between 1.0 % and 2.4 % p.a.

The **liabilities arising out of pension fund operations** were measured at their settlement values.

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.

Pursuant to section 306 HGB, **deferred tax liabilities** arising from consolidation activities (revaluation on initial consolidation) are recognised in the consolidated financial statements. The calculations were based on the respective country-specific income tax rates of 19 %, 22 % and 33.99 % to which the companies concerned were subject.

Changes to Asset Items A., B.I. to II. during the 2016 financial year

Assets	Balance sheet value 2014 € 000s	Additions € 000s	Transfers € 000s	Disposals € 000s	Write-ups € 000s	Write-downs € 000s	Balance sheet value 2015 € 000s
A. Intangible assets							
1. Industrial property rights created in-house and similar rights and assets	94	75	–	–	–	24	145
2. Licences, industrial property rights and similar rights and assets acquired for valuable consideration, as well as licences in such rights and assets	63,532	10,500	126	–	–	15,740	58,418
3. Goodwill	5,570	1,710	–	–	–	1,114	6,166
4. Payments on account	126	673	–126	–	–	–	673
5. Total A.	69,322	12,958	–	–	–	16,878	65,402
B.I. Real estate and similar land rights, including buildings on third-party land							
	693,305	249,175	–	2,618	–	13,716	926,146
B.II. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	33,633	7,038	–	35,530	–	–	5,141
2. Loans to affiliated companies	51,797	–	–	51,750	–	–	47
3. Shares in associated companies	26,889	74,385	–	421	–	–	100,853
4. Participating interests	266,508	129,806	–	126,595	322	2,837	267,204
5. Loans to companies in which a participating interest is held	3,327	57	–	1,550	147	286	1,695
6. Total B.II.	382,154	211,286	–	215,846	469	3,123	374,940
Total	**1,144,781**	**473,419**	**–**	**218,464**	**469**	**33,717**	**1,366,488**

Notes to the consolidated balance sheet

Re Assets B.

Investments

The revaluation reserves include hidden liabilities totalling € 70.7 million. These relate to real estate, participating interests, fund units, bearer bonds, mortgage loans, notes payable, zero bonds and registered bonds capitalised at their nominal values pursuant to section 341c HGB.

Details of financial instruments within the meaning of section 314 paragraph 1 No. 10 HGB that are capitalised at their fair value

	Book value € 000s	Fair value € 000s
Participating interests	37,757	35,605
Fixed-asset securities	413,780	412,584
Mortgage loans	12,989	12,364
Other loans	153,489	149,701
Silent participating interests	10,000	9,928

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

Details of derivative financial instruments and forward purchases in accordance with section 314 paragraph 1 No. 11 HGB

	Type	Nominal volume € 000s	Book value premium € 000s	Fair value of premium € 000s
Other liabilities	Short put options	27,683	1,298	666
	Short call options	3,212	99	256
	Forward purchase GBP	24,745	–	71
Bearer bonds	Forward purchases	24,000	–	366
Registered bonds and notes receivable	Forward purchases	173,000	–	– 634
Other investments	Credit default swaps	28,000	458	– 235
Other prepayments and accrued income	Swaps	100,000	1,116	24,697

Valuation methods

Short options:	European options	Black-Scholes
	American options	Barone-Adesi
Forward purchase GBP:	Present value method	
Forward purchases:	Bloomberg or our own calculations based on market data	
Credit default swaps:	J.P. Morgan	
Swaps:	Present value method	

Details of units or shareholdings in domestic investment funds in accordance with section 314 paragraph 1 No. 18 HGB				
Investment goal	Dividends € 000s	Current value € 000s	Hidden reserves/ hidden charges € 000s	Limitation on daily redemption
Equity funds	18,447	818,510	88,034	
Bond funds	3,197	151,396	4,587	
Mixed funds	4,095	131,852	2,176	
Real-estate funds	11,135	245,218	21,736	Between any time and after five months

Re Assets B.I.

Real estate and similar land rights, including buildings on third-party land
The balance sheet value of own land and buildings used for DEVK Group operations is € 10,253,908.

The consolidation of three new subsidiaries has led to an increase in holdings of real estate and buildings by € 275,421,864. Without this addition, after disposals and scheduled depreciation and amortisation by the existing Group companies, this balance sheet item would amount to € 650,723,933.
As a result, 2016 income from real estate increased by € 9,169,806, investment administration expenses by € 3,874,006 and depreciation of real estate and buildings by € 2,471,724.

Re Assets B.III.

Other investments

Other loans	2016 € 000s	2015 € 000s
a) Registered bonds	1,813,683	1,674,237
b) Notes receivable and loans	1,295,410	1,242,589
c) Loans and advance payments on insurance certificates	9,963	12,277
d) Other loans	111,263	136,076
Total	**3,230,319**	3,065,179

Other loans chiefly comprise registered participation certificates.
Other investments comprise fund units, silent partnerships within the meaning of KWG and cooperative shares.

Re Assets C.

Investments for the benefit of life assurance policyholders who bear the investment risk	Share units Number	Balance sheet value €
Monega Bestinvest Europa	36,346.52	1,919,823
Monega Chance	119,909.45	3,980,994
Monega Ertrag	285,915.30	17,140,622
Monega Euro-Bond	321,882.30	17,191,733
Monega Euro-Land	171,056.17	6,847,379
Monega Fairinvest	168,110.01	8,163,422
Monega Germany	108,298.86	8,096,422
Monega Global Bond	78,818.36	4,213,629
Monega Innovation	3,139.65	185,239
Monega Multi Konzept	4,813.85	237,660
Monega Short Track	1,098.20	52,209
SpardaRentenPlus	8,082.26	831,503
UniCommodities	898.33	35,781
UniDividendenASS A	10,587.09	564,292
UniEM Global	14,942.46	1,147,581
UniEuroKapital	721.44	47,752
UniEuroRenta	61,034.10	4,089,895
UniFavorit Aktien	5,392,64	660,922
UniGlobal	63,726.38	12,356,544
UniRak	243,096.69	27,778,658
UniWirtschaftsaspirant	137.17	4,547
Total		**115,546,607**

Re Assets D.

Investments for the benefit of employees and employers	Share units Number	Balance sheet value €
Monega Rentenfonds (bond fund)	255,457	13,643,976
Monega Aktienfonds (equities fund)	4,758,595	238,248,961
Total		**251,892,937**

Re Assets E.I.

Receivables arising out of direct insurance operations

The amounts owed by policyholders comprise:

a) Due claims	€ 7,213,300
b) Claims not yet due	€ 36,109,089
	€ 43,322,389

Re Assets G.II.

Other prepayments and accrued income

Premium on registered bonds	€ 6,357,087
Advance payments for future services	€ 13,660,425
	€ 20,017,512

Re Liabilities B.III.

Provision for claims outstanding:
In keeping with the principle of prudent valuation, a gain arose from the settlement of the provision for claims outstanding carried forward from the previous year.

Re Liabilities B.IV.

Provision for bonuses and rebates

from life insurance operations	
31.12.2015	€ 249,824,237
Withdrawal in 2015 for:	
Interest-bearing accumulation	€ 7,990,281
Increase in amount	€ 2,181,452
Bonus shares paid out	€ 24,275,920
Allocation from the 2015 net profit	€ 45,392,014
31.12.2016	**€ 260,768,598**

Breakdown of	€ millions
already determined but not yet allocated regular bonus shares	26.77
Final bonus shares	2.00
Amounts for the minimum participation in the revaluation reserves	2.70
Final bonus fund for financing of bonus pensions	–
of final bonus shares	20.39
The minimum participation in the revaluation reserve	25.98
Non-index-linked part	182.93

Re Liabilities H.I.

Liabilities arising out of direct insurance operations

Liabilities towards policyholders arising out of direct life insurance operations for bonus shares credited amount to	**€ 465,033,996**

Re Liabilities I.

Accruals and deferred income

Discount points on registered bonds	€ 7,528,544
Advance rental receipts	€ 5,981,766
Other accruals and deferred income	€ 24,756
	€ 13,535,066

Notes to the profit and loss account

Booked gross premiums in € 000s

	2016					2015
	Non-life/ casualty	Life	Health	Pension fund	Total	Total
1. Direct insurance operations						
Domestic	1,771,501	496,611	79,340	125,850	2,473,302	2,418,289
Other EEC countries	138,901	–	–	–	138,901	135,709
Total 1.	1,910,402	496,611	79,340	125,850	2,612,203	2,553,998
2. Reinsurance coverage provided						
	283,682	–	–	–	283,682	264,316
Total	**2,194,084**	**496,611**	**79,340**	**125,850**	**2,895,885**	2,818,314

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

Acquisition expenses	€ 399,007,115
Administration costs	€ 207,700,402

Re Item II.3.b)

Income from other investments

aa) Income from real estate and similar land rights, including buildings on third-party land	€ 6,792,765
bb) Income from other investments	€ 195,305,339
	€ 202,098,104

Re Item IV.2.c)

Income from other investments

aa) Income from real estate and similar land rights, including buildings on third-party land	€ 44,848,457
bb) Income from other investments	€ 152,898,018
	€ 197,110,488

Personnel expenses

Personnel expenses totalled € 284,001,549 (2015: € 325,199,875). These include expenses for the risk portion of the allocation to the pension provision.

During the year under review, Management Board remuneration totalled € 2,100,382 (2015: € 2,280,509). The retirement pensions of former Management Board members and their surviving dependants totalled € 2,532,673) (2015: € 1,725,395). On 31 December 2016, a pension provision totalling € 30,473,300 (2015: € 24,872,756) was recognised for this group of persons. The Supervisory Board remuneration totalled € 589,205 (2015: € 609,440) and Advisory Board remuneration came to € 75,648 (2015: € 88,332).

Auditors' fees

For services rendered by the Group's auditors (KPMG AG Wirtschaftsprüfungsgesellschaft and its affiliated companies) for the parent company and its subsidiaries in 2016, a fee of € 1,444,580 was paid (including € 829 in additional expenditure for 2015).
This broke down into € 1,331,465 for audit services, € 680 for other certification services, € 24,976 for tax advisory services and € 87,459 for other services.

Other information

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

The difference pursuant to section 253 paragraph 6 HGB on the balance sheet date amounted to € 81,466,133. This was due to the pension provision.

Contingencies and other financial obligations

At the end of the year, other financial obligations arising from real estate holdings, fund units and participating interests totalled € 212.9 million.

On the balance sheet date, we had outstanding financial obligations totalling € 30.9 million from open short put options, € 119.0 million in multi-tranches and € 173.0 million from open forward purchases. The payment obligations in relation to approved mortgage loans not yet paid out totalled € 100.4 million.

In compliance with the statutory provisions of sections 221ff VAG, life assurance companies are required to be members of an insurance guarantee scheme. Pursuant to the Insurance Guarantee Scheme Financing Regulation (Sicherungsfonds-Finanzierungs-Verordnung), the guarantee scheme levies annual contributions amounting to a maximum of 0.2 ‰ of the total technical provisions net of reinsurance until a security fund amounting to 1 ‰ of the total technical provisions net of reinsurance has been built up. The accumulation stage of this process is now complete, in view of which the Group has no future liabilities in this respect.
The insurance guarantee scheme can also levy special contributions totalling a further 1 ‰ of the technical provisions net of reinsurance. This constitutes a maximum commitment of € 3,616,851.

In compliance with the statutory provisions of sections 221ff VAG, health insurance companies are required to be members of an insurance guarantee scheme. After taking over insurance contracts in fulfilment of its remit, the guarantee scheme levies special contributions totalling a maximum of 2 ‰ of the technical provisions net of reinsurance. Our 2017 payment commitment in this connection is € 428,274.

Under an assumption of debt agreement, the pension provisions for all employees in the DEVK Group have been assigned to DEVK Rückversicherungs- und Beteiligungs-AG in return for the transfer of corresponding investments, thereby bundling all of the DEVK Group's pension commitments with a single risk bearer and improving the protection in place for employees' pension rights.
The joint and several liability for the pension commitments capitalised on the DEVK Rückversicherungs- und Beteiligungs-AG balance sheet has given rise to benefit obligations totalling € 471.4 million.

Terra Management GmbH, Cologne, is the general partner (with unlimited liability) in Terra Estate GmbH & Co. KG, Cologne. DRED-Real Estate Deutschland GP S.a.r.l., Luxembourg, is the general partner in DRED SICAV-FIS, Luxembourg.

Supplementary report

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

General information

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

During the year under review, the average number of employees, disregarding inactive employment contracts and after conversion of part-time employees to full-time equivalents, came to 3,888, made up of 159 executives, 3,631 salaried employees and 98 waged employees.

Cologne, 24 March 2017

The Management Board

Rüßmann **Knaup** **Scheel** **Zens**

Audit certificate

We have audited the consolidated financial statements, comprising the balance sheet, profit and loss account, notes, cash flow statement and statement of shareholders' equity and consolidated management report, prepared by **DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn**, Cologne for the financial year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and consolidated management report in accordance with German commercial regulations is the responsibility of the Group Management Board. Our remit is to express an opinion on the consolidated financial statements and consolidated management report on the basis of our audit.

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

Our audit has not led to any objections.

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

Cologne, 4 April 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr Hübner	**Offizier**
Auditor	Auditor

Supervisory Board report

During 2016, the Supervisory Board was briefed by the parent company's Management Board on the Group's commercial performance and financial position at various meetings.

KPMG AG Wirtschaftsprüfungsgesellschaft, having been appointed as auditors in line with statutory requirements, duly audited the 2016 consolidated financial statements and management report. Their audit did not reveal any irregularities and an unqualified audit certificate was granted. The Supervisory Board has duly acknowledged the audit findings.

The Supervisory Board's own audit of the consolidated financial statements and management report likewise revealed no irregularities. Accordingly, the Supervisory Board hereby approves the 2016 consolidated financial statements.

The Supervisory Board would like to thank the Management Boards and employees of the various Group companies for all their hard work and commitment.

Cologne, 12 May 2017

The Supervisory Board

Kirchner
Chairman

Abbreviations used

ABS	Asset-backed securities
AG	Aktiengesellschaft
AktG	German Stock Corporations Act
ALM	Asset Liability Management
AltZertG	Pension Contracts Certification Act
BaFin	German Financial Supervisory Authority
BGH	German Federal Court of Justice
BilMoG	German Act on Modernisation of Accounting Regulations
CHF	Swiss francs
DAV	Association of German Actuaries
DAX	German Share Index
DeckRV	Regulation concerning accounting principles for premium reserves
Dr	Doctor
DRS	German accounting standards
ECB	European Central Bank
EDP	Electronic data processing – IT
EEC	European Economic Community
EGHGB	Introductory Act to the German Commercial Code
EStG	German Income Tax Act
etc.	Et cetera
e.V.	Registered association (e.V.)
Fed	Federal Reserve System
GBP	British pound (sterling)
GDP	Gross domestic product
GDV	German Insurance Association
GmbH	German private limited company
HGB	German Commercial Code
IDW	Institute of Public Auditors in Germany
KonTraG	German Control and Transparency in Business Act
KWG	German Banking Act
MTIR	Mean company-specific technical interest rate
No.	Number
NRW	North Rhine-Westphalia
ORSA	Own Risk and Solvency Assessment
p.a.	Per annum
RechVersV	German Regulation on Accounting in the Insurance Sector
ret.	In retirement
SEK	Swedish krona
€ 000s	Thousand(s)
VAG	German Insurance Undertakings Supervision Act
VVG	German Insurance Contracts Act

DEVK Central Office, Cologne, Germany

50735 Cologne, Riehler Strasse 190

Principal departments and department heads:

Personnel
Roger Halleck

Central Office Services
Georg Müller

Sales
Olaf Nohren

Corporate Communication, Bank and Direct Sales
Hans-Joachim Nagel

Life
Jörg Gebhardt

Actuary in Charge / Actuarial Office
Jürgen Weiler

Non-life / HUK Operations
Thomas Doll

KINEX / Accounting / Central Office Applications Partner
Lothar Diehl

Investments
Joachim Gallus

Non-life / HUK Claims
Rüdiger Burg

Revision
Gerd Stubbe

Information Processing and Telecommunications
Klaus Dresbach

Project Portfolio Management / Management Organisation
Martin Meyer

Corporate Planning and Controlling
Elmar Kaube

Reinsurance
Wolfgang Jöbkes

– 1 March 2016 –

DEVK regional offices

(Plus the names of senior management personnel)

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Siegbert Schmidt / Ines Etzroth

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Christian Rähse / Rainer Spieß

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Thomas Huck / Dirk Strempel / Klaus Dieter Feller

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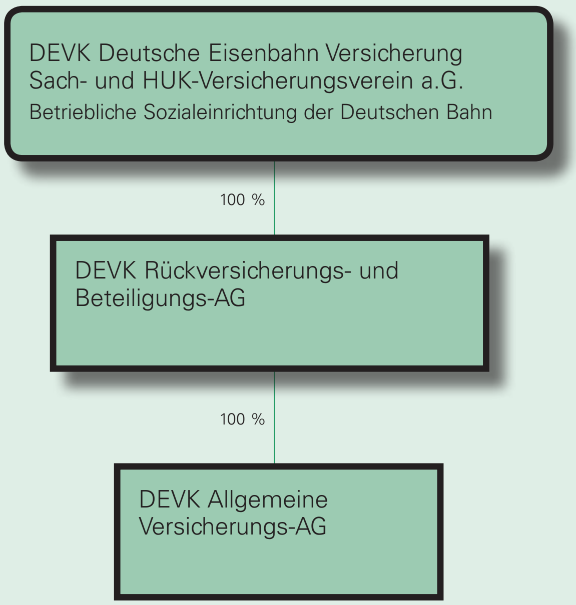
Mario Kühl / Thomas Maudrey

70190 Stuttgart, Neckarstrasse 146
Heiko Jabs / Markus Otterbach / Nikolaus Hax

42103 Wuppertal, Friedrich-Engels-Allee 20
Heinz Kuhnen / Steffen Kaufmann

Organizational chart of DEVK Versicherungen



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