

# Results of operations, financial position and net assets

## Property and casualty reinsurance

- Property and casualty reinsurance remains fiercely competitive
- Combined ratio deteriorates to 104.4% owing to heavy burden of catastrophe losses
- Operating profit (EBIT) supported by good investment income

The market environment in worldwide property and casualty reinsurance shows little change overall and remains challenging. Nevertheless, the recent natural disasters should bring about wide-ranging upward price momentum. Reinsurance capacity has hitherto far outstripped demand, with additional capacities from the ILS market putting sustained pressure on prices and conditions. Increased demand could, however, be observed in certain parts of Asia and North America as well as in lines such as cyber, some areas of specialty business and for covers designed to support capital management.

As had been anticipated, the treaty renewals in property and casualty reinsurance as at 1 June and 1 July 2017 were shaped by the sustained competitive climate. It was at this time of the year that parts of the North American portfolio, natural catastrophe risks and some areas of credit and surety business were renewed. This was also the main renewal season for business in Australia and New Zealand: while appreciable rate erosion was recorded here in some areas, significant price increases were also obtained under loss-impacted programmes. We are satisfied overall with the treaty renewals for the North American market; we enlarged our premium volume by around 15%. One of the key factors here was that we wrote larger shares in renewed business with selected customers. Natural catastrophe business saw premium erosion in most markets, although we were able to offset this through positive rate movements in Australia. In credit and surety business we grew our portfolio, both by writing new programmes and by increasing our shares in existing treaties. We generated healthy growth of 10% for the total book of property and casualty reinsurance business that was up for renewal.

The gross written premium for our total portfolio rose by 15.2% as at 30 September 2017 to EUR 8.2 billion (EUR 7.1 billion). At constant exchange rates growth would have reached 16.1%. The level of retained premium was higher than in the corresponding period of the previous year at 89.2% (88.3%). Net premium earned climbed by 14.0% to EUR 6.8 billion (EUR 5.9 billion); adjusted for exchange rate effects, the increase would have been 14.9%.

After we had recorded a very moderate large loss experience in the first half of the year, the third quarter was dominated by exceptionally high loss expenditure caused by three hurricanes and two earthquakes. Hurricane Harvey, which had a highly destructive impact on Texas and neighbouring US states, was followed by the devastation of Hurricane Irma in Florida and the Caribbean islands. Hurricane Maria subsequently inflicted particularly heavy damage on Puerto Rico. These three events alone gave rise to a net strain of EUR 650.6 million for our company. The two devastating earthquakes that struck Mexico in September resulted in a combined loss of EUR 71.5 million for our account. Altogether, our major loss expenditure as at 30 September 2017 added up to EUR 894.3 million (EUR 393.2 million), thereby exceeding the large loss budget that we had set aside for the first nine months of 2017 by around EUR 270 million.

It was already the case in the second quarter that exceptional losses from casualty business in the United Kingdom were offset by releases of IBNR reserves that had been constituted on a prudent basis. The underwriting result for total property and casualty reinsurance declined to EUR -309.1 million (EUR 275.5 million) owing to the considerable burden of large losses. The combined ratio consequently stood at 104.4% (95.0%) and thus failed to reach the targeted figure of 96%. Looked at in isolation for the third quarter, it amounted to 118.3% (94.4%).

The investment income booked in property and casualty reinsurance from assets under own management improved on the back of realised gains to EUR 933.3 million (EUR 623.8 million).

The operating profit (EBIT) for the Property & Casualty reinsurance business group totalled EUR 601.7 million (EUR 894.9 million) as at 30 September 2017, a decrease of 32.8%. The EBIT margin of 8.9% (15.1%) fell short of the minimum target set at 10%. Group net income for property and casualty reinsurance contracted by 27.1% to EUR 448.7 million (EUR 615.4 million). Earnings per share amounted to EUR 3.72 (EUR 5.10).

## Key figures for property and casualty reinsurance

in EUR million	2017					2016 <sup>1</sup>	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	5,427.5	2,771.9	+11.2%	8,199.3	+15.2%	2,493.1	7,120.5
Net premium earned	4,312.8	2,439.9	+16.9%	6,752.6	+14.0%	2,086.8	5,925.3
Underwriting result	149.0	(458.1)		(309.1)	-212.2%	109.1	275.5
Net investment income	475.5	471.2	+108.1%	946.7	+47.4%	226.4	642.5
Operating result (EBIT)	634.3	(32.6)	-109.8%	601.7	-32.8%	332.0	894.9
Group net income	444.0	4.8	-98.0%	448.7	-27.1%	237.3	615.4
Earnings per share in EUR	3.68	0.04	-98.0%	3.72	-27.1%	1.97	5.10
EBIT margin <sup>2</sup>	14.7%	-1.3%		8.9%		15.9%	15.1%
Combined ratio <sup>3</sup>	96.5%	118.3%		104.4%		94.4%	95.0%
Retention	89.4%	88.8%		89.2%		88.5%	88.3%

<sup>1</sup> Adjusted pursuant to IFRS 3

<sup>2</sup> Operating result (EBIT)/net premium earned

<sup>3</sup> Including funds withheld

## Life and health reinsurance

- Life and health reinsurance delivers very good profitability in financial solutions business
- Further strain on results in US mortality business from older underwriting years

Compared with the first two quarters, the picture in life and health reinsurance was a mixed one in the third quarter. Positive and negative effects influenced the development of business and hence also the result.

In many European markets our business fared as expected. In Germany very strong interest was evident in reinsurance solutions designed to optimise an insurer's capital position in the context of Solvency II. Drawing on the international expertise of our network, we engage in an intensive dialogue with our clients in order to provide individually tailored solutions that offer solvency relief.

We are also satisfied with the development of business in Latin American markets, including Mexico. Along with expanding our existing portfolio, we were able to write promising new business. Most notably, the opening up of the reinsurance market in Argentina effective 1 July 2017 already prompted appreciable movement in the reporting period just ended. This market liberalisation now enables local insurers to cede up to 50% of their business to admitted reinsurers. In the period until 2019 this share is to be progressively increased to up to 75%.

Our financial solutions business in the United States continued to develop favourably and delivered another good profit contribution. We are, however, less satisfied with the development of our US mortality portfolio, where most notably the block of business assumed in 2009 still showed a higher-than-expected mortality. An additional non-recurring negative effect of around USD 50 million was attributable to the recapture of a reinsurance treaty, which took place by mutual agreement with our client as part of our portfolio management activities. While this resulted in a charge to our business result for the quarter, it enables us to avoid higher losses over the long term.

The gross premium volume booked for our life and health reinsurance business as at 30 September 2017 amounted to EUR 5.3 billion; this figure is on the level of the previous year's period (EUR 5.3 billion). Adjusted for exchange rate effects, modest growth of 0.7% would have been recorded. Net premium earned totalled EUR 4.8 billion (EUR 4.8 billion). At constant exchange rates the increase would have been 0.3%. The retention stood at 91.5% and was thus on a par with the previous year (91.5%).

The investment income for the reporting period just ended came in at EUR 432.7 million (EUR 494.7 million). In view of the unchanged low level of interest rates we had expected this decline. Of the total amount, income from assets under own management accounted for EUR 266.0 million (EUR 263.4 million). Income from securities deposited with our ceding companies therefore totalled EUR 166.7 million (EUR 231.2 million).

Based on these developments, life and health reinsurance generated an operating result (EBIT) of EUR 205.9 million (EUR 290.4 million). The EBIT margins for the individual reporting categories are as follows: mortality and morbidity business fell short of the 6% target at 0.3%. On the other hand, the target of 2% in financial solutions business was comfortably exceeded with an EBIT margin of 27.4%. In the longevity reporting category the targeted margin of 2% was only barely missed with an EBIT margin of 1.9%. Altogether, Group net income amounted to EUR 135.7 million (EUR 208.9 million). Earnings per share stood at EUR 1.13 (EUR 1.73).

### Key figures for life and health reinsurance

in EUR million	2017					2016	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	3,570.1	1,714.1	+2.2%	5,284.2	-0.9%	1,677.1	5,333.5
Net premium earned	3,209.9	1,578.0	+4.3%	4,787.9	-1.1%	1,513.0	4,841.1
Investment income	301.7	131.0	-24.1%	432.7	-12.5%	172.5	494.7
Operating result (EBIT)	165.2	40.7	-63.4%	205.9	-29.1%	111.3	290.4
Net income after tax	114.2	21.5	-72.5%	135.7	-35.0%	78.3	208.9
Earnings per share in EUR	0.95	0.18	-72.5%	1.13	-35.0%	0.65	1.73
Retention	91.6%	91.2%		91.5%		90.8%	91.5%
EBIT margin <sup>1</sup>	5.1%	2.6%		4.3%		7.4%	6.0%

<sup>1</sup> Operating result (EBIT)/net premium earned

## Investments

- High-quality diversified investment portfolio maintained
- Alternative investments and real estate more than offset low interest rate level
- Liquidation of all listed equity holdings
- Return on investment of 3.9% significantly above full-year target of at least 2.7%

The investment climate was relatively stable in the period under review despite the disquiet on numerous geopolitical fronts, although it was shaped by the continued low level of interest rates and further declines in risk premiums for corporate bonds. While increases in yields for German government bonds were observed across all maturities, the general level of interest rates remained very low overall. German government bonds are still being sold at negative returns well into the medium maturities. In the case of US Treasuries, a modest inversion of the yield curve could be observed overall against a backdrop of yield declines in the medium and longer-maturity segments.

Credit spreads on European and US corporate bonds declined still further across most rating classes despite the already very low level at the beginning of the period under review. Overall, then, they remained at a stubbornly low level. All in all, the unrealised gains on our fixed-income securities decreased as at 30 September 2017 to EUR 1,023.5 million (EUR 1,098.1 million). Our portfolio of assets under own management contracted to EUR 40.2 billion (31 December 2016: EUR 41.8 billion), driven primarily by exchange rate effects – with the strengthening of the euro against the US dollar particularly evident here – and the dividend distribution. Generally speaking, during the reporting period we only adjusted the allocation of our assets to the individual classes

of securities in the context of regular portfolio maintenance. At the end of the third quarter, however, we responded to the windstorm events in the United States and the Caribbean as well as the earthquakes in Mexico by liquidating our holdings of listed equities and equity funds in order to take advantage of the favourable state of the market, reduce our general risk position and free up capital for possible risk reallocations. In addition, we made the most of opportunities available to our US real estate portfolio by both selling and acquiring one office building. We also expanded our real estate holdings in Asia. In Germany, on the other hand, we modestly scaled back our exposure. The modified duration of our portfolio of fixed-income securities changed only negligibly relative to the previous year to stand at 4.9 (5.0).

Ordinary investment income excluding interest on funds withheld and contract deposits totalled EUR 942.6 million as at 30 September 2017, a figure significantly higher than in the previous year's period (EUR 852.0 million). Particularly bearing in mind the continued low interest rate level, it is very pleasing that we have been able to more than offset the diminished return on our fixed-income securities with very strong income from private equity and real estate. Interest on funds withheld and contract deposits contracted to EUR 180.1 million (EUR 249.9 million).

Impairments totalling just EUR 34.0 million (EUR 61.0 million) were taken. Of this, EUR 5.5 million (EUR 9.7 million) was attributable to alternative investments; an impairment loss of EUR 3.7 million had to be recognised on equities (EUR 27.6 million). Impairments of EUR 0.1 million (EUR 0.7 million) were taken on fixed-income securities. Scheduled depreciation on directly held real estate increased

slightly to EUR 22.6 million (EUR 21.2 million), a reflection of our sustained growing involvement in this area. The write-downs were not opposed by any write-ups.

The net balance of gains realised on disposals stood at EUR 343.3 million (EUR 153.6 million) and can be attributed in part to regrouping activities in the context of regular portfolio maintenance, but first and foremost to the liquidation of our portfolio of listed equities at the end of the third quarter.

We recognise a derivative for the credit risk associated with special life reinsurance treaties (ModCo) under which securities deposits are held by cedants for our account; the performance of this derivative in the period under review gave rise to unrealised gains of EUR 3.2 million (losses of EUR 0.3 million) recognised in investment income. In economic terms we assume a neutral development for this item over time, and hence the volatility that can occur in specific quarters has no implications for the actual business development. Altogether, the unrealised gains in our assets recognised at fair value through profit or loss amounted to EUR 22.1 million (EUR 29.2 million).

Despite the diminished return on our fixed-income securities, stronger ordinary income from real estate and private equity as well as higher realised gains enabled us to generate investment income of EUR 1,382.5 million that clearly surpassed the level of the previous year's period (EUR 1,146.4 million). Income from assets under own management accounted for EUR 1,202.4 million (EUR 896.5 million), producing an annualised average return (excluding effects from derivatives) of 3.9%.

## Net investment income

in EUR million	2017					2016	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Ordinary investment income <sup>1</sup>	635.1	307.5	+8.3%	942.6	+10.6%	284.0	852.0
Result from participations in associated companies	5.7	4.7		10.4		0.9	2.6
Realised gains/losses	83.4	259.9	+250.9%	343.3	+123.5%	74.1	153.6
Appreciation <sup>2</sup>	23.1	10.9	-15.4%	34.0	-44.3%	12.9	61.0
Change in fair value of financial instruments <sup>3</sup>	10.6	11.5	+32.5%	22.1	-24.4%	8.7	29.2
Investment expenses	55.6	26.3	-3.9%	82.0	+2.6%	27.4	79.9
Net investment income from assets under own management	656.0	546.4	+66.9%	1,202.4	+34.1%	327.3	896.5
Net investment income from funds withheld	123.4	56.8	-23.6%	180.1	-27.9%	74.3	249.9
<b>Total investment income</b>	<b>779.4</b>	<b>603.1</b>	<b>+50.2%</b>	<b>1,382.5</b>	<b>+20.6%</b>	<b>401.6</b>	<b>1,146.4</b>

<sup>1</sup> Excluding income on funds withheld and contract deposits

<sup>2</sup> Including depreciation/impairments on real estate

<sup>3</sup> Portfolio at fair value through profit or loss and trading

## Rating structure of our fixed-income securities<sup>1</sup>

Rating classes	Government bonds		Securities issued by semi-governmental entities <sup>2</sup>		Corporate bonds		Covered bonds/asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	78.0	9,691.5	66.7	4,474.9	1.1	139.7	65.9	2,094.0
AA	11.5	1,427.7	22.8	1,529.9	12.4	1,509.5	12.4	394.4
A	5.4	674.2	5.3	357.4	33.1	4,041.5	7.1	225.9
BBB	3.6	448.2	1.3	85.9	44.1	5,375.7	10.8	344.0
< BBB	1.5	189.0	3.9	263.6	9.3	1,129.1	3.8	121.9
<b>Total</b>	<b>100.0</b>	<b>12,430.7</b>	<b>100.0</b>	<b>6,711.7</b>	<b>100.0</b>	<b>12,195.4</b>	<b>100.0</b>	<b>3,180.2</b>

<sup>1</sup> Securities held through investment funds are recognised pro rata with their corresponding individual ratings.

<sup>2</sup> Including government-guaranteed corporate bonds