

Key figures of the Deutsche Rück Group

2004–2008 financial years					
in €m	2008	2007	2006	2005	2004
Gross premiums earned	1,042.1	1,011.7	973.8	895.8	898.5
Net premiums earned	723.0	690.0	655.0	575.0	518.1
Net loss ratio* (as a % of net premiums earned)	68.6	72.6	64.7	58.2	53.6
Expense ratio – net* (as a % of net premiums written)	26.2	28.1	30.8	38.1	36.6
Combined ratio – net* (as a % of net premiums earned)	94.0	100.8	96.0	97.3	90.3
Underwriting result – net (after change to the claims equalisation provision)	8.7	–15.9	–0.2	0.7	–8.3
Result of general business	3.0	39.8	27.3	32.0	29.4
Operating result before tax	11.7	23.9	27.1	32.7	21.1
as a % of net premiums earned	1.6	3.5	4.1	5.7	4.1
Net profit for the year (after tax)	2.3	15.2	13.4	15.3	10.7
as a % of net premiums earned	0.3	2.2	2.0	2.7	2.1
Investments incl. deposits retained	1,566.8	1,400.8	1,278.2	1,135.9	917.6
as a % of net premiums earned	216.7	203.0	195.1	197.5	177.1
Average interest rates as a %	3.3	3.1	3.2	3.2	3.5
Net technical provisions (excl. claims equalisation provision)	1,081.0	995.1	826.1	682.5	571.4
as a % of net premiums earned	149.5	144.2	126.1	118.7	110.3
Equity capital	473.2	458.6	455.2	372.7	341.0
as a % of net premiums earned	65.4	66.5	69.5	64.8	65.8
thereof:					
Balance sheet equity	179.4	166.8	152.9	115.2	95.1
as a % of net premiums earned	24.8	24.2	23.3	20.0	18.4
Hybrid capital	85.0	85.0	85.0	51.1	51.1
as a % of net premiums earned	11.8	12.3	13.0	8.9	9.9
Claims equalisation provision	208.8	206.8	217.3	206.4	194.7
as a % of net premiums earned	28.9	30.0	33.2	35.9	37.6

* excl. life reinsurance

Deutsche Rückversicherung

Group Annual Report 2008

Deutsche Rück has been providing reinsurance for 57 years, and has a well-established and intensive know-how of the German-speaking markets. Our ideas and actions are geared towards the needs of our clients. This is particularly beneficial for cedants concentrating on their domestic markets. Along with its subsidiary, DR Swiss, Deutsche Rück also provides reinsurance cover in continental European markets. Working in close alliance within the Group, the two companies lay the basis for the achievement of an aim which both they and their clients aspire to: a stable partnership in a long-term reinsurance relationship.

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Report of the Supervisory Board

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Ladies and Gentlemen,

Both Deutsche Rückversicherung AG and Deutsche Rückversicherung Schweiz AG (DR Swiss) can look back on 2008 as a successful financial year – a year in which they not only met their shareholders' stability and earnings expectations, but also answered to their clients' needs in terms of capacity and continuity. Indeed, the Group's ongoing organic corporate development continues to go from strength to strength.

Jürgen Rehmann, the long-serving CEO of the Board of Executive Directors, and the Supervisory Board had prepared the ground for client base growth back in 2005, when Deutsche Rück and its Swiss subsidiary, DR Swiss, made their first foray beyond the public-law domain, forging business contacts with selected clients in the private insurance sector.

Jürgen Rehmann went into retirement as planned on 31 December 2008. The Supervisory Board would like to thank him for his outstanding contribution to the success of the Deutsche Rück Group. The company evolved continually under his command, attaining a high level of stability. We would like to take this opportunity to express our heartfelt thanks for his successful and confidence-inspiring leadership.

The governing bodies of Deutsche Rück appointed Dr Arno Junke as his successor. With this appointment, we are reinforcing the Group's reinsurance expertise, our sights firmly set on the continued organic expansion of our business. At year's end, the governing bodies appointed Dr Walter Reindl, a long-serving member of the Board of Executive Directors, as Deputy CEO. We would like to wish each of them the best of luck for a successful future.



Ulrich-Bernd Wolff von der Sahl,
Chairman of the Supervisory Board

The Supervisory Board monitored the Board of Executive Directors with due care and attention and was kept informed on the development (anticipated results, planning), the financial status of the Group and any special incidents through regular Supervisory Board meetings and quarterly reports, as well as on other occasions. This included ongoing information on the risk situation and risk management measures. The development of the main subsidiary companies also formed part of these discussions.

During the three meetings held, the Supervisory Board participated in the decisions made by the Board of Executive Directors within the scope of its competence as stipulated by law and the Articles of Association.

The consolidated financial statements and the consolidated management report for the 2008 financial year were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne, and did not give rise to any

objections. Consequently, they were met with full approval of the auditors. The auditors took part in the balance sheet meeting held by the Supervisory Board and reported on the key results of the audit.

The Supervisory Board examined the consolidated financial statements and the Group management report and has no additional remarks to make on the auditor's report. It has approved the consolidated financial statements for 2008.

Düsseldorf, 1 July 2009

A handwritten signature in blue ink, appearing to read 'Ulrich-Bernd Wolff von der Sahl'. The signature is fluid and cursive.

Ulrich-Bernd Wolff von der Sahl

Chairman

On behalf of the Supervisory Board



Dr Arno Junke,
CEO

of 20 million Swiss francs at DR Swiss. Intended as growth financing, 75% of this cash injection came from Deutsche Rück – i.e. from internal sources.

The risk situation of both Group companies is stable. The QIS 4 and Swiss Solvency Test risk models unveiled positive results at the end of 2008, each revealing a cover ratio of well above 200%. The S&P rating model likewise confirmed that the capitalisation of Deutsche Rück, DR Swiss and the DR Group as a whole remains excellent, at the level of the AAA category.

It is on this firm footing that we look forward to capitalizing on opportunities presented by a market environment which works to our advantage. Above all small and medium-sized primary insurers with an increasing need for reinsurance cover will find in Deutsche Rück a dependable partner on a par with themselves, complete with the requisite financial strength, capacity and risk understanding for their

underwriting needs. Embedded in a sound ownership structure, we view ourselves as a reinsurer which provides its clients with consistency throughout reinsurance cycles and beyond. And we will continue to bring these strengths to bear in the organic and systematic development of our activities in our markets and client relationships. We are confident that our company is ideally positioned to benefit from these opportunities.

Best regards,

A handwritten signature in blue ink, appearing to read 'Arno Junke'. The signature is fluid and cursive.

Dr Arno Junke
CEO

As regards net new business in comprehensive health insurance, private health insurers recorded a decline of 18% compared to the year before. If special effects resulting from the health reform are taken into account, there was a slight rise in comprehensive health insurance, which was up by 0.8%. In terms of supplementary covers, the industry achieved a growth rate of 4.7%. With premium growth of roughly €800 million or 2.9%, it did not quite reach 3.4% posted in the previous year.

Insurance benefits paid out by German primary insurers rose significantly in the 2008 financial year, up by 5.2% to €133.9 billion. This increase was predominantly due to the benefits paid out from life insurance policies, which climbed by 8.6% compared to 2007. Private health benefits were up by 6.6% in 2008 too. By comparison to the preceding year, extraordinary events such as Winter Storm “Kyrill” did not, by and large, put an additional strain on the property and casualty segment. Accordingly, claims expenditure was down 0.8%. Nevertheless, performance in the individual classes varied. Whereas claims expenditure was down 9.2% in property insurance, motor insurance was once again dogged by increased claims expenditure while premiums steadily slipped. As a result, the combined ratio increased to 102.0% following 98.1% the year before. Overall, at 95.0%, the combined ratio was slightly below the ratio of 95.7% in 2007.

Capital market trends

In 2008, capital market development was marked first and foremost by the ongoing problems in the financial sector. Beginning with the delinquencies which increasingly affected American subprime mortgages from 2007 onwards, these problems escalated into the most severe global financial and economic crisis in decades.

The first collapses of US mortgage banks led to massive stock market losses of up to 19% in the EuroStoxx 50 from as early as January 2008. Subject to heavy fluctuations, the EuroStoxx 50 plummeted by 31% to 3,038 points by the end of September. In the fourth quarter, there was a further acceleration in these developments as a result of the bankruptcy of the US investment bank Lehman Brothers and the events surrounding the world’s largest insurance company AIG. Between 6 and 10 October, the EuroStoxx 50 recorded the greatest weekly loss in its history: more than 20%. Against the background of the dwindling credit ratings of individual states and the spread of the financial crisis to almost all industries, the EuroStoxx 50 slumped to its lowest point of the year on 21 November 2008 at 2,166 points. This amounted to a loss of 51% since the beginning of the year, making this the greatest loss within a single year in the history of the index. By the end of the year, however, the loss had been reduced to 42% following a slight rally. The EuroStoxx 50 finished the year at 2,448 points. Many types of bonds, including mortgage bonds, also suffered very severe price losses, and the trade with formerly liquid securities came to a complete standstill in some instances.

Against this backdrop, 2008 was characterised by massive interventions on the part of governments and central banks. In Europe, too, government rescue measures had to be taken in relation to various banks. For example, the German insurance industry provided a back-to-back guarantee for the stricken Munich-based Hypo Real Estate Bank. The measures were accompanied by massive interest rate reductions on the part of ECB. Worldwide, government rescue packages worth €3 trillion were devised. At the end of 2008, the return on 10-year federal government bonds was, at 2.95%, significantly below that achieved in the previous year (4.33%).

Business performance

In the year under review, Group business in the main segments developed by and large in line with the German primary insurance market. In the fire class, a clear increase in premium income was achieved once again. Life reinsurance also recorded a significant rise in premium income. Due to a rise in net premiums, slightly decreased net claims expenditure and lower net operating expenses, the technical account showed a profit. The effects of the financial market crisis put a considerable strain on the results from general business. Nevertheless, a net profit was made for the business year overall.

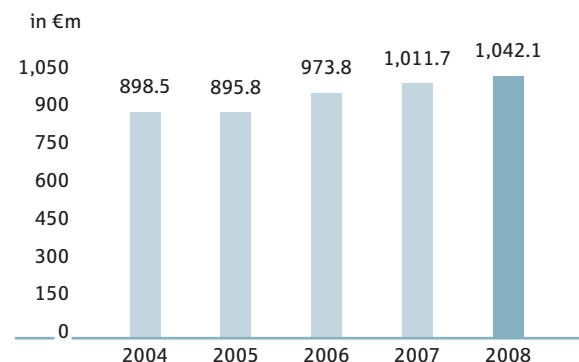
The Group operates in the following classes:

- life
- accident
- liability
- motor
- aviation
- fire
- business interruption
- burglary and theft
- water damage
- glass
- windstorm
- householders' comprehensive
- homeowners' comprehensive
- hail
- engineering
- marine
- fidelity
- credit
- legal protection
- transit
- extended coverage
- livestock
- miscellaneous property insurance

For the second time in a row, the gross premium income of the Deutsche Rück Group topped the billion mark in the 2008 financial year. Compared to the previous year, premiums written fell slightly, down 0.3% (2007: 3.8%) to €1,016.1 million (2007: €1,019.1 million). Deutsche Rück contributed to this development with an increase of €6.9 million (+1.1%) and DR Swiss with a decline of €–9.8 million (–2.7%). Owing to decreased premium volume for our retrocessions, however, net earned premiums were up 4.8% from €690 million to €723 million.

Compared to 2007, which had been affected by the strain of Winter Storm “Kyrill”, the gross loss ratio fell by more than 15 percentage points to 63.5% in the year under review. Although no major natural catastrophes put a strain on the technical account in 2008, a large number of medium-sized frequency losses were recorded. Designed for natural catastrophes, our retrocession scheme only offers limited relief for such frequency losses. In addition, we further increased the IBNR reserves for new liability, accident and motor insurance business retained for own account. Nevertheless, the net claims expenditure was slightly below that of the previous year. Based on the increased net premiums earned, the net loss ratio fell from 67.3% to 63.6% in the year under review.

Development of GPE 2004 – 2008



Due to reduced gross claims incurred, gross operating expenses were down by €4.6 million (–1.6%) to €281.0 million in the reporting year. Intensified as a result of a special effect, commissions received on retroceded business increased from €87.8 to €97.0 million. As a result, the expenditure for own account fell by €13.8 million to €184 million. The net cost ratio was down from 28.5% to 26.3%. The technical account before changes to the claims equalisation provision posted a profit of €10.4 million (2007: €–26.2 million). On balance, €1.6 million was allocated to the claims equalisation provision and similar provisions (2007: €10.4 million was withdrawn). Overall, the technical account showed a profit of €8.7 million (2007: €–15.9 million).

Regular income from our investments again increased in the 2008 financial year. However, the consequences of the financial market crisis created the need for write-downs on our shares. Overall, with a profit of €5.6 million, our investment result was clearly below the earnings reported in 2007, which came to €46.4 million. Including the deficit resulting from other income and expenditure, the non-technical account posted earnings of €3.0 million (2007: €39.8 million). The operating result before tax is posted as a profit of €11.7 million (2007: €23.9 million).

After tax, a net profit for the financial year of €2.3 million (2007: €15.2 million) remains.

Technical business

Premium income

Gross premiums in the Group fell by €3.0 million to €1,016.1 million in the 2008 financial year. This amounts to a drop of 0.3%.

In the liability, accident and motor insurance segment, premium volume was down once again. Gross premiums, which stood at €281.2 million in 2007, were down by 14.4% to €240.6 million. The drop was felt most strongly in the liability class where income fell by more than half due to the discontinuation of an important quota agreement.

In property business, which now accounts for more than 2/3 of total gross premium volume, premium income rose by 6.2%, with premiums for the fire class rising by 11.0%. Marine and homeowner's comprehensive business, too, showed pleasing growth.

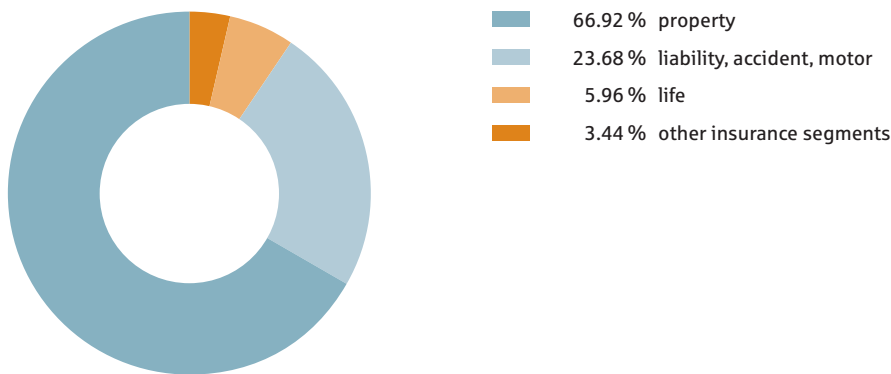
Life reinsurance, a class which is operated exclusively by our parent company, once again posted a rise in premium income. With a premium volume of €60.5 million, life business now accounts for 6.0% of the Group's overall business.

Other classes of business, which make up the smallest share in the portfolio, showed a clear drop, down by €5.6 million to €35.0 million. The main reason for this was the decline in legal protection business.

Across the entire group, ceded premiums fell by €10.2 million to €315.2 million. As a result, premiums written for own account rose by €7.2 million to €700.9 million.

Premium income by class of business for 2008

	gross		net	
	€m	Difference to 2007 %	€m	Difference to 2007 %
property	680.0	+6.2	396.6	+15.6
liability, accident, motor	240.6	-14.4	239.3	-14.5
life	60.5	+6.6	59.8	+6.7
other insurance segments	35.0	-14.0	32.2	-15.3
Total	1,016.1	-0.3	700.9	+1.0

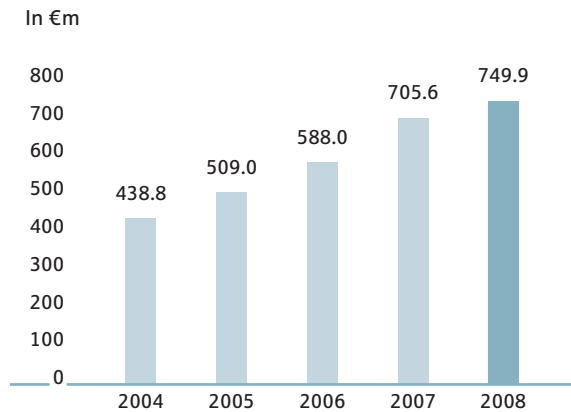
Portfolio structure for 2008**Claims expenditure**

Compared to 2007, which had been affected by the strain of Winter Storm “Kyrill”, the gross loss ratio fell by more than 15 percentage points to 63.5% in the year under review. Although no major natural catastrophes put a strain on the technical account in 2008, there were a large number of medium-sized frequency losses. Designed for natural catastrophes, the retrocession scheme of Deutsche Rück only offers limited relief for such frequency losses. In addition, we further increased the IBNR reserves for new liability, accident and motor insurance business retained for own account. Consequently, net claims expenditure was not as drastically below the figure for 2007 as was gross claims expenditure. The net expense ratio fell by 3.7 percentage points to 63.6% in the 2008 financial year.

In liability, accident and motor insurance business, which is run predominantly by our Swiss subsidiary, a further drop in the claims burden was posted. Net claims expenditure was roughly €21.4 million below the level of 2007, although developments differed within this segment. Whereas there was a very notable reduction in claims in the liability class, net claims expenditure in the motor insurance classes rose once again. Based on lower premium volume in the liability, accident and motor insurance segment, the net loss ratio increased from 69.3% in 2007 to 72.9% in the year under review.

Other insurance segments showed an increase in the claims burden, notably in legal protection insurance. With a net loss ratio of 48.2%, it is nonetheless clearly below the ratio for business in general.

Development of provisions for outstanding claims 2004–2008



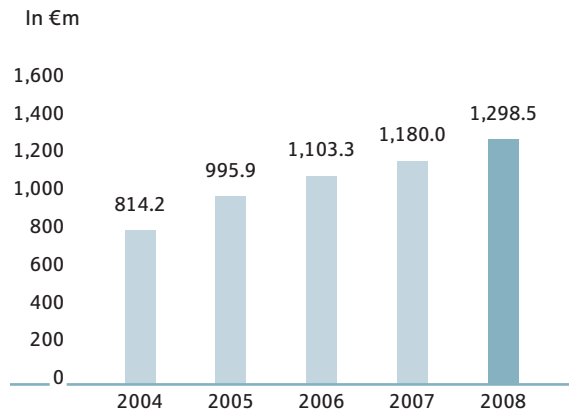
Underwriting result

An increase in the premium volume, lower operating expenses and a slight drop in claims expenditure compared to 2007 led to a profit of €10.4 million (2007: €–26.2 million) in the net technical account before changes to the claims equalisation provision. On balance, €1.6 million was allocated to the claims equalisation provision and similar provisions (2007: €10.4 million was withdrawn). Overall, the technical account showed a profit of €8.7 million compared to 2007, where it reported a loss of €15.9 million.

Non-technical business

The investment portfolio excl. deposits retained increased by €118.5 million (+ 10.0%) to €1,298.5 million in the reporting year. One reason for this was the constant expansion of business activities of our subsidiary DR Swiss. Indeed, the DR Swiss portfolio was up by 12.1% to €618.6 million. In 2007, the investment portfolio of the parent company had to be reduced by 7% due to increased liquidity requirements to cover the major loss resulting from Kyrill. In the year under review, the portfolio once again rose by 8.2% to €679.9 million.

Investment performance 2004–2008



Figures at close of year excl. deposits retained

Owing to the continually growing portfolio of DR Swiss, regular income from investments rose by €7.3 million (+ 15.4%) to €54.8 million in the year under review.

Other investment income fell by €11.5 million to €5.6 million in the reporting year, since high profits had been made from the disposal of investments in 2007. Write-ups amounting to €1.3 million were only slightly below the level of the previous year.

Investment expenditure rose considerably from €11.2 million to €46.5 million. The reason for this increase was a considerable need to make write-downs on investment fund units and bearer bonds as well as other fixed-interest securities as a result of capital market trends. Overall, write-downs on capital investments increased from €4.5 million to €39.6 million.

Administration costs for investments rose by €2.0 million to €5.5 million in the year under review, partly due to an increase in accrued interest. Losses on the disposal of investments fell by €1.7 million to €1.5 million.

After taking into account the technical interest income to be deducted, which in the reporting year was €1.3 million higher than 2007, the investment result was down €40.8 million, from €46.4 million in the previous year to €5.6 million.

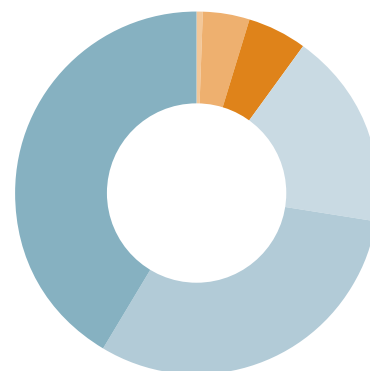
At €-2.6 million, the balance resulting from other income and expenses was again negative in the year under review, as interest for servicing subordinated liabilities is included in the expenses.

Despite this clearly lower pre-tax result, taxes rose slightly by €0.6 million to €9.4 million due to non-recognition of write-downs.

Overall, we reported a net profit for the year of €2.3 million (2007: €15.2 million). This result was reduced by the shares of the external shareholder in the annual net profit of DR Swiss amounting to €0.7 million (2007: €1.9 million) to €1.6 million (2007: €13.3 million).

After taking into account the consolidated loss brought forward of €5.1 million and the share of the external shareholder in the loss brought forward of DR Swiss amounting to €1.6 million, this results in a balance sheet loss for our Group of €1.9 million (2007: €+8.3 million).

Investment structure as at 31 December 2008



41.5 %	fixed-interest securities
31.1 %	registered bonds, notes receivable and loans (including mortgages)
17.6 %	shares, investment fund units and other variable-income securities
5.2 %	deposits with banks
4.3 %	shares in affiliated companies and shareholdings
0.3 %	real estate

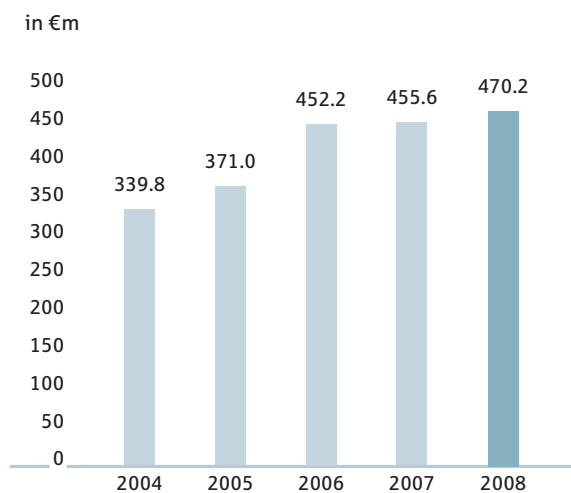
Investment portfolio structure:

	2008		2007	
	€m	%	€m	%
Real estate	4.0	0.3	4.1	0.4
Shares in affiliated companies and shareholdings	55.2	4.3	53.3	4.5
Shares, investment fund units and other variable-income securities	229.2	17.6	203.6	17.3
Fixed-interest securities	539.0	41.5	437.9	37.1
Registered bonds, notes receivable and loans (including mortgages)	403.6	31.1	388.7	32.9
Deposits with banks	67.5	5.2	92.4	7.8
Total	1,298.5	100.0	1,180.0	100.0

Security

Equity carried on the balance sheet was increased during the year under review by means of further allocations to retained earnings. If hybrid capital (subordinated liabilities), the claims equalisation provision and balance sheet profit after appropriation of profit are taken into account, equity increased to €470.2 million in the 2008 financial year. In relation to the net premiums earned, this equates to a ratio of 65.0% (2007: 66.0%), meaning that the Deutsche Rück Group continues to have excellent security, the level of which is more than sufficient even under increased solvency requirements.

Development of equity 2004–2008



Rating: A+

In an interactive rating conducted by the international rating agency Standard & Poor's, Deutsche Rück and DR Swiss again scored "A+, outlook stable". According to the agency, the good rating is due to our very strong capitalisation, our unique competitive position and our strong operating results.

Report on subsequent events

Even after the end of the year under review, capital markets were marked by high volatility. The Group's investment portfolio is subject to permanent analysis and control. As early as 2008, we took appropriate measures to minimise the risks arising from the financial market crisis. At the time of reporting, undisclosed liabilities from investment fund units have been completely eliminated.

In addition, no developments can currently be detected which could have a significant negative impact on the net assets, financial position and results of operations of the Group in the long term.

Risk report

Risk management: strategic parameters

The risk strategy, which is derived from the business strategy, details the risk tolerance which is set out by Board of Executive Directors and checked on an annual basis. The risk strategy defines the parameters for risks which are deemed acceptable in the context of business operations. This is based on the risk-bearing resources of the Group as well as general strategic considerations.

Our Group is taking an active part in the development of the new regulatory requirements as part of Solvency II, and is involved as a reinsurer, for instance, in the corresponding studies for its introduction, namely the Quantitative Impact Studies (QIS). The QIS 4-model is currently used for managing risks at corporate level. In future it is planned to switch over completely to the internal risk model used by Deutsche Rück. In this way, we can ensure that our risk management model is up to date and that we are on a par with our competitors in the market.

Risk management process: an integral component of business operations

Identifying risks and risk management organisation

All risks within the Group are classified according to a so-called “risk map”, which is structured to reflect the divisions of the Board of Executive Directors or management structures. The responsibility is clearly defined for each identified risk. In terms of responsibility, every risk category is assigned to either a divisional board member or the full Board of Executive Directors.

All risks are systematically recorded on an annual basis by the Chief Risk Officer in a centrally managed process. As a result of this stocktaking of risks, all risks which may have a major impact on the net assets, financial or earnings position of the Group in terms of their loss amounts and occurrence probabilities are filtered out. The stocktaking of risks is carried out in risk workshops which consist not only of structured discussions but also open and objective elements for recognising new risks. The risk workshops are conducted by the persons appointed in charge of the risk and, where necessary, other specialists and executives for each and every identified risk or area of risk.

Measuring and evaluating risks

The core task of risk management is to analyse the overall risk situation of the Group on a regular basis taking into account different perspectives of the risk in the risk report. These are:

- balance sheet result (German commercial code – stress test),
- regulatory requirements (solvency, Solvency II) and
- rating aspects based on the S&P rating model.

A risk report is issued on a regular basis concerning the projection of key risk indicators and analyses on the development of the risk situation from different perspectives. In addition to key risk indicators at overall corporate level, major risks of the Group pertaining to underwriting and investments are controlled by means of additional processes. The central elements of the investment risk management process are the monthly meetings held by the Investment Committee and the quarterly meetings held by the investment committee of our subsidiary together with the necessary reporting. Ad-hoc reporting is in place for exceptional developments concerning major or accumulation losses. In addition, major losses, which have been reported, are summarised each month in comparison with the same period of the preceding year.

Investment strategy

The strategic asset allocation is set out and a minimum yield defined as part of an annual process. Controlling is a continual process and controlling activities are communicated during the meetings held by the investment committees of both companies.

Risk reporting and risk transparency

Risk report

Since 2005, the Group has not only reported the overall risk situation to the Board of Executive Directors and Supervisory Board, but also exposures to potential individual risks. The reporting process is geared towards the three meetings held by the Supervisory Board of Deutsche Rück. In its current edition, the report ensures the transparency of the risk situation of Deutsche Rück, DR Swiss and the Deutsche Rück Group on the basis of the aforementioned risk perspectives. In particular, the risk report takes account of the development of the key risk indicators over time as well as the drivers for changes and the effects of risk management measures.

Risk information system

A Risk Information System (RIS) has been developed to support the integrated risk management process and to promote risk transparency and the risk culture in the Group. It documents the risk management organisation as well as the results of the risk workshops. The personnel members responsible for the risk-specific analysis and control methods are saved in the system for each identified individual risk, as are scenarios comprising the probability of occurrence and the impact in gross and net terms. Risks pertaining to the corporate risk capital are specified using risk matrices in order to analyse their potential threat to the limits specified in the risk strategy. Risk analysis and risk control documents relating to individual corporate units are centrally incorporated in the system.

Besides the function of documenting the integrated risk management process, RIS creates transparency within the Group. To encourage an active risk culture, all staff members have access to RIS as an information platform.

Risk control functions as part of the risk management process

The following functions play a major role in the risk controlling process of the Group.

Supervisory Board

The task of the Supervisory Board is to monitor the Board of Executive Directors regarding their management functions, which also include risk management. The Supervisory Board is regularly notified of the development of the risk strategy, which is reviewed on an annual basis.

Board of Executive Directors

The Board of Executive Directors has overall responsibility for risk management as well as for the establishment of an early warning system. It specifies the risk strategy in agreement with the Supervisory Board and monitors the risk profile on an ongoing basis.

Chief Risk Officer/risk control function

The independent risk control function, which is assigned to the Group Controlling and Integrated Risk Management department, bears the responsibility for identifying, evaluating and analysing risks on an aggregate level. This department is in charge of developing processes and methods for assessing and monitoring risks.

Investment committees

Deutsche Rück's Investment Committee (IC) and the subsidiary's investment committee take charge of investment controlling across the divisions. The following functions make up the IC: CEO, Divisional Board Member for Investment, Investment Director, Head of Investments, Head of Investment Controlling, Head of Asset Allocation, Chief Risk Officer (Head of Group Controlling and Integrated Risk Management), Chief Financial Officer (Head of Accounting). The main tasks of the IC are monitoring investment management and controlling market and liquidity risks.

Compliance Officer

The Compliance Office, which is part of the Legal department, is in charge of corporate adherence to the legal parameters for Group business operations and is thus a central element of ongoing risk management. Compliance with the law forms the basis of all the Group's business activities.

Business units

The business units implement the specifications determined in theory by risk management at an operational level, and manage and monitor the risks affecting them as part of their ongoing activities.

Internal Auditing

Internal Auditing is responsible for conducting regular checks in the various business units, verifying the structures and processes, adherence to internal regulations and legal provisions as well as the correctness of work flows. It performs its tasks autonomously, is process-independent and risk-oriented. The Group has outsourced its internal auditing to external auditors whose activities are monitored by the Internal Audit Officer and his deputy.

Major risks

Risks can basically arise in all areas, functions and processes. We structure risks in four different risk categories:

1. Non-life reinsurance risks
2. Life reinsurance risks
3. Investment and credit risks
4. Operational risks
5. Other risks

1. Non-life reinsurance risks

The **premium/claims risk** comprises the risk that costs or benefits due may be higher than was assumed when the premiums were calculated.

The **reserve risk** describes the risk which emerges when the provision for outstanding claims are not adequate, as losses incurred are not yet known or insufficient reserves were set up to cover known losses. Reserves calculations may have made insufficient allowance or no allowance at all for extraordinary events resulting in exceptionally high loss frequencies.

A **retrocession risk** firstly comprises risks where the structure of the purchased retrocession cover is not efficient and the Group has to bear an above-average loss. Secondly, it comprises the risk that the retrocession cover is insufficient and that, in the case of an extreme event – e. g. accumulation losses or terrorist attacks – the portion of claims not covered may threaten the existence of the company.

NatCat/accumulation risks, such as windstorms, flood, earthquake or hail, are the greatest risks for the Group. Risk exposure in this area is therefore actively managed as part of the underwriting and retrocession process. As far as the risk situation of the Group is concerned, the risk of a 200-year storm is applied as a special risk buffer or stress test on the key risk indicators.

Adequate risk management is in place for **terrorism losses**. A threat to the survival of the company as a result of extreme events is virtually ruled out due to the high degree of diversification within the portfolio and the comparatively small risk coverage.

2. Life insurance risks

Biometric risks in life insurance are of major importance. Apart from our own analyses and statistic appraisals, we are guided by the accounting principles of our cedants as well as the probability tables of the German Association of Actuaries (DAV). The review of the mortality tables currently used may lead to the need for additional reserves in the future. We deem that the extent of our reserves is currently appropriate and adequate, and it contains a sufficient safety margin for the future.

The **premium/loss risk** represents the risk that costs or benefits due may be higher than was assumed when the premiums were calculated. Claims payment calculations may have made insufficient allowance or no allowance at all for extraordinary events, such as accumulation losses or terrorist attacks.

The term **reserve risk** refers to risks where the reserves set up may not suffice.

Interest rate guarantee risks and lapse risks only play a subordinate role for the Group as a reinsurance company. The interest rate guarantee risk does not apply as the Group is limited to the death and invalidity risk and is not involved with the cedants' investment risks. The lapse risk is taken sufficiently into account by means of appropriate cancellation clauses contained in the quotation and in the terms of the treaty. This means that the impact on the technical result is limited even in the event of negative deviations from the expected development. As a resinsurer, the Group is only affected to a limited extent by these risks.

The Group applies various tools to control and limit risks, of which the most important ones are summarised below:

Underwriting guidelines and limits

Underwriting guidelines regulate in detail which responsible unit may underwrite which reinsurance treaties and to what amount. The consistent adherence to the double-checking principle is set forth in the underwriting guidelines. In addition, the limits of indemnity are specified and monitored on a regular basis. Ongoing profitability measurements as well as accumulation checks also ensure that the risks remain manageable.

Retrocession

This is a core tool for the restriction of risks. Our Group has adequate retrocession cover, special emphasis being placed on covering major and accumulation losses. As a result of extensive analyses and the retrocession scheme, which is geared towards our individual needs, we ensure that, on the one hand, there is sufficient cover for extreme events and, on the other, that the costs of retrocession are economical.

Monitoring technical provisions

The provisions for uncertain liabilities stemming from obligations assumed are checked on a regular basis using recognised actuarial methods. The run-off is monitored on an ongoing basis.

Loss ratios and run-off results

The results of systematic checks and monitoring of technical risks is recorded in the following table depicting loss ratios and run-off results. It depicts the corresponding ratios for own account for Group non-life business over the past ten years. A comparison of the figures also shows the high exposure of Deutsche Rück to NatCat risks in 1999/2000, 2002 and 2007.

Net loss ratios and run-off results (excl. life)										
Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Loss ratios as a % of earned premiums	72.2	67.5	59.2	69.1	61.7	50.8	54.2	64.7	72.6	68.6
Run-off results as a % of provision for outstanding claims	7.3	3.9	11.5	8.1	9.5	9.8	6.3	5.2	19.0	12.6

3. Investment and credit risks

The following investment and credit risks stem from the investment and retrocession of insurance transactions:

Market price risks: these may be caused from potential loss as a result of adverse changes to market prices, especially on the equity, property and interest markets. In economic terms, changes to the interest rate not only have an impact on the asset side, but also the liabilities side of the balance sheet. With the mismatch in the maturity structures of assets and liabilities, this results in an economic risk which should not be underestimated.

Credit and creditworthiness risks may cause the value of existing receivables to fall due to changes in the assessment of issuers' or contractual partners' creditworthiness. Besides credit risks resulting from the purchase investments, credit risks from retrocession play a major role for the Group.

Liquidity risks may stem from inflows or outflows of liquidity occurring at the wrong times and may require unscheduled disposals of investments. Depending on whether the various investments are tradable, this may lead to variably high opportunity costs due to reductions in the price or losses.

Currency risks: when exchange rates change, losses may ensue from incongruencies between investments and technical obligations with respect to currencies. Significant risks exist even with a congruent investment strategy as a result of incorrect estimations of the level of claims reserves.

Our investment management complies with the principles of adequate profitability in conjunction with a high degree of security. Apart from the necessary spreading of risks, a sufficient liquidity of the investment must be maintained at all times. These principles are monitored by continually updated reporting and regular appraisal of the portfolios. Our portfolio managers work in accordance with investment guidelines which are regularly checked and adjusted according to the changing environment. Furthermore, investment and payment transaction functions are carried out in separate organisational units.

The following tools and control mechanisms are used to control and monitor investment and credit risks:

Stress tests for assessing market risks

Stress tests are carried out to measure market price risks on annuity portfolios and equities by simulating the effects of unexpected fluctuations in the market. Besides the stress tests prescribed by the regulatory authority, Deutsche Rück analyses historical events and maps their development on its current investment portfolio.

As at 31.12.2008**Changes in index and market values**

Index change	Change in the market value of share price-sensitive investments in €m
Rise by 20%	11,0
Rise by 10%	5,1
Fall by 10%	-4,3
Fall by 20%	-10,5

As at 31.12.2008**Changes in the interest rate and market values**

Interest rate change	Change in the market value of interest rate-sensitive investments in €m*
Rise by 200 bp	-85,6
Rise by 100 bp	-48,5
Fall by 100 bp	50,2
Fall by 200 bp	92,0

* incl. bonds from funds

Limitation of rating for the containment of credit risks

As regards fixed interest-bearing investments, a credit assessment of the issuer/issue is undertaken using, for example, the ratings of recognised rating agencies. In either case, the lower limit of a rating for reinvestments in a direct investment is “BBB”.

If no official rating is available, an alternative criteria for assessing fixed-interest bearing investments is membership in protection schemes in the banking industry, such as the deposit insurance fund or hedging an issue via a special fund – for instance, mortgage bonds.

In addition, there is a wide spread of issuer risks. At the same time, upper limits are observed for each issuer and are continually monitored and adjusted, taking the respective capital base into account.

Choice of reinsurer (retrocessionaire)

Credit risks from retrocession stem from receivables due to reinsurers and cedants. We minimise these risks by selecting reinsurers on the basis of their current ratings as well as other prerequisites. We mainly confine our choice to companies which are leaders in the market.

Liquidity planning

Risks as a result of unforeseen liquidity requirements are countered with a well-balanced maturity structure of investments. The expected inflows and outflows of liquidity are reflected in ongoing investment planning.

Investment policy

Falling interest rates lead to increases in the market value of fixed-interest securities, while rising rates result in losses in market value. Due to the large proportion of fixed-interest securities in its portfolio, the Group is basically exposed to this risk. Controlling investments in line with their maturities enables us to retain the securities until maturity, thereby avoiding losses on the balance sheet.

Foreign currency items on the liabilities side are matched with items in the same currency on the assets side of the balance sheet. Only a minimum risk exists due to the small amount of liabilities in foreign currencies.

4. Operational risks

Operational risks are risks occurring in business systems or processes which result from human error, technical failures or external factors. Compliance risks are risks which stem from non-compliance with contractual agreements or regulatory requirements as required by law. In the Group, a distinction is made between the following operational risks:

- Business interruption risks
- Human resources risks
- Compliance risks
- Organisational and process risks

These risks are managed and controlled by means of a variety of measures. Accordingly, the Group has an internal control system along with a reporting procedure for operational risks which forms part of the overall risk report. The internal auditing unit supplements the internal risk analyses of the organisation and processes by means of independent investigations.

Based on these results, measures are derived to reduce and/or handle operational risks:

IT security concepts and emergency plans

Data processing security ensures that an extensive security concept is in place. Modern hardware and software back up the availability and integrity of all systems and programs. Regular checks on network security, permanent ongoing developments of the security concept and emergency plans make sure that the systems used are continually available and that data is secure.

Cartel law-compliance guideline

The Group has issued a cartel law-compliance guideline which defines the conduct of employees with respect to cartel law issues and stipulates the procedure to be adopted in unclear or difficult cases. The Group's executive staff members have been trained accordingly.

Power of attorney directive

The respective powers of attorney for all employees are set out and communicated individually by the head of department or section together with the divisional board member responsible. Adherence to the powers of attorney in question is monitored by the Business Organisation department.

Operational risks pertaining to underwriting and investments are managed and restricted in detail by means of various rules of procedure. These stipulate both the employees' individual powers of attorney as well as the tools used and their limitations.

5. Other risks

Strategic risks

Strategic risks may occur as a result of inadequate business policy decisions and could endanger the long-term survival of the Group's business operations. Fundamental business policy decisions are taken in consultation with the Supervisory Board as set out in the Articles of Association. Furthermore, major strategic issues are discussed on a regular basis with the second-tier executives, thereby interlinking the strategic decision-making processes closely with risk management.

Reputation risk

This term is used to describe a risk where the company's image is impaired in the eyes of clients, the public, shareholders or other parties involved, such as regulatory bodies or rating agencies.

In order to manage the reputation risk, all contacts to the media are controlled centrally via the Communications and Press Relations department, which acts in close coordination with the CEO. Meetings across all divisions take place regularly in order to prepare topics of relevance to communication within the company and to make them transparent. Moreover, we keep a close eye on media reports on a daily basis to ensure that we can identify reports which could be damaging to the company's reputation and initiate countermeasures.

Summary of the risk situation

The aforementioned explanations describe a closely interlinked system of control measures which the company has developed in order to manage its risks. Potentially, these can have a major impact on the net assets, financial position and results of operations. Nevertheless, when taking an overall view, the opportunities which a business operation presents should always be weighed in the balance against the risks.

The current crisis on the financial markets has had quite a considerable negative impact on the annual result for 2008, especially in terms of the investment situation. With long-term hedging, the risks associated with further losses in the financial year and beyond have been reduced to a minimum.

Our risk management system ensures an efficient and effective control of the Group's risks. Based on current findings, we cannot identify any risks which may endanger the survival of the Group or cause a major and permanent adverse effect on its net assets, financial position and results of operations.

Outlook for 2009

Opportunities and risks – forecast

We intend to continue on the path taken by the Deutsche Rück Group three years ago, providing reinsurance cover for prospective insurance clients beyond the public-law domain and organically developing our market activities in other continental European countries. Together with our Swiss subsidiary, we will also expand our natural hazards business beyond European borders in order to increase profits as well as to achieve the desired diversification effects. Our philosophy still focuses on maintaining long-term reinsurance relationships with clients whom we meet on an equal footing, and on contributing our underwriting know-how and our reliability to these relationships.

The renewals as at 1 January 2009 were concluded very successfully. For the current financial year, we expect a further increase in premium volume. In the following years we will continue to increase premium income steadily by extending our market activities.

On the claims side, we expect a slight fall in the net loss ratio in non-life business, provided that no major claims put a strain on our lines of business which are exposed to natural hazards. However, expansion of business in the life class will have a slightly negative impact on our annual results.

The theoretical default rates established on the basis of the market values of the fixed-interest securities comprised in investment fund units are significantly higher than the ones actually seen in past recessions. By reversing the write-downs of regularly amortising securities and through the planned retention of ordinary income, the remaining burdens of approximately 4.4% of the carrying value of investment fund units can be offset, even in the face of historically high defaults.

Owing to the incipient slight normalisation of the valuation rates since the beginning of the year, it was possible to eliminate the strain resulting from these securities completely by the time the balance sheet was prepared, despite the fact that share prices were slightly weaker compared to the last trading day. Equity risks have been hedged long-term. Consequently, in 2009, we do not expect write-offs on a comparable scale to those made in 2008. Due to retention and decreased reinvestment returns, regular income is lower. Overall, however, we expect our investment result to be well above that of last year.

As 2008 only provided limited possibilities for further strengthening our solid foundations, reinforcing our security will have very high priority again over the next few years, ensuring that it fully meets the requirements of future solvency regulations and the equity requirements of international rating agencies.

In the light of the uncertainty surrounding the development of the global economy, it must be emphasised, however, that these assumptions are very subjective and tentative.

Düsseldorf, 29 May 2009

Board of Executive Directors

Dr Junke Dr Reindl Dr Hertel Rohde



Dr Achim Hertel

Dr Walter Reindl
(Deputy CEO)

Dr Arno Junke
(CEO)

Michael Rohde

Consolidated Financial Statements

Balance Sheet as at 31 December 2008

Assets				
in €	2008		2007	
A. Intangible assets				
Other intangible assets		489,648		365,828
B. Investments				
I. Land, land rights and buildings, including buildings on third-party land	3,997,905		4,092,230	
II. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	3,494,578		3,494,578	
2. Participating interests	16,361,537		13,508,169	
3. Shareholdings in associated companies	35,371,899		36,337,004	
	55,228,014		53,339,751	
III. Other investments				
1. Shares, investment fund certificates and other non-fixed-interest securities	229,205,544		203,579,094	
2. Bearer bonds and other fixed-interest securities	538,977,401		437,844,926	
3. Receivables from mortgages, land charge and annuity land charge claims	111,140		115,020	
4. Other loans				
a) Registered bonds	143,704,166		152,463,237	
b) Loans and promissory notes	243,193,635		229,581,946	
c) Other loans	6,556,459		6,556,459	
	393,454,260		388,601,642	
5. Deposits with banks	67,488,673		92,422,938	
6. Other investments	10,000,000		0	
	1,239,237,018		1,122,563,620	
IV. Deposits retained on assumed reinsurance	268,353,351	1,566,816,288	220,758,057	1,400,753,658
Thereof to: affiliated companies €0 (2007: €0) participating interests €0 (2007: €191,322)				
C. Receivables				
I. Accounts receivable on reinsurance business	54,786,611		97,964,062	
Thereof to: participating interests €6,052,323 (2007: €9,611,071)				
II. Other receivables	22,141,782	76,928,393	13,502,438	111,466,500
thereof to: affiliated companies €63,741 (2007: €0) participating interests €0 (2007: €216,621)				
D. Other assets				
I. Tangible assets and inventories	1,366,638		988,559	
II. Cash at banks, cheques and cash in hand	41,748,777	43,115,415	6,929,886	7,918,445
E. Deferred items				
I. Accrued interest and rent	18,308,545		14,803,553	
II. Other deferred items	554,145	18,862,690	914,300	15,717,853
Total assets		1,706,212,434		1,536,222,284

Equity and liabilities				
in €	2008		2007	
A. Shareholders' equity				
I. Issued capital	25,000,000		25,000,000	
II. Capital reserve	23,817,613		23,817,613	
III. Retained earnings				
1. Legal reserve	2,614,878		1,591,580	
2. Other retained earnings	101,236,090		85,045,463	
	103,850,968		86,637,043	
IV. Consolidated balance sheet profit/loss	-1,879,157		8,277,353	
V. Minority interests	28,584,971	179,374,395	23,055,421	166,787,430
B. Subordinated liabilities		85,000,000		85,000,000
C. Technical provisions				
I. Unearned premiums			79,833,714	
1. Gross amount	54,083,248			
2. less: share for retroceded business	19,731,719		23,686,953	
	34,351,529		56,146,761	
II. Provision for future policy benefits				
1. Gross amount	258,985,449		211,724,151	
2. less: share for retroceded business	0		0	
	258,985,449		211,724,151	
III. Provision for outstanding claims				
1. Gross amount	905,284,595		862,741,610	
2. less: share for retroceded business	155,364,545		157,154,335	
	749,920,050		705,587,275	
IV. Provision for premium refunds				
1. Gross amount	1,949,116		1,949,160	
2. less: share for retroceded business	729,490		677,561	
	1,219,626		1,271,599	
V. Claims equalisation provision and similar provisions	208,808,924		206,812,525	
VI. Other technical provisions				
1. Gross amount	37,657,594		21,703,354	
2. less: share for retroceded business	1,172,222		1,316,021	
	36,485,372	1,289,770,950	20,387,333	1,201,929,644
D. Other accrued liabilities				
I. Provision for employees' pensions and similar commitments	11,150,653		10,324,058	
II. Tax provisions	4,108,762		5,003,625	
III. Other provisions	2,584,131	17,843,546	2,454,877	17,782,560
E. Deposits retained on retroceded business		0		0
F. Other liabilities				
I. Accounts payable on reinsurance business	132,425,926		62,900,807	
Thereof accounts due to affiliated companies: €0 (2007: €0)				
Thereof accounts due to companies in which a participating interest is held: €36,126,453 (2007: €30,083,015)				
II. Other liabilities	1,572,544	133,998,470	1,224,468	64,125,275
Thereof accounts due to affiliated companies: €0 (2007: €0)				
Thereof accounts due to companies in which a participating interest is held: €70,773 (2007: €20,814)				
Thereof from taxes: €48,084 (2007: €23,481)				
G. Deferred items		225,073		597,375
Total equity and liabilities		1,706,212,434		1,536,222,284

Income statement
for the period from 1 January 2008 to 31 December 2008

Items				
in €	2008		2007	
I. Technical account				
1. Premiums earned for own account				
a) Gross premiums written	1,016,090,708		1,019,066,458	
b) Retroceded premiums	315,167,923		325,380,433	
	700,922,785		693,686,025	
c) Change in gross unearned premiums	26,039,662		-7,334,999	
d) Change in retroceded share of unearned premiums	3,955,234		-3,616,114	
2. Interest on technical provisions for own account	22,084,428	723,007,213	-3,718,885	689,967,140
		8,258,746		6,937,731
3. Other underwriting income for own account		50,711		618,895
4. Claims incurred for own account				
a) Payments for insured events				
aa) Gross amount	618,801,599		655,772,353	
ab) Retroceded amount	203,614,578		310,238,645	
	415,187,021		345,533,708	
b) Change in provision for outstanding claims				
ba) Gross amount	42,600,731		139,205,666	
bb) Retroceded amount	-1,789,790		20,207,078	
	44,390,521	459,577,542	118,998,588	464,532,296
5. Change in other technical provisions for own account				
a) Net provisions for future policy benefits	-47,261,298		-46,135,521	
b) Other net technical provisions	-16,359,800	-63,621,098	-2,673,160	-48,808,681
6. Expenses for premium refunds for own account		221,328		931,382
7. Operating expenses for own account				
a) Gross operating expenses	281,026,823		285,577,569	
b) less: commissions and profit commissions received on retroceded business	97,019,559	184,007,264	87,816,308	197,761,261
8. Other underwriting expenses for own account		13,510,837		11,718,132
9. Subtotal		10,378,601		-26,227,986
10. Change in claims equalisation provision and similar provisions		-1,633,625		10,358,953
11. Underwriting result for own account		8,744,976		-15,869,033

Items				
in €	2008		2007	
Amount brought forward				
(Technical result for own account)		8,744,976		-15,869,033
II. Non-technical account				
1. Investment income				
a) Dividends from participating interests	1,798,857		600,206	
b) Income from associated companies	1,034,895		817,811	
c) Income from other investments Thereof from affiliated companies: €0 (2007: €0)				
ca) Rents from land and buildings, including buildings on third-party land	622,063		641,997	
cb) Income from other investments	51,347,372		45,440,653	
	51,969,435		46,082,650	
d) Income from write-ups	1,252,752		1,382,195	
e) Realised gains on the disposal of investments	4,320,649	60,376,588	15,656,054	64,538,916
2. Investment expenses				
a) Management expenses, interest charges and other expenses on investments	5,475,870		3,504,513	
b) Write-downs on investments	39,609,552		4,542,697	
c) Realised losses on the disposal of investments	1,462,533	46,547,955	3,125,395	11,172,605
3. Interest income on technical provisions		8,258,746		6,937,731
		5,569,887		46,428,580
4. Other income	4,160,787		1,171,443	
5. Other expenses	6,773,577	-2,612,790	7,781,371	-6,609,928
6. Operating result before tax		11,702,073		23,949,619
7. Tax on income	9,190,761		8,593,422	
8. Other taxes	225,186	9,415,947	184,835	8,778,257
9. Profit/loss for the year		2,286,126		15,171,362
10. Minority interests in profit/loss for the year		-647,345		-1,918,897
11. Consolidated loss brought forward from previous year		-5,091,240		-7,068,881
12. Minority interests in the loss brought forward from previous year		1,573,302		2,093,769
13. Allocation to retained earnings				
a) to other retained earnings		0		0
14. Consolidated balance sheet profit/loss		-1,879,157		8,277,353

Statement of changes in shareholders' equity as at 31 December 2008

Compared to the previous year, group equity rose by €12.6 million to €179.4 million. After taking into account the dividend payment of €4.0 million and the capital increase of €3.4 million implemented in 2008, this rise resulted from the positive effect from currency translation in the course of the capital consolidation of the foreign subsidiary to the tune of €10.9 million and the Group's annual result of €2.3 million.

Consolidated statement of changes in shareholders' equity as at 31 December 2008

in €'000	Equity attributable to Deutsche Rück equityholders		
	Issued capital	Uncalled, unpaid contributions to subscribed capital	Capital reserve
As at 31 December 2006	25,000	0	23,818
Dividends paid	0	0	0
Allocation to issued capital			
- Capital increase	0	0	0
- Call on unpaid contributions to subscribed capital	0	0	0
Allocation to capital reserves			
- Capital increase	0	0	0
Allocation to retained earnings			
- from the DR Swiss result			
legal reserve	0	0	0
free reserve	0	0	0
- from the result of Deutsche Rück AG for 2006	0	0	0
Currency translation	0	0	0
Consolidated net profit for the year	0	0	0
Allocation to retained earnings			
- from the 2007 result	0	0	0
As at 31 December 2007	25,000	0	23,818
Dividends paid	0	0	0
Allocation to issued capital	0	0	0
Allocation to retained earnings			
- from the DR Swiss result			
legal reserve	0	0	0
free reserve	0	0	0
- from the result of Deutsche Rück AG for 2007	0	0	0
Currency translation	0	0	0
Consolidated net profit for the year	0	0	0
As at 31 December 2008	25,000	0	23,818

			Minority interests	Total equity
Retained earnings	Reserve from currency translation	Consolidated result		
84,661	-1,893	3,380	17,919	152,885
0	0	-3,000	-756	-3,756
0	0	0	4,530	4,530
0	0	0	0	0
0	0	0	0	0
1,237	0	-1,649	412	0
136	0	-181	45	0
4,100	0	-4,100	0	0
0	-1,604	575	-1,014	-2,043
0	0	13,252	1,919	15,171
0	0	0	0	0
90,134	-3,497	8,277	23,055	166,787
0	0	-3,000	-1,000	-4,000
0	0	0	3,362	3,362
857	0	-1,143	286	0
0	0	0	0	0
7,600	0	-7,600	0	0
0	8,756	-51	2,234	10,939
0	0	1,638	648	2,286
98,591	5,259	-1,879	28,585	179,374

Cash flow statement for the 2008 financial year

Group cash flow reporting is based on the principles of the German Accounting Standards No. 2 (DRS 2) of the German Accounting Standards Committee (DSR) on the preparation of capital flow statements. It has been supplemented by the requirements of DRS 2-20, which specifically applies to insurance companies. In accordance with the recommendations of the German Accounting Standards Committee, we used the indirect presentation method.

During the financial year, the cash fund (cash and cash equivalents) increased from €6.9 million to €41.7 million at the end of the financial year. Among other things, this increase is attributable to the fact that the payments received and gains on the disposal of investments had not as yet been reinvested at the end of the financial year.

The cash flows from operating activities increased almost fivefold. This can be attributed in part to the changes to technical provisions and the run-off of accounts receivable and liabilities. This development is also influenced by other income/expenses without impact on the cash flow which, among other things, is affected by high write-downs on investments.

The increase in cash flows from investing activities from €87.7 million to €151.3 million reflects the Group's enlarged investment portfolio.

The cash flows from financing activities were down from €14.6 million to €8.4 million, as the capital increase was less in 2008 than it had been in 2007.

Cash flow statement for the 2008 financial year

in €1,000	2008	2007
Consolidated result	2,286	15,171
Net change in technical provisions	40,545	169,369
Change in deposits retained and accounts receivable and payable	60,791	-112,522
Change in other receivables and liabilities	-6,536	-7,300
Gains/losses on the disposal of investments	-2,751	-12,618
Change in other balance sheet items	-7,031	-8,167
Other income/expenses without impact on cash flow	-85,565	-6,591
I. Cash flows from operating activities	172,869	37,342
Inflows from the sale of consolidated companies and other business units	1,754	4,011
Outflows from the acquisition of consolidated companies and other business units	-12,821	-16,928
Inflows from the sale and maturities of other investments	214,168	412,396
Outflows resulting from the acquisition of other investments	-353,372	-486,794
Other inflows	15	159
Other outflows	-1,084	-558
II. Cash flows from investing activities	-151,340	-87,714
Inflows from increases in capital/hybrid capital	12,729	18,389
Dividend payments	-4,371	-3,752
III. Cash flows from financing activities	8,358	14,637
Changes in cash and cash equivalents (I + II + III)	29,887	-35,735
Effect of exchange rate changes on cash and cash equivalents	4,932	473
Cash and cash equivalents at the beginning of the financial year	6,930	42,192
Cash and cash equivalents at the end of the financial year	41,749	6,930
Additional information		
Income tax paid (net)	11,027	21,704
Interest paid	4,430	4,607

Summary of companies included in the consolidated financial statements:

Company name and registered head office	Share in equity (%)	
Subsidiaries		
Deutsche Rückversicherung Schweiz AG, Zurich	75	fully consolidated
Deutsche Rückversicherung UK Reinsurance Company Ltd., London	100	Section 296 (2)
Associated companies		
Hansapark Verwaltungs GmbH, Düsseldorf	50	Section 311 (2)
Hansapark Verwaltungs GmbH & Co. KG, Düsseldorf	50	at equity
OEV Equity Trust GmbH, Düsseldorf	50	Section 311 (2)

The annual financial statement of the subsidiaries included in the scope of consolidation was converted into a financial statement which complies with German accounting regulations.

The first-time capital consolidation of DR Swiss was carried out according to the book value method. In this process, the acquisition cost of the shareholding was set off against the amount of the subsidiary's equity attributable to these shares. The liabilities-side balancing item resulting from the deviation of the exchange rate at the time the subsidiary was set up from the exchange rate on the balance sheet date was included in retained earnings.

Apart from Deutsche Rück, VHV Beteiligungs-Aktiengesellschaft, Hanover, has a 25% stake in DR Swiss. The shares held by this other shareholder are shown separately under equity capital in accordance with Section 307 (1) of the German commercial code. The other shareholder participates in the net profit for the year and loss carry-forward of DR Swiss in proportion to its stake in the company.

A consolidation of debts was not required, since no internal liabilities existed in the Group in the 2008 financial year. The dividend paid out by DR Swiss to the parent company amounting to €3,000k (2007: €2,268k) was eliminated in the consolidated financial statements with impact on the income statement.

Recognition and measurement

Other intangible assets were recognised at acquisition costs and depreciated on a straight-line basis in accordance with their expected useful life.

The valuations used for land and buildings are shown at cost less depreciation.

Shares in affiliated companies and participating interests were generally carried at acquisition cost plus incidental acquisition expenses and, in one case, at net asset value.

A portion of the shares, units in investment funds and bearer bonds of the subsidiary were carried at acquisition cost. In accordance with Section 341 b (2) of the German commercial code, the provisions governing assets were applied. Shares held in the investment fund were written off entirely at the lowest stock market price on the balance sheet date. As regards bonds, write-downs were only made in the case of impairments. This resulted in undisclosed liabilities on bonds at the balance sheet date amounting to €11.7 million.

The remaining investment fund units and other variable-income securities as well as bearer bonds and other fixed-interest securities were carried at acquisition cost less depreciation and amortisation in accordance with the strict lowest value principle.

The requirement to reverse write-downs where the reasons for them no longer exist in line with Section 280 of the German commercial code was complied with.

As regards receivables from mortgages and land charge claims, these are invariably loans to employees secured through land charges which are measured in the balance sheet at face value less any repayments made.

Registered bonds, notes receivable and loans as well as other loans are generally measured at face value and/or repayment amounts. Redemption premiums and discounts were spread across the term in proportion to the capital.

There was a change in the accounting of two securities that can no longer be serviced by the Lehman Brothers banks. One registered security and one borrowers' note loan, each in the amount of €5 million, changed from item B. III. 4a) and 4b) to item B. III. 6. Other investments. The securities were paid back via the deposit insurance fund in February 2009.

Deposits with banks, cash at banks, cheques and cash in hand were carried at their nominal amounts.

Deposits retained, accounts receivable and other receivables as well as deferred interest and rents are carried at their nominal value less write-downs.

Remaining corporate tax credit was discounted at a rate of 4.0%.

Property, plant, equipment and inventories were measured at cost and amortised in accordance with their normal useful lives. Minor-value assets worth under €150 were written off in full in the year of purchase. For movable assets held as fixed assets with a value of between €150 and €1,000, compound items have been created separately for the relevant years in which they were purchased. The compound items are depreciated on a straight-line basis over five years.

Unearned premiums were set up almost exclusively in accordance with the instructions of the cedants and only in a few cases in compliance with the generally applicable regulations.

Provisions for outstanding claims were generally set up based on the instructions of primary insurers; where applicable, based on our experience appropriate increases in loss provisions are included.

As regards marine and aviation insurance, the expected requirement was estimated if insufficient information was provided by the cedants.

Provisions for future policy benefits, provisions for premium refunds and other technical provisions were calculated on the basis of the instructions from primary insurers and/or existing treaties.

The retrocessionaires' share in unearned premiums and in provisions for outstanding claims, provisions for premium refunds and other technical provisions was determined in accordance with the reinsurance treaties.

The claims equalisation provision and similar provisions were set up in accordance with Section 341 h of the German commercial code, taking into account the permissible maximum amounts in accordance with Section 29 ff. of the German Insurance Control Act. A provision for accumulation losses was set up for natural hazards.

Development of assets items A, B. I. to II. in the 2008 financial year

€'000	Carrying amounts (2007)	Additions	Disposals	Write-ups	Write-downs	Carrying amount for financial year
Asset items						
A. Intangible assets						
1. Other intangible assets	366	283	0	0	159	490
Sum A.	366	283	0	0	159	490
B. Investments						
I. Land, land rights and buildings, including buildings on third-party land	4,092	0	0	0	94	3,998
II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies	3,495	0	0	0	0	3,495
2. Participating interests	13,508	3,593	740	0	0	16,362
3. Shareholdings in associated companies	36,337	0	965	0	0	35,372
Sum B. II.	53,340	3,593	1,705	0	0	55,229
Sum B.	57,432	3,593	1,705	0	94	59,227
Total	57,798	3,876	1,705	0	253	59,717

The set-up of provisions for employer-financed pensions and similar obligations complied with IAS 19. In accordance with IAS 19, pension provisions are calculated as the present value of all benefits defined pro rata temporis as at the balance sheet date. The policy reserve for direct insurance contracts which finances part of the benefit obligations, was taken into account as existing plan assets. The accounting principles applied were the Heubeck mortality tables 2005 G by Dr Klaus Heubeck, applying an actuarial interest rate of 4.5%. Future salary adjustments are taken into account at 2.0% per annum and future adjustments at 1.5% per annum. Employee-financed pension obligations were measured in accordance with the entry age normal method in accordance with Section 6 a of the German Income Tax Act (EStG). This was done on the basis of the mortality tables 2005 G by Dr Klaus Heubeck and applying a technical interest rate of 4.5%.

Other provisions are recognised on the basis of anticipated requirements.

Deposits retained and accounts payable on retroceded business as well as other liabilities were recognised at their redemption amounts, whereas the present value was recognised for pension obligations. Deferred items are measured at face value.

With the exception of shares in affiliated companies, foreign currency assets and liabilities items were converted into euros using mean rates at the balance sheet date. The same principle was applied to related income and expense items.

Notes to the consolidated balance sheet

Notes in accordance with Section 54 of the German Accounting Regulations for Insurance Companies (RechVersV)

Real estate was measured using the current fair market value surveys from 2004 and 2005.

The fair value of shares in affiliated companies (Deutsche Rückversicherung UK Reinsurance Company Ltd., London) corresponds to the net asset value translated according to the exchange rate on the balance sheet date. As regards shareholdings in associated companies, the fair values correspond to the historic acquisition costs and a fair market value survey (May 2005). The fair values of all other shareholdings are determined on the basis of the

discounted earnings method, the historic acquisition costs and – in one case – the partial value calculated for tax purposes. For the assessment, the new corporate evaluation standard IDW S1 was applied in conjunction with IDW RS HFA 10.

Other investments (shares and investment fund units as well as fixed-interest securities) have been recognised according to Section 56 of the German Accounting Regulations for Insurance Companies (RechVersV).

Stock market prices or redemption rates on the balance sheet date have been taken as the fair value.

The fair values of other loans are measured using yield curves.

Fair values of investments as at 31.12.2008

in €	Carrying amounts	Fair values	Valuation reserves
I. Land, land rights and buildings, including buildings on third-party land	3,997,905	7,490,000	3,492,095
II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	3,494,578	3,898,382	403,805
2. Participating interests	16,361,537	18,361,565	2,000,028
3. Shareholdings in associated companies	35,371,899	38,991,842	3,619,943
	55,228,014	61,251,789	6,023,776
III. Other investments			
1. Shares, investment fund certificates and other non-fixed-interest securities	229,205,544	219,529,980	-9,675,564
2. Bearer bonds and other fixed-interest securities	538,977,401	545,483,603	6,506,202
3. Receivables from mortgages	111,140	111,140	0
4. Other loans			
a) Registered bonds	143,704,165	148,463,676	4,759,511
b) Loans and promissory notes	243,193,635	245,171,984	1,978,349
c) Other loans	6,556,459	5,858,399	-698,060
5. Deposits with banks	67,488,673	67,488,673	0
6. Other investments	10,000,000	10,000,000	0
Sum III.	1,239,237,017	1,242,107,455	2,870,437
Total	1,298,462,936	1,310,849,244	12,386,308

Shareholdings

Shareholdings in all other companies are less than 20%, with further contribution obligations amounting to €9,074k.

Shares, investment fund units and other variable-income securities**Bearer bonds and other fixed-interest securities**

The situation on the capital market necessitated considerable write-downs in the year under review, amounting to €39,515k overall. Of this total, shares accounted for €910k, investment fund units for €33,925k and bearer bonds for €4,680k.

Write-ups amounting to €1,253k had to be carried out in the reporting year due to the requirement to reinstate original values.

Shares worth €1,451k, investment fund units totalling €186,516k and bearer bonds worth €530,627k were allocated to fixed assets.

Deferred items

Deferred expenses include redemption premium amounts from investments amounting to €274k (€812k).

Shareholders' equity

Shareholders' equity comprises issued capital and the capital reserve of Deutsche Rückversicherung AG as well as earnings retained by the Group.

The issued capital of the parent company totals €25,000k and is divided into 488,958 no-par-value shares.

The capital reserve remains the same at €23,818k.

The parent company allocated €7,600k from the previous year's profits to retained earnings.

In the year under review, the subsidiary DR Swiss increased its legal reserves from last year's profit to CHF 4,931k (€3,316k), up by CHF 1,700k (€1,143k). The free reserve remained unchanged at CHF 600k (€403k). In accordance with the 75% share of the parent company, retained earnings from the subsidiary increased to €2,790k. The 25% stake owned by VHV worth €930k is included in the minority interests.

After taking account of the balancing item of €5,073k (2007: €–3,486k) resulting from currency translation, earnings retained total €103,851k (2007: €86,637k).

The Group reported a net profit for the year of €2,286k (2007: €15,171k). After setting off the consolidated loss carry-forward amounting to €–5,091k (2007: €–7,069k) taking into account the minority interests of €1,573k (2007: €2,094k), the resultant consolidated balance sheet loss comes to €–1,879k (2007: €8,277k).

Subordinated liabilities

These are registered bonds subordinated in priority and without final maturity amounting to €85,000k.

Other liabilities

Liabilities with a term to maturity of more than five years amount to €205k (2007: €211k).

Deferred items

These items include discounts from investments in the amount of €219k (2007: €251k).

Contingent liabilities and commitments

As a member of the pharmaceutical reinsurance community we are required to take over the benefit obligation of any other member of the pool if one of them drops out. Our obligation applies in relation to our quota share. Similar obligations exist as a result of our membership in the German Nuclear Reactor Insurance Pool (DKVG). Due to our membership in the German Association of Public-Law Insurers, we are liable for the Association's liabilities up to €180k.

Gross premiums written		
€'000	2008	2007
Property and casualty business	955,543	962,286
Life insurance business	60,548	56,780
Total	1,016,091	1,019,066

Commissions and other remuneration for insurance agents, personnel expenses		
€'000	2008	2007
1. Wages and salaries	8,207	7,225
2. Social security contributions and employee assistance	1,310	1,201
3. Expenses for employees' pensions	895	394
Total	10,412	8,820

Other financial commitments

The Deutsche Rückversicherung has taken part in the rescue package for Hypo Real Estate bank by taking over a back-to-back guarantee amounting to €1.72 million.

There are three put options connected with capital investments, each worth €5 million with so-called multi-tranches. There are no other contingent liabilities, including pledgings and assignments as security as well as liabilities, as a result of issuing bills of exchange and cheques, which are not clearly recognisable from the financial statements.

Notes to the consolidated income statement**Technical interest income on own account**

The technical interest income comprises the 3.5% interest allocated to the annuity provision and the deposit interest on the deposit for provisions for future policy benefits.

Claims expenditure for own account

The run-off of the provision for outstanding claims assumed from the previous year generated a gross profit of 11.5% of gross earned premiums and a net profit of 12.2% of net earned premiums.

Other items

The consolidated companies had an average workforce of 100 full-time employees in the year under review.

In the year under review, total remuneration of the Board of Executive Directors of the parent company amounted to €639k, the Supervisory Board earned €38k and the Advisory Board €31k.

Total remuneration for former members of the Board of Executive Directors or their surviving dependents came to €215k. Provisions set up for this total €3,783k.

Düsseldorf, 29 May 2009

Deutsche Rückversicherung Aktiengesellschaft

Board of Executive Directors

Dr Junke Dr Reindl Dr Hertel Rohde

consolidated financial statements and the Group management report are examined primarily on a spot check basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with legal provisions and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements.

The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne, 15 June 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

(previously known as
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Disclaimer

This edition of our Annual Report is prepared for the convenience of our English-speaking readers. It is based on the German original, which is the authentic version and takes precedence in all legal aspects.

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