2017 Annual Report
General Reinsurance AG

A Berkshire Hathaway Company

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Key Figures

		2017	2016	2015	2014	2013
Balance sheet data						
Investments	Euro m	11,503.4	11,231.0	11,937.1	10,614.1	9,963.0
thereof: deposits	Euro m	1,662.4	1,629.2	2,255.4	2,336.8	2,364.8
Cash and cash equivalents	Euro m	217.3	237.7	207.6	198.3	385.9
Investments incl. cash and cash equivalents	Euro m	11,720.7	11,468.7	12,144.7	10,812.4	10,348.9
Shareholders' equity	Euro m	2,624.8	2,396.5	2,407.3	2,077.4	1,910.1
Return on equity	%	11.6	5.8	14.7	8.4	9.8
Net underwriting reserves	Euro m	9,318.2	9,320.4	10,079.4	8,905.3	8,451.5
Total assets	Euro m	12,778.4	12,430.9	13,220.1	11,654.8	11,045.3
Income statement						
Gross premiums written	Euro m	2,702.6	2,517.4	2,667.3	2,482.7	2,197.9
- Life / health	Euro m	1,663.0	1,638.8	1,668.2	1,427.8	1,234.0
- Property / casualty	Euro m	1,039.6	878.6	999.1	1,055.0	963.8
Net premiums earned	Euro m	2,417.7	2,523.1	2,623.5	2,402.4	2,159.6
- Life / health	Euro m	1,599.9	1,607.6	1,631.4	1,383.1	1,192.3
- Property / casualty	Euro m	817.8	915.5	992.1	1,019.3	967.3
Underwriting result before contributions to the equalization reserve	Euro m	185.7	161.2	113.3	99.3	-65.6
- Life / health	Euro m	141.6	159.2	109.6	98.1	102.3
- Property / casualty	Euro m	44.1	2.0	3.7	1.2	-167.9
Combined ratio	%	92.3	93.6	95.7	95.9	103.0
- Life / health	%	91.1	90.1	93.3	92.9	91.4
- Property / casualty	%	94.6	99.8	99.6	99.9	117.4
Contributions to the equalization reserve	Euro m	17.4	-34.8	-23.9	-79.0	112.1
Underwriting result after contributions to the equalization reserve	Euro m	203.1	126.4	89.4	20.3	46.5
Investment income	Euro m	263.7	161.9	243.1	219.3	200.3
thereof: current investment income	Euro m	184.9	175.4	194.3	174.1	208.0
thereof: realized gains / losses*	Euro m	78.8	-13.5	48.8	45.2	-7.7
Profit before taxes	Euro m	433.5	275.8	350.0	245.7	243.9
Net income before taxes	Euro m	433.5	275.8	350.0	245.7	243.9
Net income	Euro m	290.4	138.8	329.9	167.3	188.6
Dividend	Euro m	200.2	62.2	149.6	0.0	0.0
Employees**		732	780	804	769	764
Ratings		Standard & Poor's: AA+		A.M.Best: A++	Moody's: Aa1	

*incl. write-ups and write-downs

**as at 31 December incl. staff employed at service companies owned by the Gen Re Group

Executive Directors' Report

Introduction

A subsidiary of Berkshire Hathaway Inc., General Re Corporation is a holding company that owns General Reinsurance Corporation (Gen Re), which in turn owns General Reinsurance AG. One of the world's leading reinsurance groups, Gen Re transacts international reinsurance business and related operations. The Group is represented worldwide by a network of more than forty locations.

General Reinsurance AG is present directly or represented indirectly by branches or subsidiaries in all major markets of life/health reinsurance and property/casualty reinsurance outside North America with the exception of Australian and Japanese property/casualty business, which is transacted by Gen Re affiliates that are not part of General Reinsurance AG.

General Reinsurance AG closed the year with an underwriting result which has improved considerably compared to the previous year. Most lines of business performed favorably.

Much like in the previous year, natural disasters caused a low death toll in 2017 in comparison with the long-term average. However, insured losses showed a massive increase and reached about USD 135 billion in the year under review, compared to an average amount well below USD 50 billion in recent years. After 2005 and 2011, this was only the third year ever with insured claims exceeding USD 100 billion. The volume of natural catastrophe losses for General Reinsurance AG in 2017 was significantly higher than the average amount expected for our portfolio.

Our largest losses from natural perils in 2017 were caused by storms Harvey, Irma and Maria in the United States and the Caribbean towards the end of the third quarter and by the earthquakes in Mexico during the month of September. Compared to our major competitors, our losses from the storms were rather modest since we do not write business in North America directly, but were only impacted through the affected international portfolios of some of our European clients.

Following an underwriting result of Euro 161.2 million in the previous year, 2017 produced an improved underwriting profit of Euro 185.7 million before changes in equalization reserves. We released an amount of Euro 17.4 million from the equalization reserve (2016: contribution of Euro 34.8 million). After allowance for changes in the equalization reserve, the underwriting result increased from Euro 126.4 million in 2016 to Euro 203.1 million (+60.7%) in the year under review.

A number of important international property and casualty reinsurance markets saw continuing intense price competition and some further softening in terms and conditions. This was most notable in the property catastrophe segment, where a considerable share of global business was placed in the capital markets by means of insurance-linked securities.

International capital markets remained strongly influenced by the expansive monetary policy of the central banks. Unresolved issues around the sovereign debt and euro crises are receiving less public attention. Equity markets showed again significant gains. Interest rates remained close to historic lows, with severe repercussions for the insurance industry on both sides of the balance sheet.

The implications of the low interest rate environment for General Reinsurance AG are mitigated to a large extent by our policy of reserving for long-tail casualty business on a nominal basis and by our focus on biometric risks rather than the savings components of life insurance.

Our overall investment result increased significantly from Euro 161.9 million in 2016 to Euro 263.7 million in the year under review. The 2016 result included net realized losses of Euro 8.5 million on the disposal of investments, whereas the 2017 earnings included net gains of Euro 76.0 million from such transactions.

Including the effects of other income/expenses, our net income after tax increased from Euro 138.8 million in the previous year to Euro 290.4 million in the year under review.

Macroeconomic Environment and Capital Market Developments

Equity markets in the United States soared to new all-time highs: the S&P 500 Index produced four successive quarters of positive growth (Q1: +5.53%, Q2: +2.57%, Q3: +3.96% and Q4: +6.12) and returned 19.4% for the full year, the strongest annual growth since 2013. This performance was mirrored globally with all major equity market indices producing strong positive returns throughout the year.

While considerable optimism prevailed among market players at the start of the year in the United States, at the same time the outlook in Europe and especially in the United Kingdom was rather uncertain. In Europe growth prospects were lackluster due to worries about the then looming Dutch (general), French (presidential) and German (general) elections. The United Kingdom was facing the anticipated triggering of Article 50 of the Treaty of Lisbon, setting in motion the process of the UK’s formal withdrawal from the European Union (“Brexit”). The market was surprised by robust growth across the euro area. Euro area growth prospects improved steadily throughout 2017. This positive development occurred at the same time as market-friendly election results in the Netherlands, France and Germany. Brexit negotiations, which were interrupted by the snap election called by the British Prime Minister Theresa May in June 2017, progressed at a very slow pace, leading to much uncertainty and considerable frustration in the UK.

In addition to the influence of political factors, the policies of the US Federal Reserve, European Central Bank (ECB), Bank of England, Bank of Japan and other leading central banks continue to be of great importance for the financial markets There is still an expectation that the Quantitative Easing (QE) programs of the US, UK, euro area and Japan will not be fully unwound any time soon. Fixed-income investors in the euro zone and in Japan are still prepared to subscribe for government debt that is being issued at negative or near-zero interest rates. The belief is that interest rates will probably remain very low some time to come.

The ECB continued its Extended Asset Purchase Program, announcing that the program would be extended to at least September 2018. From January 2018 onwards net asset purchases are set to continue at a monthly pace of €30 billion, down from €60 billion previously. Notably in contrast to the euro area, the respective central banks in both the US and the UK tightened monetary policy. In the US the Federal Reserve hiked the policy rate three times during the year under review. In the UK the Bank of England reversed the cut to the base rate that it had made immediately after the Brexit referendum, since inflation clearly exceeded the policymakers’ 2% target. With Janet Yellen’s term as the Chair of the Federal Reserve ending in February 2018, markets are anticipating the implications of the appointment of her successor, Jerome Powell, for the course of future monetary policy in the US.

In Japan Finance Minister Kuroda remains at the helm of the Bank of Japan’s massive stimulus program. He has committed to maintain the program until inflation moves sustainably above its 2% price target. After three years of heavy asset buying failed to drive up inflation, the Bank of Japan revamped its policy framework to one capping long-term interest rates. Demand for Japanese government bonds, seen as a safe haven in the region, has remained very strong. Auctions for new issues trading at or close to negative yields have regularly been several times oversubscribed.

In Asia, stronger than anticipated growth in China, Japan, Korea and in the markets of the Association of Southeast Asian Nations (ASEAN) helped offset some weakness in Australia and India. The cyclical upturn in manufacturing and an increase in global trade have supported growth in the region. Asian equity markets strengthened in 2017 as low global market volatility and strong global financial conditions acted as tailwinds. Limited changes in monetary policy across the region during the year meant Asian nations’ sovereign bond yields were mostly lower at the end of 2017 relative to where they had been at the start of the year. One notable exception was China, where central bank governor Zhou Xiaochuan warned about high leverage in Q4 and announced his intention to implement reforms.

Contrary to the market consensus at the end of 2016, the euro strengthened against the dollar during 2017. Since the beginning of the year an economic recovery has taken hold in the euro region, as indicated by strong growth and record levels of confidence. As a result, the euro strengthened by 14.8% against the dollar in 2017.

Financial Performance

	2017 Euro m	2016 Euro m
Net earned premium	2,417.7	2,523.1
Net underwriting result	203.1	126.4
Total investment income	263.7	161.9
Other income / expenses	-33.4	-12.6
Taxes	-143.0	-136.9
Net income	**290.4**	**138.8**
Shareholders' equity	**2,624.8**	**2,396.5**

Our net earned premium contracted by a moderate 4.2% despite vigorous growth in gross written premium due to the fact that with effect from 01.01.2017 we entered into a 20% quota share retrocession arrangement in respect of our property/casualty business with our parent company, General Reinsurance Corporation.

In the 2017 business year we recorded a favorable claims experience in life/health and on balance in property/casualty. The volume of major claims was appreciably above expectations for our portfolio. However, loss reserves established for catastrophe events in prior years developed positively. Including the changes in the equalization reserve, the underwriting result reached Euro 203.1 million in 2017 after Euro 126.4 million in the previous year.

Driven chiefly by substantial realized gains, total investment income soared by 62.9% from Euro 161.9 million in the previous year to Euro 263.7 million in the year under review. The balance of write-ups and write-downs made only a negligible contribution to our investment income in 2017.

Net income increased from Euro 138.8 million in the previous year to Euro 290.4 million (+109.2%). Shareholders’ equity grew by 9.5% to Euro 2,624.8 million (previous year: Euro 2,396.5 million).

Underwriting Result

	2017 Euro m	2017 Combined Ratio	2016 Euro m	2016 Combined Ratio
Net earned premium	2,417.7		2,523.1	
Life / Health	1,599.9		1,607.6	
Property / Casualty	817.8		915.5	
Underwriting result before contributions to the equalization reserve	185.7	92.3%	161.2	93.6%
Underwriting result after contributions to the equalization reserve	203.1		126.4	
Life / Health	141.6	91.1%	159.2	90.1%
Property / Casualty	61.5		-32.8	
Underwriting result before change in equalization reserve	44.1	94.6%	2.0	99.8%
Change in equalization reserve	17.4		-34.8	

Our total net earned premium decreased by 4.2% from Euro 2,523.1 million in the previous year to Euro 2,417.7 million. Life/health business contracted marginally by 0.5% (2017: Euro 1,599.9 million, previous year: Euro 1,607.6 million). Despite a sharp rise in gross premium, the net earned premium in property/casualty business fell by 10.7% from Euro 915.5 million in 2016 to Euro 817.8 million. This was because for the first time – commencing with the 2017 underwriting year – we retroceded 20% of this portfolio to our parent company, General Reinsurance Corporation. Life and health reinsurance closed with another excellent underwriting result (2017: Euro 141.6 million, previous year: Euro 159.2 million) and a combined ratio of 91.1% (previous year: 90.1%). Virtually all areas of business played a part in this pleasing performance.

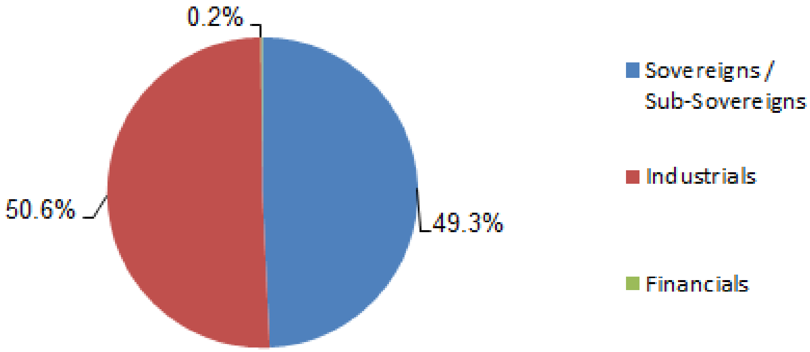
Our performance in property and casualty reinsurance was satisfactory, given that a significant proportion of our portfolio is long-tail business which will produce additional investment income in the future. Large loss expenditure came in significantly higher than expectations, among other things due to severe natural catastrophe events. On the other hand, we benefited from a positive run-off of the reserves established for loss events in prior years. Following an underwriting result of Euro 2.0 million in 2016, the year under review produced a profit of Euro 44.1 million before changes in the equalization reserve. After allowing for the changes in the equalization reserve we recorded a profit of Euro 61.5 million in 2017 following a loss of Euro 32.8 million in the previous year. Appreciable relief was afforded by the aforementioned new retrocession treaty with our parent company, especially due to its effect on the calculation of the equalization reserve.

Investments incl. Cash and Cash Equivalents

		2017		2016
	Euro m	%	Euro m	%
Real estate, rights to real estate and buildings	8.9	0.1	9.2	0.1
Investments in affiliated companies and participations	702.1	7.1	397.4	4.1
Shares, investment certificates and other non-fixed-income securities	2,800.9	28.5	2,048.2	21.3
Bearer bonds and other fixed-income securities	6,268.6	63.7	7,015.2	73.1
Registered bonds, notes and loans	0.0	0.0	50.5	0.5
Bank deposits	60.5	0.6	81.3	0.8
Investments, excluding deposits retained on assumed reinsurance business	**9,841.0**	**100.0**	**9,601.8**	**100.0**
Deposits retained on assumed reinsurance business	1,662.4		1,629.2	
Total investments	**11,503.4**		**11,231.0**	
Current accounts with banks, cheques and cash	217.3		237.7	
Investments incl. cash and cash equivalents	**11,720.7**		**11,468.7**	

Our investments encompass a balanced portfolio of high-quality, highly liquid fixed-income securities, stocks and corporate bonds as well as loans. At 24.4%, the equity proportion of the investments excluding deposits retained on assumed reinsurance business appreciably exceeded the level of the previous year (17.1%). We do not hold any sovereign debt from countries on the Eurozone periphery.

Bonds Portfolio

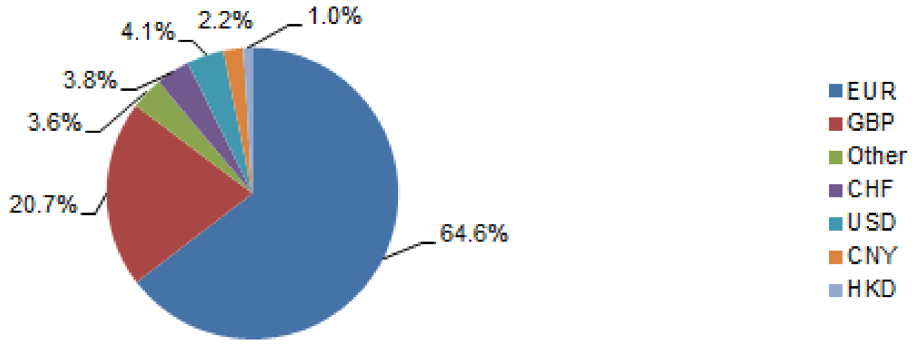


The investment portfolio excluding deposits retained on assumed reinsurance business increased slightly to Euro 9,841.0 million (previous year: Euro 9,601.8 million). The deposits retained on assumed reinsurance business rose to Euro 1,662.4 million (2016: Euro 1,629.2 million). Including deposits retained on assumed reinsurance business, investments totaled Euro 11,503.4 million (previous year: Euro 11,231.0 million).

A lower cash balance (Euro 217.3 million as against Euro 237.7 million in the previous year) was held at the balance sheet date.

Total investments including cash and cash equivalents increased to Euro 11,720.7 million (previous year: Euro 11,468.7 million).

Investments by currency



Reflecting the weighting of our underwriting liabilities, the majority (64.6%) of our investments are euro-denominated instruments (previous year: 63.2%), followed by investments held in pound sterling (20.7%, previous year: 22.3%) and US dollars (4.1%, previous year: 5.0%).

Investment Income

	2017 Euro m	2016 Euro m
Income from participations	1.1	1.1
Income from equities	85.0	74.4
Income from bearer bonds and other fixed-interest securities	72.5	72.7
Interest on reinsurance deposits	55.8	77.7
Income from other investments	27.7	28.2
Administration costs on investments, interest costs and other investment expenses	4.5	4.4
Less technical interest	52.7	74.3
Current investment income	**184.9**	**175.4**
Gains / losses from disposals	76.0	-8.5
Write-ups/depreciations of investments	2.8	-5.0
Total investment income	**263.7**	**161.9**

Current investment income increased from the previous year's level (Euro 175.4 million) to Euro 184.9 million. In 2017 we booked gains from disposals in the amount of Euro 76.0 million (2016: losses of Euro 8.5 million). The balance of write-ups and write-downs was attributable for the most part to the portfolio of participations (Euro +2.8 million, previous year: Euro -5.0 million).

Income from our equity portfolio amounted to Euro 85.0 million (2016: Euro 74.4 million). We generated a return of 1.1% in our bond portfolio (2016: 1.0%) and a dividend yield of 4.2% in our equity portfolio (2016: 4.5%), hence delivering a total return of 1.9% (2016: 1.8%).

Total investment income excluding technical interest increased very substantially from Euro 161.9 million in the previous year to Euro 263.7 million in the year under review.

Other Profit Contributions

Other income/expenses closed with a loss of Euro 33.4 million in 2017 after a loss of Euro 12.6 million in the previous year, mainly driven by an adjustment to the discount rate used for calculating retirement provisions.

Shareholders' Equity

Capital strength and solvency rank among the key competitive factors in international reinsurance business. At Euro 2,624.8 million, the shareholders' equity of General Reinsurance AG exceeded the previous year’s level (Euro 2,396.5 million) by 9.5%.

The net income for the 2017 business year amounts to Euro 290.4 million. The Board of Executive Directors of General Reinsurance AG will propose to the Supervisory Board and the company's Ordinary General Meeting that a dividend of Euro 3.64 per no-par-value share (Euro 200.2 million) should be paid and the remaining net income of Euro 90.2 million plus the profit brought forward from the previous year of Euro 7,3 million should be carried forward.

Development of the Major Classes of Business

Classes of Business transacted

General Reinsurance AG transacts reinsurance business internationally in all the major classes of insurance. Under the scope of responsibilities assigned within the Group, General Reinsurance AG is represented directly or indirectly by branches or through subsidiaries in all major reinsurance markets outside North America and with the exception of Australian and Japanese property and casualty business, which is transacted by related companies within the Gen Re Group.

For the purpose of reporting on operations we distinguish between two business segments: on the one hand, life and health reinsurance; on the other hand, property and casualty reinsurance, which encompasses liability, accident and motor, fire and property, marine, engineering and sundry classes of reinsurance.

Developments in the main classes of business and in our major regional markets were as follows:

Life and Health Reinsurance

Market Development

The overall situation in our markets has not changed significantly compared to 2016. The continuing period of low interest rates in many regions makes it extremely difficult for life insurers to offer attractive products with long-term financial guarantees and to meet the investment requirements for existing portfolios. Given the state of financial markets, most life insurers have shifted the focus of their new business activities to protection-type products and saving products which offer only low or even no financial guarantees. The economic environment has improved in some markets while it remains critical in others, with continuing serious implications for new business as well as for the persistency of in-force portfolios.

As a reinsurer focusing on the assumption of biometric risks, we are impacted to only a minor extent by the prevailing low interest rate environment. Our growth is generated in large measure by assisting our clients with product development and through innovation in the area of biometric risks. In addition, we are open to the reinsurance of in-force portfolios, provided this involves the transfer of the biometric and not the investment risks.

In view of the challenges facing most primary markets, Gen Re's service capabilities and financial strength constitute key competitive advantages.

Financial Results

Our life and health reinsurance business recorded another thoroughly pleasing development in 2017, along with a favorable claims experience. At Euro 141.6 million, the underwriting result came in below the exceptionally high level of the previous year (Euro 159.2 million). The risk performance of mortality, disability and morbidity was favorable overall.

The combined ratio stood at 91.1%, following 90.1% in 2016. Gross written premiums increased modestly by 1.5% to Euro 1,663.0 million (2016: Euro 1,638.8 million). Net earned premium in life and health insurance decreased slightly by 0.5% in the year under review to Euro 1,559.9 million (previous year: Euro 1,607.6 million). Adjusted for exchange rate effects, written premiums increased by a more pronounced 6.6% and 4.6% for gross and net account respectively; in 2016, by contrast, there had been no material currency impact.

As in the previous year, developments in key markets were again rather varied in the year under review, resulting in a challenging environment overall for our business as described below**.** Exceptional growth was achieved in the context of our close cooperation with so-called InsurTechs in China. Our Australian subsidiary wrote a very large block of business involving a major financing transaction, although General Reinsurance AG only has a marginal interest in the business by means of an internal retrocession treaty.

Developments by Classes of Business

Unadjusted for currency effects, premium income in **life reinsurance** decreased slightly from Euro 1,483.7 million in the previous year to Euro 1,446.9 million in 2017. The year under review closed with a very pleasing underwriting profit of Euro 136.6 million (previous year: Euro 155.0 million). This corresponds to a combined ratio of 90.3% for 2017, after 89.4% in the previous year.

In **health reinsurance** our premium income increased sharply to Euro 216.1 million (previous year: Euro 155.1 million). Principally due to our product development services, we again benefited from growth opportunities in certain Asian markets, most notably China. We recorded an underwriting profit of Euro 5.0 million (previous year: Euro 4.1 million). This translates into a combined ratio of 97.4%, after 97.2% in the previous year.

Developments in our Home Market and Abroad

Germany

The German life insurance market, whose focus has traditionally been on products with long-term guarantees, continues to struggle with the repercussions of extremely low interest rates. The costs of traditional guarantees have become increasingly prohibitive, as a consequence of which the focus of new business has shifted towards biometric risks and innovative retirement products. Inadequate protection against biometric risks still persists among large sections of the population. This continues to offer interesting business opportunities both for our clients and for ourselves.

However, life insurers were compelled to devote considerable attention to new regulatory requirements (such as the latest International Financial Reporting Standards (IFRS), Solvency II, the Insurance Distribution Directive (IDD) and the regulation governing Key Information Documents for Packaged Retail and Insurance-based Investment Products (PRIIPs-KID) which affected their productivity. We were again successful in identifying and pursuing growth opportunities in what was a generally flat market.

We continue to concentrate on the development of new products in the area of disability insurance in general, and more specifically on innovative forms of occupational disability and critical illness covers as well as long-term care insurance. This also includes research into the implications of new legislation in the area of long-term care insurance effective since 2017. We shall closely monitor any impacts on risk performance. Against the backdrop of very intense price competition over traditional products, we help our clients to diversify their portfolios and reduce reliance on long-term interest rate guarantees.

Our expertise and our extensive range of quality services in the areas of product design and pricing, underwriting systems and claims management are highly sought-after and consistently open up attractive new business opportunities. Digital transformation remains an important challenge for the insurance industry. Our consultancy offerings in relation to digitization have met with considerable interest among our clients. This encompasses not only topics such as underwriting and claims management systems but also aspects of product design and innovative approaches to risk selection.

Our German business once again performed very satisfactorily.

International

Some of the factors described in relation to our home market also apply to various life insurance markets across **Europe**, in some instances with the added challenge of severe economic crises including high levels of unemployment. The low level of interest rates remains a serious hindrance to the design of attractive products for retirement provision. On the positive side, many players outside Germany are not burdened to the same extent by balance sheet issues resulting from past financial guarantees.

Considerable consolidation is currently evident in various European markets – most strikingly in the Netherlands, where a number of mergers have occurred in recent years.

Although we observed certain positive developments in the bancassurance sector, the volume of new life insurance business in Europe contracted somewhat overall. Even in the face of many sources of uncertainty, we believe that European markets still offer considerable potential for life and health business on both the primary and reinsurance sides. Crucial factors here are the demographic trend combined with the relatively low level of retirement provision and inadequate individual risk protection. Thanks to our strong service orientation we have been able to tap into this potential and protect ourselves against adverse market developments.

Our portfolio in the **United Kingdom** and **Ireland** enjoyed greater growth than the market average. We retained all existing clients and added some new ones, including InsurTech and FinTech players that have recently entered the market. Following the Brexit referendum in the UK we are faced with numerous open questions regarding the potential implications. We do not expect our business model in the UK to be fundamentally cast into doubt, but we shall continue to closely monitor all relevant developments.

The development of our business in **Asia** was particularly gratifying. Most notably, demand for health and accident insurance products increased, particularly in China and South-East Asian markets. In China we achieved exceptional growth rates based on our cooperation with various insurance companies that offer their products exclusively online using new technologies.

In **India** we established a branch operation in the year under review which facilitates our access to a market which is growing in importance. We continue to pursue new opportunities, especially with clients who value our product development, pricing, underwriting, training and risk management services.

In **Latin America** our premium volume showed pleasing growth overall. Our portfolio includes a significant portion of group scheme business, such as pension funds and employer schemes. This business tends to be rather volatile volume-wise.

In the **Middle East** our business continued to develop very favorably in spite of the ongoing very complex political environment.

Our business in **Australia** is written by a subsidiary company and impacts our underwriting results only through the latter's retrocessions to General Reinsurance AG. The underlying portfolio has returned to marginal profitability in recent years following various measures taken above all in disability insurance. We are, however, disappointed with Australian disability business because sufficient additional rehabilitation efforts – which are needed in relation to product features, claims management and repricing – failed to materialize owing to substantial market resistance.

Our Australian subsidiary wrote a very large block of business in 2017 which involves substantial financing. 90% of the main financing transaction within this business is shared with our US sister company General Re Life Corporation. General Reinsurance AG's share of our subsidiary's business is only affected to a minor extent. As in the previous year, the retrocessions of Australian business to General Reinsurance AG produced a positive underwriting result in 2017.

Overall, the international claims experience was once again favorable. As in our domestic market, based on our pricing and risk management expertise and our continuously expanded range of service offerings we remain optimally positioned for international business, too. We are currently exploring how the latest developments in fields such as Decision Analytics, Predictive Modelling and Behavioral Economics can be put to practical use for our clients in life and health insurance.

Property and Casualty Reinsurance

Market Development

Unlike the situation in previous years, insured losses from natural catastrophes were very significantly above the long-term average in 2017.

Reinsurance markets were once again characterized by strong competition due to abundant capacity. This particularly affected catastrophe reinsurance, where so-called alternative capital continued to be an influential factor. The price level in reinsurance business softened again somewhat in various important markets. Exceptions to this general picture included German pro-rata motor business, where pricing remained stable owing to a higher claims severity, and non-proportional UK motor business, where rates increased steeply following changes in the discount rates of the so-called Ogden tables. By means of these Ogden tables the UK government prescribes actuarial parameters to be used for, among other things, lump-sum settlements of personal injury claims. A drastic reduction in the defined discount rate for such lump-sum settlements in 2017 prompted a need for significant increases in the relevant reserves.

Price levels for catastrophe covers stayed more or less unchanged or softened slightly before the period of severe hurricanes set in. Even in the aftermath of the catastrophe events towards the end of the third quarter of 2017, rates remained stable or increased only modestly if the treaties in question were spared losses.

We were able to write increased volumes of business without compromising our underwriting standards.

As a consequence of the ECB’s monetary policy, interest rates have remained close to all-time lows – even below zero in some markets for certain durations. Insurance pricing reflects the time value of expected losses through discounting of the required reserves, particularly for long-tail lines of business. As interest rates remain at extremely low levels, the underwriting profit component of the aggregate return has to be sufficiently comfortable in order for insurers to safeguard sustainable returns on equity.

It is our policy to reserve for long-tail casualty losses on a nominal basis.

Due to our consistent risk-based underwriting approach, our commitment to direct business as well as our service quality and financial strength, we continued to benefit from a high client retention rate. This enabled us to preserve the quality of our portfolio with technically adequate pricing.

Financial Results

Our total gross written premium in property and casualty business increased by a substantial 18.3% to Euro 1,039.6 million, mainly due to our stronger risk appetite. Adjusted for exchange rate effects, gross written premiums went up by 20.9%. Limiting factors included higher retentions carried by several clients and the fact that one important client discontinued its business altogether. Nevertheless, we were able to generate significant growth in a number of important markets.

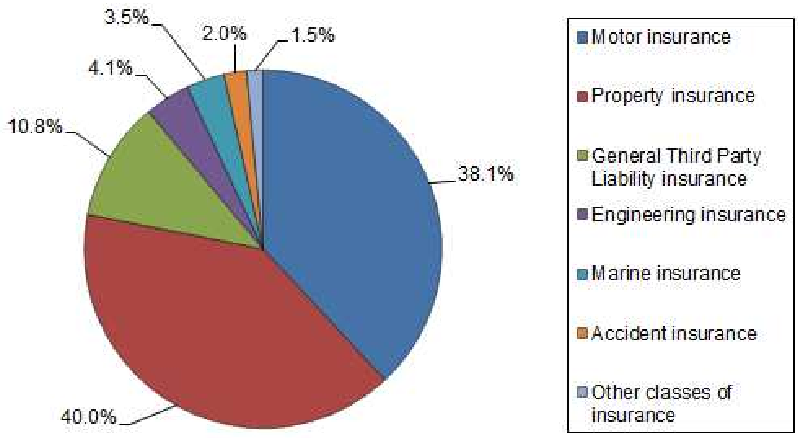
Most areas of our business performed satisfactorily, although the volume of major claims significantly exceeded the average expectations for our portfolio. A substantial adverse impact derived from losses in the United States and the Caribbean connected with the storms Harvey, Irma and Maria that were incurred by some of our European clients in their international books of business. Additional strains were caused by the earthquakes in Mexico. The new retrocession treaty concluded with our parent company afforded appreciable relief to our net result. The loss reserve constituted for catastrophe events in prior years developed favorably. We booked an underwriting result of Euro 44.1 million before changes in the equalization reserve in 2017 (2016: Euro 2.0 million).

Due to the 20% retrocession arrangement the equalization reserve decreased by Euro 17.4 million, driven mainly by substantial reductions in general liability insurance, while the property classes on balance required some increases. Including these changes in the equalization reserve we generated an overall profit of Euro 61.5 million (2016: loss of Euro 32.8 million). On average, we recorded a slight decline in the pricing strength of the portfolios renewed in 2017. Our catastrophe exposures grew in 2017 as a consequence of our increased tolerance for volatility while always adhering to our underwriting standards.

Developments by Classes of Business

Our gross premium income in **motor insurance** grew by 21.8% mainly due to new business in the UK, Italy and Russia. The underwriting deficit of Euro 16.3 million (2016: Euro 45.0 million) booked before changes in the equalization reserve corresponds to a combined ratio of 105.4% (2016: 112.4%). This level reflects our participation in non-proportional motor reinsurance markets with very long payment patterns. This business produces future investment income covering the initial underwriting losses as well as profit margins.

Gross Premium Income in Property/Casualty Business



Primary markets in **property insurance** remained highly competitive. Nevertheless, our premium income increased by 12.2% to Euro 416.2 million. New large losses exceeded our expectations, while the reserves for losses of prior years developed favorably. We recorded a profit of Euro 63.0 million before changes in the equalization reserve for the property classes in 2017 (previous year: Euro 21.1 million). This translates into a combined ratio of 81.7% (2016: 94.3%).

Our gross written premium in **general liability insurance** increased by 17.0% to Euro 112.4 million. This class closed with an underwriting loss of Euro 26.1 million (previous year: underwriting profit of 26.5 million) before changes in the equalization reserve. The combined ratio amounted to 129.7% (2016: 72.6%). As in motor insurance, the level is a result of our participation in non-proportional business with long payment patterns, which will generate future investment income, and can also be attributed to reserve increases needed for our UK business due to the changed Ogden discount rate.

The sundry insurance classes consist primarily of the accident, marine and engineering classes. In **personal accident insurance** we booked another positive result on the back of increased premium income (+4.7%). Our premium volume in **marine insurance** doubled (+99.7%); the result was positive. In the **engineering insurance** classes we recorded a premium increase of 15.5% (2016: +2.5%), while the loss experience was positive.

Developments in our major regional markets

Germany

Following a year of premium stability, our business in Germany increased moderately in 2017 due to strong client loyalty and some success in acquiring new accounts.

Our premium from **liability business** showed modest growth. Overall, underwriting results generally remained on the satisfactory level of recent years, but run-off profits from prior claims came in at a somewhat lower level.

As in previous years, the German **motor insurance** market recorded moderate rate increases, but also an elevated claims severity, driven to some extent by significant inflation in the prices of spare parts. In addition, losses from natural catastrophes were higher than in the previous year, more in line with our average expectation. Market results remained marginally positive.

The results of our motor business in 2017 remained roughly on a par with the previous year, although run-off profits in this line were lower than last year. Our premium volume increased slightly.

Some important segments of the primary **property insurance** markets remained highly competitive at inadequate pricing levels. Following a profitable year in 2016, homeowners' insurance recorded slightly negative results in 2017 due to natural catastrophes. Commercial and, most notably, industrial fire insurance suffered from inadequate pricing, even though these lines benefited from low loss activity in the year under review.

Our own losses in German **property insurance** attributable to natural catastrophes stayed below our expectations. We incurred several mid-sized losses from catastrophe events in our proportional portfolio, but we were spared any very large fire losses. The results of our proportional property business developed in line with the primary market.

In the German **personal accident insurance** market the number of policyholders decreased again moderately, while the premium volume grew very slightly. This segment remained profitable on the back of stable loss ratios. This was similarly reflected in the development of our own business.

The German **marine insurance market** showed hardly any growth but returned to balanced underwriting results following two years of losses. The premium volume in the **engineering insurance** classes in Germany showed modest growth in the year under review. Our result for 2017 in both these segments was negative because we strengthened the respective reserves.

International

Most of the other **European markets** were affected by relatively moderate natural catastrophe events. However, some of our clients writing worldwide business suffered losses from the natural catastrophes in the US (storms Harvey, Irma, and Maria). The number of large individual property claims increased in comparison with the previous year's figures to a level slightly above the long-term average.

In spite of continuing economic instabilities and geopolitical uncertainties, vigorous competition and abundant capacity prevailed. Various European primary and reinsurance markets saw further softening in terms and conditions as well as substantial pressure on rates, albeit to a slightly lesser extent than in the previous year. This trend was supported by the good performance overall of the primary markets. On the positive side, we observed improved conditions in certain notoriously difficult markets (Eastern Europe, Poland). In the UK motor rates increased very significantly in response to the changes in the Ogden discount rate.

Russia continues to play an important part in our international property/casualty business. Robust economic growth has been generated since the severe financial crisis of 2014, and this has been especially true of the insurance industry. We are very well positioned thanks to our strong local market presence. Our primary focus is on the motor own damage and property insurance lines, and in recent years we have written a pleasing premium volume with a growing number of clients.

Over the last decade **Latin America** has made impressive progress in economic development. The insurance markets have shown their potential to contribute to this development and make it more sustainable.

Following periods of slower development, Brazil and Mexico have made up ground in their economic growth. In Argentina we expect improved business opportunities in light of changes affecting the government and regulatory system.

The two Mexican earthquakes in September 2017 claimed hundreds of lives. The insurance density in property business stands at a very low level of around 8% in Mexico, with only about half of the policies including earthquake coverage. Our own claims volume from these catastrophe events lies within our range of expectations.

Turning to **Asia**, we have restructured our business units to maximize our ability to work efficiently with our existing as well as all potential new clients. Responsibility for Japanese property and casualty business has been transferred to our parent company, General Reinsurance Corporation. With effect from 1 April 2017 General Reinsurance Corporation has written all Japanese business with the support of a local service company. Our business unit manager in charge of all other Asian markets is based in Singapore, reflecting this location's important tradition as a major hub for Asian insurance and reinsurance business.

We are very pleased with the recent expansion of our business in China, which has become our most important market in Asia. Both the primary and reinsurance markets remain extremely competitive, but we nevertheless expect further attractive business opportunities in view of continuing market growth both in terms of premium volume and the number of insurance companies.

We are also optimistic regarding future business opportunities in India. In the course of 2017 we received a branch license from the local regulatory authority (IRDAI) and since 1 August we have been writing our Indian business via our new branch operation. This should give us improved access to new business opportunities in this fast-growing market.

Our international business developed satisfactorily overall. Going forward, we shall continue to pursue our profit-oriented underwriting policy.

Business Development of the Major Subsidiaries

General Reinsurance AG, Cologne, is the parent company of the General Reinsurance AG Group. The General Reinsurance AG Group is included as part of the Gen Re Group in the consolidated financial statements of Berkshire Hathaway Inc., Omaha/USA.

The primary risk carrier of the General Reinsurance AG Group is General Reinsurance AG, which is represented by numerous branches, subsidiaries, and representative offices based in Europe (Copenhagen, London, Madrid, Milan, Moscow, Paris, Vienna), in the Middle East (Beirut), in Asia (Beijing, Hong Kong, Labuan, Mumbai, Seoul, Shanghai, Singapore, Taipei, Tokyo) and in Latin America (Buenos Aires, Mexico City, São Paulo). Our branch operation in Mumbai/India commenced its business operations in the third quarter of 2017.

Major subsidiaries as at the balance sheet date included General Reinsurance Africa Ltd., Cape Town/South Africa, and General Reinsurance Life Australia Ltd., Sydney/Australia. While the result posted by General Reinsurance Africa Ltd. in 2017 fell well short of the previous year due to the poor performance of disability risks, General Reinsurance Life Australia Ltd. achieved a pleasing business result. In the third quarter of 2017 General Reinsurance Life Australia Ltd. wrote a very large block of business which involves a substantial financing component. 90% of the main financing transaction within this business is shared with our US sister company General Re Life Corporation.

Our Staff

At the end of the 2017 business year General Reinsurance AG including service companies owned by the group employed a total workforce of 732 (48 less than at the end of the previous year), of whom 404 (-43) were based in Germany and 328 (-5) worked abroad.

Our regional business units and central service units underwent major restructuring in 2017 which involved a substantial number of redundancies in certain areas. The main changes were geared to giving greater autonomy and empowerment to the regional units in the property/casualty segment and assigning them overall responsibility for facultative and treaty business, thereby enhancing their client intimacy and cutting response times. In addition, the effects of leaner administrative structures are expected to further boost our competitiveness and performance capability.

By way of a social compensation plan, retirement arrangements and incentives for voluntary leavers, we were able to reach fair and in most cases amicable agreements. Effective dates were agreed for the year under review in most cases and for 2018 in a few instances. Nevertheless, a modest number of new jobs were created in other areas of our operations in 2017 with a view to leveraging attractive growth opportunities in various markets.

Our “Jump School” has grown into a successful institution in recent years. Established as part of our succession strategy, the objective of the Jump School is to train a team of flexible, mobile employees who undertake to be available for relocation at short notice.

We supported cooperation arrangements with universities so as to promote interaction between research and practice, while at the same time benefiting from the welcome side-effect of contacts with talented graduates.

All our employees are required to complete annual compliance training courses relevant to their area of work. Each year, core elements from our Code of Conduct, which promotes the principles and values of Gen Re in conducting its business, are selected for inclusion in the course materials. Further topics covered in the interactive courses include ethical business conduct, conflicts of interest, corruption, money laundering, financial integrity, anti-trust law, trade sanctions, insider trading and workplace harassment.

In line with new legislation (FührposGleichberG: Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst [Law on Equal Participation of Women and Men in Leadership Positions in the Private Sector and Public Sector]), the Board had decided on 10 September 2015 that the proportion of women on the two highest levels of management below the Board of Executive Directors should be increased by 30 June 2017 or the status quo in each case should at least be preserved, while always staying true to our meritocracy culture of choosing the most qualified candidate in every instance. At the time of this commitment in 2015 the relevant proportions of women in these management positions were 5.9% on the first and 40.2% on the second level below the Board.

As of 30 June 2017 these proportions had improved to 8.8% and 43.2% respectively. The Board of Executive Directors then decided that by 30 June 2022 the proportion of women on the highest level of management below the Board should at least correspond to the status quo of 8.8%, while the proportion on the second level below the Board should not fall below 40%. Every effort will, however, be made to maintain or improve on the status quo (43.2%) in relation to the latter proportion.

Our international project of migrating to a new generation of administration systems for property and casualty treaty business was completed in February 2017. This project lasted about five years and entailed enormous effort as well as additional workloads and responsibilities for many of our staff. This demanded intensive communication with the relevant staff involved in the roll-out to ensure that they were familiar with the various steps of the implementation process as they unfolded. More than 30 specially designed training sessions have been attended by around 250 future end users. Furthermore, all relevant property/casualty systems have been adapted to the new organizational business structure.

Word of Thanks to Our Staff

We extend our thanks to our members of staff for their efficient cooperation on all levels. Our gratitude extends particularly to all those who have been affected by our restructuring program in any way, and especially those who have lost their jobs. The expertise and personal commitment of our staff enabled the company to develop successfully and deserve our utmost respect.

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Risk Report

Our core business revolves around the assessment and acceptance of risk. The key elements in our evaluation of risk are comprehensive qualitative methods supported by quantitative analysis.

Risk Governance

General Reinsurance AG is committed to an integrated approach to risk management which forms the basis of a company-wide understanding of all risks that impact the organization and ensures that conscious risk management is part of the daily decision-making processes of each and every member of our staff. We meet this challenge by means of a **decentralized Risk Management System** embedded in a company-wide internal control framework, overseen and facilitated by our **Risk Management Function**.

The responsibilities in the area of risk management at General Reinsurance AG are allocated as follows:

The **Board of Executive Directors** is responsible for ensuring the effectiveness of the company's risk management system, setting the risk strategy, the risk appetite and overall tolerance limits as well as for operational implementation of the risk management processes.

The **Chief Risk Officer** assumes responsibility for the Risk Management Function and is responsible for developing and implementing the risk management framework on behalf of the Board. The Chief Risk Officer heads the **Risk Committee** of General Reinsurance AG which is comprised of Risk Officers representing the main business and functional areas within the organization. The Risk Committee executes the risk strategy as defined by the Board and implements the risk management framework at the operating level. The Risk Officers have a direct reporting line to the Chief Risk Officer, who in turn reports directly to the Board of Executive Directors on a regular basis and ad hoc, if deemed necessary. The composition of the Risk Committee is determined by the Board regularly at its discretion.

In addition to the Risk Management Function we have implemented the key functions for Compliance, Actuarial and Internal Audit in line with Solvency II.

Risk Strategy

Our Risk Strategy defines our general approach to risk management, specifying all relevant risks to be addressed based on our business strategy, providing details on how risks are measured, managed and controlled and setting our risk appetite as well as our risk tolerance framework.

Risk Management Process

For the purposes of risk management we broadly define risk as the threat of potential events negatively impacting our ability to achieve the Company's business goals. Risk may affect the company's ability to survive, successfully compete within the industry, preserve its financial strength and reputation, or maintain the overall quality of its products, services and people. Our risk management approach aims to support the company's business strategy by limiting risks to acceptable levels. The risk management process at General Reinsurance AG comprises the following elements:

- risk identification
- risk measurement
- risk monitoring
- risk response
- risk reporting

This process is applied globally and includes all legal entities and branches. A key element of this process is a corporate risk library which has been developed to promote a consistent approach and to enable effective aggregation of the risks of all functional units through the use of common definitions. We categorize risks into insurance, market, operational and strategic risks, thereby covering all risks to which we are or might be exposed (see chart below).

Regular quarterly and annual risk reporting routines as well as ad-hoc risk reporting ensure continuous monitoring of the Company’s risk profile.

Audits conducted by our globally operating **Internal Audit** unit provide for a systematic review of the effectiveness and efficiency of the internal control system. The quality of the risk management processes is therefore independently and regularly verified in accordance with the audit guidelines of the German Institute for Internal Auditing (DIIR) and the German Institute of Auditors (IDW), with a special focus on the design and operating effectiveness of the internal controls. The results of these internal audits are shared with the Risk Committee.

Our **risk universe** is outlined in the chart below:

In the following we describe our insurance, market, operational and strategic risks as well as their steering mechanisms.

Insurance Risks

Pricing and Underwriting

Risks associated with pricing and underwriting derive from the risk that aggregate actual claims amounts may exceed the aggregate claims amounts expected in the underwriting process before risk inception. In this context we differentiate between:

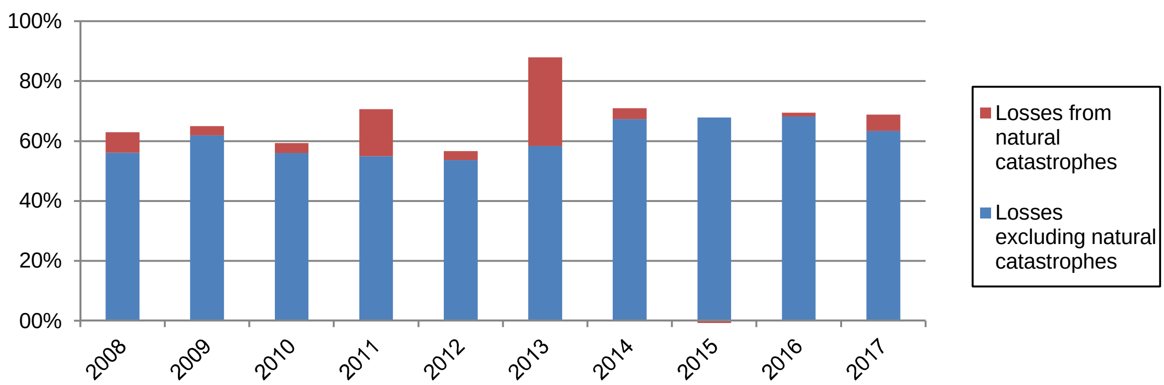
- Risk of random fluctuations as well as pricing model and parameter risk, which can lead to a higher-than-expected claims frequency or severity,
- Large loss accumulation risk, caused by a single loss covered by different clients or by one event affecting several risks. We specifically address natural catastrophes, terrorism, war, pandemic and cyber risks below in more detail but consider other accumulations if deemed relevant.

We manage these risks by means of well-defined underwriting processes, pricing guidelines and operational limit systems reflecting our risk appetite and tolerance and by using centrally developed methodologies and standard tools.

Our exposure to **natural catastrophes** is systematically monitored and reported to senior management, above all the Risk Management Function and the Risk Committee, to ensure that peak exposures are identified. We have risk limits and tolerances in place that are used to determine risk capacities and hence maximum admissible sums of limits per country or region.

The **proportion of natural catastrophe losses relative to the total losses** over the last ten years is shown below, expressed as percentages of net earned premium.

Development of Loss Ratios (in %) in Property/Casualty Business



We do not actively seek to cover the consequences of **terrorism**, but it is a risk that we carry in the course of assuming reinsurance business and one which we manage and control appropriately with an eye to potential accumulations. Our exposure to terrorism is limited predominantly by way of exclusionary language at the reinsurance level.

We limit our **war risk** via standard exclusions and we monitor our exposure by evaluating relevant scenarios.

Pandemic risks may arise in life and health insurance from possible pandemic events such as the spread of serious highly infectious diseases including swine flu, avian flu or pestilence. We regularly consider various scenarios to evaluate the potential impact of pandemic events on our portfolio and to assess our risk tolerance. Our underwriting rules specify capacity limits with regard to non-proportional per event excess of loss covers.

Cyber risk refers to potential losses from cyber-attacks or threats resulting in unauthorized access to, or release of, business-critical or sensitive applications, data or infrastructure systems. In general, it is connected to online activities, electronic systems and technological networks. Cyber risks can result from intended third party actions as well as human or technical failure.

We continue to refine our risk appetite, risk management procedures and accumulation control for the purpose of steering cyber risks covered by our reinsurance treaties. We have established a Cyber Tracker for quarterly monitoring of the current exposure from our reinsurance treaties that explicitly cover cyber risks.

The **reserve shortfall risk** is the risk of additional reserve needs for the ultimate settlement of claims that exceed the initial expectation or recent reserve bookings.

Hence, we consider the reserving process a core function of a disciplined reinsurer. We have established a centralized independent reserving function and quarterly monitoring. The anticipated ultimate loss ratios are regularly verified and adjusted if necessary based on updated data.

Run-off result in % of the original net liability

2017	0.8
2016	1.7
2015	2.7
2014	0.9
2013	3.1
2012	3.3
2011	0.3
2010	3.1
2009	1.4
2008	2.3

Market Risks

Our **Corporate Investment Policy** ensures that at all times adequate assets are available to cover the liabilities in accordance with the risk profile of General Reinsurance AG. Our **Master Investment Guidelines** define concrete and measurable risk limits for the different investment risks and asset classes. Both the policy and the guidelines are reviewed by the Board of Executive Directors and the Supervisory Board at least annually.

We consider various aspects of market risks with the aim of protecting our assets and return on investments against economic losses resulting from changes on the capital markets, such as:

- **interest rate risk:** interest rate volatility and changes to term structures,
- **equity risk:** price volatility on stock markets,
- **currency risk:** volatility of exchange rates, imperfect currency matching,
- **credit spread risk:** changes in the credit spread above the risk-free interest rate or credit rating downgrades,
- **concentration risk:** losses/volatility resulting from concentration of investment exposure in a specific instrument, issuer or financial market,

- **liquidity risk:** changes in market liquidity preventing effective liquidation of investments as and when required,
- **counterparty default risk:** bank or other counterparty failure or downgrading.

In order to reduce the **interest rate risk** in light of the prevailing low interest rate environment, we currently keep the duration of our fixed-income investments below that of the underwriting risks. The performance of the portfolio is regularly analyzed against defined benchmarks and the portfolio undergoes regular stress testing and scenario analyses.

Standing at 25.0% (2016: 29.9%) on the balance sheet date, a large share of General Reinsurance AG’s fixed-income securities was held in top-rated investments (AAA rating). 29.2% were rated AA (2016: 29.1%).

Our investment guidelines define a specific limit for the **equity allocation** in the portfolio.

Furthermore, the investment guidelines contain detailed limits for controlling **credit and concentration risks**, such as minimum rating requirements and the definition of maximum exposures per sector. The credit quality of the fixed-income securities held by General Reinsurance AG at year-end 2017 illustrates the high quality of our portfolio.

Equity risks and interest rate risks with respect to our investments are monitored by testing various stress scenarios. In the table below we show an excerpt from our list of tested scenarios, namely the effects of a 20% change in share values and a 1% change in the current yield. This would give rise to the following changes in fair value (to be updated):

Portfolio	Assumptions	Changes in fair value in m Euro
Shares	Price increase of 20%	+659.0
Shares	Price decline of 20%	-659.0
Fixed-income securities	Interest rate rise of 1%	-140.6
Fixed-income securities	Interest rate drop of 1%	+145.6

Counterparty default risks arise not only from transactions on the capital markets, but also from bad debts in reinsurance with respect to cedants, retrocessionaires and brokers. It may not be possible to recover outstanding receivables or cash deposits.

The outstanding receivables are regularly collated on a company-wide basis, necessary provisions are calculated for overdue receivables in accordance with uniform group-wide standards, and the results are reported to management.

Targets and measures for dealing with overdue receivables are agreed with the business units, and their enforcement is regularly monitored. The overdues amounted to Euro 30.2 million at year-end (2016: Euro 25.2 million). As in previous years, the default rate in the year under review was negligible.

In addition, the largest credit risks from all areas of General Reinsurance AG are aggregated each quarter for the purpose of identifying potential accumulations and ensuring that controlling measures can be taken.

In the following paragraphs we address a number of further risk categories that we consider important, even though we believe that none of them constitutes a serious threat for the organization.

Operational Risks

Operational risks refer to potential losses resulting from inadequate internal processes or systems, human or technical failure, fraud and/or external events. All operational risks are reviewed, analyzed and assessed on a regular basis in order to promptly detect any deficiencies in policies, procedures and processes as well as to propose and implement corrective actions.

The management of operational risks is supported by a rigorous **Internal Control System** that supports the effective and efficient conduct of our business operations and ensures our compliance with all applicable laws, regulatory requirements and internal standards.

Our goal is to continuously improve our risk awareness and the risk culture on the operational level. Our Internal Audit Function provides assistance to senior management and in particular to the Board of Executive Directors in pursuing this goal by independently reviewing the application and operating effectiveness of our operational risk management procedures and our Internal Control System.

We provide further detail on individual operational risks in the latest version of our Solvency and Financial Condition Report on our website.

Strategic Risks

Like operational risks, strategic risks are subject to regular assessment; this is facilitated in particular by qualitative discussions with a view to increasing risk awareness and ensuring that effective controls are in place to minimize the potential exposure. We differentiate between the following strategic risks:

Strategy Risks

The Company’s response to new and untapped opportunities is critical to the growth and performance of our business. The Board of Executive Directors is responsible for our business strategy and regularly reviews and evaluates whether all aspects of the current strategy are appropriate given the dynamic business environment and in due consideration of any risks which could affect our long-term positioning and performance**.** In the year under review our willingness to accept higher volatility has increased. In view of our profit-oriented underwriting policy, our refined pricing and monitoring systems as well as our strong consulting expertise and software offerings, we consider ourselves to be optimally positioned for continued success in our business development.

Reputational Risks

We view reputational risks as a by-product of operational, regulatory or strategic risks that arise out of potential weaknesses or failures in our internal control environment. We have therefore implemented a comprehensive policy framework, process documentation standards and an effective internal control environment that minimize our exposure to reputational risks.

Through our worldwide Code of Conduct, which sets out our position on corporate integrity and values, our associates are required to maintain the highest degree of integrity towards each other, the Company, and our business partners.

Emerging Risks

We define emerging risks as the risk of loss resulting from a newly developing or changing (political, economic, social, technological, legal, environmental, etc.) situation that could have critical impacts on the company but which may not be fully understood, may be difficult to quantify and may not even be considered in contract terms and conditions, pricing, reserving, operations or capital allocation. We regularly address the identification and evaluation of potential emerging risks in order to be able to promptly initiate risk-mitigating measures as needed.

Group Risks

Group risks arise from the potential failure of an affiliated company to meet financial commitments and the potential adverse impacts on growth and costs as well as the regulatory implications for our own company. We control this risk by actively managing our subsidiaries and have appropriate limits in place for each operating entity. As far as the up-stream group risk of our parent companies is concerned, we consider this risk extremely remote due to the financial strength of Gen Re in conjunction with Berkshire Hathaway.

Solvency II Reporting and Major Factors Influencing Opportunities and Risks

In 2017 the first full annual reporting as at the 2016 balance sheet date was submitted to the German supervisory authority (BaFin) for General Reinsurance AG on both a stand-alone and group basis, i.e. including subsidiaries, in accordance with the requirements of Solvency II. In addition to the annual and quarterly Quantitative Reporting Templates, this included the Regular Supervisory Report (RSR) and the Solvency and Financial Condition Report (SFCR). As the overall risk profile of the General Reinsurance AG Group does not substantially differ from the risk profile of the parent company GRAG, we have requested and been granted permission by the BaFin to prepare and publish a “Single SFCR”. The Solvency II balance sheets as of 31 December 2016 were audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, in accordance with legal requirements.

Our solvency calculations are based on the Solvency II standard formula, including the use of undertaking-specific parameters. The solvency calculations as of 31 December 2017 have not yet been completed. At the end of the third quarter of 2017 our solvency ratio amounted to 245% for General Reinsurance AG on a stand-alone basis.

With effect from 1 January 2017 we concluded a retrocession agreement with our parent company General Reinsurance Corporation under which we retrocede 20% of our property/casualty business. The primary reason for this retrocession is to reduce the risk associated with differences between trade sanctions of the US and the EU. This resulted in a slight improvement in our solvency ratio.

Additional details of our risk management framework and risk profile as well as our eligible and required capital under Solvency II are also available on our website. The SFCR report as at year-end 2017 will be published for General Reinsurance AG on a stand-alone basis on 7 May and for the General Reinsurance AG Group on 18 June 2018.

In addition to regulatory developments in Europe, we continue to monitor the potential impacts that other international solvency regimes may have on the corporate group as a whole.

We have set up a working group to determine and evaluate potential relevant implications of Brexit, i.e. the UK’s exit from the European Union. As the results of the exit negotiations are thus far unclear, we are currently focusing on scenarios based on a “hard” Brexit as a worst-case scenario. Our UK branch predominantly writes business within the UK, which means that our reliance on so-called EU passporting is limited. We are analyzing our legal and regulatory set-up to ensure that we will be compliant with any changes that may come.

A major factor influencing the insurance industry as a whole remains the continuing extremely low level of interest rates. Both sides of the balance sheet are affected. While we are also adversely affected by diminishing returns on our investments, the implications for General Reinsurance AG are mitigated to a large extent because we reserve for long-tail casualty and motor liability business on a nominal basis. In life/health business we had already responded in prior years to the declining interest rate level and adjusted our reserves appropriately. The effect is less marked for our company than for typical primary insurers because we focus on biometric risks rather than the savings components of life insurance.

Both in terms of its financial strength and the sophistication of its management systems, General Reinsurance AG remains well-positioned to successfully pursue its business strategy. We consider our capital resources sufficient and appropriately structured to meet our business needs over the short- and longer-term horizon. Our risk profile has not changed materially over the last few years. We have effective controls and risk management processes in place, including appropriately defined risk tolerances and risk limits.

From the current standpoint, no developments can be discerned that could have a significant adverse impact on General Reinsurance AG’s assets, financial position or net income.

Report on Relations with Affiliated Companies

General Reinsurance AG is wholly owned by General Reinsurance Corporation, Wilmington, Delaware/USA. The former is thus a majority-owned company which, pursuant to § 312 German Stock Corporation Act, is required to draw up a report on relations with affiliated companies. In this report, which has to be compiled by the Board of Executive Directors, the following closing declaration was made:

"For all transactions with affiliated companies General Reinsurance AG received appropriate consideration according to the circumstances known at the time when the transactions were effected."

Outlook

The core of our commercial activities consists of reinsurance business transacted in all major markets worldwide, with the exception of North America as well as property and casualty insurance in Australia and Japan, which are served by Gen Re affiliates that are not part of General Reinsurance AG. In addition to traditional reinsurance products we offer a comprehensive range of services, including actuarial advice, product development, underwriting and claims management in individual life insurance and software offerings. We shall continue to systematically practice our profit-oriented underwriting policy. Our underwriting know-how and our pricing and monitoring systems are continuously refined and kept updated. Our strong consulting expertise is held in high regard by clients at home and abroad.

Within the Gen Re Group and in particular at General Reinsurance AG we have conducted a worldwide overhaul of our organizational structures with the aim of leveraging additional potentials for improving our performance and competitiveness. We have streamlined certain administrative areas, which involved a substantial number of redundancies. At the same time, we have added a more modest number of staff in other areas with an eye to additional business opportunities. Overall, we have increased our willingness to tolerate higher volatility. We consider ourselves to be optimally positioned for the continued successful development of our business. In life and health insurance we anticipate moderate growth in our gross premium income for 2018. We are enjoying pleasing demand for our consulting and other services, which provide a solid platform for the development of our business. In addition, we are open to the reinsurance of in-force portfolios, provided the primary emphasis is on the transfer of the biometric and not the investment risks.

The vast majority of treaties in our property/casualty portfolio came up for renewal on 1 January. Across markets and lines of business we were able to generate significant growth by selectively approaching existing as well as new clients and signaling an increased tolerance for volatility. Especially in markets in which our market share has hitherto been rather small, we were able to acquire new business and establish new client relationships. Based on our prime financial strength and service quality, we were able to write our new business at adequate terms and conditions – contrary to the situation in certain segments of the reinsurance markets which we stayed away from. Our catastrophe exposure was considerably increased on adequate terms. We expect to significantly boost our premium income in property/casualty business.

We continue to benefit from strong client loyalty, which has enabled us to preserve the quality of our portfolio in keeping with our underwriting standards.

Interest rates on relevant government bonds may tend to rise slightly for shorter maturities as positive expectations for growth and employment in the US and Eurozone could prompt changes in the monetary stance adopted by the respective central banks. Current market expectations foresee several rate hikes by the new Federal Reserve Chair with a view to countering inflation risks. In the Eurozone, however, no rate increases whatsoever are anticipated for 2018. The ECB's current quantitative easing program is provisionally set to expire in September 2018, with the market pricing in at most the possibility of a slight increase in policy rates for early 2019.

Contrary to general market expectations, 2017 turned out to be a relatively quiet year in terms of political risk and volatility. The extraordinary performance of equity markets took place against a backdrop of unusually low volatility. However, we may witness significant increases in stock market volatility in 2018 and hence risk-adjusted returns may be considerably lower. Furthermore, equity markets will likely respond to any changes in expectations regarding monetary conditions and bond yields. After an untroubled start in the early weeks of the current year, international stock markets experienced considerable turmoil during the month of February as volatility increased sharply. Heightened geopolitical risks are adding another element of uncertainty to the markets.

Against the backdrop of a continued expansionary monetary policy and the resulting sustained low interest rate level including reduced reinvestment yields, and due to the fact that we recorded particularly high gains on the disposal of assets in the year under review, we expect our investment income to contract significantly in 2018.

In comparison to 2017 we anticipate a slightly lower underwriting result, partly because of new very long-tail business under which sizeable initial losses are amortized by future investment income. We do not expect any inordinate strain from the windstorm events in Germany at the beginning of 2018.

We expect a satisfactory overall operating result for 2018 moderately below the level of the year under review, provided capital markets are spared any major distortions and as long as the loss experience for natural catastrophe business as well as for man-made catastrophes in the current year are in line with the multi-year averages. We anticipate substantially higher gross premium income in original currency for 2018.

Corporate Social Responsibility Reporting

General Reinsurance AG will compile a Corporate Social Responsibility (CSR) report guided by the UN Global Compact reporting standards. This will be published in the Financial Information section of our website (www.genre.com) at the end of April 2018.

Balance Sheet as at 31 December 2017

Assets			Euro	2017 Euro	2016 Euro
A. Intangible assets				34,759	77,018
B. Investments	I.	Real estate, rights to real estate and buildings	8,857,113		9,241,932
	II.	Investments in affiliated companies and participations	702,082,664		397,414,975
	III.	Other investments	9,130,058,975		9,195,193,400
	IV.	Deposits retained on assumed reinsurance business	1,662,359,447		1,629,174,205
				11,503,358,199	11,231,024,512
C. Receivables	I.	Reinsurance accounts receivable of which from affiliated companies: Euro 6,315,536 (previous year: Euro 6,109,578) of which from participations: Euro 4,964,428 (previous year: Euro 3,282,023)	706,644,800		525,005,521
	II.	Sundry receivables of which from affiliated companies Euro 2,025,108 (previous year: Euro 8,892,458) of which from participations Euro 36,176 (previous year: Euro 0)	42,934,092		122,107,329
				749,578,892	647,112,850
D. Sundry assets	I.	Fixed assets and investments	5,517,790		6,360,975
	II.	Current accounts with banks, cheques and cash	217,311,322		237,734,287
				222,829,112	244,095,262
E. Deferred items	I.	Deferred interest	55,764,836		83,075,745
	II.	Other deferred items	433,580		788,020
				56,198,416	83,863,765
F. Deferred tax assets				224,793,491	206,027,651
G. Excess of plan assets over pension liability				21,575,860	18,673,095
Total assets				12,778,368,729	12,430,874,153

Liabilities			Euro		2017 Euro	2016 Euro
A. Shareholders' equity	I.	Share capital		55.000.000		55.000.000
	II.	Capital reserve		866.173.704		866.173.704
	III.	Retained earnings				
		1. Legal reserve	715.809			715.809
		2. Other retained earnings	1.405.208.342			1.224.920.457
				1.405.924.151		1.225.636.266
	IV.	Profit brought forward		7.271.317		
	V.	Net income for the year		290.390.068		
	VI.	Profit				249.709.202
					2.624.759.240	2.396.519.172
B. Underwriting reserves	I.	Unearned premiums				
		1. Gross amount	363.067.702			297.266.367
		2. Less: reinsured portion	27.780.392			6.357.426
				335.287.310		290.908.941
	II.	Actuarial reserves for life and health policies				
		1. Gross amount	1.791.015.513			1.823.760.108
		2. Less: reinsured portion	55.567.092			59.363.023
				1.735.448.421		1.764.397.085
	III.	Reserve for outstanding claims				
		1. Gross amount	6.683.524.477			6.555.692.213
		2. Less: reinsured portion	210.338.982			78.171.451
				6.473.185.495		6.477.520.762
	IV.	Equalization reserve and similar reserves		737.710.761		755.152.588
	V.	Other underwriting reserves				
		1. Gross amount	36.614.650			32.440.914
		2. Less: reinsured portion	12.108			17.984
				36.602.542		32.422.930
					9.318.234.529	9.320.402.306

Liabilities			Euro	2017 Euro	2016 Euro
C. Other provisions				424,785,271	438,890,060
D. Deposits retained on assumed reinsurance business				33,345,179	35,118,840
E. Other liabilities	I.	Reinsurance accounts payable of which to affiliated companies: Euro 76,806,568 (previous year: Euro 44,480) of which to participations: Euro 74,135 (previous year: Euro 50,175)	360,195,112		232,481,390
	II.	Sundry liabilities of which taxes: Euro 4,423,793 (previous year: Euro 2,692,986) of which social security: Euro 7,476,096 (previous year: Euro 399,204) of which to affiliated companies: Euro 1,032,347	16,497,945		6,914,902
				376,693,057	239,396,292
F. Deferred items				551,453	547,483
Total liabilities				12,778,368,729	12,430,874,153

Income Statement

			Euro	Euro	2017 Euro	2016 Euro
I. Underwriting Account	1.	Earned premiums net of reinsurance				
		a) Gross premiums	2,702,575,617			2,517,369,045
		b) Retrocession premiums	225,952,793			32,571,957
				2,476,622,824		2,484,797,088
		c) Change in gross unearned premiums	-80,447,163			37,609,223
		d) Change in the reinsurers' share of the gross unearned premiums	-21,518,586			-682,530
				-58,928,577		38,291,753
					2,417,694,247	2,523,088,841
	2.	Interest on reinsurance funds net of reinsurance			51,684,000	73,137,970
	3.	Sundry underwriting income net of reinsurance			1,017,909	1,229,465
	4.	Claims expenditure net of reinsurance				
		a) Claims payments				
		aa) Gross amount	1,490,324,722			2,105,429,971
		bb) Reinsurers' share	31,077,567			15,659,849
				1,459,247,155		2,089,770,122
		b) Change in the reserve for outstanding claims				
		aa) Gross amount	291,940,365			43,705,730
		bb) Reinsurers' share	135,216,993			-1,478,299
				156,723,372		45,184,029
					1,615,970,527	2,134,954,151
	5.	Change in the other underwriting reserves net of reinsurance			-22,128,861	524,330,107
	6.	Expenditure relating to profit- and non-profit-related premium refund net of reinsurance			191,993	256,321
	7.	Insurance business expenditure net of reinsurance			641,643,108	820,115,530
	8.	Sundry underwriting expenses net of reinsurance			4,755,295	5,243,593
	9.	Subtotal			185,706,372	161,216,788
	10.	Change in the equalization reserve and similar reserves			17,441,827	-34,802,927
	11.	Underwriting result net of reinsurance			203,148,199	126,413,861

			Euro	Euro	2017 Euro	2016 Euro
II. Investment and general account	1.	Investment income of which from affiliated companies: Euro 23,740,138 (previous year:	344,015,061			255,121,939
	2.	Investment expenses	27,587,393			18,909,198
				316,427,668		236,212,741
	3.	Underwriting interest on reinsurance funds		-52,705,053		-74,266,504
					263,722,615	161,946,237
	4.	Sundry income		88,750,566		44,638,217
	5.	Sundry expenditure		122,121,483		57,206,479
					-33,370,917	-12,568,262
	6.	Profit before taxes			433,499,897	275,791,836
	7.	Tax on income and profit		142,298,145		135,293,778
	8.	Other taxes		811,684		1,655,424
					143,109,829	136,949,202
	9.	Net income after taxes			290,390,068	138,842,634
	10.	Profit brought forward from the previous year			-	180,287,885
	11.	Transfer to retained earnings to other retained earnings			-	69,421,317
	12.	Profit			-	249,709,202

Notes to the Financial Statements

Development of asset items A and B I. to III. in the 2017 business year				Book values previous year	Exchange rate gains/losses	Acquisitions	Disposals	Appreciation	Depreciation	Book values business year
				Euro	Euro	Euro	Euro	Euro	Euro	Euro
Asset Items	A.	Intangible assets								
	1.	Purchased rights and licences		77,018	13,641	5,841	0	0	61,741	34,759
	2.	Total A.		77,018	13,641	5,841	0	0	61,741	34,759
	B. I.	Real estate, rights to real estate and buildings		9,241,932	0	0	0	0	384,819	8,857,113
	II.	Investments in affiliated companies and participations								
		1.	Shares in affiliated companies	42,299,981	0	0	0	0	0	42,299,981
		2.	Loans to affiliated companies	334,800,000	0	300,000,000	0	0	0	634,800,000
		3.	Participations	20,314,994	0	0	0	4,667,689	0	24,982,683
		4.	Total B II.	397,414,975	0	300,000,000	0	4,667,689	0	702,082,664
	III.	Other investments								
		1.	Shares, investment certificates and other non-fixed-income securities	2,048,211,167	-39,577,580	1,011,623,547	219,380,499	0	0	2,800,876,635
		2.	Bearer bonds and other fixed-income securities	7,015,160,608	-166,495,053	3,031,720,809	3,610,296,561	0	1,491,208	6,268,598,595
		3.	Mortgages and loans secured on real estate	1,095	0	0	1,095	0	0	0
		4.	Sundry fixed-term securities							
			a) Notes and loans	50,509,550	-755	0	50,488,187	0	0	20,608
		5.	Bank deposits	81,266,005	-4,181,864	0	16,565,979	0	0	60,518,162
		6.	Sundry investments	44,975	0	0	0	0	0	44,975
		7.	Total B III.	9,195,193,400	-210,255,252	4,043,344,356	3,896,732,321	0	1,491,208	9,130,058,975
Total				9,601,927,325	-210,241,611	4,343,350,197	3,896,732,321	4,667,689	1,937,768	9,841,033,511

Company Identification	General Reinsurance AG with registered business address in Cologne, Theodor-Heuss-Ring 11, is registered in Cologne's commercial register under HRB 773.
General accounting principles and valuation methods	The company compiled the financial statements and the Executive Directors' report in accordance with the provisions of the German Commercial Code, the German Stock Corporation Law, the Insurance Supervisory Law and the ordinance on the accounting of insurance companies of 8 November 1994 as amended on 17 July 2015.

Assets

Intangible Assets	Intangible assets were valued at cost of acquisition less ordinary depreciation.

Investments

Real estate, rights to real estate and buildings were valued at cost of acquisition or construction. Depreciation was effected using the linear method based on the period of economic use.

The market values have been calculated using the discounted cash flow method.

Investments in affiliated companies and participations were valued at cost of acquisition less write-downs in case of a decline in fair value in accordance with § 253, section 3, sentence 3 German Commercial Code. In case of an increase in fair value write-ups will be added to cost of acquisition in accordance with § 253, section 5 German Commercial Code.

Loans to subsidiaries are valuated at acquisition costs deducted by repayment or at the lower fair value.

Shares, investment certificates, bearer bonds and other fixed-income securities were posted at acquisition cost. Shares and bearer bonds which are acquired in several stages are grouped per share and valued at the weighted average in accordance with § 240, section 4 German Commercial Code. Securities were committed to permanent assets in the year under review according to § 341 b, section 2 German Commercial Code. There have been no reclassifications in the year under review.

The valuation of shares, investment certificates, bearer bonds and other fixed-income securities was contingent upon whether they were allocated to fixed assets or current assets. Write-downs on securities in the current assets were based on their value at the balance sheet date, insofar as the fair value was lower than the book value pursuant to § 253, section 4 German Commercial Code. Securities allocated to fixed assets were valued according to the modified lower-of-cost-or-market principle. Write-ups were made in fixed assets in accordance with § 253, section 5 German Commercial Code. Premiums relating to fixed-income securities allocated to fixed assets were recognized pro

	rata temporis in the income statement. Mortgages, loans secured on real estate as well notes and other loans were valued at redemption amount. Bank deposits are shown at their nominal value. Other investments were valued at cost of acquisition less depreciation pursuant to § 253, section 3, sentence 5 German Commercial Code. The fair values of investments have all been calculated on the basis of available market prices and stock exchange quotations. Insofar as this was not possible in the case of affiliated companies and sundry fixed-term securities, suitable recognized methods were employed to calculate the fair values. Simplified present value methods were used for this purpose. Deposits receivable are shown at their nominal value. Specific bad debt provision has been made for known risks. In cases where no cedant reports were available, the deposits were estimated.
Receivables and other assets	Reinsurance accounts receivable are shown at their nominal value. Specific bad debt provision has been made for known risks. For accounts not yet received the amounts are estimated. Deferred acquisition costs in assumed life reinsurance business are shown as reinsurance accounts receivable. Fixed assets have been valued at cost of acquisition less depreciation based on the period of economic use. Low-value fixed assets for which the acquisition costs less input VAT are lower than Euro 410 are completely written off in accordance with § 6, section 2 German Income Tax Act. Inventories were recognized at a fixed quantity and a fixed value in accordance with § 240, section 3 German Commercial Code due to subordinated importance and minor changes. Current accounts with banks, cheques and cash as well as other sundry receivables have been shown at their nominal value.
Deferred items	Interests are shown as deferred interest if the amount pertains to the period prior to the closing date but is not yet due. This position also includes expenditures prior to the closing date which represent expenses for a certain period after this date.
Deferred tax assets	Deferred taxes have been calculated using the temporary concept. The company has chosen to report the amount of deferred tax assets in excess of liabilities resulting from temporary and quasi-permanent differences between commercial and tax regulations. Deferred tax assets and liabilities are shown on a net basis.
Excess of plan assets over pension liability	In accordance with § 246, section 2 of the German Commercial Code, the pension liabilities have been netted with the plan assets. The plan

assets are recognised at fair value. Correspondingly, the plan assets of pension liability insurances are listed with their asset values. Furthermore, the fair values of investments are determined on the basis of market prices and stock exchange quotations. In case of insolvency or individual enforcement the assets are not accessible to any creditors of the company.

Liabilities

Underwriting reserves

In the case of the underwriting reserves, the provisions of §§ 341 e to 341 h German Commercial Code have been applied.

The written premiums include all premiums due in the course of the business year irrespective of whether the amounts refer in total or partially to subsequent years. Premiums which are already accounted for but which apply to future periods are accrued as unearned premiums. The unearned premiums are calculated based on cedant reports. In cases where no figures are available, the accruals are effected on the basis of estimations in life and health and on the basis of individual contractual agreements in property and casualty insurance.

In life and health insurance, actuarial reserves have been constituted. Their balance-sheet value essentially reflects figures supplied by cedants. In cases where cedant information is not or not sufficiently available, the level of actuarial reserves is determined on the basis of realistic assumptions with regard to interest rates, mortality and morbidity. The actuarial methods applied take into account the current cash value of future benefits paid to the policyholder less future premium income.

The reserves for outstanding claims are generally posted in the balance sheet on the basis of the figures supplied by cedants. Due to the considerable time lag that may occur between the loss event and the reporting of the claim to the reinsurer, reserves are constituted for IBNR losses on the basis of our own estimates, which are derived using recognized actuarial methods (Chain-Ladder, Bornhuetter-Ferguson methods and Expected Loss methods).

The equalization reserve has been determined on the basis of § 341 h German Commercial Code in conjunction with § 29 of the Ordinance on the Accounting of Insurance Companies as per the annex to § 29 of the Ordinance on the Accounting of Insurance Companies. Reserves for major pharmaceutical product liability risks and for nuclear plant insurance are based on § 30, sections 1 and 2 of the Ordinance on the Accounting of Insurance Companies. A reserve for terrorism risks has been constituted in conjunction with § 30, section 2 a of the ordinance on the accounting of insurance companies.

The other underwriting reserves mainly comprise the reserves for profit commission. These reserves have generally been constituted in line with our contractual arrangements with our cedants.

The shares of retrocessionaires in the gross reserves have been determined on the basis of the treaties with such retrocessionaires.

Sundry liabilities

Deposits and reinsurance accounts payable have been shown at their nominal value. For accounts not yet received the amounts are estimated.

Deferred acquisition costs in ceded life reinsurance business are shown as reinsurance accounts payable.

The provisions for pension obligations have been established according to § 253, section 1, 2 and 6 of the German Commercial Code applying the Klaus Heubeck 2005 G mortality tables for Germany and corresponding mortality tables for foreign pension liabilities. The discount rate of 3.68% is determined based on the rates published by the German Central bank by 31 October 2017 in accordance with § 253, section 2 of the German Commercial Code and extrapolating these rates to 31 December 2017 using the method prescribed by the German Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung).

The underlying future increase is 2.50% for salaries,1.75% for pensions and 3.00% for the staff fluctuation with an assumed duration of 15 years.

The difference in pension obligation between 7 and 10 year average interest rate in accordance with § 253, section 6 German Commercial code amounted to Euro 41,631,259.

In accordance with § 253, section 1 sentence 2 the other reserves have been established at the future amount payable dictated by prudent business judgement. Based on the regulations of § 253, section 2 of the German Commercial Code, reserves with a duration of more than one year have been discounted with the corresponding average market rate of the past seven business years.

The other liabilities are shown at the future amount payable.

The deferred items include revenues prior to the closing date insofar as they represent income for a defined period after that date.

Currency conversion basis

Items in the balance sheet and profit and loss account expressed in foreign currencies have been converted into euros at the average rates of exchange applicable on the balance sheet day. The exchange profits or losses have been shown, after setting off amounts within the same currency, as "sundry income" or "sundry expenditure" in the income statement. If the offsetting of amounts within the same currency resulted in a gain, the surplus was allocated to a reserve.

The most important balance sheet rates for our company are set out in the following table:

in €	2017	12016
Australian Dollar	0.6537	0.6891
British Pound	1.1280	1.1730
Chinese Renminbi	0.1284	0.1377
Danish Krona	0.1343	0.1345
Hong Kong Dollar	0.1077	0.1235
Japanese Yen	0.0074	0.0081
Korean Won	0.0008	0.0008
South African Rand	0.0675	0.0689
Swiss Franc	0.8512	0.9311
Singapore Dollar	0.6278	0.6601
US Dollar	0.8418	0.9579

Appropriation of profit

The 2017 business year closed with a net income after taxes of Euro 290,390,068. The Board of Executive Directors of General Reinsurance AG proposes a dividend of Euro 3.64 per no-par-value share (Euro 200,200,000) should be paid and that the remaining net income for the financial year 2017 of Euro 90,190,068 plus the profit brought forward from the previous financial year (Euro 7,271,317) should be carried forward to the financial year 2018.

Notes to the Balance Sheet

Assets		Book value 2017	Fair value 2017	Valuation reserve 2017	Book value 2016	Fair value 2016	Valuation reserve 2016
Valuation reserves in respect of investments	I. Real estate, rights to real estate and buildings *)	8,857,113	23,800,000	14,942,887	9,241,932	23,800,000	14,558,068
	II. Investments in affiliated companies and participations						
	1. Shares in affiliated companies	42,299,981	282,243,809	239,943,828	42,299,981	200,021,817	157,721,836
	2. Loans to affiliated companies	634,800,000	712,634,040	77,834,040	334,800,000	398,837,973	64,037,973
	3. Participations	24,982,683	25,968,209	985,526	20,314,994	21,334,677	1,019,683
	4. Total II.	702,082,664	1,020,846,058	318,763,394	397,414,975	620,194,467	222,779,492
	III. Other investments						
	1. Shares, investment certificates and other non-fixed-income securities	2,800,876,635	3,675,315,072	874,438,437	2,048,211,167	2,759,894,929	711,683,762
	2. Bearer bonds and other fixed-income securities	6,268,598,595	6,321,286,597	52,688,002	7,015,160,608	7,126,335,709	111,175,101
	3. Mortgages and loans secured on real estate	0	0	0	1,095	1,095	0
	4. Sundry fixed-term securities						
	a) Notes and loans	20,608	20,608	0	50,509,550	61,091,302	10,581,752
	5. Bank deposits	60,518,162	60,518,162	0	81,266,005	81,266,005	0
	6. Sundry investments	44,975	91,465	46,490	44,975	401,570	356,595
	7. Total III.	9,130,058,975	10,057,231,904	927,172,929	9,195,193,400	10,028,990,610	833,797,210
Total		9,840,998,752	11,101,877,962	1,260,879,210	9,601,850,307	10,672,985,077	1,071,134,770

*) The fair values of real estate and buildings have been calculated in 2016.

Assets

Real estate and buildings	The book value of the real estate and buildings utilized by the company totals Euro 8,857,113 (previous year: Euro 9,241,932).
Other investments	As at 31 December 2017 no additional payment obligations in respect of the equity portfolio were shown in the balance sheet (previous year: Euro 0).

The book value of the bearer bonds for which no write-down was effected was Euro 2,723,510,238 (previous year: Euro 1,088,362,404). The fair value for these bonds amounted to Euro 2,714,454,617 (previous year: Euro 1,086,341,040). In all cases a permanent impairment could not be ascertained, since the financial standing of the issuers was not impugned.

The book value of equities for which depreciations were omitted was Euro 474,714,661 (previous year: Euro 1,663,698). The fair value for these equities amounted to Euro 446,160,416 (previous year: Euro 1,394,460). These equities are used in business operations on a permanent basis and allocated as fixed assets. If the negative difference between the book value and the fair value during the last half of the period under review amounted in each moment to at least 20%, write-downs are effected to equities treated as invested assets. As this prerequisite was not given, a permanent decrease in value was not recognized.

The waived depreciation under § 341 b, section 2 German Commercial Code in conjunction with § 253, section 3 German Commercial Code amounted to Euro 37,609,864 (previous year: Euro 2,341,886), of which Euro 28,554,245 (previous year: Euro 269,238) were attributable to equities and Euro 9,055,619 (previous year: Euro 2,072,648) to fixed-income securities.

There were no write-downs in the current year on securities which are classified as invested assets due to permanent impairment (previous year: Euro 4,179,135).

For securities which are classified as invested assets according to § 253, section 5 German Commercial Code there was a write-up of Euro 4,667,689 (previous year: Euro 0). On other investments there were no write-ups (previous year: Euro 1,895) in the current year.

There were no write-ups on fixed-income securities which are classified as current assets according to § 253, section 5 German Commercial Code (previous year: Euro 7,438).

In the current year there were no write-ups on investments in affiliated companies due to permanent impairment according to § 253, section 5 German Commercial Code.

The investment certificates relate to a special fund which is entirely held by General Reinsurance AG and serves to secure selected foreign underwriting reserves. The fund is mainly invested in German Government Bonds. The fair value of the invested assets is Euro 406,252,449. The book value is Euro 403,769,000. The difference to the book value amounts to Euro 2,483,449. There was no profit distribution for the business year (previous year: Euro 718,999).

Investments amounting to Euro 314,672,348 (previous year: Euro 313,163,265) have been deposited with cedants as security for reinsurance liabilities or administered for us on a trustee basis.

Investments in private equity companies and other shares are shown under other investments.

There were no derivative financial instruments for 2017 and 2016. As at 31 December 2017 and 31 December 2016, there were no foreign exchange transactions.

There were no investments in highly-indebted states in the Euro region, which may be dependant on subsidy in 2017 and 2016.

Deposits retained on assumed reinsurance business

Of these, deposits receivable from affiliated companies accounted for Euro 21,110,944 (previous year: Euro 18,078,248).

Reinsurance accounts receivable

An amount of Euro 20,192,109 of the reinsurance accounts receivable is attributable to deferred acquisition costs in assumed life reinsurance business (previous year: Euro 26,488,946).

Sundry receivables

The item "Sundry receivables" primarily shows tax receivables from the tax authorities of Euro 35,437,196 as well as receivables from deposits of Euro 3,725,697.

Receivables with a maturity of more than one year amounted to Euro 8,869,578 in accordance with § 268, section 4 German Commercial Code (previous year: Euro 6,324,990).

Deferred tax assets

The deferred tax assets mainly relate to the revaluation of underwriting reserves, the different fiscal treatment of pension provisions and intangible assets, differences in investment positions due to different national and international taxation principles as well as different accounting principles and tax loss carry-forwards of foreign branches. Deferred taxes are calculated at a tax rate of 32,45% with the exception of deferred taxes relating to branch offices. These are based on the individual local tax rates (13% - 43%)

Excess of plan assets over pension liability

The company had offered a defined contribution pension plan in the past for employees in Cologne under which contributions were made through waiver by the participants of a part of their salary. At once, General Reinsurance AG placed life insurance contracts which guarantee a defined minimum interest. The amount of the insurance policy corresponds to the liability of the company towards its associates.

The following table shows the amounts, which were netted in the balance sheet as at 31 December 2017 according to § 246, section 2 German Commercial Code:

Euro thsd.	
Fair value of plan assets	3,565
Pension fund	-3,565
Total	0

Our UK branch has two pension plans funded by the company which are managed by trust funds. The table below shows the amounts, which were netted in the balance sheet as at 31 December 2017 according to § 246, section 2 German Commercial Code:

Euro thsd.	
Fair value of plan assets	57,554
Pension fund	-35,979
Total	**21,575**
Income	3,401
Expenses	-1,460
Total	**1,941**

The acquisition costs for the total plan assets amounted to Euro 32,107,692.

Liabilities

Share capital

The equity portfolio as at 31 December 2017 was composed of 55.000.000 registered no-par shares.

		Euro	Euro
Retained earnings	a) Legal reserve		715,809
	b) Other reserves		
	Opening balance on 1 January 2017	1,224,920,457	
	Contributions from the previous year's profit	180,287,885	
	Redemption of own shares	0	
	Contributions from current year's net income	0	
	Ending balance at 31 December 2017		1,405,208,342
			1,405,924,151

			2017	2016
		Euro	Euro	Euro
Other provisions	I. Provisions for pensions and similar obligations		215,474,444	198,106,183
	II. Tax provisions		118,341,792	87,377,056
	III. Sundry provisions			
	a) Provisions for currency translation gains	34,834,235		81,150,875
	b) Services which have been received but for which accounts have not yet been settled	3,061,336		3,750,079
	c) Miscellaneous	53,073,464		68,505,867
			90,969,035	153,406,821
			424,785,271	438,890,060

The miscellaneous other provisions mainly relate to provisions for interests on taxes.

Reinsurance accounts payable	An amount of Euro 7,524 (previous year: Euro 10,101) of the reinsurance accounts payable is attributable to deferred acquisition costs in ceded life reinsurance business.
Sundry liabilities	Liabilities with a maturity of less than one year amounted to Euro 16,497,945 (previous year: Euro 6,914,902). As at 31 December 2017 there were no liabilities with a maturity of more than five years (previous year: Euro 0). As at 31 December 2017 no liabilities were secured by pledges or similar rights (previous year: Euro 0).
Deferred items	The deferred items shown under liabilities do not include a balancing item in accordance with § 341 c, section 2 German Commercial Code (previous year: Euro 0).

Non-distributable amounts (§ 285 n°28 German Commercial Code)

	Euro	Euro
1. Fair value of assets netted in accordance with § 246, section 2 German Commercial Code	61,119,053	
Less acquisition costs of such assets	32,107,692	
		29,011,361
2. Deferred tax assets in accordance with § 274 German Commercial Code*		224,793,491
3. Difference in pension obligation between 7 and 10 year average interest rate in accordance with § 253, section 6 German Commercial code		41,631,259
Non-distributable amount as at 31 December 2017		**295,436,110**
Available capital		2,569,043,432
Less non-distributable amount		295,436,110
Amount available for distribution as at 31 December 2017		**2,273,607,322**

*including defered tax assets for 1. according to German Commercial Code § 268, section 8, sentence 3 HGB

Notes to the Income Statement

			2017 Euro	2016 Euro
Change in the other underwriting reserves net of reinsurance	a)	Net actuarial reserves for life and health policies	-16,319,756	523,779,102
	b)	Sundry net underwriting reserves	-5,809,105	551,005
			-22,128,861	524,330,107
		Minus signs indicate contributions to the reserves. The change in regard of the prior year is due to a correction of the release of an actuarial reserve without effecting net income		

			2017 Euro	2016 Euro
Insurance business expenditure net of reinsurance	a)	Gross insurance business expenditure	705,089,158	827,007,950
	b)	Less: commission and profit commission on reinsured business	63,446,050	6,892,420
			641,643,108	820,115,530

Sundry underwriting expenses

Sundry underwriting expenses mainly comprise fire protection tax.

Interest on reinsurance funds net of reinsurance

Interest on reinsurance funds net of reinsurance comprises interest on deposits retained on assumed reinsurance business in accordance with § 38, section 1 no. 3 of the Ordinance on the Accounting of Insurance Companies, booked on the basis of the information provided by cedants. The retrocessionaires' share was deducted.

The interest on reinsurance funds represents the transfer of a portion of the investment earnings account from the investment and general income statement to the underwriting income statement.

					2017	2016
				Euro	Euro	Euro
Investment Income	a)		Income from participations		1,076,390	1,076,390
			of which in affiliated companies: Euro 0 (previous year: Euro 0)			
	b)		Income from other investments			
			of which in affiliated companies: Euro 23,740,138 (previous year: Euro 16,740,000)			
		aa)	Income from real estate, rights to real estate and buildings	2,040,621		1,985,617
		bb)	Income from other investments	238,996,429		251,036,628
					241,037,050	253,022,245
	c)		Appreciation on investments		4,667,689	9,333
	d)		Income from the disposal of investments		97,233,932	1,013,971
					344,015,061	255,121,939

The expenses from negative interest rates were offset against interest income.

			2017	2016
			Euro	Euro
Investment expenses	a)	Expenses for the administration of investments, interest expenditure and other investment expenses	4,517,437	4,400,056
	b)	Depreciation on investments	1,876,027	4,987,815
	c)	Losses from the disposal of investments	21,193,929	9,521,327
			27,587,393	18,909,198

Sundry income

Sundry income mainly relates to income from foreign exchange rate gains of Euro 72,223,590, the release of bad debt provisions of Euro 4,703,945, income from charging services rendered of Euro 2,191,264 as well as income from the discounting of other reserves of Euro 2,166,148. Income from interest on taxes amounted to Euro 3,377,618.

Sundry expenditure

Sundry expenditure mainly comprises exchange losses of Euro 62,244,472, contributions to interest on pension reserves of Euro 22,370,103 as well as interest on taxes of Euro 9,064,080.

Tax on income and profit

The profit before taxes was reduced by Euro 142,298,145 (previous year: Euro 135,293,778) due to tax on income. Deferred taxes amount to an income of Euro 18,765,840 (previous year: Euro 19,264,945).

Details on the individual classes of insurance

		2017 Euro	2016 Euro
Premium income	Life insurance	1,446,923,301	1,483,676,286
Gross written premiums	Health insurance	216,084,297	155,128,894
	General third party liability insurance	112,408,638	96,084,290
	Accident insurance	21,080,625	20,132,724
	Motor insurance	395,884,904	325,105,992
	Marine insurance	35,968,914	18,008,046
	Property insurance	416,151,448	370,795,828
	Engineering insurance	42,586,660	36,865,702
	Sundry classes of insurance	15,486,830	11,571,283
	Total	**2,702,575,617**	**2,517,369,045**

		2017 Euro	2016 Euro
Net earned premiums	Life insurance	1,410,288,177	1,457,043,750
	Health insurance	189,563,135	150,555,486
	General third party liability insurance	87,877,534	96,653,922
	Accident insurance	17,819,461	20,100,256
	Motor insurance	301,845,806	362,153,032
	Marine insurance	23,528,461	18,032,644
	Property insurance	343,789,200	371,577,307
	Engineering insurance	31,367,696	35,133,750
	Sundry classes of insurance	11,614,777	11,838,694
	Total	**2,417,694,247**	**2,523,088,841**

		2017 Euro	2016 Euro
Subtotal before contributions to the equalization reserve and similar reserves net of reinsurance	Life insurance	136,584,114	155,035,692
	Health insurance	5,019,720	4,144,742
	General third party liability insurance	-26,104,035	26,467,407
	Accident insurance	-2,414,870	1,204,625
	Motor insurance	-16,271,618	-44,981,073
	Marine insurance	-6,235,416	-4,030,149
	Property insurance	63,025,608	21,130,872
	Engineering insurance	8,822,026	-235,332
	Sundry classes of insurance	23,280,843	2,480,004
	Total	**185,706,372**	**161,216,788**

		2017	2016
		Euro	Euro
Underwriting result after contributions to the equalization reserve and similar reserves net of reinsurance	Life insurance	136,584,114	155,035,692
	Health insurance	5,019,720	4,144,742
	General third party liability insurance	-5,918,009	10,663,175
	Accident insurance	422,713	796,315
	Motor insurance	-28,712,067	-42,065,965
	Marine insurance	1,738,300	-262,287
	Property insurance	56,438,536	-2,192,927
	Engineering insurance	16,060,373	1,413,372
	Sundry classes of insurance	21,514,519	-1,118,256
	Total	**203,148,199**	**126,413,861**

		2017	2016
		%	%
Combined ratio *) before contributions to the equalization reserve and similar reserves net of reinsurance	Life insurance	90.3	89.4
	Health insurance	97.4	97.2
	General third party liability insurance	129.7	72.6
	Accident insurance	113.6	94.0
	Motor insurance	105.4	112.4
	Marine insurance	126.5	122.3
	Property insurance	81.7	94.3
	Engineering insurance	71.9	100.7
	Sundry classes of insurance	-100.4	79.1
	Total	**92.3**	**93.6**

*) Underwriting expenses less underwriting income in relation to the earned premiums

		2017	2016
		Euro	Euro
Underwriting reserves net of reinsurance total underwriting reserves	Life insurance	3,176,615,741	3,169,058,419
	Health insurance	99,152,327	69,435,468
	General third party liability insurance	1,395,587,570	1,414,984,732
	Accident insurance	70,559,223	68,381,160
	Motor insurance	3,055,225,976	3,011,105,171
	Marine insurance	112,718,394	108,490,327
	Property insurance	1,018,137,073	1,052,870,429
	Engineering insurance	172,960,834	177,176,991
	Sundry classes of insurance	217,277,391	248,899,609
	Total	**9,318,234,529**	**9,320,402,306**

		2017	2016
		Euro	Euro
Reserves for outstanding claims	Life insurance	2,970,659,864	2,964,595,616
	Health insurance	47,770,094	44,290,959
	General third party liability insurance	1,233,844,060	1,235,349,408
	Accident insurance	69,331,662	63,857,138
	Motor insurance	2,932,268,951	2,918,571,847
	Marine insurance	90,720,892	84,611,252
	Property insurance	601,768,805	633,504,067
	Engineering insurance	127,493,187	127,847,275
	Sundry classes of insurance	134,776,401	169,290,284
	Total	**8,208,633,916**	**8,241,917,846**

Life and health including actuarial reserves

Overall the net run-off result is positive and represents 1.9% (previous year: 3.5%) of the original provision.

		2017	2016
		Euro	Euro
Equalization reserve and similar reserves	General third party liability insurance	144,132,015	164,318,041
	Accident insurance	828,188	3,665,771
	Motor insurance	79,020,379	66,579,930
	Marine insurance	14,121,754	22,095,470
	Property insurance	394,881,756	388,294,684
	Engineering insurance	26,351,051	33,589,398
	Sundry classes of insurance	78,375,618	76,609,294
	Total	**737,710,761**	**755,152,588**

General Information

Employees

In 2017, the company employed an average of 648 staff (previous year: 665), including 220 working for our branch offices abroad (previous year: 219). Furthermore, an average of 115 of staff (previous year: 118) was employed at service companies owned by Gen Re group.

Personnel expenses

		2017 Euro	2016 Euro
1.	Salaries and wages	61,914,949	86,169,122
2.	Statutory social security contributions and expenses for benefits	11,784,681	12,162,052
3.	Expenses for retirement benefits	21,223,448	-13,490,496
		94,923,078	84,840,678

The allocation to the costs categories changed for the financial year 2017 due to new requirements of the BaFin.

The members of the Board of Executive Directors receive a fixed annual basic salary and a bonus payment which is based on the company's underwriting result in the previous year. In 2017, the members of the Board of Executive Directors were paid a total remuneration of Euro 2,227,428 (previous year: Euro 3,184,390). This amount is broken down as follows: Euro 549,654 (previous year: Euro 928,873) was paid in fixed compensation. Variable compensation amounted to Euro 1,642,500 (previous year: Euro 2,200,000). A reserve had been constituted for this purpose at the end of the previous year. In addition, the members of the Board of Executive Directors received other compensation in the form of non-cash benefits, such as the use of a company car and insurance coverage. The monetary value of such other compensation was Euro 35,275 (previous year: Euro 55,517).

The expense from increasing the pension reserve for active members of the Board of Executive Directors amounted to Euro 720,521 (previous year: income of Euro 1,788,131). No loans or advances were granted. The members of the Board of Executive Directors do not receive compensation for serving on the supervisory and management committees of Group companies. A reserve has been constituted for benefits owed to members of the Board of Executive Directors who left the company.

Payments amounting to Euro 1,496,995 (previous year: Euro 1,482,047) were made to former members of the Board of Executive Directors or their dependants. The provisions for pensions payable to such persons as at 31 December 2017 totalled Euro 25,388,123 (previous year: Euro 23,956,828).

Fixed remuneration paid to the members of the Supervisory Board totalled Euro 44,291 (previous year: Euro 79,525).

Shareholdings in our company

"General Reinsurance Corporation, Wilmington, Delaware/USA, holds 100 % of the voting share capital of General Reinsurance AG and has informed us of this in accordance with § 20, section 4 German Stock Corporation Act. In relation to this corporation we are a dependent company in accordance with § 17 German Stock Corporation Act. We are thus an affiliate of General Re Corporation, Wilmington, Delaware, USA, and its subsidiaries. The company is included in the consolidated accounts of General Re Corporation.

Berkshire Hathaway Inc., Omaha, Nebraska/USA, has held the majority of shares in General Re Corporation since December 1998, meaning that we are an affiliate of Berkshire Hathaway Inc. and its subsidiaries. General Reinsurance AG is included in the consolidated accounts of Berkshire Hathaway Inc. These consolidated accounts are disclosed at the U.S. Securities and Exchange Commission, Washington, DC, USA.

Pursuant to the waiver stipulated in § 292 German Commercial Code General Reinsurance AG does not compile consolidated financial statements. Reference is made to the consolidated accounts of Berkshire Hathaway Inc. which is compiled on a US-GAAP basis and will be published in the electronic Federal Gazette as well as the CSR report.

The main differences between US-GAAP and German statutory regulations are explained in the following section:"

Important differences between the regulations of the German Commercial Code (HGB) and US GAAP

Reinsurance business

- US GAAP requires acquisition costs to be deferred; this is not permitted by the German Commercial Code (HGB) (§ 248 HGB).
- The equalization reserve and provision for major risks required by German accounting principles are not included as reserves under US GAAP, since they do not involve liabilities to third parties at the balance sheet date. This gives rise, on the one hand, to higher shareholders' equity and, on the other hand, to greater volatility in the result for the period recognized under US GAAP.
- For the purpose of measuring the loss reserves US GAAP permits portfolio measurement. This contrasts with the principle of individual measurement required under German commercial law. In addition, under US GAAP the reserve is to be established in accordance with the best estimate principle, whereas HGB expressly requires prudent measurement (§ 252 HGB).
- The reinsurance recoverables on the loss reserves are shown as an asset under US GAAP and are not deducted from the loss reserves.
- Under US GAAP the premium income in life insurance is reduced by the savings elements – only the premiums collected to cover the technical risk are recognized under premium income. Actuarial reserves established in the balance sheet are netted with funds held by ceding companies, insofar as netting is contractually permissible.

Investments

- The measurement of investments at fair values as well as the open recognition of unrealized gains and losses in group shareholders' equity under US GAAP run contrary to the cost method specified in § 253 HGB.
- Investment funds (Spezialfonds) are entities that must be consolidated under US GAAP. Through inclusion of these investment funds in the consolidated financial statements the securities held within the funds are treated as direct holdings (look-through accounting). This means that income and expenses are recognized in the consolidated financial statement at the time of their accrual, whereas the provisions of German commercial law are geared to the time of distribution.
- Under US GAAP investments are written down if the impairments are not temporary. This contrasts with the depreciation rules of the German Commercial Code, under which an asset allocated to current assets is to be measured at acquisition cost or at the value on the balance sheet date if this is lower (§ 253 HGB). Under the rules of § 341b HGB securities allocated to long-term assets are to be written down only in the event of permanent impairment. What is more, when measuring the impairment to be taken on units in investment funds (Spezialfonds) HGB requires that portfolio effects be recognized, while the consolidation of investment funds under US GAAP results in the measurement of individual instruments.
- The provisions of German commercial law require write-ups to be made on investments up to cost of acquisition. Such write-ups are not permissible under US GAAP.

Other provisions

- Under HGB pension provisions are discounted according to the Act on the Modernization of Accounting Law (BilMoG) using a market interest applicable to a duration of 15 years, which is provided by the German Central Bank (§ 253 HGB). Under US GAAP the discount rate is geared to long-term loans by AAA-issuers.
- Under HGB provisions with a duration of more than one year are discounted with the corresponding average market rate over the past seven years (§ 253 HGB). The interest rates are provided by the German Central Bank. This procedure is not permitted under the rules of US GAAP.

Currency translation

- The principle of functional currencies under ASC 830 results in parts of the translation gains / losses being recognized in equity under US GAAP.
- Based on the German imparity principle, unrealized exchange losses are to be recognized in income, whereas exchange gains may only be recognized upon realization. In accordance with US GAAP exchange gains and losses are recognized in the period of accrual.

Audit Fees

A total of Euro 1,303,000 (previous year: Euro 1,632,032) was expensed for audit fees in the financial year. There was no expenditure for other confirmation services or other services performed by the auditors (previous year: Euro 0).

Contingent liabilities and other liabilities

We are a member of the Association for the Reinsurance of Pharmaceutical Risks and the Association for the insurance of German Nuclear Reactors. In the event of one of the other members failing to meet its liabilities, we are required to take over such other member's share within the framework of our quota participation. Following the dissolution of the German Aviation Pool on 31 December 2003, we are participating in the run-off of the remaining treaty relationships. As at 31 December 2017 there were no accounts payable resulting from contingent liabilities relating to investments (previous year: Euro 0).

By way of deeds of guarantee the company is obliged to provide the entities below with sufficient financial resources to fulfil their liabilities at all times. The liquidity planning of these companies indicates that positive cash flows will be generated in the following years. Therefore, we do not expect any claims arising out of the deeds of guarantee.

General Reinsurance Life Australia Ltd., Sydney
General Reinsurance Africa Ltd., Capetown

As at 31 December 2017, other liabilities arising from leasing agreements amounted to Euro 12,350,540 (previous year: Euro 15,522,756).

No further transactions were effected, which are not shown in the balance sheet.

Related party disclosures

A party is defined as related to an entity if the party controls, is controlled by or is under common control with the entity, is able to exert a significant influence over the entity or has joint control over the entity (this includes parents, subsidiaries and fellow subsidiaries).

The immediate parent and ultimate controlling party respectively of the Group are General Reinsurance Corporation incorporated in Delaware/USA and Berkshire Hathaway Inc. incorporated in Nebraska/USA.

As a majority-owned company – and in view of the existing dependency and the absence of a control agreement or profit transfer agreement – General Reinsurance AG has drawn up a dependent company report on relations with affiliated companies in accordance with § 312 German Stock Corporation Act. All business relations with related parties are based upon arm's length principles.

To the extent that retrocession agreements were commuted in order to simplify administrative processes, arm's length conditions on the basis of internal and external actuarial opinions were applied.

Contracts for the outsourcing of services and functions were concluded at arm's length conditions according to the guideline on transfer pricing and service agreements across the Group. The guideline regulates the principles of inter-company services settlement as well as the distinction between chargeable services and stewardship expenses. The guideline defines the process and requirements of pricing, invoicing and documentation and thus contributes to an improved transparency, corporate-wide consistency and compliance. The agreed remuneration is generally accounted for on a full cost basis plus profit margin.

Loans, leases and other contractual agreements between related parties are based on arm's length conditions.

With effect from 1 January 2017, GRAG entered into a 20% quota share agreement with its parent, General Reinsurance Corporation. This covers all property and casualty business written by GRAG, its branches and subsidiaries.

Membership of associations

Our company is a member of the following associations:

- Gesamtverband der Deutschen Versicherungswirtschaft e.V., Berlin,
- Arbeitgeberverband der Versicherungsunternehmen in Deutschland, Munich.

List of affiliated Companies

	Name and residence	Share %	Shareholders' equity 1) Euro	Business year result 1) Euro
Affiliated companies	General Reinsurance AG - Escritório de Representacao No Brasil Ltda., São Paulo	100	1,183,160	195,292
	General Reinsurance Life Australia Ltd., Sydney	100	90,031,470	12,450,907
	General Reinsurance Africa Ltd., Cape Town	100	93,505,063	5,494,292
	General Reinsurance Beirut S.A.L. (Off-Shore), Beirut	100	463,792	101,513
	General Reinsurance México S.A., Mexico City	100	1,197,253	198,627
	Gen Re Support Services Mumbai Private Ltd. *	100	285,417	140,504

	Name and residence	Share %	Shareholders' equity 1) Euro	Business year result 1) Euro
Participations	ARGE FJA, KR BU-System, Munich	50	19,261	22,882
	Triton Gesellschaft für Beteiligungen mbH, Luxembourg 2) **	19	6,027,981	-113,328

1) Figures taken from last available Annual Report

2) In liquidation

*) Alternative fiscal year (31 March 2017)

**) preliminary

Supervisory Board

Manfred Seitz
Managing Director
Berkshire Hathaway Group of Insurance Companies
Reinsurance Division – International (Europe), Munich
Chairman (since 15 February 2017)

Stephen A. Michael (since 17 March 2017)
Chief Executive Officer
Faraday Underwriting Limited, London/UK
Deputy Chairman (since 15 February 2017)

Sandra Bell
Senior Vice President
Chief Human Resources Officer
General Re Corporation, Stamford, Connecticut/USA

Thomas A. Bolt (until 31 December 2017)
President UK & Southern Europe
Berkshire Hathaway International Insurance Ltd., London/UK
Chairman

Thomas Mosakowski* (since 17 March 2017)
Regional BCM Coordinator
General Reinsurance AG, Cologne

Frank Roselieb*
Client Accounting Specialist
General Reinsurance AG, Cologne

*Employees' representative

Board of Executive Directors

Dr. Winfried Heinen
Cologne
Chairman

Life/Health
*Actuarial**
Human Resources
Corporate Risk Management related to Investments
Marketing Development & Support

Achim Bosch
Odenthal

Property/Casualty, including Claims:
Europe except Branch Operations; Asia
*Actuarial**
Retrocession: Property/Casualty

Daniel Castillo
São Paulo/Brazil

Property/Casualty, including Claims:
European Branch Operations;
Latin America
*Actuarial**

Michael O'Dea (since 1 February 2017)
New York City, New York/USA

Finance (Accounting/Controlling/Tax)
Investments
Corporate Risk Management (excl. Investments)
Internal Audit
Technology & Operations
Legal/Compliance
Business Continuity Management

Janice C, Englesbe (until 16 June 2017)
Rowayton, Connecticut/USA

*Actuarial: Achim Bosch, Daniel Castillo and Dr. Winfried Heinen jointly responsible

Cologne, 5 March 2018

The Board of Executive Directors

Dr. Heinen

Bosch

Castillo

O'Dea

Independent Auditor's Report

To General Reinsurance AG, Cologne/Germany

Report on the audit of the Annual Financial Statements and of the Management Report

Audit Opinions

We have audited the annual financial statements of General Reinsurance AG, Cologne/Germany, which comprise the balance sheet as at 31 December 2017, and the statement of profit and loss for the financial year from 1 January to 31 December 2017, and the notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of General Reinsurance AG, Cologne/Germany, for the financial year from 1 January to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the non-financial statement pursuant to Sections 289b to 289e German Commercial Code (HGB) included in the chapter "Corporate Social Responsibility Reporting" of the management report.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its financial performance for the financial year from 1 January to 31 December 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the non-financial statement pursuant to Sections 289b to 289e German Commercial Code (HGB) specified in the chapter "Corporate Social Responsibility Reporting" of the management report.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) Point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following, we present the reserve for incurred but not reported (IBNR) claims that we classified as a key audit matter in the course of our audit.

Our presentation of these key audit matters has been structured as follows:

a) Description (including reference to corresponding information in the annual financial statements)

b) Auditor's response

Reserve for incurred but not reported (IBNR) claims (line of business: non-life)

a) The outstanding claims reserve includes a reserve for IBNR claims of mEUR 6,684 for claims or events that have transpired as at the balance sheet date but have not been reported until recorded as part of an inventory count. The IBNR claims are to be reported on a lump-sum basis by the entity in accordance with Sec. 341 (2) German Commercial Code (HGB). This measurement is required to also take into account historical experience of the entity in respect of both the number and the related expense of insurance claims that have been reported after the reporting date. In estimating the IBNR claims, the entity uses generally accepted actuarial methods, such as the chain ladder method or the Bornhuetter Ferguson method or the expected loss approach.

   The proper measurement of the IBNR claims in the form of a lump-sum estimate depends on the application of an appropriate actuarial method, the parameters used and the assumptions made as well as on one-off effects taken into account. The determination of the IBNR is thus subject to uncertainties of estimation and to judgement, which may result in an under- or overstatement of the IBNR claims reserve influencing the amount of the technical reserves in the financial statements. In addition, the uncertainty of estimation can result in a failure to account for income and expenses on an accrual basis. Overall, this may influence the result of the technical account. Therefore, this matter has been classified as a key audit matter.

   Information on the outstanding claims reserve is provided in the notes to the financial statements in the Chapter "Technical Reserves".

b) During our audit we performed, as the basis for our audit, a process analysis followed by an evaluation of the operating effectiveness, design and implementation of relevant controls. Furthermore, we assured ourselves through tests of details on a sample basis of the account settlements with ceding insurers that claims were properly recorded and processed.

   As regards the process of the underlying data extraction, we monitored the preparation of the abstract from the data maintenance system as at the reporting date. This also included monitoring the performance of controls as regards completeness and accuracy of the data extraction.

For auditing the computation of the IBNR claims we assign internal experts (actuaries). Our experts recalculate the IBNR claims by means of actuarial methods. Thereby, a range of reasonable IBNR claims results is determined which is derived from appropriate upper and lower limits subject to defined parameters and assumptions. The results of the recalculation are then compared with the IBNR claims determined by the entity.

The assumptions and the parameters, which are taken into account in the actuarial computation of the IBNR of the entity, are reviewed and discussed both with the employees of the actuary function of the entity and assessed and reviewed with objectivity by our internal experts. The quality of the IBNR estimate is reviewed by obtaining an understanding of the actual settlement – also during the year – in the course of time.

Furthermore, the computation and the development of the IBNR are discussed both with the chief actuary and with the entity's Executive Board.

Other Information

The executive directors are responsible for the other information. The other information comprises

- the non-financial statement pursuant to Sections 289b to 289e German Commercial Code (HGB) included in the chapter "Corporate Social Responsibility Reporting" of the management report, and
- the remaining parts of the Annual Report, with the exception of the audited annual financial statements and management report and our auditor's report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

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

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

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

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

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

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

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

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements

and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company’s position it provides.
- perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the Supervisory Board on 17 March 2017. We were engaged by the supervisory board on 17 March 2017. We have been the auditor of General Reinsurance AG, Cologne/ Germany, without interruption since the financial year 1999.

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

German Public Audior Responsible for the Engagement

The German Public Auditor responsible for the engagement is Rouven Schmidt.

Düsseldorf, 6 March 2018

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Schenke)	(Schmidt)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Supervisory Board Report

Dear Sir or Madam,

The Supervisory Board held altogether four meetings in 2017.

At the meetings the Supervisory Board was informed in a detailed and timely manner by the Board of Executive Directors about the company's current business policy and, in particular, its underwriting and investment policy. In addition, developments in international reinsurance markets, the implementation of corporate policy, the performance of the company's business, the results of individual business units, the development of management expenses and the financial planning were the subject of thorough discussion.

The Board of Executive Directors fully satisfied its disclosure and reporting duties to the Supervisory Board and in this regard presented, in particular, the annual planning as well as interim and annual results. The Supervisory Board was informed of all business transactions of major importance.

The other main points of deliberation in the 2017 business year were as follows:

- The development of financial markets and the investment policy: In particular, an amended version of the Master Investment Guidelines was approved.
- Restructuring: the Supervisory Board was informed in advance about the upcoming restructuring measures and the concomitant negotiation of a social compensation plan.
- Risk management and activities in relation to Solvency II: the Supervisory Board received detailed information on the development of the solo and group solvency of General Reinsurance AG and, in particular, regarding the progress of the first annual Solvency II submission, including the reporting required by the regulator. The Compliance Function Policy, the Compliance Risk Assessment and the Compliance Plan for 2017 with regard to Solvency II requirements were discussed at length by the Supervisory Board.
- Legal developments: the Supervisory Board was kept updated on, among other things, the company's General Data Protection Regulation (GDPR) readiness project.
- The findings of the audits conducted by the Internal Audit function and its envisaged new audit concentrations were presented to the Supervisory Board and subjected to the latter's critical assessment.
- Contractual matters, remuneration arrangements, bonus payments, the assessment of individual performance as well as new individual targets for the members of the Board of Executive Directors were discussed and determined. The collective and individual fit and proper assessment of the members of the Board of Executive Directors and of the newly elected Supervisory Board members was reviewed and confirmed.
- Amendments to the Articles of Association and adjustments to the rules of procedure for the Supervisory Board and the Board of Executive Directors were adopted.
- Gender diversity on the Board of Executive Directors and the Supervisory Board: the Supervisory Board unanimously resolved that by 30 June 2022 the proportion of women on the Board of Executive Directors and the Supervisory Board shall correspond to or exceed the status quo.

Annual Financial Statement, Report on Relations with Affiliated Companies, Executive Directors' Report

At the meeting on 21 March 2018 the Supervisory Board was informed about the course of business and the results in 2017. The Supervisory Board considered the annual financial statement prepared by the Board of Executive Directors and the Board of Executive Directors' report on relations with affiliated companies.

The annual financial statement and the Executive Directors' report, including the accounting methods, were audited and given an unqualified audit opinion by Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf. The auditors reported to the Supervisory Board on the course and outcome of their audit. Individual focal points of the audit were discussed at length. The annual financial statement, the Board of Executive Directors' report on relations with affiliated companies, supplementary financial records and the audit reports of the external auditor were submitted to the Supervisory Board without delay.

After the financial statement and the Executive Directors' report had been considered in detail and discussed in the presence of the auditors, the Supervisory Board adopted the annual financial statement and approved the Executive Directors' report as submitted.

The Board of Executive Directors proposed to the Supervisory Board that it should be recommended to the Ordinary General Meeting that a dividend of Euro 3.64 per share should be distributed (Euro 200,200,000) and that the remaining net income should be carried forward. The Supervisory Board discussed this proposal and approved the recommendation to be put forward to the General Meeting by the Board of Executive Directors.

The Board of Executive Directors' report on relations with affiliated companies was audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, and certified as follows:

"Based on our audit and assessment in accordance with professional standards, we confirm that the actual disclosures in the report are correct, that the compensation rendered for the legal transactions stated in the report was made at the then prevailing market conditions (arm's length)."

The Supervisory Board examined the report submitted by the Board of Executive Directors and the audit report of the external auditor. Having conducted a critical assessment, it concurred with the auditors' opinion. The Supervisory Board raised no objections to the declaration of the Board of Executive Directors at the end of its report on relations with affiliated companies.

The Supervisory Board appointed Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, as the external auditor for the 2018 business year.

Changes on the Supervisory Board

Upon conclusion of the Ordinary General Meeting on 17 March 2017 all terms of office on the Supervisory Board ended as scheduled.

The election of the employee representatives was held on 16 February 2017. Mr. Thomas Mosakowski and Mr. Frank Roselieb were elected as employee representatives to the Supervisory Board.

The election of the shareholder representatives on the Supervisory Board took place at the General Meeting on 17 March 2017. The General Meeting approved the proposal of the Supervisory Board that Ms. Sandra Bell, Mr. Thomas A. Bolt, Mr. Stephen A. Michael and Mr. Manfred Seitz should be elected to the Supervisory Board.

At the constitutive meeting of the Supervisory Board held subsequent to the General Meeting on 17 March 2017, Mr. Bolt was re-elected as Chairman of the Supervisory Board and Mr. Seitz was elected as his Deputy. Mr. Bolt has since resigned from the Supervisory Board with effect from 31 December 2017.

On 15 February 2018 Mr. Seitz was elected as Chairman of the Supervisory Board and Mr. Michael was elected as his Deputy.

Further Personalia

Mr. Michael O'Dea was appointed as a member of the Board of Executive Directors with effect from 1 February 2017.

With effect from 16 June 2017, Ms. Janice C. Englesbe resigned from the Board of Executive Directors. The Supervisory Board extends its thanks to Ms. Englesbe and Mr. Bolt for their trusting cooperation and successful contribution and wishes them every success in the future.

Word of Thanks

The Supervisory Board would like to thank the Board of Executive Directors and the employees of General Reinsurance AG for their commitment, which enabled the company to develop successfully in a challenging business environment.

Cologne, 21 March 2018

Manfred Seitz

(Chairman of the Supervisory Board)

The people behind the promise®

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genre.com