Gothaer

Gothaer Group
Annual Report 2019

Three-year comparison

€ million

	Financial Year		
	2019	2018	2017
Gross premiums written	4,524.6	4,382.8	4,290.7
Earned premiums net of reinsurance	4,164.5	3,976.6	3,919.2
Retention ratio (as %)	92.1	91.1	91.7
Claims expenses net of reinsurance	3,183.2	3,251.5	3,093.5
Change in other net underwriting reserves	1,184.3	222.6	843.9
Underwriting expenses net of reinsurance	737.7	736.9	728.6
Net income for the year	115.0	118.7	211.5
Return on equity (as %)	9.5	10.8	22.7
Investments	29,473.4	28,745.8	28,264.4
Investment result	994.0	885.2	1,296.7
Net return (as %)	3.4	3.1	4.7
Underwriting reserves (net)	27,863.5	27,301.8	26,623.2
Equity	1,263.7	1,159.2	1,035.6
Subordinate liabilities	299.7	299.7	299.7
Employees (average number)	4,744	5,412	5,563

The Gothaer Group

With over 4.1 million members and premium income of € 4.52 billion, the Gothaer Group is one of Germany's major insurance groups and one of the country's largest mutual insurance associations. All lines of insurance are offered, whereby Gothaer focuses on providing high-quality personal advice to ensure that the result is perceptible added value for our customers and marketing partners. Gothaer customers essentially comprise private clients and small and medium-sized businesses. For both of these groups – as well as for freelance professionals and the self-employed – we offer a wide range of cover concepts. This year, Gothaer celebrates its bicentenary and is thus one of the oldest mutual insurance companies in Germany.

Gothaer's positioning is based on the principle "Mehrwert durch Gemeinschaft" (Added Value through Community). In addition, the Group's legal form proves to be a major advantage when it comes to focusing on its commitment. Being a mutual insurance association, Gothaer is committed to its community of insureds only – not to any shareholders. Thanks to this independence, the Gothaer Group is in a position to act long-term and sustainably solely in the interest of its customers.

The Business Units

The Group parent is **Gothaer Versicherungsbank VVaG,** a mutual insurance association. The Group's financial activities are managed by Gothaer Finanzholding AG. Operational activities are handled mainly by the companies listed below:

Gothaer Allgemeine Versicherung AG is the largest risk-bearing entity in property and casualty insurance within the Gothaer Group and regards itself a digital risk and service partner. This company has ranked among the largest German property insurance companies ever since its foundation in the year 1820. Classical single-line products aside, its focus is primarily on combined insurance concepts and multiple-risk products. Custom solutions that take into account the specific requirements of different branches of business and industry make Gothaer a reliable partner not only for private clients, but also for commercial customers from mid-sized companies and industry. Gothaer responds immediately to latest trends and developments so as to launch innovative product solutions onto the market: to cover cyber risks, for instance, suitable products and services are offered for the specific needs of private customers and industrial clients. During the product development process itself, the utmost importance is attached to simple, easy-to-understand products and process automation systems so that response times can be minimized for the benefit of the customer. In this context, digitalization and the development of relevant concepts are given high priority. The very good product positioning in private-customer business is regularly confirmed by the corresponding product ratings of renowned institutes, like Germany's Finanztest and Ökotest magazines. Motor insurance encompasses comprehensive mobility solutions for a wide range of risks from e-scooters to major vehicle fleets with future-proof climate protection features and offers customers the option of offsetting the carbon footprint of their own car. In hunting-liability insurance and in the insurance of onshore wind farms, Gothaer Allgemeine Versicherung AG has positioned itself as market leader with its product solutions and experience. Regional contacts and local specialists ensure the necessary professional competence for customized solutions. In the corporate customer segment, we may highlight our expertise in risk management and international insurance programmes. To offer our customers added value, we pursue a strategy of cooperative partnerships along the entire value chain.

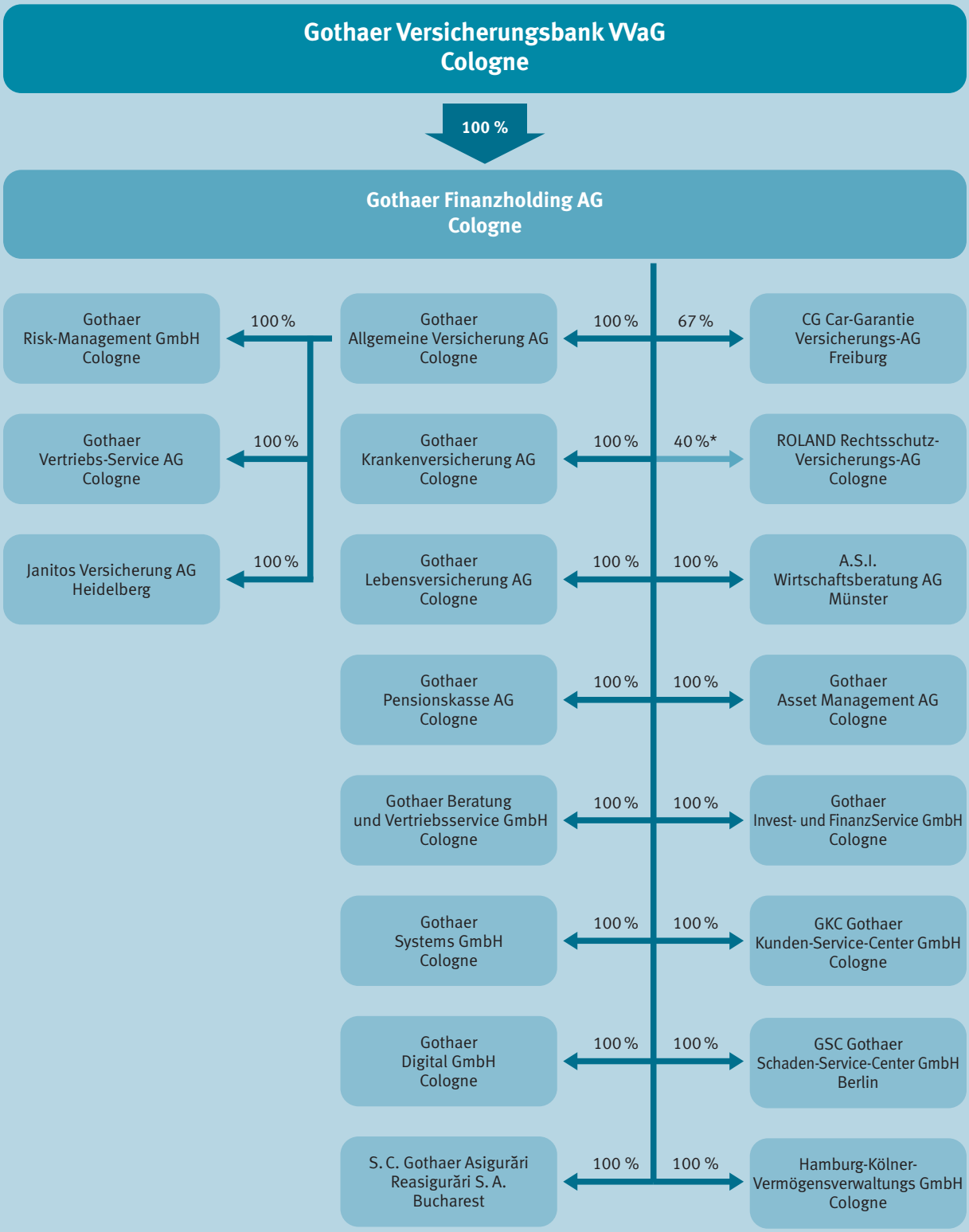
Gothaer Lebensversicherung AG has been a partner for insurance protection, financial planning strategies and investment advice for nearly 200 years. It focuses systematically on biometrics and capital-efficient products, which are strategic business fields, as well as on company pension schemes. In recent years, the percentage of new business generated within these fields has steadily increased. This strategic gearing has proven beneficial in the current low-interest situation and addresses the requirements of Solvency II. In the area of private pension provision, the single-premium product Gothaer Index Protect that was launched in 2017 continued to be a great success last year, confirming it to be an attractive solution in a low-interest environment. In the field of biometric products, Gothaer Lebensversicherung AG has established itself as a manpower insurer with a range of product options for different target groups. In addition to a competitive product range, the company offers a continuous stream of process optimizations and successively developed prevention programmes. Prevention programmes help customers maintain their long-term fitness for work. The GoVital Bonus, for instance, helps boost motivation for more health-conscious behaviour. Company pension scheme business gained in importance in 2019. On the product side, Gothaer Lebensversicherung AG offers attractive pension solutions that are easy to implement for employers of any size. To ensure continued growth in the field of company pension schemes, the focus in the years ahead will be on digitalization and the automation of processes and services.

Gothaer Krankenversicherung AG is the partner for modern health insurance cover. The company caters for the trend towards greater health awareness as well as public demand for healthcare services and increasingly develops services that permit access to high-quality, effective care. The top priority in this context is to provide the best possible support to clients in terms of health protection and convalescence. Under the motto gothaer.einfach.gesund (gothaer.simply.healthy), Gothaer Krankenversicherung AG has thus embarked on the journey to positioning itself as a health service provider and underlined the fact by launching a new health app for digital health services – for instance, digital consulting hours without waiting time or the launch of the Vivy digital health record – and authoritative health advice. Comprehensive health insurance thus remains a major pillar of business for Gothaer Krankenversicherung AG because, with an eye on the future, it is the only insurance that guarantees a stable level of health protection benefits. At the same time, the public financing challenges faced in the German health system are heightening the significance of policies that supplement statutory health insurance. Gothaer continues to see considerable growth potential here because not only private clients see the value of private insurance; employers also increasingly acknowledge healthcare services for employees, and thus company health insurance schemes, as a motivating and loyalty argument. Here too, Gothaer Krankenversicherung AG is extending its lead in the market and its corporate product range with the addition of far-reaching company health management services.

Janitos Versicherung AG is a powerful broker insurer based in Heidelberg. This means that the company's main target group comprises brokers, broker pools and broker networks as well as financial service providers. All processes and services of the company are geared to cater to the requirements of this target group. In this regard, our digitalization strategy focuses on automation and technical interfaces to our distribution partners. A modern IT infrastructure, appropriate management and support models and excellent product positioning are the major building blocks of Janitos' strategy. The product portfolio of Janitos Versicherung AG is geared mainly to the Property/Casualty lines accident, private liability, comprehensive householders and motor insurance. In product ratings and broker surveys, the company regularly scores successes and occupies a very good position as an established broker brand in Germany and Austria.

With nearly 50 years of experience and premium revenues running to around € 200 million a year as well as a market presence in 21 countries, **CG Car-Garantie Versicherungs-AG** ranks among the most experienced specialist insurers for guarantee and customer loyalty programmes in Europe. More than 40 manufacturers/importers and over 23,000 dealers have confidence in the guarantee specialist's high service quality and custom guarantee programmes for new and used vehicles. As a reliable partner, the company focuses on stability and permanency. According to an independent study by market researcher Finaccord, CG Car-Garantie Versicherungs-AG is one of the foremost manufacturer-independent suppliers of guarantee insurance. The specialist insurer's services appeal to a growing number of dealers and vehicle buyers – so the company is perfectly poised to strengthen its market position even more.

The Gothaer Group



* Total Group interest
For purposes of clarity, shareholding structure simplified.

January 2020

Gothaer Versicherungsbank VVaG
Group Annual Report

Report for the Financial Year as of
1 January to 31 December 2019

Registered Office of the Company
Arnoldiplatz 1
50969 Cologne/Germany

Cologne Local Court, HRB 660

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NB: For better legibility, we have refrained from using gender-neutral language.
All personal references are non-gender-specific.

200 years of tradition and innovation

Prof. Dr. Werner Görg,
Chairman of the Supervisory Board
of the Gothaer Group

Steeped in tradition, yet as vibrant as ever – the Gothaer brand is celebrating its 200th anniversary. The bicentennial, to be celebrated on 2 July 2020, offers an excellent opportunity to remember the company's founding idea. For though it was established two centuries ago, the Gothaer founding principle is as significant today as it was then: Gothaer was founded by merchants for merchants. In the event of damage or loss, no individual should be left out in the cold but helped by a collective effort. Today, too, mid-sized businesses are a significant and ever growing target group. But private cover for customers is an important business field as well. A combination of tradition and innovation, long-term thinking, continuity and the idea of solidarity – this is what Gothaer stands for to this very day.

When Ernst Wilhelm Arnoldi founded the "*Feuerversicherungsbank für den deutschen Handelsstand*" (fire-insurance bank for the German merchant class) in Gotha, Thuringia, in 1820 by merchants for merchants, he implemented the idea of mutual help: the collective bears the load of the individual. The liberal basic idea of mutual help and solidarity between members has proved its worth until today. Under the principle "*Die Kraft der Gemeinschaft*" (the power of community), the Group has set itself the goal of bringing this community spirit back into focus.

True to this tradition, Gothaer has always been committed to helping its customers through times good and bad. This principle has been valid in the past, the present and will be in future so that giving up the life insurance business – especially as a mutual insurance association – would never have been a viable option. It is a sign of strength that the Group has successfully mastered all challenges – be they of a regulatory nature or caused by low interest rates, for example – without outside help.

Under the motto "*Den Wandel durch Innovationen gestalten*" (shaping change through innovation), every year is a new challenge. Be it wars, inflation or even complete expropriation – Gothaer has confidently overcome all crises and challenges in its 200-year history and adapted flexibly to new situations. At a very early stage, Gothaer dealt extensively with all aspects of digitalization. The streamlining and automation of work processes, the development of new business fields and the establishment of ecosystems in which insurers cooperate with companies from outside the industry are at the forefront here. A further focus is on consistent product design in accordance with the principles of Solvency II. In this respect, precisely formulated return and equity requirements are included as calculation elements in the product design. This ensures that we will also be able to meet the financially justified requirements of Solvency II in the area of life insurance over the long term, irrespective of interest rate developments. Following the planned consolidation phase and the restructuring of the product portfolio at Gothaer Lebensversicherung, combined with a conscious acceptance of premium losses, everything has been pointing to growth in all segments since 2018. The development of sales in 2019 is impressive proof of this. At the same time, our financial strength was boosted. Our closed cost-cutting programme ensures stable earnings.

Finally, the Group is firmly and permanently committed to the requirements of sustainable corporate management. This sustainable and socially responsible approach includes its own corporate management and, at the same time, an alignment of investments matched to these principles.

On behalf of the entire Supervisory Board, I would like to take this opportunity to thank all employees for the very positive development of the Gothaer Group in 2019. My special thanks go to the independent sales force, which once again delivered outstanding sales performance in 2019. This sales channel, which is linked to the Gothaer Group in a special way, will be of particular importance in the long run.

Yours,

200 years of Gothaer – 200 years of change

Dr. Karsten Eichmann
Chief Executive Officer
of the Gothaer Group

The Gothaer Group is entering its anniversary year with a very successful 2019 balance sheet: equity capital at the end of the year was € 1.26 billion, an increase of 9.0 percent. Gross premiums written at Group level grew 3.2 percent to over € 4.52 billion. In this regard, all segments played an important role (the premium development of the sold Polish subsidiary is not taken into account here). Altogether, 2019 was one of the most successful years in terms of sales in the history of Gothaer. In this respect, the measures clearly focused on the future: a significant contribution to this success came from a further expansion to a more agile organization, a renewed strengthening of our financial stability and Group solvency, a reorientation of Gothaer Lebensversicherung AG with an updated product range and growth through innovative products such as our supplementary insurance policies offered by Gothaer Krankenversicherung AG or Cyber from Gothaer Allgemeine Versicherung AG.

Accordingly, the international rating agency S&P Global Ratings confirmed the rating results of Gothaer Allgemeine Versicherung AG, Gothaer Lebensversicherung AG and Gothaer Krankenversicherung AG with 'A–' in September 2019 and raised the outlook from 'stable' to 'positive'. By raising the outlook, analysts also acknowledged the increased capitalization. It was thus recognized that the Gothaer Group is continuing on its course of value-driven corporate management and that the Group continues to focus on earnings over growth. The successes scored in restructuring the product portfolio and increasing capital resources as well as the strong market position of the Gothaer Group with its broad positioning are thus being rewarded.

The Gothaer 2020 strategy set in 2016 is on track. The Gothaer 2020 strategy was implemented with a focus on better equipping Gothaer to meet future challenges and to position it as a cost-efficient and value-oriented organization. Of course, solid capital investment, an expansion of its market position under a very strong Gothaer brand and the topic of digitalization played an important role here. The goal was and remains to consistently align our business model with customer expectations and the growing demands of an increasingly digitalized world. Currently, we are developing our strategy that will be designed to guide and steer Gothaer until 2025.

One major goal for the coming years is for Gothaer to become even more committed in the area of sustainability. As an integral part of society and fully aware of our obligations towards our environment, we are tackling the issues of sustainability and sustainable corporate management consistently and more systematically. A major focus is on the environment and nature conservation. As early as the first half of 2020, we will initially make the Group's Cologne location carbon-neutral. In addition to our energy, water and paper consumption already included in the Life Cycle Assessment, our extensive carbon footprint prepared for this purpose will also shed light on the topic of mobility within the Group. On this basis, we can then continuously reduce Gothaer's CO_2 footprint further.

Ernst Wilhelm Arnoldi founded the "*Feuerversicherungsbank für den deutschen Handelsstand*" (fire-insurance bank for the German merchant class) as one of the first mutual insurance companies operating throughout Germany on 2 July 1820. He thus implemented the idea of mutual help: the community bears the load of an individual. Gothaer has thus practised the principle of mutuality for 200 years. On the occasion of our 200th anniversary there will be numerous opportunities both this year and next to celebrate and review our past: a road show of our history will be held across Germany and a future congress will look at the coming decades and centuries.

Big issues for us in the coming years will be our willingness to change and the adaptability of our entire organization. Not only the dynamics of change but also the demands of customers on their insurance company have been increasing for years. Persistently low interest rates, the entry of competitors from outside the industry and the associated struggle for customer acquisition are reason enough to look into innovative product solutions and new business models. In future, it will be even more decisive who is able to meet customer expectations best and quickest. For two centuries, Gothaer has proven that it can master the most diverse challenges sustainably and successfully. This success makes us strong and drives us forward, but it is also an obligation for the future.

The main pillars of our joint success are our employees, our exclusive sales representatives and our cooperation partners. Thanks to them, we have been mastering all challenges together and successfully for 200 years now. Their knowledge and commitment have contributed to the Gothaer Group being able to present a very successful financial year in 2019, too. These successes were only possible thanks to the commitment, the high level of cooperation and willingness to change displayed by our employees and marketing partners. I wish to express my sincere thanks for this – also on behalf of the entire Management.

Yours,

Representatives of Members

Wilm-Hendric Cronenberg Chairman	Managing Partner of Julius Cronenberg o. H.
Knut Kreuch Vice Chairman	Mayor of the City of Gotha
Jürgen Scheel Vice Chairman	Chairman of the Management (retd.) of Kieler Rückversicherungsverein a. G.
Quentin Carl Adrian	Tax accountant of dhpg Dr. Harzem & Partner mbB
Heiner Alck	Physical therapist
Peter Arndt	Diplom-Ingenieur
Christina Begale	Consultant
Helmut Berg	Pensioner
Werner Dacol	Real Estate Valuer
Sabine Engler	Diplom-Kaufmann
Andreas Formen	Diplom-Betriebswirt
Dr. Jörg Friedmann	Lawyer, Law firm Dr. Friedmann & Partner mbB
Dr. Vera Nicola Geisel	Head of Executive Board Affairs & Executives Contracts, Corporate Function People Development & Executives Management of ThyssenKrupp AG
Dr. Benno Gelshorn	Specialist in General Medicine
Beate Gothe	Head of Finance and HR of Heinz Gothe GmbH & Co. KG
Birgit Heinzel	Master craftswoman in ophthalmic optics and auditory acoustics, Managing Director of HEINZEL Sehen + Hören
Norbert D. Hüsson	Betriebswirt, Master painter, Managing Partner of Hüsson FGB GmbH
Bernd Kieser	Diplom-Kaufmann, Managing Director of BK Consulting GmbH
Wolfgang Klemm	Chamber musician (retd.)
Dr. Hans-Werner Lange	Chief Executive Officer of TUPAG-Holding-AG
Prof. Dr. Claus Luttermann	Vice-Dean of the Economics Faculty of the Catholic University of Eichstätt-Ingolstadt
Hans Mauel	Chairman of the Board of Stiftung der Cellitinnen zur hl. Maria
Rudolf Nüllmeier	Diplom-Finanzwirt, Tax accountant (retd.)

Uwe von Padberg	Diplom-Kaufmann, Managing Director of Creditreform Köln v. Padberg KG
Ilse Peiffer	Secretary
Annegret Reinhardt-Lehmann	Managing Director of Wirtschaftsverband Wirtschaftsinitiative FrankfurtRheinMain e. V.
Dr. Roland Reistenbach	Dentist
Peter Riegelein	Diplom-Kaufmann, Managing Partner of Hans Riegelein + Sohn GmbH & Co. KG
Prof. Dr. Torsten Rohlfs	TH Köln/University of Applied Sciences, Institute of Insurance Studies (ivw Cologne)
Dr. h. c. Fritz Schramma	Former Lord Mayor of the City of Cologne
Astrid Schulte	Member of the Board of Heraeus Bildungsstiftung, as of 5 July 2019
Birgit Schwarze	President of DSSV e. V. Arbeitgeberverband deutscher Fitness- und Gesundheits-Anlagen
Walter Stelzl	Pensioner
Dr. Katrin Vernau	Director of Administration of WDR Westdeutscher Rundfunk Köln
Sabine Walser	Head of Publishing of P. Keppler Verlag GmbH & Co. KG
Dr. Marie-Luise Wolff	Chief Executive Officer of ENTEGA AG

Honorary Chairman

Dr. Karlheinz Gierden	Oberkreisdirektor (district chief executive officer) and bank director (retd.)

Supervisory Board

Prof. Dr. Werner Görg Chairman	Lawyer
Carl Graf von Hardenberg Vice Chairman	Chairman of the Supervisory Board of Hardenberg-Wilthen AG
Urs Berger	Chairman of the Administrative Board of Schweizerische Mobiliar Holding AG and Schweizerische Mobiliar Genossenschaft
Gabriele Eick	Owner of business consultancy Executive Communications
Prof. Dr. Johanna Hey	Director of Institut für Steuerrecht of Cologne University
Jürgen Wolfgang Kirchhoff	Diplom-Ingenieur, Managing Partner and COO of KIRCHHOF Holding GmbH & Co. KG

Honorary Chairmen

Hansgeorg Klanten	Director (retd.)
Dr. Roland Schulz	Former Managing Partner of Henkel AG & Co. KG a. G.

Management

Dr. Karsten Eichmann
Chairman

Oliver Brüß

Dr. Mathias Bühring-Uhle

Harald Epple

Michael Kurtenbach

Dr. Christopher Lohmann

Oliver Schoeller

The list of names of members of the Supervisory Board and Management consists of information to be provided in the notes to the financial statements pursuant to section 314(1) No. 6 of the German Commercial Code (HBG).

Advisory Board Gothaer Versicherungsbank VvaG

Andreas Barth	Diplom-Ingenieur, Managing Director of OMEGA Blechbearbeitung GmbH
Klaus Michael Baur	Publisher and Editor in Chief of Badische Neueste Nachrichten Badendruck GmbH
Daniel Beck	Commercial Director of Hans Adler ohG, up to 31 December 2019
Prof. Dr. Dr. h. c. Axel Ekkernkamp	Medical Director / Managing Director of Unfallkrankenhaus Berlin, up to 30 April 2019
Daniel Friedrich	Managing Director of Friedrich & Sohn Transport / Spedition GmbH
Dr. Ulrich Gauß	Chairman of the Management of VPV Lebensversicherungs-AG
Lorenz Hanelt	Executive Officer of Delvag Versicherungs-AG
Hans Jürgen Hesse	Managing Partner of Hesse GmbH & Co. KG
Willi Hullmann	Chairman of Kölner Wohnungsgenossenschaft eG
Thomas Kemp	Diplom-Kaufmann, Managing Director of Reinert Gruppe Ingredients GmbH
Hans-Dieter Kettwig	Managing Director of Enercon GmbH
Clemens Klinke	Executive Officer of DEKRA SE
Dr. Karsten Kölsch	Executive Officer of Ahlers AG
Rainer Lehmann	Executive Officer of Sartorius AG
Timo Freiherr von Lepel	Managing Director of NetCologne GmbH
Dr. Michael Maxelon	Chairman of the Management of Städtische Werke AG Kassel
Andreas Mosler	Diplom-Betriebswirt, Diplom-Wirtschaftsinformatiker, Chairman of the Supervisory Board of AEP AG
Goetz Neumann	Chairman of Pensionskasse der Wacker Chemie VVaG
Rüdiger Otto	Managing Director and Owner of A. Otto & Sohn GmbH & Co. KG, as of 1 January 2019
Wolfgang Öxler	Archabbot of the Benedictine Abbey St. Ottilien
Dr. Melanie Peterhoff	Managing Partner of F. J. Peterhoff Beteiligungs-GmbH, as of 1 May 2019

Dr. Peter Ramsauer	Diplom-Kaufmann
Thomas Regge	Managing Director of Mittelrhein-Verlag GmbH, as of 1 January 2020
Hermann Reichenecker	Managing Partner of Storopack Hans Reichenecker GmbH
Erich Staake	Diplom-Kaufmann, Chairman of the Management of Duisburger Hafen AG
Thomas Wahl	Managing Partner of Alfred Wahl KG, up to 31 December 2019
Hans-Joachim Zinser	Managing Partner of Modehaus Zinser GmbH & Co. KG, up to 31 December 2019

Group Management Report

The statements contained in this report on the development of the insurance industry and investment activity were made at the end of January or the beginning of February 2020. They are thus based on information available before the onset of the coronavirus crisis. Because of the dynamic nature of the situation, the impacts that the pandemic will have on the global economy and the German insurance sector are constantly being reassessed. Consequently, it was not possible or feasible to update the statements. For a more detailed appraisal of the coronavirus crisis and its possible impacts on our future business, please refer to "Events of special significance" in the notes to the financial statements.

The remarks on actuarial practice contained in the sections of the Group Management Report on the development of business, outlook and opportunities and risks of future development refer predominantly to the major risk carriers of the Group. Those carriers are Gothaer Allgemeine Versicherung AG for property and casualty insurance, Gothaer Lebensversicherung AG for life insurance and Gothaer Krankenversicherung AG for health insurance.

Developments in the insurance industry

Trends in 2019

Insurance sector as a whole

Despite weakening economic growth, Germany's gross domestic product is expected to grow by 0.6 % in 2019. The still robust labour market continued to have a positive impact on the economic situation of private households. Private consumption increased due to a combination of rising disposable incomes and slowing inflation. Against this backdrop, figures produced by the German Insurance Association (Gesamtverband der deutschen Versicherungswirtschaft e. V. [GDV]) – on which the statements here are based – indicate that positive premium growth can be expected. In property and casualty insurance, premium growth of 3.2 % is assumed. With market liquidity remaining high and interest rates still very low, life insurance performance was strong, with anticipated premium growth of 11.3 %. While regular premiums were relatively stable, single premiums rose vigorously and thus became the main driver of growth. Particularly sharp upturns in single-premium business were registered in capital redemption business and annuity insurance. Anticipated premium growth in private health insurance is around 2.3 % for 2019. In addition to premium increases in supplemental insurance, there were particularly significant developments in nursing care insurance, where the latest reform of nursing care led to major increases in benefits. For the insurance sector as a whole, premium growth of 6.7 % is thus forecast. Without single-premium business in life insurance, the anticipated increase in premiums is around 1.8 %.

Property and casualty

Motor insurance – the largest property and casualty insurance class, generating around 39 % and € 28.5 billion of total premium revenues – significantly lost momentum in the financial year 2019. Against an ongoing backdrop of intense price competition, the average motor liability premium stagnated and the average premium in collision & comprehensive insurance is expected to rise by 0.5 %. The average partial own damage premium also shows signs of falling by another 2.0 %. Owing to the anticipated portfolio growth, premium revenues from motor insurance as a whole are expected to rise by a moderate 2.0 %. Claims expenses are forecast to rise more sharply than premium income, climbing by 4.5 %. In view of the significant increase in the number of natural hazard claims reported, a slightly above-average burden of claims needs to be anticipated in 2019. As a result, motor insurance business should again produce an underwriting profit. The projected combined ratio is around 98 %.

Premium income from **property insurance** is expected to grow by 5.6 % to € 21.5 billion, boosted by both private and non-private client business. The upturn in the private property segment is particularly due to an increase in insured sums and, in some cases, extensions of cover. Despite a number of storm events – especially in the first half of 2019 – claims expenses in comprehensive homeowners and householders insurance are expected to fall by 4.0 %. The downturn in claims expenses is due partly to a below-average incidence of severe precipitation events in 2019. Comprehensive homeowners business is thus likely to produce an underwriting profit and a combined ratio of 96 %. In non-private property insurance in the industrial, commercial and agricultural sectors, a significant 11.0 % drop in claims expenses is anticipated due to an absence of major fire losses. As a consequence, this property insurance segment is also expected to produce a vigorous underwriting profit. Overall, the combined ratio for property insurance business is forecast to be 91 %.

For **property and casualty insurance as a whole,** the German Insurance Association (Gesamtverband der Deutschen Versicherungswirtschaft – GDV) expects premium revenues to continue to grow with undiminished dynamism in 2019, rising by 3.2 % to € 72.9 billion. The number of policies in force should increase by 1.0 %. Regardless of the general economic slowdown and a somewhat less dynamic labour market, property and casualty insurance continues to profit from the favourable economic situation of private households. Claims expenses for the financial year, up by 1.7 %, show a less sharp rise than in the prior year. This is the net result of significantly higher claims expenses in the motor classes and lower expenses in property insurance, especially due to the absence of major fire losses. With an anticipated gross combined ratio of 93 %, the underwriting profit from property and casualty insurance business should be significantly higher than in the prior year at around € 4.7 billion.

Life

2019 was another very challenging year for German life insurers. The ongoing low-interest phase and the resulting need to form additional interest reserves (Zinszusatzreserve – ZZR) continued to require a security-based business strategy and adjustment of the business model to the changed environment. Many life insurers in recent years have realigned their product portfolio, for instance, and increasingly placed their faith in products with modern, reduced guarantees to generate new business. Those new products are now well established. The competitive situation also intensified in biometric product business as life insurers seek to strengthen risk results, which are a major source of income in the low-interest environment. Alongside stand-alone occupational disability insurance, which is now a long-established area of business, a growing number of providers also offer basic skills policies in order to develop new target groups.

In the area of company pension schemes, the Act Strengthening Company Pension Provision (BRSG) in force since 1 January 2018 continued to dynamize existing implementation channels by improving the support environment. As regards the "Social Partner" model (the "Nahles pension"), the great breakthrough has yet to happen, although this no-guarantee pension is a highly attractive option for customers in the low-interest environment.

Direct insurance continued to be the driver of growth in company pension scheme business. Around 673,500 new direct policies (+13.7 %) were concluded in 2019 with an aggregate insured sum of € 27.67 billion (+24.2 %). Regular annual premiums reached € 1.02 billion (+19.0 %).

Across the life insurance industry in the narrower sense (excluding pension trusts and pension funds) gross written premiums increased against the prior year by 11.1 % to € 98.72 billion. Regular premiums accounted for € 61.83 billion (+0.2 %) of this total and single premiums made up € 36.89 billion (+36.0 %). The latter maintain a share of more than 37 % of total premiums. The main reason for the vigorous upturn in single-premium business is the investment crisis due to the fall in interest rates and the increasing imposition of penalty interest by banks and savings banks.

The situation in the capital markets was again influenced by the monetary policy of the European Central Bank during the course of 2019. The yield of 10-year German government bonds ended 2019 at –0.21 %, which marked a further weakening of rates in comparison with the year-end figure of 0.24 % in 2018. Returns on new investments and reinvestments remain very low, making it hard for life insurers to achieve a sufficiently high net return, which is particularly needed for the fulfilment of high guarantee commitments under existing policies.

Given the ongoing low-interest phase, life insurers are also under a statutory obligation to make large annual transfers to additional interest reserves (ZZR – Zinszusatzreserve). This is to ensure that high guarantee commitments under existing life policies can still be fulfilled in a low-interest environment. Allocations to these policy reserves depress gross margins industry-wide and impact on profitability and the financial basis of life insurers. Additional interest reserves need to be formed for all tariff generations with actuarial interest rates above a so-called reference rate.

Despite the switch to the 'corridor method' of calculating additional interest reserves, which the legislature introduced in 2018, the low level of interest rates again resulted in major ZZR transfers across the industry.

Health

After the loud and protracted media debate about the introduction of "citizens insurance", private comprehensive health insurance is recovering and stabilizing for the first time in a number of challenging years. As a result, the association of private health insurers (Verband der Privaten Krankenversicherung) speaks of a "turning point" for the industry. In 2018, more people switched from statutory to private health insurance than vice versa and that trend continued through 2019.

Jens Spahn became health minister in March 2018. Since taking up office, he has launched a large number of legislative initiatives. One major focus of the health policy debate in 2019 was the issue of nursing care. This continued into 2020, driven particularly by proposals for financial reform. Other prominent issues included digitalization in the healthcare sector, organ donation, reform of occupational training in the healthcare sector and swift access to appointments and better care.

The number of persons with comprehensive private health insurance stabilized again for the first time in 2018; it stayed at that level in 2019. The market has significantly improved since the low of 2013, when the number of comprehensively insured persons slumped by 66 thousand. In terms of premium revenues, initial estimates for the comprehensive insurance market point to growth.

In the supplemental segment, private health insurance continued to grow vigorously in 2019 according to the industry association's initial estimates The trend thus continues towards private provision to top up the benefits receivable under statutory health insurance. Company health insurance plans, in particular, enjoy growing popularity in times of skill shortages and still offer considerable potential in the collective policy segment both as employer-funded and as employee-funded schemes.

Outlook for 2020

Insurance industry as a whole

Since there are currently no signs of economic activity significantly speeding up, forecasters put GDP growth at 0.9 % in 2020. Growth stimuli here are provided particularly by public and private consumption. With labour market conditions favourable, disposable incomes are expected to continue rising. As a result, premium revenues for property and casualty insurers are forecast to grow by around 2.5 %. For life insurers, a somewhat more modest premium income upturn of 1.2 % is anticipated. With regular premiums on a par with the prior year, premium revenues from single-premium business are expected to grow by around 3.4 %. In private health insurance, 2.0 % premium growth is anticipated. Across the insurance industry as a whole, premium volume is expected to increase by 1.8 %. Excluding single-premium business, growth is forecast to be 1.5 %.

Property and casualty

Developments in property and casualty insurance business will continue to be buoyed in 2020 by the favourable economic situation of private households, although premium growth is expected to be weaker than in the prior year at 2.5 %. While growth rates are forecast to slacken in non-private and private client property insurance, a moderate upturn is anticipated in motor premium revenues. Growth is increasingly expected to be driven by a desire to guard against new or increased risks such as cybercrime or natural hazards. Short-term growth inhibitors will be the restructuring undertaken to make the economy more sustainable. However, this will also help create growth opportunities for the future.

Life

The difficult environment for life insurance will persist through 2020. The biggest challenge for the industry remains the very low interest-rate level, which will continue to make it hard to achieve new investment earnings above guaranteed interest rates in the current year and will have a significantly negative impact on results.

Demand for life insurance continues to exist across all business fields, however. Life insurance still offers the only protection against existential risks such as death or invalidity. Rising poverty among the elderly and high life expectancy fuel the need to supplement the insufficient state pension with additional occupational or private pension arrangements. This calls for tailored product lines that take adequate account of guarantee and yield requirements. The focus is on product solutions that will reinforce life insurers' long-term financial strength while at the same time continuing to offer the consumer an attractive and predictable retirement pension. "Fund elements" of various types will increasingly play a role in new product developments.

As regards the legislative environment, growth impulses will continue to be felt in 2020 from the Act Strengthening Occupational Pensions (Betriebsrentenstärkungsgesetz), sustaining company pension schemes as one of the major growth markets for the life insurance industry. Furthermore, the industry continues to address the diverse requirements of the Solvency II regulatory regime – especially the tighter investment and reporting requirements and the shorter reporting deadlines.

In addition, life insurers are required to act on a large number of compliance issues as a result of heightened transparency requirements. Targeted services for greater customer and agent satisfaction as well as systematic digitalization of both sales processes and customer communications are increasingly becoming a focus for life insurers seeking growth, earnings and efficiency.

Health

With the formation of the new government in March 2018, the private health insurance industry has a clear basis for its development. Despite the instability of the grand coalition, the "citizens insurance" model is not part of the system envisaged by the present government and does not figure in the current debate. Nevertheless, a whole range of reforms are being discussed with a view to addressing the high level of medical benefits, the challenges of an ageing society and thus the financing of the health system.

One key legislative initiative entering into force in 2020 is the German Digital Healthcare Act (Digitale-Versorgung-Gesetz – DVG), which aims to improve healthcare through digitalization and innovation. Insured persons will receive certain health apps on prescription and have easier access to doctors' surgeries with online consulting hours, while networking within the health system will be increased. Health Minister Spahn also announced a cross-sectoral care bill and a revision of the emergency care reform proposals. Another major focus of the Federal Ministry of Health is quality of inpatient treatment.

The media debate on the alignment of private and statutory health insurance benefits will probably continue to be fostered by certain political camps. The opportunity for the private health insurance industry lies in implementing its own reform agenda. It will do so systematically and thus continue to demonstrate its efficiency and contribution to the health system.

Major issues in the coming years will include further efficiency improvements in our nursing care system, the financing of that system, systematic benefit expense management, improvement of the scale of fees for physicians and adjustment of the regulatory environment for calculating premium adjustments.

Supplemental insurance will continue to be a growth area for private health insurers. Occupational health insurance, in particular, is becoming increasingly established as an important pillar of occupational insurance concepts and a source of growth impetus. The appeal ruling of the Federal Fiscal Court (Bundesfinanzhof – BFH) delivered on 7 June 2018, stating that employer-paid occupational health insurance contributions should, in certain circumstances, be classed as payment in kind, will give a further boost to occupational health insurance business.

Digitalization increasingly presents a major opportunity for the insurance industry. The pace of innovation is particularly fast in the health sector. The rapid development of e-health solutions in the German and international startup market enriches the health policy landscape and will be strengthened by the entry into force of the Digital Healthcare Act (DVG). Private health insurers are increasingly incorporating medical-based digital care concepts into their service portfolios. For customers, this marks a shift away from dealing with administrators towards engaging with health service providers.

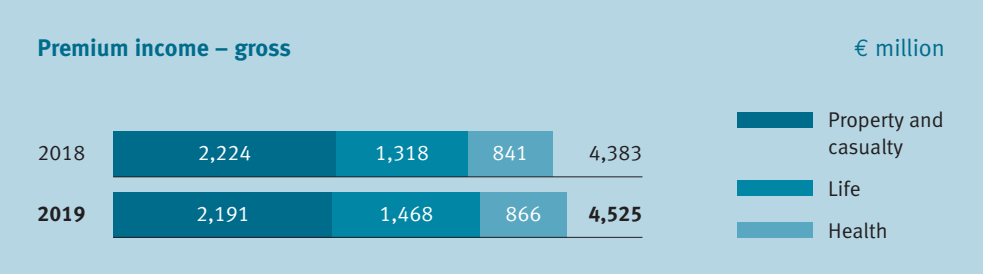
Overall, particularly in view of the impacts of demographic developments and the growing significance of the issue of public health – in conjunction with rising healthcare costs – the German health market remains an attractive market segment.

Development of business in 2019

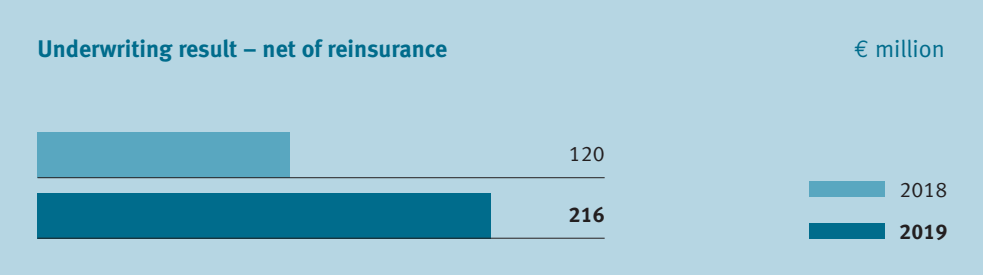
2019 was another successful year for the Gothaer Group with premium growth of 3.2 %, a net return on investments of 3.4 % and a return on equity of 9.5 %.

The gross premiums written by the Group totalled € 4.52 billion in the financial year (PY: € 4.38 billion). In life insurance, gross premiums written increased – in line with market figures – by 11.4 % to € 1.47 billion. Single-premium business, with the capital-efficient single-premium product Gothaer Index Protect, generated particularly strong growth. Health insurance registered an above-market premium upturn of 3.0 % to € 865.7 million. A major part of the growth was achieved in supplemental insurance business in collective business with corporate clients (occupational health insurance). The recessive development of gross premiums written in property and casualty insurance was due to the divestiture of our former Polish subsidiary Wiener TU S. A. (formerly Gothaer Towarzystwo Ubezpieczeń S. A.). Without taking account the premium revenues of that company, premium income grew by an above-market 4.6 % to € 2.15 billion.

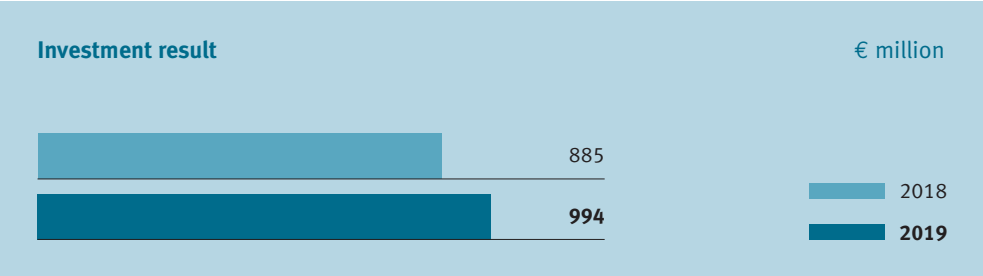
Primary insurance, which is our core business, accounted for € 4.43 billion (PY: € 4.31 billion) of gross written premiums. Premiums written in reinsurance assumed from extra-group insurers totalled € 96.5 million (PY: € 76.3 million). This business relates entirely to property and casualty insurance and is of only minor significance as a contributor to the total premium volume of the Gothaer Group.



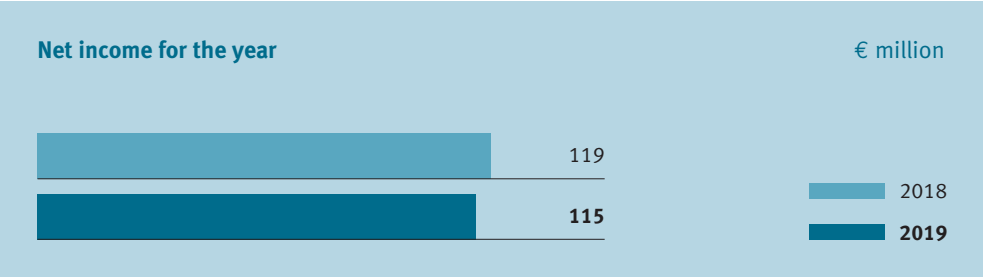
In property and casualty insurance, the underwriting result net of reinsurance in 2019 was shaped by diverse major losses and less by natural and accumulation losses. Both the number of major claims reported and the volume of major claims expenses were above prior-year levels. The increased major claims expenses are covered by our reinsurance structure. This ultimately made for a significantly improved result of € 96.9 million (PY: € 54.6 million). The underwriting result net of reinsurance produced by life and health insurance business rose to € 119.0 million (PY: € 65.2 million). The prior-year figure was influenced inter alia by positive special tax effects at Group level, in which policyholders participated. The underwriting result net of reinsurance at Group level totalled € 215.9 million (PY: € 119.9 million).



The investment result, at € 994.0 million, was higher than the prior year (PY: € 885.2 million) because the financing requirements for the formation of additional interest reserves (ZZR) showed a moderate increase against the prior year owing to interest rate movements. Negligible write-downs in real estate and private equity were offset, in particular, by significantly higher gains and write-ups in special bond funds. The net return on investments, at 3.4 % (PY: 3.1 %), was satisfactory, given the still-difficult capital market environment marked by low interest rates.



The improved underwriting result net of reinsurance and the increased investment result both had a positive impact on our net profit for the year. Set against that effect was a lower result from Other Activities and an increased tax expense. Overall, net profit for the year totalled € 115.0 million (PY: € 118.7 million). This made for a good return on equity of 9.5 % (PY: 10.8 %).



Underwriting result

Property and casualty insurance

In property and casualty insurance, the year under review was marked by the divestiture of our former Polish subsidiary Wiener TU S. A. (formerly Gothaer Towarzystwo Ubezpieczeń S. A.). Gross premiums written, for instance, decreased by 1.5 % to € 2.19 billion in the financial year. While premium income from direct written insurance business fell by 2.5 % to € 2.09 billion, premiums from reinsurance business assumed rose significantly by € 20.3 million to € 96.5 million. If the Polish company is excluded from the year-on-year comparison of premiums, total gross premiums written in the property and casualty segment show a very good upturn of 4.6 %. This is beyond our expectations. Earned premiums net of reinsurance in property and casualty insurance decreased by 0.4 % to € 1.86 billion overall. Excluding the premium revenues of the Polish company, the result was a very satisfactory premium increase of 5.4 % to € 1.83 billion.

Our growth strategy continues to be based on a profit-oriented underwriting policy and thus selective underwriting of new business. At the Group's largest property insurer, Gothaer Allgemeine Versicherung AG, the product range for the private client segment was radically modernized. For instance, we introduced a policy for e-scooters and a premium discount for purely electric cars and offer clients the possibility to compensate for the carbon footprint of their vehicle. We incorporated an optional no-claims bonus system in our homeowners insurance and extended householders insurance to include new "internet protection" and "electronics protection" modules. We receive positive feedback from external product comparison services. Our householders insurance was named Product of the Month in September by the German insurance journal Versicherungsmagazin and in the motor segment, our AutoMobil mit Topschutz tariff received an "outstanding" FFF rating from analysts Franke und Bornberg. Similar upgrading has been undertaken for corporate client business, where this year, for example, we added a group accident component to our modular Gothaer GewerbeProtect product, improved our liability insurance for architects and civil engineers and integrated the cyber prevention product of Insurtech Perseus Technologies GmbH into our cyber insurance for commercial and industrial clients.

Gross claims expenses, at € 1.41 billion, remained at the prior-year level, the volume of expenses shaped less by natural and accumulation losses but heavily impacted by major losses. Contrary to expectations for the financial year, both the number of major claims reported and the volume of major claims expenses were above prior-year levels. The gross loss ratio, after allowance for premium income, rose to 64.4 % in the financial year (PY: 63.9 %). The increased major claims expenses are covered by our reinsurance structure. After deductions for reinsurance, claims expenses net of reinsurance were below the prior-year figure of € 1.23 billion at € 1.21 billion. Excluding the former Polish subsidiary, claims expenses net of reinsurance totalled € 1.19 billion (PY: € 1.15 billion). The net loss ratio improved, moving down by 1.2 percentage points to 64.8 %. Net loss reserves, at € 2.38 billion, were below the prior-year level of € 2.46 billion. Net loss reserves in the financial year 2019 amounted to 128.0 % (PY: 131.5 %) of net earned premiums.

Underwriting expenses net of reinsurance decreased by 3.4 % to € 554.0 million. Excluding the former Polish subsidiary, they rose by 2.6 % to € 542.2 million (PY: € 528.5 million). Acquisition expenses at € 348.4 million (PY: € 352.5 million) and administrative expenses at € 292.0 million (PY: € 305.6 million) were both recessive. Reinsurance commissions were higher than in the prior year, up by € 1.9 million at € 86.5 million. The gross cost ratio fell by 0.6 percentage points to 29.3 % and the net cost ratio moved down by 0.9 percentage points to 29.8 %. Overall, this resulted in an improved – again very good – net combined ratio of 94.5 % (PY: 96.6 %) for the property and casualty insurance segment.

The underwriting result before adjustment of equalization reserves was a profit of € 83.6 million, which is double the prior-year figure of € 41.8 million. A sum of € 13.3 million needed to be withdrawn from equalization reserves in the year under review (PY: € 12.8 million). After allowance for this, the underwriting result net of reinsurance improved to a very good € 96.9 million, after € 54.6 million in the prior year. This figure includes an underwriting result from reinsurance business assumed totalling € 31.7 million (PY: € 14.2 million).

Life insurance

Gross written premium income from life insurance business grew – in line with market figures – by 11.4 % to € 1.47 billion. This growth significantly exceeded our forecasts. As in the market as a whole, the main driver here was single-premium business, especially the capital-efficient single-premium product Gothaer Index Protect.

With total new premium volume up by 6.2 % at € 1.81 billion, production growth was very satisfactory. It is pleasing to note that new business in biometric products and capital-efficient pension plans accounted for 78.8 % (PY: 80.5 %) of total new business in 2019.

Major growth impetus was delivered by the Act Strengthening Occupational Pensions (Betriebsrentenstärkungsgesetz – BRSG) with its considerably amplified framework for state support. Together with innovative solutions and sales approaches, it again made for gratifying sales performance, especially in the direct insurance channel addressed by our tied agents. Marketing for the additional business connected with the new “social partner pension” is conducted through a consortium – “Das Rentenwerk” – established by Gothaer Lebensversicherung AG in conjunction with four other mutual insurance companies. The aim is to pool efforts and create a joint, competitive product range for the collective agreement market.

Under profit-sharing arrangements, the sum of € 29.2 million (PY: € 26.8 million) was withdrawn from reserves for premium refunds as “premiums from reserves for premium refunds” and used for additional insurance benefits.

Claims expenses net of reinsurance in the Life segment fell by 6.6 % to € 1.33 billion. This was largely due to a sharp decrease in claim payments, which were € 110.7 million down at € 1.30 billion as a result of lower run-off in comparison to the prior year.

Policy reserves net of reinsurance increased by € 393.9 million to € 16.10 billion in the financial year, further boosting the policyholder balance. These reserves include additional interest reserves (Zinszusatzreserve – ZZR), to which a sum of € 136.2 million (PY: € 90.3 million) was transferred in the financial year.

Underwriting reserves for life insurance where investment risk is borne by the insurance companies increased by € 460.0 million to € 2.48 billion as a result of price movements.

The reserves for premium refunds include the surpluses generated in the financial years before they are paid to the individual policyholders at the contractually agreed times during the term or upon expiry of policies. A sum of € 119.7 million (PY: € 138.2 million) was withdrawn from reserves for premium refunds for the surplus bonuses due to policyholders. We thus again placed substantial funds at our policyholders' disposal, either in the form of payments or as credits to policyholder balances. After an allocation of € 107.7 million (PY: € 140.2 million), reserves for premium refunds totalled € 626.4 million (PY: € 638.3 million). The increased allocation in the prior year was essentially due to special tax effects at Group level, in which policyholders participated. While forming this provision for deferred premium refunds resulted in an expense in the prior year, it produced income in the year under review.

The allocated investment return from the non-technical account for life insurance was shown in the underwriting account as € 609.8 million (PY: € 554.3 million). This is the portion of the investment result attributable to life insurance from a Group perspective. The full investment result for the Group is shown in the non-technical account.

Underwriting expenses net of reinsurance increased to € 109.8 million in the financial year (PY: € 97.6 million). Acquisition costs rose by 1.5 % to € 94.0 million against the prior year. Production grew by a very satisfactory 6.2 %, boosting new business income to € 1.81 billion. This brought the acquisition cost ratio – the ratio of acquisition costs to new business income – down to 5.2 % (PY: 5.4 %). Administrative costs totalled € 27.2 million in the financial year (PY: € 23.9 million) while the administrative cost ratio, contrary to expectations, was slightly higher than in the prior year at 1.9 %.

The underwriting result from life insurance business improved to € 67.3 million. This followed a year in which the underwriting result net of reinsurance dropped to € 32.3 million as a result of special tax effects.

Health insurance

Gross written premiums in the Health sector increased by 3.0 % to € 865.7 million in 2019, which was a sharper upturn than anticipated. New business grew significantly against the prior year, surging by 36.6 % to € 1.90 million. The number of comprehensively insured persons continued to be recessive, falling by 2.9 % to 134 thousand. The number of persons with supplemental insurance, however, rose by 7.2 % to 488 thousand. The total number of insureds thus grew by 4.9 % to 622 thousand.

A major part of the growth in supplemental insurance business was again achieved in 2019 – in line with our strategy – in collective business with corporate clients (occupational health insurance). Gratifyingly high growth was registered in our MediGroup collective tariffs. The aim is to strengthen our position among the leading occupational health insurance providers.

In September 2018, a new dental plan was launched to expand the field of supplemental insurance business. In the year under review, MediZ Duo was a major driver of growth for supplemental insurance. The end of 2019 saw the introduction of our inpatient tariff MedicClinic S, which addresses a new young target group.

Building on our growth agenda adopted in 2017, we are progressively evolving into a modern healthcare service provider. In 2019, improvements were made to the health app that supports the outstanding work of our doctors with digital services ranging from digital health advice to e-health solutions. The app also permits the online submission of medical invoices and simplifies claims settlement monitoring. In March 2019, digital medical file Vivy also became available for policyholders. With it, clients have their medical details and records at hand at all times and communication and networking within the health system are enhanced.

In view of the challenges of an ageing society and the resulting increases in benefit expenditure, cooperation models that network major insurers to improve quality of care for the insured are a growing presence in the private health insurance sector. Since 2016, we have also been involved in a joint venture of this kind: LM+– Leistungsmanagement GmbH. Greater networking in the health market (e. g. with service providers, pharmaceutical companies, etc.) and better services for the insured will raise the standard of healthcare for the customer.

To limit the premium adjustments made and to reduce premiums for policyholders in later years, a sum of € 102.7 million was withdrawn from reserves for premium refunds (PY: € 34.2 million) and recognized under the relevant premium item. In the prior year, premium adjustments were softened by the fact that € 32.0 million used for limiting purposes was directly written off against earnings in the financial year.

The allocated investment return from the non-technical account for health insurance business in the financial year was shown in the underwriting account as € 255.0 million (PY: € 282.1 million). This is the portion of the investment result attributable to health insurance from a Group perspective. The full investment result for the Group is shown in the non-technical account.

Claims expenses net of reinsurance increased to € 652.2 million (PY: € 600.4 million). The claim payments contained in this sum, including claims adjustment expenses, rose in line with expectations to a total of € 644.1 million in the year under review (PY: € 605.9 million). Reserves for outstanding claims (net) increased by € 8.1 million to € 176.6 million. The gross loss ratio, which is a yardstick for assessing expenses for the insured, remained at the prior-year level, at 77.6 %.

Policy reserves totalled € 7.12 billion at the end of the year (PY: € 6.79 billion).

A sum of € 151.3 million (PY: € 80.4 million) was withdrawn from reserves for premium refunds to cover surplus bonuses for the insured. Substantial funds were thus placed once again at policyholders' disposal. After a transfer of € 112.9 million (PY: € 143.2 million) in the financial year, reserves for performance-related and non-performance-related premium refunds totalled € 323.8 million (PY: € 362.2 million). Reserves for performance-related premium refunds, including pool-relevant reserves for premium refunds from compulsory nursing care insurance, are considered in relation to gross earned premiums, producing the premium refund reserve ratio defined in the private health insurance key figure catalogue. A ratio of 29.4 % was achieved in the Health segment in the financial year, following a prior-year figure of 34.8 %.

Underwriting expenses net of reinsurance increased in the financial year to € 73.9 million (PY: € 65.8 million). At the same time, acquisition costs totalling € 51.4 million (PY: € 43.8 million) were incurred. The acquisition cost ratio – which is the ratio of acquisition expenses to earned premiums – was 5.9 % (PY: 5.2 %) as anticipated. Policy management expenses increased in the financial year, from € 22.0 million to € 22.5 million. Contrary to expectations, the administrative cost ratio – the ratio of administrative expenses to premiums – was held at 2.6 % (PY: 2.6 %) by the good development of premium income.

After an underwriting result of € 32.9 million net of reinsurance in the prior year, which was due to special tax effects, the underwriting result in health insurance improved to € 51.7 million.

Investments

The investment strategy of the Gothaer Group is implicitly derived from the investment strategies of the relevant risk carriers in the Group. The latter, in turn, form part of the individual risk carriers' business strategies. At Group level, the primary goal of investment policy is to generate stable and sustainable income for the consolidated financial statements. At the same time, the relevant regulatory requirements relating to investment earnings, liquidity, security and quality need to be observed at risk carrier level and – depending on risk carrier – the solvency requirements of Solvency II need to be met. This is ensured by the systematic use of performance management that is adjusted for risk, tailored to risk-bearing capacity and aimed at optimizing the return/risk ratio of the investment portfolios. Current investment strategy and the resulting strategic asset allocation are therefore to be seen as the outcome of a continuous and comprehensive asset liability management process that particularly takes account of the relevant underwriting requirements. In 2019, the Gothaer Group again remained systematically committed to a long-standing investment policy that is largely geared to stable current income. The two priorities of this strategy are to generate attractive returns in the current low-interest market environment and to ensure that risks are reduced overall by being spread as broadly as possible over the different types of investment. For the first time, investment decisions took greater account of environmental, social and governance criteria – so-called sustainability criteria – in 2019. Against this backdrop, investment positions that failed to meet the developed sustainability criteria started to be reduced.

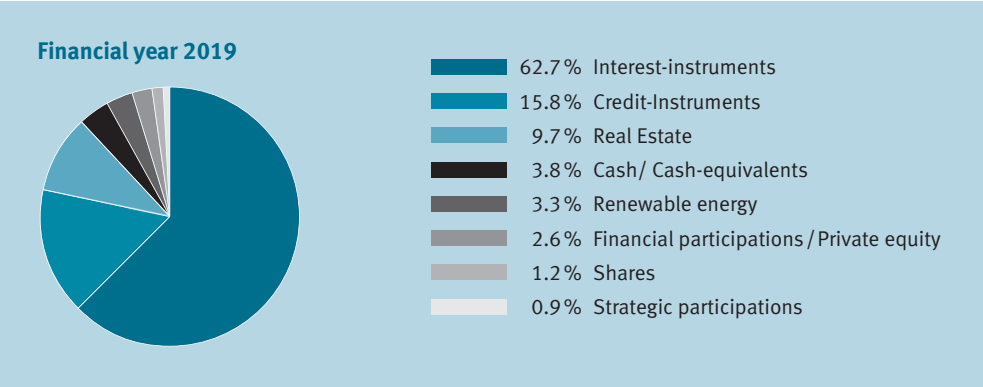
The cooling of the global economy that commenced in 2017 continued through the period under review at an accelerated pace. The economic slowdown was particularly pronounced in the Western industrialized countries, especially in export-oriented sectors. Domestic economic activity, however, was effectively supported by the low interest rate environment created by the central banks and thus stabilized the economy as a whole. Developments in the capital markets were marked by accelerated asset inflation. The record levels reached by bond and stock markets in the course of the year clearly reflected the asset price distortion caused by extremely expansive monetary policy. From the beginning of the year, German government bonds followed an accelerating downward yield trend that took the ten-year Bund yield to a new all-time low of –0.7 % in August. Remarkably, the onset of a trend reversal towards higher capital market yields was seen ahead of the ECB Interest Rate Decision in September. Despite the resumption of ECB bond-buying in November, that turnaround continued and took the ten-year Bund yield back to –0.2 % by the end of the year. With geopolitics driving markets, the development of the yield of US government bonds was largely in synch with that of German government bonds in the period under review. The yield on 10-year US government bonds fell from 2.7 % at the beginning of the year to 1.5 % in August, then rose to 1.9 % by the end of the year. After a weak year for stocks in 2018, culminating in an extreme fourth-quarter slump, equity investors in 2019 experienced one of the strongest years since the turn of the millennium.

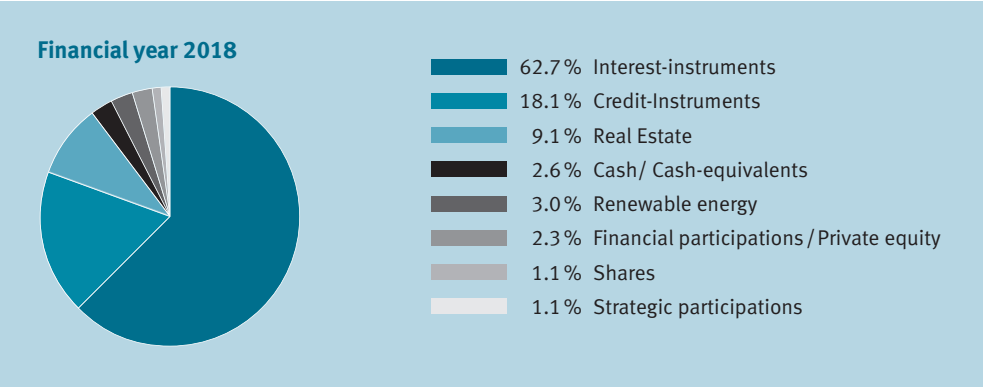
Over the 2019 calendar year, the performance of the S&P500 Total Return Index in USD reached +32.6 % – the best result since 2013. The performance of European equities over the year, at +28.8 % (EuroStoxx50 Total Return Index), was hardly less bullish. Japanese equities rose by +18.1 % (Topix Total Return Index in JPY) – slightly less than emerging market equities, which recorded a firmer performance of 18.8 % in the MSCI Emerging Markets Total Return Index in USD.

The book value of the Gothaer Group investment portfolio increased by € 727.6 million to € 29.47 billion in the year under review.

Composition of the investment portfolio

At balance sheet date, the composition of the investment portfolio of the Gothaer Group on the basis of market values was as follows:





The carrying value of investments for the account and risk of life insurance policyholders was € 2.48 billion in the year under review (PY: € 2.02 billion).

Optimization of returns and risk in the investment portfolio continued to be a major focus of investment activity last year, with the result that a number of changes were made in the asset allocations of the relevant risk carriers and thus also those of the Group. Within the interest rate instrument asset class, greater emphasis was placed on investing in alternative fixed-income investments such as Dutch mortgage loans. Disposals in the credit instrument asset class resulted in a significantly lower credit ratio. These developments will continue in the coming year. Some of the capital thus released was reinvested in attractive real estate opportunities in 2019. More capital called from existing commitments is expected to be invested in this asset class in 2020. In view of the strategic asset allocation strategy pursued by the relevant risk carriers, duration overall increased over the course of the year from 8.8 to 9.4. Because of the indirect real estate strategy pursued, investment in property (real estate asset class) within the investment structure is not reported under the balance sheet item "Land, land rights and buildings, including buildings on third-party land".

In addition to current income, extraordinary income also made a contribution to the overall result. Current income totalled € 818.3 million in 2019 (PY: € 869.8 million) while extraordinary income, at € 247.8 million, was significantly up on the prior year (PY: € 93.7 million) because the financing requirement for forming additional interest reserves was moderately higher than in the prior year due to the trend in interest rates. Negligible write-downs in real estate and private equity were offset, in particular, by significantly higher gains and write-ups in special bond funds. In addition, income from the disposal of investments exceeded that registered in the prior year. Over the year as a whole, investment income totalled € 994.0 million (PY: € 885.2 million). As a result, the net return on investments – the ratio of investment income to average investments excluding unit-linked life insurance – was better than in the prior year at 3.4 % (PY: 3.1 %).

Net profit for the year

After the one-off effect that shaped the prior-year figure, the result from Other Activities was € –145.0 million in the year under review (PY: € –16.8 million). However, the recessive result from Other Activities was offset by improved underwriting and investment results. As a result, total net profit for the year before taxes amounted to € 198.6 million after a prior-year profit of € 146.0 million. The tax expense increased to € 83.6 million. This was up from € 27.2 million in the prior year, which was influenced by special tax effects, including effects in the wake of the restructuring of the real estate portfolio. Deduction of the tax expense left an – unprojected - net profit for the year of € 115.0 million (PY: € 118.7 million).

The net profit for the year attributable to non-controlling interests amounted to € 2.2 million (PY: € 1.6 million). This resulted in a consolidated profit for the year of € 112.8 million (PY: € 117.2 million).

Shareholders' equity

Including the net profit for the year and taking into account currency effects and other changes, shareholders' equity totalled € 1.26 billion (PY: € 1.16 billion). With average equity thus increased, the return on equity was good at 9.5 % (PY: 10.8 %). Together with subordinate liabilities of € 299.7 million, the guarantee assets of the Group grew to € 1.56 billion (PY: € 1.46 billion) at balance sheet date. Group equity includes non-controlling interests of € 30.7 million (PY: € 30.5 million).

Insurance lines and coverages
Property and casualty insurance

- Health insurance [2)]
- Accident insurance
- Liability insurance
- Motor insurance
- Fire insurance
- Aviation insurance
- Legal expenses insurance [2)]
- Comprehensive householders insurance
- Comprehensive homeowners insurance
- Marine insurance
- Credit and surety insurance [1)]
- Motorist assistance insurance [1)]
- Aviation and spacecraft liability insurance
- Other property insurance
- Other non-life insurance

Personal insurance

- Life insurance [1)]
- Health insurance [1)]

1) only direct written insurance business
2) only reinsurance business assumed

Employees

Qualified, motivated employees are crucially important. Their skills, their dedication and their outstanding commitment are the basis for our success. In view of digitalization and the challenges of the market, capacity for change is increasingly important, both for the organization as a whole and for each individual employee.

Mobile and flexible working, the promotion of innovativeness and transformational leadership are hugely important for the organization's capacity for change. We meet the challenges of mobile and flexible working through home office solutions, modern office concepts and innovative processes and techniques. With regard to the capacity for innovation and change required from employees, we invest special efforts in upgrading leadership and change management skills. Cross-departmental networking, embedding agile methods in project management and piloting agile organizational models are also key topics.

The Gothaer 2020 Strategy clearly defines cornerstones and core objectives, establishing a basic frame of reference for HR action. The goal of "Increasing Agility and Strengthening Identification Among Employees" is a particular focus. At the same time, absolute priority is assigned in our HR operations to personnel recruitment, development and retention in line with corporate strategy. This has become even more important in the light of the outcomes of the 2018 Group Dialogue as well as the current labour market situation.

Both internal and external employer attractiveness is crucial for the retention and recruitment of employees. The establishment of a consistent employer brand and competitive employment benefits are thus an important focus of HR management. Regular rating via the Group Dialogue and external audits provide important impulses for the further development of our HR services and offerings.

Our efforts are also geared at present to making Gothaer demographic-proof, maintaining staff performance and heightening job satisfaction. In addition to commercially viable financial incentives, we rely here on targeted development and training programmes such as the project leader career programme and other specialist career models. Qualitative and quantitative demographic management, company health management and affirmative action for the advancement of women are naturally elements of our multi-award winning human resource management.

Gender diversity

Five companies in the Gothaer Group are regulated by the German Codetermination Act or the One-Third Participation Act and are under a legal obligation to set target quotas for a pari passu participation of women and men in executive positions. These companies are periodically required to set gender quotas for their supervisory board, management board and one to two tiers of management below the management board.

In 2017, the companies' supervisory boards approved the following targets:

Target value 30.06.2020					in %
	Gothaer Finanz-holding AG	Gothaer Allge-meine Versiche-rung AG	Gothaer Kranken-versiche-rung AG	Gothaer Lebens-versiche-rung AG	Gothaer Systems GmbH
Supervisory board	33.3	33.3	33.3	33.3	33.3
– Shareholders' side	16.7	16.7	16.7	16.7	16.7
– Employees' side	16.7	16.7	16.7	16.7	16.7
Management board	0.0	0.0	0.0	0.0	0.0
Executives					
– Management level 1	15.4	10.0	20.0	20.0	16.7
– Management level 2	29.4	10.0	20.0	29.4	30.0

More measures are being developed and successively implemented to increase the percentage of women in management positions. They will impact on the targets that need to be set in 2020 for the next deadline.

Brand

A strong brand is a critical success factor, especially for an insurance company. The decision to buy an intangible asset such as insurance cover is based on the trust associated with the brand. Brands are orientation aids; they create customer relationships and customer loyalty. Gothaer was founded as a mutual insurance company nearly 200 years ago in the spirit of commonality. That concept is deeply embedded in Gothaer's identity and is aptly and differentially enshrined in its positioning as a symbol of "Added Value through Fellowship". The launch of the new advertising concept for Gothaer's corporate presence and the brand claim "Kraft der Gemeinschaft" (Power of Fellowship) make that positioning clear to the outside world. The new independent look gives the brand a modernizing makeover while at the same time supporting contemporary brand staging for effective target group communication in all classical and digital media.

Code of conduct for sales and distribution

Business success for Gothaer depends crucially on the trust that is placed in us by our customers. Those customers, with their needs and expectations, are therefore at the heart of our sales and marketing activities. Insurance agents play an important and responsible role here as a link between customers and insurance companies.

Since becoming part of the two insurance industry initiatives "GDV-Verhaltenskodex für den Vertrieb von Versicherungsprodukten" and "gut beraten" in 2013, Gothaer has consistently implemented the relevant requirements within the framework of a Compliance Management System. All employees and agents have been informed of the fact. At the same time, Gothaer has implemented the requirements of the Insurance Distribution Directive (IDD), which became mandatory in Germany in February 2018. The GDV Code of Conduct has also been updated for alignment with the new legal framework.

As far as sales and distribution are concerned, the requirements of the GDV Code of Conduct are designed to ensure objective customer information and needs-based counselling in the customer's best interest so that the customer is in a position to make a well-informed decision. Special importance is thus attached to the advisory expertise and further training of agents, in whom Gothaer has traditionally invested heavily.

Tariff change guideline

Freedom of choice and customized insurance cover are distinguishing features of private comprehensive health insurance. To help every customer choose the tariff that meets his or her needs more accurately, the association of private health insurers PKV has developed a tariff change guideline setting out clear and binding rules. The guideline supplements the statutory regulations that are already contained in section 204 of the German Insurance Contracts Act (VVG).

Gothaer Krankenversicherung AG has systematically implemented the guideline since its introduction. Our policyholders can avail themselves of personal, needs-based, objective customer service together with analysis of the best tariff options.

The implemented compliance management system ensures observance of the guidelines for a transparent, customer-oriented tariff change and is certified by an independent auditor every three years. At 31 December 2019, the auditor again confirmed that Gothaer Krankenversicherung AG ensures a high degree of tariff transparency and objective advice on changing tariffs.

Outlook report

Proviso

The forecasts and estimates contained in this annual report are based on information available before the onset of the coronavirus crisis. The impacts that Covid-19 will have on future business cannot be accurately assessed at present. Please refer to our comments under "Events of special significance" in the notes to the financial statements.

Apart from the possible impacts of the coronavirus, especially on economic developments and capital market performance, the accuracy of projections may be affected by unanticipated major and accumulation losses, changes in the legal, tax or demographic environment and changes in the competitive situation of the Group.

Outlook for 2020

The development of business for the Gothaer Group largely depends on how the insurance market develops in a starkly changing market environment characterized by low interest rates, a constant stream of new regulatory requirements, demographic change and a race to digitalize. To ensure continued success in this environment, the Gothaer Group has initiated a tailored Group strategy. It is a systematic extension of the projects launched in pursuit of current objectives and will carry the traditional insurance business model forward into the future.

The aims of the Group strategy are to harness Gothaer's strengths as a medium-sized insurer with a strong brand, swiftly and flexibly respond to new market opportunities and significantly expand profitable areas of business. The business model will be systematically geared to digitalization requirements, e. g. in the areas of customer service, product development and networking.

Owing to its independence as a mutual insurance association, Gothaer always acts as a fair, dependable and trustworthy partner for customers. The long-term focus is on systematic, stable and continuous value enhancement to strengthen the foundations of the Group.

This strengthening will also be reflected in our business figures. We expect premium income for the Gothaer Group to stay at a satisfactory level in 2020, slightly lower than in the prior year. The moderate downturn is essentially due to life business, especially to the single-premium product Gothaer Index Protect. After the higher level of relief afforded by reinsurance in 2019, the net underwriting result after adjustment of equalization reserves will come down to a more normal level in the coming year. The gross underwriting result, however, will remain virtually on a par with the prior year.

Our forecasts show that the investment result will reach a gratifying level in 2020, slightly lower than in the prior year. Given these assumptions, we anticipate that the net profit for the year will also be slightly lower than in the prior year.

The details are explained below.

Marketing

To enable the Gothaer Group to respond to changes in customer behaviour as a result of digitalization, a multi-channel management system has been established at the marketing interface with agents and customers. This is facilitated by closely integrating direct marketing with the independent Gothaer Group field force. In line with its perception of itself as a solution-oriented service insurer, Gothaer will further develop its brand positioning to meet the new requirements of its customers.

Underwriting result

Property and casualty insurance

In property and casualty insurance, the focus of our strategy in the coming year will again be on stable and substantial revenue growth.

For direct written business, our projections show growth continuing slightly above market level through 2020. In the private client segment, strong growth impetus is again anticipated from comprehensive homeowners insurance. In the corporate client segment, the impetus will come particularly from industrial property, liability and motor insurance.

In private property, liability and accident insurance, the current intense competition on prices and conditions is expected to continue. The goal of establishing ourselves as a solution-based provider of demand-driven and digitalized retail products is explicitly enshrined in our strategy. We will continue to push ahead with the use of strategic cooperations as well as digital-focus platforms such as Hepster, Emil, Getaway and Optiopay. Our specialist insurer also sees opportunities in new cooperative ventures.

On the corporate client side, after the successful launch of our new modular multi-line commercial product Gothaer GewerbeProtect, 2019 revealed significant new business opportunities across all distribution channels. Against this backdrop, we expect to see marked growth impulses for this new product in 2020. In the future, a special focus will be on creating digital interfaces based on the market-wide standards of the industry institute for process optimization to establish seamless connections with brokers and platforms.

For reinsurance business assumed, the coming year is expected to produce moderate premium growth.

On the claims side, projections are based on the assumption that the burden of major and natural hazard claims will return to its normal higher level. We hedge against the growing risk from natural disasters through adequate reinsurance programmes. Based on our portfolio structure, we project a gross loss ratio for 2020 slightly below the 2019 level.

The steady, sustainable implementation of efficiency programmes as well as improvements in the quality of our processes will have distinctly positive effects on our cost ratio in the coming year.

Owing to the anticipated claims experience, our gross underwriting result will be significantly more positive than in the prior year. The gross combined ratio will remain below the 95 % mark.

Life insurance

Gothaer is addressing the challenges of the low-interest environment, for one thing by launching a comprehensive programme to realign the business model for the future. We are confident that we will continue to fine-tune our strategic positioning with success over the coming years.

Many life insurers continue to respond to the ongoing low-interest phase in 2020 by progressively reducing surplus bonuses. As in 2019, Gothaer Lebensversicherung AG declared that surplus participation would remain stable through 2020.

The product portfolio transition process initiated at the beginning of 2016 has been successfully completed and conventional "classical" tariffs have been largely terminated for new business and replaced by new capital-efficient products.

On that basis, we believe the composition of new business (product mix) is right for meeting our objectives in the coming year. And in the current low-interest phase, the composition of new business is very important. We will endeavour to increase even more the percentage of production in the biometric and capital-efficient pension product segments, which have a very promising future. Our aim is to generate nearly 90 % of new business in these two segments in 2020.

We again anticipate a significant volume of premiums from our capital-efficient single-premium product Gothaer Index Protect in 2020. Total written premiums are expected to be below the high prior-year level.

We assume that the ratio of administrative costs to premiums will remain stable next year. We also aim to keep the ratio of acquisition costs to gross premium volume at a constant level.

Further transfers to additional interest reserves will be needed because of the ongoing low-interest rate environment. The new method of calculating such reserves significantly eases the pressure on life insurers but the point at which they are forecast to peak will be postponed by the reduced annual transfers. Allowance for a transfer to additional interest reserves will thus still need to be made in 2020.

Overall, we expect the sum of gross surpluses from our subsidiaries Gothaer Lebensversicherung AG and Gothaer Pensionskasse AG to be satisfactory but lower than in the prior year.

Health insurance

Through Gothaer Krankenversicherung AG, we will continue to be a dependable partner for comprehensive health insurance in the future. At the same time, we will significantly upscale the company's capacity as a modern health service provider. The role played by supplemental insurance will also be stepped up to strengthen our resilience in the face of possible regulatory interventions in comprehensive insurance.

The company health insurance we offer to corporate clients has thus been coordinated with our company health management. The growth achieved in this area is evidence of our performance capacity and our speed of innovation in this growing market. The high volume of inquiries makes us confident that the positive trend seen in 2019 will continue through 2020. At the end of 2019, we launched MediClinic S, a very promising inpatient tariff addressing a new young target group. Further impulses are expected from initialized product innovations and sales initiatives in all business segments.

Against this backdrop, we anticipate a further moderate rise in premium income in 2020. In light of the good level noted in 2019, we also assume a stable volume of new business.

In line with our strategy, we project significant growth in supplemental insurance. At the same time, the company health insurance segment will continue to play a very important role.

With benefit expenses virtually constant and premium income showing moderate growth, we expect the loss ratio to be significantly below 80 % in 2020.

On the basis of new business and cost projections, we expect underwriting expenses to decrease in 2020. We anticipate a moderate downturn in the acquisition cost ratio and an unchanged administrative cost ratio.

The above developments will result in an underwriting profit ratio of around 15 % in 2020.

We anticipate transfers to reserves for premium refunds above the prior-year level in 2020.

Investments

There are signs worldwide that subdued economic dynamism and moderate price pressure will continue through 2020, above all for the developed economies. Growth in the US and the eurozone threatens to fall slightly below its long-term potential, although a recession is again likely to be avoided. Despite high employment levels, structural factors will prevent further accelerated wage growth. There are also signs of a slight increase in unemployment in Germany. In view of the escalation of the US-Iran conflict since the beginning of the year, the development of oil prices alone presents a risk of inflation.

Because the major central banks are likely to maintain their 'steady hand' policy in the face of a fragile economic environment and moderate inflationary pressure, the trend in bond markets on both sides of the Atlantic look set to move sideways. In the eurozone, capital market yields will probably be capped over the course of the year by ECB bond purchasing, thus fixing the negative interest rate level in most markets. Not until the autumn might there be a slight rise in yields, because ECB bond-buying will then reach self-imposed limits and the question of an extension of the purchasing programme in 2021 will arise.

2020 is likely to be a volatile year for stock markets. The substantial double-digit price gains seen in 2019 were driven mainly by interest rates and liquidity. In 2020, however, neither additional monetary stimuli nor substantial growth in corporate earnings are anticipated. The moderate gains of the major stock indices expected in 2020 will therefore continue to be liquidity-driven. Owing to the lack of fundamental support, market development will be prone to short-term, policy-driven setbacks.

Our forecasts assume a continuing low-interest environment in the coming year and the challenges connected with it. The mainstay of the projected net results will again be regular income from our bond portfolio. We anticipate a moderately lower investment result. We thus also anticipate a moderately lower net return.

Net profit for the year

Based on our assumptions on the developments in underwriting as well as the investment result, we expect that the net profit for the year will be moderately lower than in the prior year.

Opportunities and risks of future developments

Risk-oriented management concept

The purpose of the risk management system is to identify and limit potential risks at an early stage to create scope for action that can help provide a long-term guarantee of existing and future success potential. To this end, the corporate governance of our Group companies is geared to the "safety first" principle and value-based management. The operational framework in which the Group companies accept risks and do business is defined by risk principles approved by the Management. Furthermore, there is a requirement to observe internal and external standards relating to risk-bearing capacity. Risk tolerance, i. e. the limit of permissible risk exposure, is defined with the following in mind:

- From a regulatory perspective, minimum standards are in place to ensure that risk capital requirements are met at all times. This applies to both Pillar I (standard model) and Pillar II (company-specific total solvency capital requirement identified in the ORSA process) risk capital requirements.

- From a rating perspective (financial strength rating), we seek to maintain a capital adequacy ratio that, in conjunction with the other rating factors, is sufficient for at least an A-category rating.

Risk management organization

Responsibility for risk management at Group level resides with the central risk management unit at Gothaer Finanzholding AG. In discharging that responsibility, the group risk management unit liaises closely with subsidiaries, which have decentralized risk management units of their own, for the performance of support and monitoring tasks. Risk management is regarded as a process consisting of five phases:

- risk identification
- risk analysis
- risk assessment
- risk control and management
- risk monitoring

The risk management process focuses on the risks quantified in the Standard Formula, which include market risk, underwriting risk, counterparty default risk and operational risk. However, it also examines other, non-Standard Formula risks such as liquidity risk, strategic risk, reputational risk and legal risks, which are identified, reviewed and assessed in the course of risk inventories.

To facilitate the Group-wide identification of risks in risk inventories, risk officers have been designated at the operative units to define duties, responsibilities, deputization arrangements and authority for dealing with risks while ensuring separation of functions. They also assess risks in terms of foreseeable damage and probability of occurrence. Operational risks that are not included in risk inventories are not considered significant. The risk management function (second line of defence) is performed by the central risk controlling unit at Gothaer Finanzholding AG, which is supported in its work by the actuarial departments of the Group companies and the Middle/Back Office of Gothaer Asset Management AG.

Risk management principles, methods, processes and responsibilities are documented in accordance with the Risk Management Guideline.

The risk management process implemented operates an annual systematic inventory of risks, a qualitative and quantitative risk assessment, various risk management measures, risk monitoring by the operative units and risk controlling. An internal monitoring system (IMS) is in place for this purpose. Its aim is to prevent or reveal damage to assets and to ensure proper, reliable business activity and financial reporting. The IMS comprises both organizational security measures such as access authorizations, use of the four-eyes principle or proxy arrangements and process-integrated and cross-company controls. A central compliance function and the actuarial function have also been set up as key functions in compliance with the Solvency II Directive. Regular risk reporting and ad hoc reports on specific developments make for a transparent risk situation and provide pointers for targeted risk management.

Members of the major Group companies and Gothaer Asset Management AG are also represented in the risk committee established at Group level. Its responsibilities include monitoring risks from a Group perspective by means of an indicator-based early warning system as well as further developing uniform cross-Group risk assessment and management methods and processes.

The efficacy of the risk management system, checks and balances and management and monitoring processes is constantly improved. The organization and procedures of the Gothaer Group meet the requirements of the three Solvency II pillars in full. Compliance with those requirements is regularly monitored and assessed by the Group internal auditing unit. A review of the risk early-warning system is also part of the audit of the annual financial statements performed by our auditors.

Opportunities and risks for the Group

Assumption of risk lies at the core of our insurance companies' business activities. At the same time, those business activities are a cradle for opportunities, which are analyzed by segment below.

The implications for the Group are as follows:

Property and casualty insurance

The Gothaer Group writes insurance for both private and corporate clients, especially motor, liability, accident, property, engineering and marine insurance, mostly as direct business but also as indirect business. It thus has a diversified risk portfolio. Major risks are analyzed and rated on the basis of the frequency with which they are expected to occur and the anticipated maximum scale of loss. Major risks are defined as risks that could have an existential or sustained negative impact on the Company's net assets, financial position and earnings. They are analyzed in detail, continuously monitored and actively managed by proactive portfolio management. Risks are controlled and minimized by limit systems, underwriting guidelines and the exclusion of specific risks. Regular risk reports are prepared by Risk Management, providing executives with assessments of the current risk situation, changes in its makeup and any new or newly detected major risks.

We see opportunities for the Group in both new product areas such as cyber insurance and in existing areas. The growing incidence of extreme weather situations is also likely to push up demand for insurance in both the corporate and private client segments.

The initiatives emerging from the "Expedition GA 2022" project are being implemented as planned. Successful Lean Six Sigma measures should lead to efficiency gains in the future. In addition, the increasing use of robotics solutions will facilitate the rapid processing of standardized, repetitive transactions.

Underwriting risks

Since we assume that natural events resulting from climate change will continue to influence underwriting risk in the future, we will continue to attach primary importance to increased reinsurance for natural events. We also counter the risk of natural hazards by making systematic use of ZÜRS, the zoning classification system developed by the GDV to identify exposure to natural hazards, as well as by arranging for underwriting risks to be separately assessed by our risk engineers.

To limit premium and loss risk, we regularly monitor operations in the individual lines of insurance, check the individual and overall contribution margins of relationships and verify the adequacy of underwriting provisions. As a result, we are able to adapt our tariffs and underwriting policy swiftly to changes in circumstances. General premium risk is reduced by a standardized product development process, binding acceptance and underwriting guidelines as well as authorization and competency rules. In new business, this means we can adjust prices promptly to a new claims situation. In portfolio business, we can ensure premiums commensurate with risk by working, on the one hand, with contractually agreed premium adjustment clauses and, on the other, with individual policy adjustments.

Our tariffs are calculated on the basis of actuarial models. Provisions are established on the basis of HGB standards. Both loss reserves and reserve run-off are reviewed annually. We are thus able to guarantee the long-term fulfilment of our obligations. We create equalization provisions in line with insurance law to offset fluctuations.

In new business, underwriting practice is based on the underwriting guidelines in which our clearly structured, profit-oriented underwriting policy is documented. Furthermore, where claims experience is very poor, existing policies are terminated or restructured on renewal. Compliance with underwriting guidelines is monitored by the use of special controlling instruments. A comprehensive controlling system that identifies negative developments and deviations from projected figures also enables us to counteract undesirable developments promptly. In addition, active claims management and reinsurance are used as instruments of insurance risk management. To guard against major and accumulation losses as well as fluctuations in earnings, we pursue an active reinsurance policy. The effects of natural catastrophes, accumulation losses and major losses are largely mitigated by the structure of Gothaer reinsurance. A good credit or company rating is an essential requirement for any reinsurer selected. In addition, in order to identify hazards and risks to earning capacity, we model the impacts of different loss scenarios on our portfolio within the framework of our internal risk model. Apart from this, measures are taken to keep the impacts on the gross side as low as possible. Rates are thus set as far as possible on the basis of actuarial methods. In addition, underwriting policy provides for targeted use of instruments such as self-insurance, sublimits and coverage limitation agreements.

In the private client segment, competition is still intense for high-margin products. The market is characterized by growing transparency of prices and conditions and the consequent high attrition rates. Overall, underwriting margins are under increasing pressure. We respond to these market requirements with a profit-oriented policy on prices and conditions. End-to-end portfolio management enables us to monitor the portfolio constantly and to respond with individual measures to improve earnings where policies perform particularly poorly.

Our corporate client portfolio is well spread across classes of insurance but is naturally more exposed to individual risks. It is thus appreciably more volatile than the private client portfolio. As a result, we attach great importance to premiums commensurate with risks and to responsible underwriting. Accordingly, we pay particular attention to ensuring that our underwriters are highly qualified. To ensure long-term high standards here and steadily improve our performance, we have implemented a professional training and young talent concept for underwriters. Here, too, potential risks are limited by binding underwriting guidelines as well as authorization and competency rules for each line of insurance. Because of the competitive dynamics of this segment, professional supervision is provided to keep a regular check on the relevance and strict observance of underwriting guidelines. In the case of special and particularly large risks, we reduce exposure by involving other insurers as risk partners or concluding risk-specific facultative reinsurance treaties. One of the principal factors of our success in the corporate client segment is profit-oriented portfolio management, which also means that we consciously terminate unprofitable risks or insurance portfolios.

Reinsurance

The natural hazards reinsurance market continues to be very liquid in regions such as Europe, which are less globally exposed and affected by lower natural hazard losses. After the most damaging two-year period ever – from 2017 to 2018 – this fact kept the upward pressure on prices confined mainly to those parts of the world that are affected by large and very large losses, such as North America and Japan. The renewal of reinsurance treaties on 1 January 2019 was thus unproblematic, despite the impact of Cyclone Friederike (Storm David) in January 2018 in Germany. Owing to the ongoing high supply of reinsurance capacity, all reinsurance treaties were placed on terms that were regarded as satisfactory by Gothaer.

The structure of reinsurance cover remained largely stable in comparison to the prior year. The excess of loss programme covering natural hazard losses was extended, in line with standard practice, to take account of the increased exposure due to portfolio growth during the course of the year. In addition, the threshold for our motor liability cover was moderately raised to take account of market conditions.

The results of Gothaer reinsurance cessions for reinsurers were largely unaffected by natural hazard losses. However, since claims expenses connected with major losses increased – particularly in industrial fire insurance but also in engineering insurance – the net account benefited from a volume of reinsurance relief above the historical average.

Gothaer continues to monitor the opportunities and options offered by alternative risk transfer to the capital market. Although the structures and prices of non-traditional reinsurance solutions have moved closer to those of conventional reinsurance, the latter is still the more appropriate solution for Gothaer. Should that change, Gothaer would be prepared to restructure accordingly. This would be possible thanks largely to the exchange of expertise with partners that already successfully practise alternative risk transfer in the international Insurance network Eurapco.

Owing to the process of renewal that typically takes place within the industry, there is a possible but very unlikely risk of a temporal mismatch between primary insurance and reinsurance protection. This is due to the fact that negotiation of a reinsurance treaty does not normally begin until the primary insurer has already confirmed cover to policyholders for the coming year and/or can no longer cancel it. In the historically unprecedented event of a total collapse of reinsurance capacities, e. g. in the case of a global financial crisis coinciding with the occurrence of an extreme incidence of natural catastrophes, our risk exposure would significantly increase.

As regards the concentration of insurance risks, Gothaer makes a distinction between various scenarios, such as loss events that produce infrequent but large individual claims and events that result in a large number of individual claims (accumulation losses). Accumulation losses can affect several lines of insurance and/or geographical areas. Sufficient reinsurance protection is in place for all scenarios. In addition, potential scenarios are constantly monitored.

Claims

The following chart shows a ten-year summary of the changes in Gothaer Allgemeine Versicherung AG loss ratios and run-off results across all areas of direct domestic business net of reinsurance:

Claims		in %
	Loss ratio after run-off	Run-off results of initial reserves
2010	68.5	13.1
2011	66.5	12.6
2012	66.8	12.5
2013	70.0	11.3
2014	67.0	10.8
2015	69.1	10.4
2016	67.4	9.7
2017	62.9	12.3
2018	69.5	11.6
2019	64.7	11.2

Risks arising from reinsurance assumed

Gothaer Allgemeine Versicherung AG acts as a reinsurer for small property and casualty insurers. This activity predominantly involves small business and private client lines. Terms are negotiated annually and are in line with current market conditions.

Risks arising from fronting agreements

Gothaer acts as a fronting partner in Germany for selected foreign companies or captives, i. e. it writes risks and reinsures them to the fronting partner in their entirety. If a partner were unable or unwilling to meet its contractual obligations under the reinsurance contract, Gothaer would in some cases face high liabilities because such business is not ceded under obligatory reinsurance contracts. To avoid incalculable risks, a set of rules has been created, identifying the kind of companies that may be accepted as cooperation partners, the kind of security checks that need be conducted and the maximum liability that Gothaer is allowed to assume for each line of insurance.

Life insurance

The general risk situation for life insurers continues to be characterized by the low level of interest rates, which again worsened significantly in the year under review. The now protracted low-interest scenario has major impacts on the income generated by interest-bearing assets and presents risks to growth as a result of the potential change in consumer demand. Furthermore, falling interest rates under Solvency II mean higher capital adequacy requirements and reduced capital resources for the life insurance industry and thus also for Gothaer Lebensversicherung AG.

Last year's changes to the rules for calculating the reference interest rate for additional interest reserves ("corridor method") continue to provide significant relief in this economic situation.

Despite the challenging situation in the capital market, a new opportunity to generate sustainable earnings is presented by capital-efficient pension products with reduced guarantees – an addition to the range that successfully upgrades the Gothaer product portfolio. The new products are specifically designed to meet Solvency II requirements. Further opportunities are created against this background by orienting towards unit-linked products, which offer higher potential returns for the consumer and have a positive influence on our risk profile.

The focus in 2020 is on income protection products such as stand-alone occupational disability and basic skills policies. This segment will be further strengthened in the new year by product and process improvements, especially in terms of market and customer perception. Current trends in digitalization are another focus.

Legal risks may arise in the future as a result of changes in case law, tighter regulation and the effects of LVRG 2.

Underwriting risks

Underwriting risks in life insurance include premium/insurance benefit risk, which is the risk that exists where guaranteed benefits that are dependent on future developments need to be provided in return for a predefined, unchanging premium.

As a general rule, underwriting risks are met by calculating rates using actuarial methods and by applying underwriting guidelines commensurate with risk. Compliance is systematically monitored through the use of controlling instruments and early-warning systems that identify trends and negative developments in good time. The adequacy of underwriting reserves is also subject to regular actuarial verification. In addition, appropriate reinsurance treaties are in place to limit the risks arising from major and accumulation losses. The risks described below are particularly significant for life insurance.

Biometric risks – Adequacy of biometric actuarial assumptions

Policy reserves are calculated on the basis of decrement tables deemed adequate by the supervisory authority and the German Association of Actuaries (DAV). Particular importance here is attached to assessing longevity risk. In the estimation of the Responsible Actuary, the current policy reserves provide sufficient safety margins for the company.

With regard to the (supplemental) occupational disability policy portfolio, reviews focus particularly on verifying that policy reserves are at least equal to the reference reserve mandated by the Federal Financial Supervisory Authority (BaFin). As in the prior year, a reversal was recognized and policy reserves were reduced by the relevant amount.

At the end of 2008, the DAV published new bases for the calculation of reserves for (supplemental) nursing care annuity policies. We have analyzed our portfolios accordingly and see no risks at present. However, we will monitor the portfolios continuously and increase policy reserves if necessary.

In the case of policy reserves for unisex policies, regular checks are conducted to establish whether actual gender breakdown is in line with the breakdown anticipated. In the estimation of the Responsible Actuary, the individual rates calculated provide sufficient safety margins for the company. If that perception were to change in the future, additional reserves would need to be formed.

Cancellation risk – Adequacy of cancellation probability assumptions

As a matter of principle, cancellation probability is not taken into account in the calculation of premiums. In recent years, cancellation behaviour has tended to be unremarkable and, as in the market as a whole, moderately recessive. Cancellation figures continue to be closely monitored. There is also a risk of increased liquidity being required for the cancellation of major contracts. We counter this risk with selective key account management for major clients.

Interest guarantee risk

Because of the low interest phase, the German life insurance industry – and thus also Gothaer – may be exposed to risks inherent in high interest rate guarantees, which generally extend over several decades for life insurance products. This exposure exists particularly if the low level of interest rates persists. In the year under review, it reached a historical low, with 10-year euro interest swap rates at times negative.

The current maximum actuarial interest rate of 0.9 % is expected to be lowered again. A reduction to 0.5 % as of 1 January 2021 is being discussed. In new business, Gothaer Lebensversicherung AG applies actuarial interest rates lower than 0.9 %. However, the unchangeable nature of figures guaranteed in policies in force results in inertia in the reduction of this risk. The average actuarial interest rate across the portfolio is thus still significantly higher than the current maximum actuarial interest rate.

The current average yield of investments at the end of 2019 was 2.71 % and thus below the average actuarial interest rate of 3.00 %. It should be noted here, however, that because of the additional interest reserves (ZZR) formed in the past, the actual expected return on capital is lower. We gear our investments to the maturity dates of our liabilities and take account of risk-bearing capacity. At the same time, the primary focus is on long-term generation of stable earnings.

The new 'corridor' method of determining the reference interest rate for additional interest reserves (ZZR) introduced in 2018 again resulted in a lighter burden of expense for strengthening ZZR in the year under review. A sum of € 105.5 million was transferred to ZZR, bringing the year-end total to € 1,275.4 million. In some cases, cancellation and capital settlement probabilities with appropriate safety loading flow into the calculation of ZZR at Gothaer Lebensversicherung AG. There are uncertainties over the allocations anticipated in the next few years because even with the corridor method they are dependent on the development of average euro interest swap rates over the past ten years. If interest rates remain low, further expenses need to be anticipated in the coming years. Those expenses are already taken into account in projections.

Substantial ZZR expenses are also expected for Gothaer Pensionskasse AG in the current low interest environment. Based on the latest method of calculation approved by BaFin on 15 November 2019, an allocation to ZZR of € 30.7 million is required there for 2019. This increases the aggregate ZZR for Gothaer Pensionskasse AG at the end of the year to € 103.5 million. Despite the introduction of the corridor method, substantial expenses for additional interest reserves will be incurred if the low level of interest rates persists. Various measures are under preparation or have already been implemented to address this. The measures are decided or upgraded on a yearly basis, depending on the level of interest rates and the economic environment. They include, for example, increasing the company's capital base, adjusting investment allocation to strengthen investment results, optimizing costs, reducing surplus bonuses or discontinuing certain product lines. In addition, the structure of the additional security required is regularly defined in consultation with the supervisory authority. If the relevant permission for subsequent years were not granted by BaFin, this would exceed the internal financing capability of Gothaer Pensionskasse AG, in which case additional financing measures would need to be taken.

Growth risk

Even though production volume in 2019 showed a further satisfactory increase against the prior year, there is a risk of demand for insurance products with conventional savings components waning as a result of the prolonged low-interest phase coupled with the current renewed rise in inflation.

Growth opportunities are presented by Gothaer Lebensversicherung AG's innovative new insurance products, which are highly regarded in the market and receive excellent marks in comparative tests. Highlights include, for example, the successful market launch of basic skills insurance, for which more products are being developed in 2020.

Health insurance

The market and prospects of development for private health insurance are defined to a large extent by the political and legal regulatory environment. The growth prospects for supplemental insurance remain good. The challenge for companies is to adjust appropriately in terms of sales channels, cooperations and administrative processes. In company health insurance scheme business, in particular, Gothaer Krankenversicherung AG noted upturns in both premium income and the number of persons insured. Customized contracts and intensive customer care are prioritized here to achieve further portfolio expansion. After the sharp increase noted in the number of new dental restoration policyholders in 2019, risk controlling is also advisable here.

With interest rates for safe investments still at a very low level, the altered situation in the capital markets remains challenging. Because a large portion of the recessive profits from investment drive down the allocation to reserves for premium refunds and thus ultimately affect insureds, significantly higher insurance premiums need to be paid in some instances. The sharply increased premium adjustments seen market-wide – especially for comprehensive insurance – are resulting increasingly in acceptance problems among customers and distributors.

Demographic change presents an opportunity. The ageing population is creating additional markets, e. g. for nursing care insurance and dental prostheses.

Underwriting risks

The most significant underwriting risks include covering the actuarial interest rate and cancellation risk. These risks have a major bearing on the ability to allocate adequate reserves for premium refunds and thus have the funds available to lessen the impact of the development of premiums for those we insure. A particularly important role here is played by the recurrent financing of annually granted premium limits.

We continue to counter these risks with rates based on actuarial principles, selective underwriting and professional benefit and health management as well as by the use of controlling tools and early-warning systems. Particularly vigorous growth is observed here in dental prosthesis insurance. The adequacy of loss reserves remains subject to regular actuarial verification.

High premium adjustments or political change cause an increased loss of good and mostly young risks as well as downturn in new business, with the result that the average age of insureds in portfolios rises. This can itself lead to high premium adjustments. Premium refund reserve policy is the key control measure here. With adequate financial resources, high premium adjustments can be prevented and an increase in cancellations thus avoided. For this reason, special attention is paid to the development of reserves for premium refunds. To ease the pressure on the reserves for premium refunds, the customary long-term premium capping arrangements in place are supplemented by the deployment of funds for payment of the tariff bonus, a premium limit that is re-set each year. Because a protracted low level of new business negatively affects portfolio composition, developments are constantly monitored and measures are taken to strengthen new business. In 2019, new comprehensive insurance business was at a low level. At the same time, we see no significant change in customer cancellations.

The actuarial interest rate, one of the most important bases for calculation in private health insurance, is dependent upon developments in the capital markets. This fact is taken into account through the use of professional tools for analyzing investments and harnessing the findings for a more focused investment strategy as well as by the regular performance of extrapolations. In view of developments in the capital markets, however, the probability that the net target yield will not be achieved still exists. Investment strategy is therefore focused on a reasonable risk-return ratio coupled with a high probability of guaranteed actuarial interest being achieved. To ease the pressure on investment and guarantee security, the actuarial interest rate was lowered for more tariffs in 2020. If the low level of interest rates persists, there is a possibility that further actuarial interest rate adjustments will need to be made in the future. It should be noted here that actuarial interest rate adjustments can only be made in tariffs that are affected by premium adjustments. At the same time, an insufficient actuarial interest rate does not trigger a review of actuarial assumptions. The actuarial interest rate is reviewed annually by a method used to calculate the actuarial corporate interest rate (AUZ).

Financial risks in health insurance can result from the occurrence of major and accumulation losses. Our comprehensive reinsurance policy takes account of those risks.

Loss of receivables risk

Loss of receivables risk in health insurance results largely from the statutory requirement that prevents an insurer from terminating a comprehensive health contract with a defaulting policyholder. Policyholders defaulting on premiums must be switched to the so-called emergency tariff (Notlagentarif). The monthly premium payable for the benefits covered by the emergency tariff is significantly lower than the regular tariff.

Accounts receivable from policyholders and insurance agents in connection with direct written insurance business at Gothaer Allgemeine Versicherung AG, Gothaer Lebensversicherung AG and Gothaer Krankenversicherung AG totalled € 123.3 million at balance sheet date. € 34.9 million of the receivables handled by our central collection systems is outstanding for more than 90 days. The average collection loss (unsuccessful court orders) in the last three years was € 6.0 million, which is an average of 1.5 ‰ of the gross premiums written.

Risks arising from ceded reinsurance business

Gothaer Allgemeine Versicherung AG cedes reinsurance only to high-class reinsurers. 69 % of reinsurance premiums are ceded to reinsurers with a rating of AA– or better. Accounts receivable in connection with assumed and ceded reinsurance business totalled € 46.0 million at balance sheet date. Accounts receivable in connection with reinsurance ceded before consolidation amounted to € 42.5 million. The structure of receivables from reinsurance partners by rating class was as follows:

Breakdown by rating class	€ million
AA	29.3
A	12.4
BBB	0.6
Not rated	0.1

As a result of our security policy, loss of receivables in past years has been insignificant.

Investment risks

Risk strategy

The risk strategy for investments derives directly from the business strategy implemented by the risk carriers of the Gothaer Group. At its heart is the guarantee of the relevant risk carrier's risk-bearing capacity for its selected risk tolerance, which needs to be viewed in direct relation to capitalization, equity requirements under Solvency II and the target rating sought. Investment risk strategy is embedded in a risk-adjusted management policy that takes account of potential earnings opportunities against the backdrop of any risks. This presupposes an effective risk management system employing modern controlling systems to meet the requirements introduced under regulatory legislation and ensure that the additional – and in some cases more restrictive – risk limits set by the risk carrier itself are also observed. To ensure a healthy mix and spread and avoid excessive concentrations of risks, the risk carriers of the Gothaer Group continue to attach great importance to broad diversification within and across the various asset classes.

Risk situation and management

• Market change risk

Investments are exposed to the risk of possible changes in value due to fluctuations in interest rates, share prices or exchange rates in the international financial markets. For each of these classes of risk, market price risk management is performed at the relevant risk carrier level and is supported by regular stochastic and deterministic model calculations. At regular intervals, the relevant risk carrier's investment portfolio is subjected to stress scenarios in order to measure risk potential.

Simulating interest rate change risk in line with German Accounting Standard DRS 20 A2.14 produces the following result: a 1 percentage point parallel increase in the interest curve with a modified duration of 9.4 (PY: 8.8) reduced the market value of interest-bearing securities by € 2,566.4 million (PY: € 2,256.9 million) in comparison to the year-end value of the portfolio.

The market value of the equity portfolio is also expected to remain stable in the coming year. There was no substantial share exposure at balance sheet date. Risk capital stress testing (20 % downturn in prices) at balance sheet date resulted in a fall in market value of around € 559.7 million (PY: € 461.2 million).

Real estate markets continued to develop well in 2019, most of them producing high transaction volumes. In view of the attractive long-term investment opportunities available, commitments were entered into in the real estate asset class in order to achieve closer proximity to the strategic target ratio. In the light of market development and portfolio construction, we currently anticipate no need for substantial extraordinary depreciation. A price fall of 10 % results in a loss of market value of € 323.6 million (PY: € 279.7 million).

Exchange rate risk continues to be almost fully hedged by forward exchange contracts.

• Credit/solvency risk

Credit/solvency risk is the risk of insolvency or late payment; it also includes the risk of a negative change in the creditworthiness of a debtor or issuer. In the interest of risk management, investment vehicles are acquired only when a qualified and cross-checked assessment of creditworthiness by external agencies such as Standard & Poor's, Moody's or Fitch Ratings or a qualified internal rating is available. Credit risks are also broadly diversified to avoid concentration risks. As well as supervisory requirements, supplementary, more restrictive internal limits are in place to keep credit and concentration risk within reasonable bounds at individual loan, issuer and portfolio level. All critical names are constantly monitored in both the Front and Middle Office of Gothaer Asset Management AG. Regular credit analyses are also performed by Front Office to verify the value of investments that come under pressure during the course of the year in the wake of downgrades or market evaluations. Where these analyses show impairment, depreciation is applied on the fair or market value of the individual bonds. Such value adjustments in the financial year were negligible.

Despite positive market development, credit instruments accounted for a reduced 15.8 % of the total market value of Group investments (PY: 18.1 %) as a result of active cutbacks. At year-end, there was no significant credit risk discernible. Major investments in PIIS-government bonds accounted for around 10.8 % (PY: 10.5 %) of the market value of the investment portfolio. At year-end, these investments produced an aggregate unrealized profit of around € 463.0 million (PY: € 149.2 million).

Owing to rating changes and additions and disposals during the course of the year, the spread of ratings in the fixed-interest portfolio changed as follows:

Breakdown by rating class		€ million
	2019	2018
AAA	21.7	22.4
AA+	14.4	14.4
AA	10.7	10.4
AA–	8.3	7.0
A+	9.3	8.7
A	4.2	6.7
A–	6.9	6.4
BBB+	6.0	7.3
BBB	5.4	6.9
BBB–	5.3	6.5
Speculative Grade (BB+ to D)	2.0	1.2
Not rated	5.8	2.1

• Liquidity risk

A viable liquidity planning and management system is a prime requirement for effective investment management. Encompassing both investment and underwriting, liquidity planning ensures precise day-by-day projection of cash balances. When liquidity requirements peak, the necessary liquidity can thus be made available by the disposal of marketable securities. Apart from the liquid securities in the direct portfolio, special funds are also available to meet liquidity peaks by payment of dividends or disposal of certificates. Moreover, capital available for investment can be promptly identified. With the help of our liquidity risk management concept, regular analyses of liquidity sources and cover ratios can be performed and, in particular, liquidity stress tests carried out.

There were no liquidity bottlenecks for the Group's risk carriers at any time during the year under review. In the course of ALM analysis, underwriting commitment flows and the maturities of fixed-interest securities held are compared in a medium- and long-range projection. Owing to the uniform distribution of maturities, no liquidity bottlenecks are foreseen in any of the years considered.

Operational and other risks

IT risks

Information and communication technology (ICT) is an indispensable tool for an insurance company and, due to the increasing importance of process support and automation, plays a central role in Gothaer Group risk management. Because of increasing dependence on ICT, security mechanisms have been systematically improved and stabilized in recent years. As a matter of principle, we guarantee compliance with the supervisory IT requirements for insurance enterprises ("Versicherungsaufsichtlichen Anforderungen an die IT") of the Federal Financial Supervisory Authority (BaFin) and other statutory requirements by taking controlling and implementing measures that are continuously adapted to meet the constantly growing risks. We also guarantee compliance with the provisions of the German Federal Data Protection Act (Bundesdatenschutzgesetz) and the code of conduct ("Verhaltensregeln für den Umgang mit personenbezogenen Daten durch die deutsche Versicherungswirtschaft") agreed by representatives of data protection agencies, consumer watchdog Verbraucherzentrale Bundesverband e. V. and the insurance industry to raise data protection standards. We protect business-critical applications by using a business continuity management process that not only ensures technological integrity but also safeguards critical business processes. Targeted checks in Data Loss Prevention systems are used to counter the risk of unintentional data loss. To achieve consistent information security and above all to maintain and, where appropriate, improve the level of security reached, we have created an Information Security Management System (ISMS) certified by DEKRA to the international standard ISO/IEC 27001.

HR risks

The management of HR risks (scarcity, departure, motivation, adaptation and loyalty risks) and the identification and utilization of opportunities are major constituents of Gothaer HR management. Key points of reference are HR strategy, the economic situation of the Group companies, change processes within the Group and external factors such as market developments, digitalization and changes in population demographics.

The HR topics of primary importance at present are as follows:

- Acquisition and retention of employees
- Securing skills critical for the success of the Company
- Strengthening capacity for change in Group companies.

Gothaer HR management has a comprehensive set of analytical instruments at its disposal for measuring, assessing and managing risks. The data and analyses thus generated are important HR tools. At the same time, the managements of the specialist departments play important role in HR risk management. The HR department therefore supports them in this role by providing data (e. g. in the form of cockpits) and by conducting joint analyses and activities (e. g. quantitative and qualitative analyses for demographic risk management).

A very close eye is kept on the adjustment risks connected with the implementation of the Group strategy and changes in the adjustment risks connected with it. This monitoring is performed, for example, through use of the Group Dialogue and follow-up surveys, which permit a differentiated analysis of the views of employees and management on matters such as Group strategy, customer orientation, leadership, cooperation and sustained commitment. Consultations of this kind are thus important for the further development of the Group. The findings of the 2019 follow-up survey confirm the effectiveness of the measures derived from them.

Scarcity risks in the acquisition of external know-how carriers are primarily addressed by appropriate HR marketing tools. At the same time, an attempt is made to counter the risks by means of internal development programmes. Analysis of candidate management data and verification of Gothaer's attractiveness as an employer are also important instruments for managing scarcity risks.

Demographic change management is particularly relevant. This is because demographic change not only pushes up the number of employees leaving the Company on grounds of age but also reduces the number of qualified applicants available in the external labour market. It thus fundamentally increases scarcity and departure risks – even more so in the Cologne local market, with its dense cluster of insurance companies competing for human resources. Gothaer long ago identified these risks both internally (e. g. by calculating scenarios) and externally (e. g. by taking part in employer rankings) and thus possesses an extensive risk management database. Gothaer's enhanced employer marketing activities as well as projects such as "Frauen im Management" (Women in Management) help successfully counter the risks described above.

Regulatory compliance of financial statements

Accounting controls have been set up and other organizational arrangements made to guarantee the regulatory compliance of annual and consolidated financial statements. Among the organizational arrangements, special mention should be made of our accounting principles, clear assignment of responsibilities for accounting systems and data interfaces, detailed time scheduling and monitoring as well as regular backing-up of data bases. General observance of the "four-eyes" principle, clear regulation and verification of authority as well as clear assignment of responsibility for bookkeeping systems are key elements of the internal monitoring system. The units involved in the reporting process continue to be integrated in the Gothaer Group risk management system. Verification of the various elements is performed by the Internal Auditing unit.

The challenges presented by changes in accounting rules are also met by constant further development and training of employees.

Legal risks

Due to mounting legislative requirements at European and national level, the insurance industry faces major challenges even from a purely administrative perspective.

Targeted legal monitoring coordinated by the compliance function of the Company is implemented to keep abreast of these extensive changes, identify the need for action and – taking company-specific circumstances into account – ensure that appropriate and sufficiently prompt measures are taken.

Money laundering

Internal guidelines and checks have been adopted to prevent life insurance, refund-of-premium accident insurance or insurance company loans being used to launder money or finance terrorism. For mortgage loans granted by Gothaer in the past, run-off is handled centrally. No new mortgage loans are granted. The internal guidelines and safeguards are also used – alongside a wide range of work instructions – to minimize risks.

Summary of the risk situation

In the area of property and casualty insurance, the Gothaer Group is both well capitalized and highly diversified in terms of products and business segments (private clients/corporate clients). In conjunction with good market positioning, disciplined business practices and a sufficiently conservative risk policy, this ensures adequate risk-bearing capacity.

The main risk identified in this segment comes from natural catastrophes. We hedge that risk by targeted reinsurance cover.

In the area of life insurance, the focus of the Gothaer Group encompasses not only modern capital-efficient products but also biometric and unit-linked life products as well as company pension schemes. In an ageing society, the Gothaer Group can thus profit from increased demand for these products.

The principal risk identified in the Life segment is interest guarantee risk. Because of the long-term guarantees given, it is imperative that an appropriate yield should be achieved in the capital market. A protracted low-interest phase has a major impact on the income generated by interest-bearing assets. The risk result helps reduce dependence on investment income.

Private health insurance is very dependent on the political environment. Accordingly, Gothaer will mainly focus here on growing its supplemental health insurance business.

As in the Life segment, interest change risk is also a major risk in health insurance. A fall in investment income would lead to premium adjustments, which could in turn have negative impacts on new business.

Risk management is performed on the basis of quantitative and qualitative analysis. The control mechanisms, instruments and analytical processes described above ensure effective risk management. We thus create a stable risk profile with an appropriate time horizon. This assessment is supported, amongst other things, by the following factors:

The Gothaer Group fulfils the regulatory solvency requirements set out in the German Insurance Supervision Act (VAG). The capital available exceeds the solvency requirements. A detailed description of those requirements and the way they are met by the Gothaer Group is found in the Solvency and Financial Condition Report (SFCR), which is also published on the Gothaer website (www.gothaer.de).

In 2019, Standard & Poor's gave Gothaer Allgemeine Versicherung AG, Gothaer Lebensversicherung AG and Gothaer Krankenversicherung AG a confirmatory A– follow-up rating for financial stability and raised outlook to positive.

At the time the financial statements were prepared, nothing was seen in the risk situation of the Gothaer Group that might jeopardize the fulfilment of commitments assumed under insurance contracts.

Non-Financial Statement

Fundamental principle

The business relationship between an insurance company and its customers is based on a promise. In return for payment of a premium, the customer receives the assurance of an agreed amount of financial support in the event of loss or damage. So, at the core of our business activities is the promise of a financial benefit. This distinguishes us from many other industries. We see responsible and sustainable management of all resources as an integral part of our corporate identity and a core value. We have enshrined this in our risk strategy and, in particular, in the Gothaer Group code of conduct as a mandatory behavioural yardstick for all directors, executives, managers and employees, regardless of their position or function. However, we have not yet acceded to a recognized set of sustainability reporting rules and have not defined any rigid system of targets.

We will intensify our commitment in the field of sustainability in the future and will centralize the activities that are already ongoing. A staff unit reporting directly to the Management Board chair was created for this purpose on 1 January 2020.

Environmental matters

A responsible attitude to the environment is fundamental to our corporate identity. We respect environmental law and seek at all times to ensure that our operations protect natural resources and constitute sustainable, environmentally sound solutions.

As long ago as 2003, in line with this commitment, Gothaer introduced a system of environmental management focused on preparing an annual environmental assessment. That assessment presents a breakdown and year-on-year comparison of environmentally relevant consumption indicators (e.g. electricity and water consumption, waste generation and carbon dioxide emissions) for the building space at Gothaer Group headquarters, i. e. the Zollstock campus in Cologne. Since the introduction of environmental management, electricity consumption has been reduced by 51 % to 6 million kWh and water consumption by 17 % to 40 thousand cubic metres. In 2018, as part of our constant effort to ensure sustainable business operations, more areas of corridor lighting were switched to LED spots. New workplaces were equipped with stand-alone LED luminaires, LED desktop luminaires or LED ceiling lighting.

In addition, the renewal of the combined heat and power plants was planned in conjunction with an engineering office in 2018. The upgrading work will be carried out in 2019 and 2020. The renewal of the old combined heat and power plants will make a sustainable contribution to energy saving and carbon reduction. This is a step towards the carbon neutrality of the Cologne campus that we have targeted for 2020. More measures needed to meet this goal are currently being looked into and relevant TÜV certification is being prepared.

The modification of our company car regulations is also designed to reduce carbon emissions. Employees have been able to choose full hybrid, plug-in hybrid and electric vehicles as company cars since 2018. The electric car charging stations on the Cologne campus can also be used by all employees free of charge. In addition, we try to interest our employees in sustainability issues and climate change at information events such as "Trend Arena: Fact Check on Climate Change".

Environmental assessment

Environmental assessment 2018*

	Unit	2018	2017	Change 2018/2017
Employees	Number	2,965	2,983	–0.6 %
Building space	m²	100,783	100,783	0.0 %
Thermal energy consumption	kWh	25,692,471	25,610,288	0.3 %
Electricity consumption	kWh	6,434,909	7,478,655	–14.0 %
Water consumption	m³	39,967	37,950	5.3 %
Total Waste disposal	kg	539,800	513,707	5.1 %
of which,				
Residual waste	kg	164,920	102,260	61.3 %
Paper	kg	244,606	254,485	–3.9 %
Wet waste – company restaurant	kg	130,274	156,962	–17.0 %
Copier and printer paper	kg	297,830	290,320	2.6 %
Net carbon dioxide emissions	kg	8,934,147	9,448,377	–5.4 %

* latest available environmental assessment

In addition, we support the future-proofing, climate-friendly solutions offered by renewable energies. More than 20 years ago, for instance, we developed special insurance concepts in collaboration with manufacturers and operators of wind turbines. Today we have insured more than 19,000 wind turbines and 18,000 photovoltaic systems worldwide. As an investor, we have also invested more than € 1 billion in renewable energy projects, i. e. indirectly in wind farms, solar parks and hydropower plants.

In cooperation with ClimatePartner – an organization promoting carbon neutrality projects worldwide – we offer customers the opportunity to opt voluntarily to make their motoring carbon-neutral. A carbon calculator is available to them for this purpose. The carbon emissions generated are offset by supporting internationally recognized climate protection projects. A forest protection project in Brazil, a wind power project in the Caribbean and a small hydroelectric power plant in the Democratic Republic of Congo are financially supported in this way.

Moreover, customers who drive an all- electric car are granted a 10 % discount on their insurance premiums.

Sustainable investment

As a mutual insurance company, Gothaer has always designed its investment operations for economic sustainability so that it can meet its benefit commitments to insurance customers. This year, the Gothaer Group started to take greater account of environmental, social and governance criteria – so-called sustainability or ESG criteria – in investment decisions. The Gothaer sustainability concept is based on a holistic approach that focuses equally on environmental, social and governance factors and is designed the to reduce investment risk and thus strengthen our service promise to customers.

The foundations of the sustainability concept for business investments are formed, on the one hand, by business-field- and standard-based exclusion criteria. As of 2019, the investment universe for new investment is thus categorically reduced by the exclusion of entities whose business activities are geared to:

- conventional weaponry (accounting for more than 10 % of turnover)
- proscribed weaponry (cluster bombs, landmines etc.)
- NBC weaponry
- coal for power stations (where more than 30 % of turnover comes from extraction or conversion into electricity or where coal reserves exceed 1 billion metric tons).

Also excluded are entities that breach the international standards of the United Nations Global Compact (world's largest and most important initiative for responsible corporate governance), the conventions of the International Labor Organization (specialized UN agency promoting international employment and social standards) and the UN Guiding Principles on Business and Human Rights.

Existing portfolios affected by these exclusion criteria will be successively wound down within a three year phase-out period. Observance of the exclusion criteria in the special funds is verified by the capital management company and in the direct portfolio by the Middle/Back Office of Gothaer Asset Management AG. At 31 December 2019, 97.5 % of our business investments complied with the stipulated exclusion criteria.

A sustainability concept for countries was also developed in 2019 and will be introduced in 2020. While corporate entities pursue specific business interests, government action is much more diverse and can vary greatly. For this reason, the concept does not provide for categorical exclusions at the individual criteria level. Instead, a Gothaer ESG country index has been developed, calculated on the basis of the most important sustainability criteria. Due to the holistic approach, the three areas of concern for measuring sustainability – environmental, social and governance – have been weighted almost equally. Ranking within the Gothaer ESG country index indicates the individual states' sustainability and forms the basis for a grading system.

- Countries with good grades are cleared for investment without any restrictions.
- Countries with a poor grade require more in-depth sustainability analysis and a written justification by the portfolio management.
- Countries with a very poor grade are not cleared for investment.

The grades are used for sovereign and quasi-sovereign bonds. Where it is possible and feasible to assess quasi-sovereign issuers on a case-by-case basis, this will be attempted. As the availability and diversity of state sustainability criteria is constantly increasing, we will continuously develop the Gothaer ESG country index.

To emphasize the importance of responsible investment even more, we intend to join the UN Principles for Responsible Investment (UN PRI) network in 2020.

Employee matters

Company health management

The aim of company health management is to maintain and promote the health, well-being and motivation of employees across all age groups throughout their working life. It is firmly established within the Gothaer Group as a major element of contemporary, forward-looking HR work. "Employee health" has been entrenched for years as a goal of the Gothaer Mindset and HR strategy. An effective health management system depends crucially on a systematic combination of analysis, project conception/implementation and evaluation within the framework of a continuous improvement process. That process is managed by the Company Health Steering Committee, which meets regularly under the leadership of the HR director.

In terms of the content of the measures taken, the strategic focus is on positively influencing both working conditions (conditional prevention) and individual employee behaviour (behavioural prevention). The main thrusts of our work cover areas such as management, workplace ergonomics, medical services, sport and exercise, diet, stress prevention in the workplace, smoking cessation and many more. On the Zollstock campus premises in Cologne and at the Göttingen location, for example, a varied programme of courses is offered with the emphasis on back exercise, relaxation techniques and cardio training. At the same time, we make increasing use of digital, location-independent solutions such as a stress support hotline, e-learning modules and interactive motivational and coaching apps. Gothaer also operates a "Gesundheitslotsen" service – staffed by specially trained healthcare advisers who have a particularly detailed knowledge of Gothaer healthcare programmes and offer support and advice to colleagues on relevant health issues.

Gothaer also models in-company health by means of a health index (Gothaer Gesundheitsindex). Comprised of the sub-indices “Measures”, “Absence” and “Health”, it draws on both hard and soft health indicators in the company. Accordingly, consideration is not only given to indicators such as absence and fluctuation rates but also to employee satisfaction and subjective health. A target/actual performance comparison facilitates control and quality assurance for Gothaer company health management.

We have repeatedly won awards for our company health management services. In 2018, Gothaer received its fifth Corporate Health Award as the strongest contender in the insurance industry and was awarded special Corporate Health prizes in the demography and management categories in 2010 and 2019. In addition, the sick rate of the Gothaer core companies – Gothaer Allgemeine Versicherung AG, Gothaer Krankenversicherung AG, Gothaer Lebensversicherung AG and Gothaer Finanzholding AG – at 6.0 %, is significantly lower than the insurance industry average of 6.5 %.

Gender balance

The gender ratio of the Gothaer core company workforce is fairly balanced at 51.2 % female to 48.8 % male (as of 31 December 2018). At management level, women hold only one in five (21.8 %) managerial positions. In 2009, we introduced a mentoring programme designed specifically to promote career advancement for women. That programme entered its fifth cycle this year. Mentoring is designed to give mentees the opportunity to develop an individual career plan and network within the Gothaer management. This is done within the framework of a trusting, tailored mentoring relationship with experienced first- and second-tier managerial staff.

Mobile and flexible working

The teleworking option introduced in 2016 to help reconcile work and family life has now been taken up by 624 employees, which is 26.2 % of the target group. In the middle of 2017, a company agreement was concluded on mobile device management. It gives inhouse staff with high mobility requirements the opportunity, with the agreement of their line manager, to use smartphones or tablets for work. The decision to furnish employees with mobile devices in such cases is taken by the line manager on a non-discriminatory basis. There is a right to be unreachable outside work hours. Employees decide on an ad hoc voluntary basis how the mobile devices can be reasonably and efficiently used.

Work safety

Gothaer employees receive annual training in occupational health and safety. Emergency plans and the names of first aiders are required to be kept at every workplace. In addition, a self-instruction guide was produced on fire safety and comprehensive new fire safety rules were developed providing information on fire prevention, fire fighting and how to behave in the event of a fire or accident. Furthermore, a guide was published for extraordinary hazards.

Mindset

The Mindset@Gothaer initiative identifies ways of thinking and patterns of behaviour that will help us sustainably transform our corporate culture. Every organizational unit is required to interpret the five core messages of our mindset

- responsibility inspires
- consistency strengthens
- competence decides
- mutuality wins
- future excites

and implement them in its daily work. Mindset@Gothaer in its present form is a starting-point, a basis for development.

Group Dialogue

As in 2014, we conducted a group-wide survey among employees at the end of 2018 entitled "Zuhören und gemeinsam bewegen!" (Listen and Together Make a Difference). The point of the exercise to open a dialogue with our employees. The findings from the survey will flow into both team work and inter-organizational events aimed at maintaining an effective dialogue.

Diversity Management

The purpose of our Diversity Management programme, which was launched in 2019, is to create a positive diversity environment true to the motto "Diversity enriches us" and encompassing the dimensions

- Interdisciplinarity
- Age
- Gender/sex
- Origin and nationality
- Religion and ideology
- Sexual orientation/identity
- Disability

Within the Diversity Management programme, we have taken numerous measures such as our Management Board signing the German Diversity Charter (Charta der Vielfalt), holding round table events on individual dimensions (young employees, employees with disabilities, foreign employees, women in management positions) and creating a Parent-Child Office.

Employees have established a register association, GoPride e. V., for the promotion, integration and acceptance of people of any sexual orientation or sexual identity in working life. The GoPride initiative aims to give a face to the diversity dimension "sexual orientation/identity" at Gothaer, strengthen the Gothaer sense of community and add another stone to the mosaic of our shared commitment to the Diversity Charter.

Social matters

The Gothaer Group supports education and science, art and culture as well as social or other generally recognized causes. However, donations to political parties or political office-holders are excluded.

Gothaer is a long-standing cooperation partner of the blood cancer foundation DKMS. In conjunction with DKMS, we offer regular internal registration events for employees. Gothaer shoulders the registration costs. To date, a total of 1,200 employees have registered as donors and 22 have already donated stem cells.

Gothaer employees also regularly demonstrate their generosity and willingness to help in diverse fund-raising activities such as the charity Christmas tree event or the book exchange in aid of orphans.

In addition, 2019 saw the launch of the GoTogether initiative, in which employees seek crowdfunding support within the workforce for social projects. 65 different employees have participated in five projects, ranging in scope from tackling odd jobs in a retirement home to staging a reading day in schools and kindergartens.

Respect for human rights

Respect for human dignity, prohibition of discrimination and a commitment to equal opportunity are mandatory tenets of our code of conduct. To underline the importance of upholding these values even more, a training measure (e-learning module) on the code of conduct was developed and is compulsory for all employees.

Anti-corruption and anti-bribery matters

Neither active (bribe-giving) nor passive (bribe-taking) corruption are tolerated by Gothaer. No one at Gothaer may offer or grant inadmissible advantages to business partners, their employees, other third parties or themselves. This is also a mandatory tenet of our code of conduct. To underline the importance of upholding these values even more, a training measure (e-learning module) on the prevention of corruption was developed and is compulsory for all employees.

Trust

The business model of an insurance company is essentially based on trust. Our overriding concern is to maintain that trust. Hence the stipulation in our risk strategy that the values for which Gothaer and its name have stood for nearly 200 years must be upheld at all times by the insurance products we offer. Furthermore, we maintain business relationships only with partners whose credentials we consider impeccable.

We are entrusted with highly sensitive personal information by our customers. Ensuring that data protection is guaranteed is therefore a primary and fundamental obligation. In conjunction with data protection authorities, the insurance industry has developed rules of conduct in this regard, to which the Gothaer insurance companies acceded with effect from 1 January 2014. These "Rules of Conduct for Handling Personal Data in the Insurance Industry" were modified in the middle of 2018 when the General Data Protection Regulation (GDPR) was implemented. A training measure (e-learning module) on data protection and IT security has also been developed and is compulsory for all employees.

Aside from the obligations of data protection and confidentiality, we have also made a commitment in our code of conduct to comply with the rules of competition and antitrust law. At the same time, sensitization for matters of relevance to antitrust law is supported by an e-learning module. Furthermore, as explained above in the section Non-financial Performance Indicators, Gothaer has undertaken to comply with the "Code of Conduct for the Sale and Distribution of Insurance Products", which is observed by many members of the GDV on the basis of a voluntary commitment.

Consolidated Statement of Financial Position as of 31 December 2019

Assets

€ million

				2019	2018
A. Intangible assets					
I. Acquired concessions, industrial property rights, similar rights and assets as well as licences for such rights and assets			227.2		230.5
II. Payments in advance			52.4		58.3
				279.6	288.8
B. Investments					
I. Real estate, real estate rights, and buildings, including buildings on third-party land			24.4		17.6
II. Investments in affiliated companies and participations					
1. Shares in affiliated companies		82.9			73.7
2. Loans to affiliated companies		2.4			3.0
3. Shares in joint ventures and associated companies		275.5			290.6
4. Participations		967.3			972.8
5. Loans to participations		5.6			22.2
			1,333.7		1,362.3
III. Other investments					
1. Shares, investments in unit trusts and funds and other non-fixed-interest securities		17,379.0			16,197.6
2. Bearer bonds and other fixed-interest securities		5,301.6			5,748.4
3. Mortgages, liens on real property and annuities		87.1			110.0
4. Other loans					
a) Registered bonds	1,898.4				1,931.7
b) Promissory notes and loans	2,327.2				2,446.0
c) Loans and advance payments on insurance policies	27.4				31.3
d) Other miscellaneous loans	522.8				448.7
		4,775.8			4,857.6
5. Bank deposits		568.6			450.2
			28,112.1		27,363.8
IV. Deposits made in connection with reinsurance business assumed			3.1		2.0
				29,473.4	28,745.8

Assets

				€ million
			2019	2018
C. Investments held for unit-linked life insurance policies			2,478.2	2,018.1
D. Accounts receivable				
I. Accounts receivable in connection with direct insurance business from:				
1. Policyholders	146.2			164.6
2. Insurance agents	61.7			57.2
		207.9		221.8
II. Accounts receivable in connection with reinsurance business of which from associated companies: € 2.1 million (PY: € 2.2 million)		49.5		28.6
III. Other accounts receivable of which from affiliated companies: € 6.1 million (PY: € 12.9 million) of which from associated companies: € 0.5 million (PY: € 0.4 million) of which from participations: € 3.4 million (PY: € 0.4 million)		327.3		341.8
			584.7	592.2
E. Other assets				
I. Tangible assets and inventories		31.9		26.7
II. Current credit balances with banks, checks and cash on hand		146.6		160.3
III. Miscellaneous assets		57.7		54.9
			236.2	241.9
F. Prepaid expenses				
I. Prepaid interest and rent		138.3		149.6
II. Other prepaid expenses		11.2		12.5
			149.5	162.1
G. Deferred tax assets			342.4	349.6
Total assets			**33,543.9**	**32,398.5**

Equity and liabilities

€ million

			2019	2018
A. Equity				
I. Revenue reserve				
1. Loss reserve in accordance with section 193 VAG	66.4			66.4
2. Other revenue reserves	1,054.4			945.4
		1,120.9		1,011.9
II. Consolidated net income for the year		112.8		117.2
III. Equity difference from currency translation		−0.7		−0.4
IV. Minority interests		30.7		30.5
			1,263.7	1,159.2
B. Subordinate liabilities			299.7	299.7
C. Underwriting reserves				
I. Unearned premiums				
1. Gross amount	553.5			633.3
2. less: amounts ceded	68.6			85.8
		484.8		547.5
II. Aggregate policy reserves				
1. Gross amount	23,351.9			22,636.4
2. less: amounts ceded	90.7			92.5
		23,261.2		22,543.9
III. Reserve for outstanding claims				
1. Gross amount	3,128.9			3,187.0
2. less: amounts ceded	428.5			447.3
		2,700.4		2,739.7
IV. Reserve for performance-related and non-performance-related premium refunds				
1. Gross amount	954.9			1,004.3
2. less: amounts ceded	0.1			0.1
		954.8		1,004.2
V. Equalization reserves and similar reserves		417.6		431.3
VI. Other underwriting reserves				
1. Gross amount	42.2			35.0
2. less: amounts ceded	−2.6			−0.1
		44.7		35.1
			27,863.5	27,301.8

Equity and liabilities

				€ million
			2019	2018
D. Underwriting reserves for unit-linked life insurance policies				
I. Aggregate policy reserves				
1. Gross amount	2,418.0			1,965.7
2. less: amounts ceded	0.0			0.0
		2,417.9		1,965.6
II. Miscellaneous underwriting reserves				
1. Gross amount	60.2			52.5
2. less: amounts ceded	0.0			0.0
		60.2		52.5
			2,478.2	2,018.1
E. Other accruals				
I. Accruals for pensions and similar obligations		397.2		370.2
II. Accruals for taxes		195.6		189.2
III. Miscellaneous accruals		167.1		175.0
			759.9	734.4
F. Deposits held in connection with reinsurance business ceded			155.6	151.2
G. Other liabilities				
I. Accounts payable in connection with direct insurance business to				
1. Policyholders	404.0			430.1
2. Insurance agents	25.6			32.6
		429.6		462.7
II. Accounts payable in connection with reinsurance business		83.8		60.3
III. Liabilities to banks		41.4		73.5
IV. Miscellaneous liabilities		168.3		136.3
of which:				
for taxes:				
€ 65.0 million (PY.: € 50.9 million)				
for social security:				
€ 0.2 million (PY.: € 0.6 million)				
toward affiliated companies:				
€ 5.4 million (PY: € 5.2 million)				
toward associated companies:				
€ 0.3 million (PY: € 0.3 million)				
towards paricipations:				
€ 2.5 million (PY: € 2.5 million)			723.2	732.9
H. Deferred income			0.2	1.2
Total equity and liabilities			**33,543.9**	**32,398.5**

Consolidated Income Statement for the period from 1 January to 31 December 2019

€ million

			2019	2018
I. Underwriting account for property and casualty insurance business				
1. Earned premiums net of reinsurance				
a) Gross premiums written	2,190.5			2,224.3
b) Reinsurance premiums ceded	320.9			338.9
		1,869.7		1,885.4
c) Change in gross unearned premiums	−2.5			−18.3
d) Change in gross unearned premiums ceded	5.8			−2.4
		−8.3		−15.9
			1,861.4	1,869.4
2. Technical interest net of reinsurance			3.1	2.8
3. Other underwriting income net of reinsurance			5.3	6.3
4. Claims expenses net of reinsurance				
a) Claims paid				
aa) Gross amount	1,424.9			1,390.0
bb) Amount ceded	176.4			209.7
		1,248.5		1,180.3
b) Change in reserve for outstanding claims				
aa) Gross amount	−16.6			19.8
bb) Amount ceded	26.4			−32.2
		−43.0		52.0
			1,205.6	1,232.3
5. Change in other net underwriting reserves				
a) Net policy reserve		−2.9		−3.3
b) Other net underwriting reserves		7.5		10.5
			4.6	7.2
6. Expenses for performance-related and non-performance-related premium refunds net of reinsurance			4.0	3.0
7. Underwriting expenses net of reinsurance				
a) Gross underwriting expenses		640.5		658.1
b) less: commissions and profit sharing received on reinsurance business ceded		86.5		84.6
			554.0	573.5

€ million

			2019	2018
8. Other underwriting expenses net of reinsurance			18.0	20.7
9. Subtotal			83.6	41.8
10. Change in equalization reserves and similar reserves			13.3	12.8
11. Underwriting result net of reinsurance in property and casualty insurance business			96.9	54.6
II. Underwriting account for life and health insurance business				
1. Earned premiums net of reinsurance				
a) Gross premiums written	2,334.1			2,158.5
b) Reinsurance premiums ceded	35.4			52.4
		2,298.7		2,106.1
c) Change in net unearned premiums		4.4		1.0
			2,303.1	2,107.1
2. Premiums from the gross provision for premium refunds			131.9	61.0
3. Allocated interest transferred from the non-underwriting account			864.8	836.4
4. Unrealized gains on investments			419.8	101.9
5. Other underwriting income net of reinsurance			17.6	22.1
6. Claims expenses net of reinsurance				
a) Claims paid				
aa) Gross amount	1,966.6			2,039.1
bb) Amount ceded	26.1			26.1
		1,940.5		2,013.0
b) Change in reserve for outstanding claims				
aa) Gross amount	36.2			7.0
bb) Amount ceded	–1.0			0.8
		37.2		6.2
			1,977.7	2,019.2
7. Change in other net underwriting reserves				
a) Policy reserves				
aa) Gross amount	1,171.5			223.9
bb) Amount ceded	–2.7			8.3
		1,174.2		215.6
b) Other net underwriting reserves		5.5		–0.2
			1,179.7	215.4

				€ million
			2019	2018
8. Expenses for performance-related and non-performance-related premium refunds net of reinsurance			220.6	283.4
9. Underwriting expenses net of reinsurance				
a) Acquisition expenses	145.3			136.3
b) Administrative expenses	49.8			45.9
		195.1		182.2
c) less: commissions and profit sharing received on reinsurance business ceded		11.4		18.9
			183.7	163.3
10. Unrealized losses on investments			23.3	358.5
11. Other underwriting expenses net of reinsurance			33.2	23.4
12. Underwriting result net of reinsurance in life and health insurance business			119.0	65.2
III. Non-underwriting account				
1. Underwriting result net of reinsurance				
a) in property and casualty insurance business		96.9		54.6
b) in life and health insurance business		119.0		65.2
			215.9	119.9
2. Investment income				
a) Income from joint ventures and associated companies	13.2			28.1
b) Income from participations	67.2			101.5
of which from affiliated companies: € 2.0 million (PY.: € 2.2 million)				
c) Income from other investments				
of which from affiliated companies: € 0.1 million (PY.: € 0.1 million)				
aa) Income from real estate, real estate rights, and buildings, including buildings on third-party land	0.8			0.5
bb) Income from other investments	737.1			739.5
	737.8			740.1
d) Income from write-ups	51.1			11.7
e) Proceeds from the disposal of investments	262.7			260.7
f) Income from profit transfer agreements	0.1			0.1
		1,132.2		1,142.2

€ million

			2019	2018
3. Investment expenses				
a) Cost of portfolio management interest expense and other expenses in connection with investments	72.1			78.4
b) Amortization of investments	42.2			114.0
c) Losses from the disposal of investments	23.9			64.6
		138.2		257.0
			994.0	885.2
4. Allocated interest transferred to the underwriting account for property and casualty insurance business		3.4		3.2
4a. Allocated interest transferred to the underwriting account for life and health insurance business		864.8		836.4
			868.2	839.6
			125.7	45.6
5. Other income		137.3		244.5
6. Other expenses		282.3		261.4
			−145.0	−16.8
7. Operating income			196.7	148.6
8. Extraordinary income		4.6		0.0
9. Extraordinary expenses		2.6		2.7
10. Extraordinary result			1.9	−2.7
11. Income before taxes			198.6	146.0
12. Taxes on income of which from deferred taxes € 7.2 million (PY: € −47.2 million)		82.6		26.5
13. Other taxes		1.1		0.7
			83.6	27.2
14. Net income for the year			115.0	118.7
15. Net income attributable to minority interests			2.2	1.6
16. Consolidated net income for the year			**112.8**	**117.2**

Statement of Changes in Equity

€ million

	Group equity				Minority interests	Equity
	Revenue reserve		Consolidated net income for the year	Equity difference from currency translation		
	Loss reserve in accordance with section 193 VAG	Other revenue reserves				
Balance as of 1 January 2018	**66.4**	**941.4**	**0.0**	**–4.3**	**31.9**	**1,035.6**
Transfers to/withdrawals from reserves	0.0	209.2	–209.2	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	–3.0	–3.0
Currency translation	0.0	0.0	0.0	2.0	0.0	2.0
Other changes	0.0	3.0	0.0	0.0	0.0	3.0
Changes in the basis of consolidation	0.0	1.1	0.0	1.8	0.0	2.9
Net income for the year	0.0	0.0	117.2	0.0	1.6	118.7
Balance as of 31 December 2018	**66.4**	**945.4**	**117.2**	**–0.4**	**30.5**	**1,159.2**
Transfers to/withdrawals from reserves	0.0	117.2	–117.2	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	–2.0	–2.0
Currency translation	0.0	0.0	0.0	–0.3	0.0	–0.3
Other changes	0.0	–5.8	0.0	0.0	0.0	–5.8
Changes in the basis of consolidation	0.0	–2.4	0.0	0.0	0.0	–2.5
Net income for the year	0.0	0.0	112.8	0.0	2.2	115.0
Balance as of 31 December 2019	**66.4**	**1,054.4**	**112.8**	**–0.7**	**30.7**	**1,263.7**

As a mutual insurance company, the Group parent Gothaer Versicherungsbank VVaG has no subscribed capital. Equity is generated exclusively by retention of earnings.

Statement of Cash Flows

		€ million
	2019	2018
Profit for the period *	115.0	118.7
Increase/decrease in underwriting reserves net	1,141.1	450.9
Increase/decrease in deposits with ceding undertakings and receivables from reinsurance business	22.5	51.7
Increase/decrease in deposits received from reinsurers and liabilities from reinsurance business	39.9	–129.0
Increase/decrease in other receivables	–14.0	–57.6
Increase/decrease in other liabilities	–3.2	–65.3
Changes in other balance sheet items not attributable to investing or financing activities	–740.6	–336.4
Other non-cash expenses/income and adjustments to profit or loss for the period	–304.1	314.7
Gain/loss on disposal of investments, tangible fixed assets and intangible fixed assets	–238.6	–198.9
Income tax expense/income	82.6	26.5
Income taxes paid	–46.6	–111.9
Cash flows from operating activities	**53.8**	**63.5**
Proceeds from disposal of entities included in the basis of consolidation	50.0	179.1
Proceeds from disposal of tangible assets	0.6	0.4
Proceeds from disposal of intangible assets	4.0	1.0
Payments to acquire tangible assets	–13.7	–7.2
Payments to acquire intangible assets	–43.8	–56.7
Proceeds from disposal of investments relating to unit-linked life insurance policies	7.6	2.7
Payments to acquire investments relating to unit-linked life insurance policies	–17.5	–9.0
Cash flows from investing activities	**–12.9**	**110.3**
Dividends paid to minority interests	–2.0	–3.0
Proceeds from/payments for other financing activities	–51.9	–84.0
Cash flows from financing activities	**–53.8**	**–87.0**
Net change in cash funds	**–12.9**	**86.9**
Effect on cash funds of exchange rate movements and remeasurements	–0.3	1.8
Effect on cash funds of changes in the basis of consolidation	–0.5	–90.6
Cash funds at beginning of period	160.3	162.2
Cash funds at the end of period	**146.6**	**160.3**

* Including minority interests

The Statement of Cash Flows pursuant to DRS 21 shows the change in cash and cash equivalents for the financial year. The cash funds considered correspond to the balance sheet item E.II. Current credit balances with banks, checks and cash on hand. A distinction is made here between cash flows from current operating activities, investing activities and financing activities. The indirect method is used to report cash flows from current operating activities. In this case, net profit for the period is adjusted to eliminate the effects of transactions of a non-cash nature (in particular write-ups/write-downs and changes in reserves). Inflows and outflows of funds from insurance companies' investment business are also reported as cash flows from current operating activities. Furthermore, net profit for the period is adjusted for items of income or expense associated with investing or financing cash flows. Cash flows are adjusted to eliminate the effects of changes in the scope of consolidation.

In the financial year 2018, capital flows from investing activities were adjusted to eliminate non-cash transactions of € 6.8 million from sale price deferrals.

Notes to the Consolidated Financial Statements

Group Accounting Policies

Gothaer Versicherungsbank VVaG is the parent of the Gothaer Group and prepares consolidated financial statements and a Group management report pursuant to sections 341 i ff. and 290 ff. of the German Commercial Code (HGB), sections 58 ff. of the German Ordinance Governing the Accounting Practices of Insurance Companies (RechVersV) and the German Accounting Standards (DRS) that are relevant for the Gothaer Group. The new standards DRS 26 “Associates” and DRS 27 “Proportionate Consolidation” have been applied in advance.

The consolidated financial statements are denominated in euros and amounts are shown in millions of euros.

We have not exercised the option pursuant to 297 (1) sentence 2 HGB to supplement the consolidated financial statements with segmental reports.

All companies whose accounts are included in the consolidated financial statements have compiled financial statements as of 31 December 2019 consistently applying Group accounting policies. As a general rule, the financial year is the calendar year. Individual special purpose entities, associated companies and property holding companies with cut-off date 30 September 2019 have been included. Pursuant to section 299 (3) HGB, transactions with a material impact on assets, finances and earnings between 30 September 2019 and 31 December 2019 are taken into account separately.

In the case of our foreign insurance company S. C. Gothaer Asigurări Reasigurări S. A., valuation continues to be based on local regulations pursuant to section 300 (2) sentence 3 HGB and section 308 (2) sentence 2 HGB. The financial statements of the joint ventures and associated companies have not been adjusted pursuant to section 312 (5) HGB.

All material subsidiaries of the Gothaer Group are consolidated if they are directly or indirectly controlled by the Group. The date of a company’s initial consolidation is the date on which the Gothaer Group assumes control of it. Capital consolidation is performed using the acquisition method. This involves recognizing the assets, liabilities, accruals, deferrals and extraordinary items on the acquired company’s balance sheet in accordance with section 301 (1) HGB, disclosing hidden reserves and liabilities (complete revaluation) and netting the resulting value against the parent company’s share in the equity of the subsidiary. A positive difference is allocated to goodwill, which is subject in subsequent years to scheduled amortization and non-scheduled depreciation based on impairment testing. A negative difference is recognized as a liability and reversed in the income statement in subsequent years as a difference from capital consolidation to the extent to which it relates to anticipated future expenses or losses in connection with the acquired company. If the difference from capital consolidation is not due to anticipated future expenses or losses, it is reversed directly through the income statement.

Joint ventures and associated companies are included in the consolidated financial statements at equity pursuant to section 312 HGB. Further details can be found under Accounting and Valuation Policies in the section on investments.

Income generated by subsidiaries after initial consolidation is included in the revenue reserves of the Group after deduction of any minority interests. Minority interests are shown in the statement of financial position under equity.

Intragroup receivables and payables, expenses and income, and profits are eliminated in accordance with section 304 in conjunction with section 341 j (2) HGB unless they are of minor significance for the net assets, financial position and earnings of the Group. Because of the requirement in the Ordinance Governing the Accounting Practices of Insurance Companies (RechVersV) for the consolidated income statement to be divided into three sections, consolidation measures can impact on more than one part of the income statement. If they impact on both Section II Underwriting account for life and health insurance business and Section III Non-underwriting account, they are recognized in Section III. This is basically a matter of consolidating income from equity investments. Transactions between Group companies are conducted at arm's length as a matter of principle.

Gothaer Versicherungsbank VVaG, based in Cologne, prepares consolidated financial statements for both the largest group of companies and the smallest group of companies.

Scope of Consolidation

The determination of the scope of consolidation is subject to materiality, which is assessed for each company on the basis of equity, balance sheet total and revenues. In addition, a threshold is applied to the total of the three criteria for all companies judged immaterial.

Full consolidation

Accordingly, 30 subsidiaries (PY: 33) were included with the parent company in the consolidated financial statements as a result of the controlling influence of the parent company pursuant to section 290 (2) HGB. They comprised seven insurance companies (PY: eight), one pension trust (PY: one) and 22 other companies (PY: 24). One special purpose entity (PY: one) was also consolidated under section 290 (2) no. 4 HGB.

One subsidiary, the foreign insurer Gothaer Towarzystwo Ubezpieczeń S. A., was sold in 2019 and deconsolidated on the date on which control was transferred.

Furthermore, a start was made on restructuring the Aquila Group in 2019. To this end, Aquila GAM Fund GmbH & Co. geschlossene Investmentkommanditgesellschaft was included in the scope of consolidation in 2019. In addition, Aquila GAM Funds S. A. and Hydro GAM Invest I S.à.r.l. were merged with Aquila Capital Wasserkraft Invest GmbH.

Gothaer Beteiligungsgesellschaft USA/Carlyle mbH was merged with GG-Grundfonds Vermittlungs GmbH.

At equity consolidation

In addition, five associated companies (PY: six) in which a significant influence can be exercised according to section 311 (1) HGB as well as two participations (PY: two) managed as joint ventures were recognized in the consolidated financial statements at equity pursuant to section 312 HGB. A total of seven associated companies were not consolidated by the equity method due to lack of materiality.

The partnership agreement of W. Classen GmbH & Co. KG was terminated and the company deconsolidated.

The consolidated companies of the Gothaer Group in 2019, including one special purpose entity, are listed at the beginning of the section “Other disclosures”. A list of holdings pursuant to section 313 (4) HGB, which includes subsidiaries and participations that are not consolidated, is also found there.

Accounting and Valuation Policies

Introduction

The consolidated financial statements have been prepared in accordance with the rules of the German Commercial Code (HGB), the Stock Corporation Act (AktG), the Insurance Supervision Act (VAG) and the Ordinance Governing the Accounting Practices of Insurance Companies (RechVersV).

Balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the consolidated financial statements are prepared in million euros. The figures in the financial statements are rounded to one decimal place. The addition of individual items may therefore result in rounding differences.

Currency translation

The consolidated financial statements of the Gothaer Group are denominated in euros. The companies whose accounts are included in the consolidated financial statements essentially denominate their financial statements in euros. The balance sheets of subsidiaries that are denominated in other currencies are translated by the modified closing rate method. Equity is translated using historical rates. Translation differences are recognized in equity in the equity difference from currency translation. Other items on the assets and equity/liabilities sides of the balance sheet are translated at the mean spot rate at balance sheet date or, in the case of companies that are sold, on the date of their disposal; the income statement is translated at average rates. Goodwill arising in connection with the acquisition of a foreign operation is treated as an asset of the foreign operation and translated at the closing rate. The resulting translation differences are recognized in the equity difference from currency translation.

Intangible assets

Acquired intangible assets are recognized at cost less straight-line depreciation based on an anticipated economic life of one to 20 years for the relevant asset. Where permanent impairment is anticipated, depreciation is applied in accordance with section 253 (3) HGB.

Investments

Real estate, real estate rights and buildings, including buildings on third-party land are recognized at cost of acquisition or production less scheduled and non-scheduled depreciation.

Shares in affiliated and associated companies are recognized at cost in line with section 341b (1) HGB unless permanent impairment is anticipated, in which case they are recognized at the lower fair value in accordance with section 253 (3) HGB. Where the reason for impairment no longer exists, a write-up is performed to at most the amortized cost defined in section 253 (5) HGB.

Where no stock exchange value is available, shares in affiliated and associated companies are valued as a matter of principle in accordance with IDW RS HFA 10 in conjunction with IDW S1. An exception is made in the case of various private equity participations and indirect real estate participations held as long term investments. Here, fair values are established on the basis of net asset value or a cash flow based net asset value.

Loans to affiliated and associated companies are recognized at cost, unless permanent impairment is anticipated, in which case they are recognized at the lower fair value. If the reason for impairment no longer exists, write-ups are performed up to at most the amortized cost. Differences between the cost and repayment amount of these securities are amortized by the effective interest method as a matter of principle.

Shares in joint ventures and associated companies are included in the consolidated financial statements at equity, i.e. at the pro rata share in equity. Pro rata shares in equity are established on the basis of the latest available financial statements. The carrying amounts in the financial statements of joint ventures and associated companies are retained pursuant to section 312 (5) HGB. Income resulting from the appreciation and expenses resulting from the depreciation of reported equity recognized through profit and loss are included in the investment result. Changes that are not recognized through profit and loss are taken into account in other revenue reserves.

For investment fund certificates, bearer bonds and other fixed interest securities that represent a long-term commitment, we choose to exercise the option offered by section 341b (2) half-sentence 2 HGB to treat the investments as fixed assets and apply the moderated lower-of-cost-or-market principle as a rule. In the case of all other investments, section 341b (2) half-sentence 2 HGB is not applied.

Investment fund certificates which are classed as fixed assets are recognized at cost. In accordance with section 253 (3) HGB, depreciation is applied only in the case of permanent impairment, e.g. where a significant deterioration of credit quality occurs. If the reason for impairment no longer exists, a write-up is performed pursuant to section 253 (5) HGB.

Shares, investment fund certificates and other non-fixed-interest securities that are not intended to be held as long-term investments are recognized at cost on the strict lower-of-cost-or-market principle, where appropriate taking into account write-downs to stock ex-change value or redemption price pursuant to section 253 (4) HGB. Where values recover, write-ups are performed in accordance with section 253 (5) HGB.

Bearer bonds and other fixed-interest securities classed as fixed assets are valued at cost. Differences between the cost and repayment amount of these securities are amortized by the effective interest method as a matter of principle. In line with section 253 (3) HGB, depreciation is applied only where impairment is permanent. If the reason for impairment no longer exists, a write-up is performed pursuant to section 253 (5) HGB. Fair value is established on the basis of stock exchange values or redemption prices.

Bearer bonds and other fixed-interest securities that are not intended to be held to maturity are treated as current assets, recognized at cost on the strict lower-of-cost-or-market principle and written down to stock exchange value in the event of temporary impairment. Where values recover, write-ups are performed in accordance with section 253 (5) HGB. Differences between the cost and repayment amount of these securities are amortized by the effective interest method as a matter of principle.

Registered securities, mortgages, liens on real property and annuities, receivables covered by promissory notes and loans as well as loans and advance payments on insurance policies are recognized at cost. Differences between the cost and repayment amount of these securities are amortized by the effective interest method as a matter of principle.

Registered securities, mortgages, liens on real property and annuities, receivables covered by promissory notes and loans as well as loans and advance payments on insurance policies are regularly checked for impairment. Where permanent impairment is anticipated, write-downs are performed to fair value. Where impairment no longer exists, appreciation is applied up to at most the amortized cost.

The fair value of all standard registered securities, mortgages, liens on real property and annuities, receivables covered by promissory notes and loans, as well as loans and advance payments on insurance policies is established by mark-to-model valuation. All the relevant securities are valued on the basis of an appropriate swap curve at balance sheet date plus a security-specific spread. Securities that cannot be assigned as standard to one of the pre-defined groups (e.g. “Namensgenussscheine”) are subjected to special individual mark-to-model valuation.

Structured products, which always need to be broken down into their components, are treated as current assets, recognized at cost on the strict lower-of-cost-or-market basis and written down to stock exchange value in the event of temporary impairment. Where values recover, write-ups are performed in accordance with section 253 (5) HGB.

For all structured interest rate products, a precise analysis of cash flow structures is performed and the products divided into the underlying basic elements. Mark-to-model valuation is performed on the basis of market data at balance sheet date (swap curve, volatilities etc.), as well as current forward rates. Optional components are calculated either using the Excel valuation tool "Rendite & Derivate" from Moosmüller & Knauf or the valuation software MB Risk Management (MBRM). The actual valuation is performed by discounting all anticipated future cash-flows, while also taking into account security-specific spreads.

Directly held asset-backed securities are recognized at the values reached by the arrangers.

Derivative financial instruments are recognized on a daily basis at market values obtained from market information systems. Alternatively, in the case of OTC derivatives, they are precisely discounted on the basis of cash flow-based models, using financial mathematical methods and appropriate swap curves at balance sheet date.

Valuation units between investments exposed to a foreign exchange risk (underlying transactions) and foreign exchange sale contracts (hedging instruments) are formed in the same currency. The valuation units exist for the full projected holding period of the underlying transaction. Hedges are rolled as a matter of principle, i. e. as forward contracts near maturity, they are prolonged by a new hedge. The forward component, which is the difference between the spot exchange rate and the forward exchange rate, is not included in the offsettable portion of compensatory valuation but deferred over the term of the foreign exchange sale contract and recognized in profit or loss as interest earned or interest paid. Cash flows from the prolongation of contracts are offset in equity against the book values of the relevant underlying transactions, provided that the amount relates to the effective part of the hedge (net hedge presentation method). Please also refer to the disclosures pursuant to section 314 (1) no. 15 HGB (disclosures on valuation units) in the notes to the financial statements in this report.

Bank deposits are carried at nominal value.

Other loans and other investments are recognized at cost. In the case of permanent impairment, write-downs are performed to fair value. Where values recover, write-ups are per-formed to at most cost.

The fair value of other loans and other investments is established by means of a discounted cash flow method with factor premium model. Alternatively, an individual mark-to-model valuation can be performed.

Deposits with ceding companies are recognized at nominal value.

Investments for the account and risk of life insurance policyholders are recognized at fair value, i. e. at their redemption price.

Receivables

Receivables due from policyholders and insurance agents in connection with direct insurance business were recognized at nominal value less reasonable individual and flat-rate value adjustments.

Accounts receivable in connection with reinsurance business are recognized at nominal value less reasonable individual and flat-rate value adjustments.

Other assets

Under tangible assets and inventories, operating and office equipment is recognized at cost less straight-line depreciation based on an anticipated economic life of one to 20 years. Low-value assets with an acquisition value of € 250 or less are written off directly. Inventories are valued at cost.

Deferred tax assets

Deferred taxes are calculated and offset in accordance with sections 274 and 306 HGB and DRS 18. This takes account of temporary differences between the commercial balance sheets and tax balance sheets of the consolidated companies, unused tax loss carryforwards and other balance sheet differences due to consolidation processes.

Deferred tax assets are recognized only if an offset with future taxable profit is probable. As a matter of principle, tax loss carryforwards are only factored into the calculation of deferred tax assets if the tax relief from the loss carryforward can be anticipated within the next five years.

The recoverability of deferred tax assets is reviewed as of every reporting date.

The deferred tax rate that is determined takes account of the respective tax situation of individual items or that of the Group companies. For German companies, this means allowing for 15.0 % corporation tax plus a solidarity surcharge of 5.5 % of the tax burden and trade tax rates between 14.1 % and 16.7 %.

Changes in tax rates are taken into account as soon as they are enacted.

Other assets

Other asset items not mentioned individually are recognized at nominal value as a matter of principle.

Equity

Revenue reserves include the loss reserve pursuant to section 193 VAG and other revenue reserves. The equity difference from currency translation includes reserves from the translation of the foreign currency positions of the foreign subsidiary. Minority interests include the prorated equity of subsidiaries that do not directly or indirectly belong 100 % to the Gothaer Group.

Underwriting reserves

Underwriting reserves are recognized in compliance with the provisions of sections 341e to 341h HGB.

Underwriting reserves are reported on the liabilities side as a gross figure with separate recognition of the amount for reinsurers' shares. Reinsurers' shares are also generally recognized separately in the income statement.

The carrying amounts of reinsurers' shares of underwriting reserves are calculated on the basis of individual reinsurance treaties.

The main types of reserves formed in property and casualty, life and health insurance are described below.

Underwriting reserves in property and casualty insurance

The volume of unearned premiums from direct insurance activities is predominantly established by the 360/360-method on the basis of statistic premiums from policies in force. Other fraction methods are applied to a limited extent. In the engineering and marine insurance lines, the flat-rate method was used to quantify unearned premiums. The costs that need to be deducted from unearned premiums were calculated in accordance with the letter from the Federal Ministry of Finance dated 30 April 1974.

In the case of reinsurance assumed, unearned premiums were established on the basis of information from cedants.

Aggregate policy reserves for accident insurance with premium return as well as annuity reserves are determined in compliance with the relevant legal provisions, in particular the Ordinance Governing the Accounting Practices of Insurance Companies (RechVersV). Aggregate policy reserves were determined on the basis of individual policies using the prospective method and taking into account future expenses. Individual losses reported and losses incurred but not reported are identified and calculated individually.

Following the amendment of the Policy Reserve Ordinance (DeckRV) on 1 March 2011 to take account of the low-interest environment, an additional interest reserve (Zinszusatzreserve – ZZR) is formed for policies where actuarial interest is above the reference interest rate. For new policies, the ZZR is based on the reference interest rate at balance sheet date (subject to the amendments to the DeckRV as of 23 October 2018) and taking conservative account of lapse probabilities. For existing policies, reserving is based on the “business plan for strengthening existing policy interest rates”.

The reserve for losses (except annuities) included in the reserves for outstanding claims in connection with direct insurance business has been determined on the basis of the anticipated requirement and calculated individually. The reserve for losses incurred but not yet reported is determined on a flat-rate basis in compliance with section 341g (2) HGB. It is based on previous years’ figures and takes account of the specific requirements of individual lines and types of insurance.

The reserve for loss adjustment expenses is determined in line with the letter from the Federal Ministry of Finance dated 2 February 1973.

Reserves for outstanding claims in connection with reinsurance business assumed were consistently established at amounts equal to those provided by ceding companies plus necessary increases.

Accepted actuarial methods were used to determine the amount for terminal bonuses to be included in the reserve for premium refunds. The calculation rules are recorded in the authorized basic business plan for the payment of surplus bonuses (old policies within the meaning of section 336 of the Insurance Supervision Act (VAG)) or meet the requirements of section 28 (7) RechVersV (new policies within the meaning of section 336 VAG).

The reserves established to compensate for annual fluctuations in the need for funds (equalization reserves) are calculated on the basis of section 29 RechVersV and the Annex to section 29 RechVersV.

Reserves for major risks in connection with pharmaceutical product liability insurance were determined in compliance with section 341h HGB and section 30 (1) RechVersV.

Reserves for nuclear facilities are made in compliance with section 341h HGB and section 30 (2) RechVersV.

Reserves for terrorism risks are made in compliance with section 341h HGB and section 30 (2a) RechVersV.

The reserve established for unused premiums from suspended motor insurance policies is equal to the premium credited for the time elapsed between the date of interruption of insurance coverage and the reporting date. Premium credits are determined separately for each individual policy.

The reserve for obligations in connection with membership in "Verkehrsopferhilfe e. V.", an association that assists victims of accidents caused by uninsured drivers, is based on the amount assessed by the association.

The reserve for cancellations is determined separately for each individual type of insurance on the basis of past experience.

The reserve for contractual premium adjustments pursuant to article 9 of the Fire Business Interruption Insurance Conditions (FBUB) is determined on a flat-rate basis.

The reserve for premium refunds in connection with reinsurance assumed is established on the basis of information from the ceding company.

Underwriting reserves in life insurance

Gross unearned premiums are calculated for each individual policy, taking account of the commencement date and the mode of premium payment agreed. Tax regulations are observed for the deduction of non-transferrable invoiced collection fees.

Policy reserves for direct written business are calculated for each individual policy, taking account of the relevant starting month.

As a matter of principle, policy reserves are calculated by the prospective method in accordance with section 341f HGB, section 25 RechVersV and the ordinances enacted pursuant to section 88 (3) VAG and section 235 (1) nos. 4 to 7 VAG respectively. In the case of unit-linked products, the value-dependent actuarial capital for each individual policy is used as the basis for a unit-linked policy reserve. The relevant valid business plan is observed for existing policies in force. Future costs are implicitly taken into account. In particular, policy reserves are also formed for administrative costs during non-contributory periods.

In light of anticipated improvements in mortality, we strengthened policy reserves for annuity and pension policies concluded on or before 31 December 2004, taking as a basis both current mortality tables and company cancellation and capital settlement probabilities. The calculated adjustment that is required takes account of the policy reserve revaluation requirements that need to be met for compliance with Federal Financial Supervisory Authority publication VerBaFin 01/2005.

Policy reserves were also increased for supplemental occupational disability policies based on tables older than the current DAV 1997 I. The degree of replenishment required was ascertained in accordance with Federal Financial Supervisory Authority publication VerBAV 12/98.

Since the amendment of the German Policy Reserve Ordinance (DeckRV) on 23 October 2018, additional interest reserves (Zinszusatzreserve – ZZR) are calculated by the so-called corridor method as of the financial year 2018. This moderately lowers the underlying reference interest rate and thus spreads ZZR expenses over a longer period of time. Because of the low level of interest rates, policy reserves (ZZR) were also increased in 2019 for policies with an actuarial interest rate higher than the reference rate.

In the regulated portfolio of Gothaer Lebensversicherung AG, reserves are formed on the basis of business plans to strengthen interest rates in existing policies. In the regulated portfolios of Gothaer Pensionskasse AG, the procedure agreed with the supervisory authority involves spreading the ZZR increase over a longer period. For consortium agreements with external lead partners, the process adopted by the lead partner is applied.

The increase in additional interest reserves presented an expense of € 105.5 million for Gothaer Lebensversicherung AG and € 30.7 million for Gothaer Pensionskasse AG in 2019.

Additional interest reserves account for 8.9 % of policy reserves at Gothaer Lebensversicherung AG and 6.6 % at Gothaer Pensionskasse AG.

Reserves for outstanding claims and redemptions are estimated for each individual claim or redemption incurred by balance sheet date and reported by the date on which reserves are established but not settled or redeemed within the financial year. Flat-rate reserves are formed for unresolved claims under occupational disability or supplemental occupational disability policies as well as for claims that have been incurred but not yet reported. The gross amounts recognized include reserves for anticipated loss adjustment expenses at a level permissible under tax law.

The reserves for premium refunds include funds (terminal bonus funds) for future terminal bonuses and minimum participation in valuation reserves. Terminal bonus funds are calculated by recognized actuarial methods. The calculation rules are set out in the approved principle business plan for surplus participation (old policies as defined by section 336 VAG, possibly in conjunction with section 233 (3) sentence 2 VAG) or comply with the requirements of section 28 (7) RechVersV (new contracts as defined by section 336 VAG and, where applicable, in conjunction with section 233 (3) sentence 2 VAG). A basic amount, which depends on the actuarial interest rate of the tariff, is deducted from the calculated reserves.

In the case of endowment policies covered by the 1987/1990 business plan or analogously calculated new policies, the funds set aside as terminal bonus funds are geared to the benefits payable in the event of policies lapsing.

For the new endowment policies of former Asstel Lebensversicherung AG from 1 July 2000 and for other endowment policies, terminal bonuses and minimum participation in valuation reserves, which relate to surplus credit balances, are discounted and deferred.

For occupational disability and supplemental occupational disability policies, terminal bonus claims that accrue by the anniversary of the financial year are assigned to reserves at an amount discounted for the remaining term to maturity.

The interest rate is currently 4 % at Gothaer Pensionskasse AG and 5 % at Gothaer Lebensversicherung AG. This takes account of terminal bonuses and minimum participation that are not or only partially payable for lapsed policies.

The terminal bonus fund calculated for the above policies amounts to more than 90 % of the total terminal bonus fund.

When deferred taxes are recognized pursuant to section 274 HGB, reserves for deferred premium refunds are formed to the value of policyholders' anticipated future participation in taxation and tax relief.

Other underwriting reserves are formed mostly to the value of the difference between the underwriting reserves required for unit-linked life policies where investment risk is borne by policyholders and the existing investment stock. These reserves also include equalization reserves for a participation agreement, which were calculated on the basis of a settlement structure agreed between the contracting parties.

In the case of consortium agreements, for which underwriting reserves are determined by the lead company, a prorated share of the reserves is recognized on the basis of ownership interest.

Underwriting reserves in health insurance

Policy reserves are calculated for each individual policy by the prospective method in line with recognized actuarial principles. In the process, care is taken, in particular, to ensure observance of the procedures stipulated in the technical basis for calculation as well as section 341f HGB and sections 146 ff VAG.

Policy reserves also take into account transfers from lapsed policies as of 31 December of the financial year. These transfers are portable parts of the ageing reserve that policyholders can transfer when switching to another private health insurer.

The percentage share of the co-insured community established for members of the postal and railway civil servants health insurance schemes (GPV) is adopted as communicated by the GPV management, without changes.

Because tariff generations and premium adjustment periods differ, there are also different actuarial interest rates for different tariffs/groups of persons. The average actuarial interest rate in the financial year was 2.831 % (PY: 2.995 %).

Reserves for outstanding claims in direct written business were calculated using a statistical approximation method in line with section 341g (3) HGB in conjunction with section 26 (1) RechVersV. The bases are formed by payments made in the period under review for claims incurred as well as the ratio of the average payment made in the years 2017 to 2019 to the total payments made for prior-year claims. Arrears were taken into account. Separate estimates are made for prior-year claims and claims in the year before the prior year.

Reserves for loss adjustment expenses are included in reserves for outstanding claims. They were established on the basis of the ratio of total loss adjustment expenses incurred in the financial year to the total volume of insurance payments made. Reserves for loss adjustment expenses are calculated as the percentage of reserved insurance payments and recognized at 70 % of the total in accordance with tax regulations.

Reserves for profit-related and non-profit-related premium refunds include reserves for premium refunds pursuant to section 341e (2) no. 2 HGB. The transfer to reserves for premium refunds takes account of the statutory instrument (KVAV) issued on the basis of section 160 VAG. The appropriation of these resources has been approved by the independent trustee as required by law.

When deferred taxes are recognized pursuant to section 274 HGB, reserves for deferred premium refunds are formed to the value of policyholders' anticipated future participation in taxation and tax relief.

Other accruals

Pension accruals within the accruals for pensions and similar obligations are calculated by the projected unit credit method on the basis of the 2018 G mortality tables developed by Prof. Dr. Klaus Heubeck. Accruals were discounted at the average rate of interest over the last ten years in line with the Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung), assuming a residual term of 15 years. The difference between valuations at average interest over the last ten years and that over the last seven years is shown in the notes to the financial statements.

Pension obligations at balance sheet date were calculated on the basis of the following actuarial parameters:

• Actuarial interest	2.71 %	and 2.83 % (30.09.)
• Wage and salary trend	2.20 %	
• Pension progression trend	1.60 %	
• Capital trend	1.50 %	
• Fluctuation up to age 35	6.00 %	
up to age 45	3.00 %	
up to age 60	1.00 %	

We exercised the option offered under section 67 (1) EGHGB to accumulate at least a fifteenth of the allocation resulting from the transition to valuation under the German Accounting Law Modernization Act (BilMoG) through to 31 December 2024 at the latest.

The option set out in section 28 (1) EGHGB was exercised.

Tax accruals were recognized at the settlement amount dictated by prudent business judgement.

Within miscellaneous accruals, the reserve for obligations in connection with pre-retirement employment agreements was determined by applying actuarial principles. Calculation was based on the 2018 G mortality tables developed by Prof. Dr. Klaus Heubeck, taking account of a wage and salary trend of 2.20 % and actuarial interest of 0.63 %.

All other miscellaneous accruals were recognized at the settlement amount dictated by prudent business judgement. Reserves with a residual term of more than a year were discounted over the rest of their life at the average rate of market interest over the last seven years. Reserves which would be reversed as a result of the change in valuation under the German Accounting Law Modernization Act were retained pursuant to section 67 (1) sentence 2 EGHGB.

Other liabilities

Deposits held in connection with reinsurance business ceded and miscellaneous liabilities were recognized at settlement amounts pursuant to section 253 (1) HGB.

Other liability items not mentioned individually are recognized at nominal value as a matter of principle.

Notes to the Consolidated Statement of Financial Position

Assets

Changes in assets (items A, B I. and B II.) in the financial year 2019

€ million

	Carrying amount previous year	Additions	Reclassifications	Disposals	Reversals	Amortization	Carrying amount financial year
A. Intangible assets							
1. Acquired concessions, industrial property rights, similar rights and assets as well as licences for such rights and assets	230.5	4.3	40.5	5.8	0.0	42.3	227.2
2. Payments in advance	58.3	39.5	–40.5	0.9	0.0	4.0	52.4
3. Subtotal A.	**288.8**	**43.8**	**0.0**	**6.7**	**0.0**	**46.4**	**279.6**
B I. Real estate, real estate rights, and buildings, including buildings on third-party land	**17.6**	**7.5**	**0.0**	**0.0**	**0.0**	**0.6**	**24.4**
B II. Investments in affiliated companies and participations							
1. Shares in affiliated companies	73.7	9.3	0.0	0.0	0.0	0.1	82.9
2. Loans to affiliated companies	3.0	2.7	0.0	3.3	0.0	0.0	2.4
3. Shares in joint ventures and associated companies	290.6	3.4	0.0	9.4	19.4	28.6	275.5
4. Participations	972.8	141.5	0.0	119.8	0.8	28.0	967.3
5. Loans to participations	22.2	0.0	0.0	16.6	0.0	0.0	5.6
6. Subtotal B II.	**1,362.3**	**157.1**	**0.0**	**149.1**	**20.2**	**56.7**	**1,333.7**
Total	**1,668.7**	**208.3**	**0.0**	**155.8**	**20.2**	**103.7**	**1,637.7**

Intangible assets

Non-scheduled depreciation of € 4,0 million (PY: € 0,3 million) was recognized for intangible assets.

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

The carrying value relates entirely to self-occupied land and buildings.

Investment fund certificates and bearer bonds

B. III. 1. and 2. include investment fund certificates, bearer bonds and other fixed-interest securities with a book value of € 20,892.9 million that are classified as long-term assets pursuant to section 341b (2) HGB. The fair value of these assets comes to € 23,412.7 million. Hidden liabilities totalled € 5.1 million.

For the methods used to establish fair values, please refer to our comments under Accounting and Valuation Policies.

Information on financial instruments with a book value higher than the fair value

		€ million	
		Carrying amount	Fair value
B. II. 4.	Participations	9.5	7.6
B. III. 2.	Bearer bonds and other fixed-interest securities	113.9	108.8
B. III. 3.	Mortgages, liens on real property and annuities	5.1	4.8
B. III. 4. a)	Registered bonds	12.2	10.6
B. III. 4. b)	Promissory notes and loans	59.4	57.7
B. III. 4. c)	Loans and advance payments on insurance policies	0.2	0.2

In the case of one participation, depreciation was waived because impairment was temporary.

In the case of bearer bonds and other fixed-interest securities, mortgages, liens on real property and annuities, ,registered securities, promissory notes and loans as well as loans and advance payments on insurance policies, depreciation was waived because impairment was temporary, due to interest rate movements or credit risk/price fluctuations.

Information on valuation units

€ million

		Trading-/ Nominal volume	Carrying amount	Fair value
B. II. 4.	Participations		99.2	101.6
	Forward currency sales	112.1 MUSD		2.2
	Forward currency purchases	1.2 MUSD		0.0
	Mikro valuation unit	**110.9 MUSD**	**99.2**	**103.8**
B. II. 4.	Participations		403.7	456.0
	Forward currency sales	525.9 MUSD		10.7
	Forward currency purchases	21.4 MUSD		–0.4
	Portfolio valuation unit	**504.6 MUSD**	**403.7**	**466.3**
B. II. 4.	Participations		63.0	64.4
	Forward currency sales	28.7 MGBP		–1.4
	Portfolio valuation unit	**28.7 MGBP**	**63.0**	**63.0**
B. II. 4.	Participations		61.3	66.3
	Forward currency sales	27.5 MUSD		0.6
	Forward currency sales	7.2 MGBP		–0.3
	Forward currency sales	186.7 MSEK		–0.3
	Forward currency sales	17.3 MNOK		0.0
	Forward currency sales	11.0 MCAD		0.1
	Portfolio valuation unit		**61.3**	**66.3**
B. III. 1.	Investments in funds		42.1	43.9
	Forward currency sales	27.1 MGBP		–1.6
	Forward currency purchases	0.1 MGBP		0.0
	Portfolio valuation unit	**27.0 MGBP**	**42.1**	**42.3**
B. III. 2.	Bearer bonds		143.1	140.3
	Forward currency sales	168.8 MUSD		3.3
	Forward currency purchases	10.9 MUSD		–0.2
	Portfolio valuation unit	**157.9 MUSD**	**143.1**	**143.5**
B. III. 2.	Bearer bonds		136.2	129.6
	Forward currency sales	151.2 MUSD		3.1
	Portfolio valuation unit	**151.2 MUSD**	**136.2**	**132.6**
B. III. 4. a)	Registered bonds		9.0	12.2
	Forward currency sales	12.5 MGBP		–0.7
	Forward currency purchases	2.2 MGBP		0.0
	Portfolio valuation unit	**10.3 MGBP**	**9.0**	**11.5**
B. III. 4. d)	Other miscellaneous loans		108.1	106.4
	Forward currency sales	126.9 MUSD		2.6
	Forward currency purchases	7.6 MUSD		–0.1
	Portfolio valuation unit	**119.4 MUSD**	**108.1**	**108.8**

Information on valuation units

Forward exchange contracts are used to hedge exchange rate risks. Identical basis, currency and maturity ensure that the resulting compensating changes in value and cash flows can be expected to neutralize one another completely by the time the transaction matures.

Effectiveness is measured by the Critical Terms Match Method. Furthermore, the hedging relationship, the risk management targets set and the strategy adopted for the conclusion of various hedging transactions are documented at individual contract level.

Hedging effectiveness is verified at the beginning of the hedging relationship and on a continuous basis thereafter, i. e. regular checks are performed to establish whether the fluctuations in the value of the derivative financial instruments used for the hedging transaction largely counterbalance the fluctuations in the fair value or cash flows of the underlying transaction hedged.

Hedges are reported in the balance sheet exclusively by the net hedge presentation method.

Information on investment fund certificates with a share ownership of more than 10 %

€ million

Type of fund/ investment objective	Carrying amount	Fair value	Difference	Payout	Redemption option
Equity fund	152.6	160.8	8.2	4.9	daily
Pension fund	14,996.2	16,697.6	1,701.3	296.8	daily or within one month
Property fund	1,543.5	1,667.2	123.6	73.8	daily or within max. six months
Other	215.4	227.6	12.2	6.0	daily

The property funds shown here as well as other funds are basically valued on the strict lower-of-cost-or-market principle.

Equity funds and pension funds are valued on the moderate lower-of-cost-or-market principle according to section 341b (2) HGB.

Shares in joint ventures and associated companies

Shares in joint ventures and associated companies include no goodwill (PY: € 74.7 thousand) relating to associated companies.

Deferred tax assets

Differences between valuations in the commercial balance sheets and tax balance sheets of the consolidated companies resulted in an asset-side balance from future tax benefits. The deferred tax assets recognized for this are essentially due to lower valuations in the commercial balance sheets for investments and higher valuations in the commercial balance sheets for loss reserves and annuities for pensions and similar obligations. They also result from the recognition of deferred taxes on tax loss carryforwards.

Equity and Liabilities

Offsetting of assets and liabilities

Pursuant to section 246 (2) sentence 2 HGB, plan assets of € 0.6 million (PY: € 0.6 million) have been offset against corresponding pension obligations of € 0.6 million (PY: € 0.6 million). The fair value of the plan assets offset is equal to value at cost.

Other accruals

The difference resulting from the valuation of accruals for pensions and similar obligations was € 44.4 million (PY: € 50.3 million).

Notes to the Consolidated Income Statement

Gross written premiums by type of insurance business

	€ million	
	2019	2018
Life insurance business	1,468.5	1,318.0
Health insurance business	875.7	850.2
Property and casualty insurance business	2,083.9	2,138.4
Of which		
Germany	4,261.2	4,000.0
Other EEA States	160.8	301.1
Third countries	6.1	5.5
Direct insurance business	4,428.1	4,306.6
Reinsurance business assumed	96.5	76.3
Total	**4,524.6**	**4,382.8**

Investment expenses

Amortization of investments includes non-scheduled depreciation of € 35.9 million (PY: € 103.3 million) in accordance with section 277 (3) HGB.

Other income

Income from currency translation totals € 1.4 million (PY: € 3.1 million).

Other income includes no income from the discounting of reserves (PY: € 0.1 million).

Other expenses

Currency translation expenses total € 0.9 million (PY: € 3.0 million).

Other expenses include € 33.7 million (PY: € 32.2 million) from the discounting of reserves.

Offsetting of income and expenses

As in the case of retirement pension commitments and the corresponding plan assets, related expenses and income were netted in accordance with section 246 (2) sentence 2 HGB, which resulted in a carrying value of € 0.1 million (PY: € 0.1 million).

Other disclosures

List of holdings

1. Subsidiaries included in consolidated financial statements (section 313 (2) No. 1 sentence 1 HGB) – fully consolidated

Name	City of domicile	Country of domicile	Ownership interest* as %
Parent company			
Gothaer Versicherungsbank VVaG	Cologne	DE	
Aquila Capital Wasserkraft Invest GmbH	Hamburg	DE	100.0
Aquila Capital Wasserkraft Invest II GmbH	Hamburg	DE	100.0
Aquila GAM Fund GmbH & Co. geschlossene Investmentkommanditgesellschaft	Hamburg	DE	100.0
Caerus Real Estate Debt Lux. S. C. A., SICAV-SIF – Fund III**	Luxemburg	LU	100.0
capiton II Holding GmbH & Co. KG	Berlin	DE	99.0
capiton Zweite Kapitalbeteiligungsgesellschaft mbH	Berlin	DE	99.0
CG Car-Garantie Versicherungs-Aktiengesellschaft	Freiburg i. Brsg.	DE	67.0
FWP Lux Feeder Beta S. A.	Luxemburg	LU	100.0
GG-Grundfonds Vermittlungs GmbH	Cologne	DE	100.0
Gothaer Allgemeine Versicherung AG	Cologne	DE	100.0
Gothaer Asset Management AG	Cologne	DE	100.0
Gothaer Beratung und Vertriebsservice GmbH	Cologne	DE	100.0
Gothaer Erste Kapitalbeteiligungsgesellschaft mbH	Cologne	DE	100.0
Gothaer Finanzholding AG	Cologne	DE	100.0
Gothaer Grundbesitz GmbH	Cologne	DE	100.0
Gothaer Invest- und FinanzService GmbH	Cologne	DE	100.0
Gothaer Krankenversicherung AG	Cologne	DE	100.0
Gothaer Leben Renewables GmbH	Cologne	DE	100.0
Gothaer Lebensversicherung AG	Cologne	DE	100.0
Gothaer Pensionskasse AG	Cologne	DE	100.0
Gothaer Sechste Kapitalbeteiligungsgesellschaft mbH	Pullach i. Isartal	DE	100.0
Gothaer Systems GmbH	Cologne	DE	100.0
Gothaer Vierte Kapitalbeteiligungsgesellschaft mbH	Cologne	DE	100.0
Gothaer Zweite Beteiligungsgesellschaft Niederlande mbH	Cologne	DE	100.0
Hamburg-Kölner-Vermögensverwaltungsgesellschaft mbH	Cologne	DE	100.0
Janitos Versicherung AG	Heidelberg	DE	100.0
kk Metalltechnik Beteiligungsgesellschaft mbH	Berlin	DE	72.7
MediExpert Gesellschaft für betriebliches Gesundheitsmanagement mbH	Cologne	DE	100.0
PE Holding USD GmbH	Cologne	DE	100.0
S. C. Gothaer Asigurări Reasigurări S. A	Bucharest	RO	100.0

* In the case of ownership interests that are partially held indirectly, economic interests are calculated.
**Full consolidation pursuant to section 290 (2) no. 4 HGB Majority of opportunities and risks of a special purpose entity.

Pursuant to section 296 (2) HGB, the following subsidiaries are not included in the consolidated financial statements due to their minor significance for the Group:

2. Subsidiaries not included in consolidated financial statements (section 313 (2) No. 1 sentence 2 HGB)

Name	City of domicile	Country of domicile	Ownership interest* as %
A. S. I. Wirtschaftsberatung AG	Münster	DE	100.0
Annex-Produkte Vertriebs GmbH	Cologne	DE	100.0
capiton MT Beteiligungsgesellschaft mbH	Berlin	DE	72.7
CarGarantie (Beijing) Consulting Services Co., Ltd.	Beijing	CN	67.0
CarGarantie Consulting Services (Thailand) Co., Ltd.	Bangkok	TH	67.0
CarGarantie Courtage SARL	Richwiller	FR	67.0
Car-Garantie GmbH	Freiburg i. Brsg.	DE	67.0
GBG-Consulting für betriebliche Altersversorgung GmbH	Hamburg	DE	100.0
GKC Gothaer Kunden-Service-Center GmbH	Cologne	DE	100.0
Gothaer Digital GmbH	Cologne	DE	100.0
Gothaer Kapitalverwaltungs-GmbH	Cologne	DE	100.0
Gothaer Risk-Management GmbH	Cologne	DE	100.0
Gothaer Structured Debt**	Düsseldorf	DE	100.0
Gothaer Vertriebs-Service AG	Cologne	DE	100.0
GSC Gothaer Schaden-Service-Center GmbH	Berlin	DE	100.0
Medico GmbH & Co. KG	Frankfurt a.M.	DE	99.9
Munich Carlyle Beteiligungs GmbH	Grünwald	DE	100.0
Pensus Pensionsmanagement GmbH	Göttingen	DE	100.0
RE Feeder GmbH	Cologne	DE	100.0
VBMC ValueBasedManagedCare GmbH	Cologne	DE	100.0
ZIPPEL NetMarket GmbH	Elsdorf-Heppendorf	DE	55.0

* In the case of ownership interests that are partially held indirectly, economic interests are calculated.
**Control pursuant to section 290 (2) no. 4 HGB Majority of opportunities and risks of a special purpose entity.

3. Joint ventures and associated companies included in the consolidated financial statements (section 313 (2) No. 2 HGB in connection with DRS 27) – consolidated at equity pursuant section 312 HGB

Name	City of domicile	Country of domicile	Ownership interest* as %
Aachener Bausparkasse AG	Aachen	DE	18.1
KILOS Beteiligungs GmbH & Co. Vermietungs-KG	Pöcking	DE	93.1
OPCI French Wholesale Properties – FWP, SPPPICAV	Paris	FR	43.1
OWP Nordergründe GmbH & Co. KG	Bremen	DE	40.0
ROLAND Rechtsschutz-Versicherungs-AG	Cologne	DE	40.0
Skogberget Vind AB	Malmö	SE	45.0
TRIFORUM Verwaltung GmbH & Co. Objekt Neu-Isenburg III KG	Pullach i. Isartal	DE	94.0

* In the case of ownership interests that are partially held indirectly, economic interests are calculated.

Pursuant to section 311 (2) HGB and DRS 27, the following joint ventures and associated companies are not included in the consolidated financial statements due to their minor significance for the Group:

4. Joint ventures and associated companies not included in the consolidated financial statements (section 313 (2) No. 2 sentence 2 HGB in connection with DRS 27)

Name	City of domicile	Country of domicile	Ownership interest* as %
Derya Elektrik Üretimi Ve Ticaret A. S.	Ankara	TUR	26.0
GSG Garantie-Service GmbH	Freiburg i. Brsg.	DE	33.5
Ideal Enerjo Üretimi Sanayi Ve Ticaret A. S.	Erzurum	TUR	26.0
IWS International Warranty Solutions GmbH	Cologne	DE	33.5
LM+ – Leistungsmanagement GmbH	Essen	DE	25.0
RCP Deutscher Solarfonds II GmbH & Co. KG	Frankfurt a. M.	DE	24.0
Selbca Holding GmbH	Berlin	DE	27.8

* In the case of ownership interests that are partially held indirectly, economic interests are calculated.

5. Participations not included in consolidated financial statements (section 313 (2) No. 4 HGB) € thousand

Name	City of domicile	Country of domicile	Ownership interest* as %	Equity	Net result for the year
100% RE IPP GmbH & Co. KG	Wörrstadt	DE	0.5	–42,167	–6,909
Aberdeen Asia Pacific II, L.P.	George Town	KY	13.4	123,007	–10,592
Accession Mezzanine Capital III L.P.	St. Helier	JE	16.9	107,756	1,978
Achmea B.V.	Zeist	NL	1.1	9,697,000	314,000
AMP Capital Infrastructure Debt Fund II (EUR), LP	London	GB	60.8	92,532	–192
Beechbrook Mezzanine II L.P.	Edinburgh	GB	16.6	87,149	5,985
Beechbrook Private Debt III L.P.	London	GB	15.5	110,371	9,177
Behrman Capital PEP L.P.	Wilmington	US	2.5	685,677	49,812
Behrman Capital IV, L.P.	Wilmington	US	12.3	208,358	4,743
Curzon Capital Partners IV L.P.	London	GB	8.6	287,011	40,641
EMF NEIF I (A) L.P.	London	GB	42.6	25,270	–25,797
EPISO III, L.P.	London	GB	2.6	673,937	–2,486
EPISO IV, L.P.	London	GB	2.7	1,165,881	119,867
European Alliance Partners Company AG	Zürich	CH	12.5	8,771	270
EXTREMUS Versicherungs-Aktiengesellschaft	Cologne	DE	5.0	64,058	118
Falcon Strategic Partners IV, L.P.	Wilmington	US	2.8	774,617	70,669
Falcon Strategic Partners V (Cayman), L.P.	George Town	KY	31.1	698,668	118,341
FirstMark Capital III L.P.	Wilmington	US	13.5	281,236	45,363
FirstMark Capital OF I, L.P.	Wilmington	US	16.7	194,262	38,508
FirstMark Capital II, L.P.	Wilmington	US	13.3	395,655	85,764
GDV Dienstleistungs-GmbH	Hamburg	DE	1.1	27,430	901
GoldPoint Partners Co-Investment V, L.P.	Wilmington	US	11.1	627,042	89,626
GoldPoint Partners Co-Investment VI, L.P.	Wilmington	US	8.2	236,739	–11,203
GoldPoint Mezzanine Partners IV, L.P.	Wilmington	US	7.7	846,135	70,276
Nuveen Immobilien GmbH & Co. GB I KG	Frankfurt a.M.	DE	16.7	20,888	2,759
NYLCAP 2010 Co-Invest L.P.	New York	US	99.0	7,622	–31
NYLCAP Mezzanine Partners III 2012 Co-Invest, L.P.	Wilmington	US	95.0	20,253	–959
PineBridge Secondary Partners III L.P.	Wilmington	US	11.4	147,926	7,680
PineBridge Secondary Partners IV Feeder, SLP	Luxemburg	LU	10.5	188,712	16,923
Praesidian Capital Bridge Fund, L.P.	Wilmington	US	19.9	67,238	8,791
Praesidian Capital Opportunity Fund III-A, L.P.	Wilmington	US	32.7	37,588	1,165
Protektor Lebensversicherungs-AG	Berlin	DE	2.3	15,332	320
RREEF Pan-European Infrastructure Feeder GmbH & Co. KG	Eschborn	DE	26.6	348,880	–116
Sana Kliniken AG	München	DE	2.4	530,072	13,347
SilkRoad Asia Value Parallel Fund, SICAV-SIF	Luxemburg	LU	15.7	316,146	29,088
Småkraft AS	Bergen	NOR	15.4	161,268	–7,295
Surface Technologies GmbH & Co. KG	Baruth	DE	13.4	16,318	619
WAI S.C.A., SICAV- FIS / Private Equity Secondary 2008	Luxemburg	LU	22.1	38,033	2,326

* In the case of ownership interests that are partially held indirectly, economic interests are calculated.

The option set out in section 313 (3) sentence 4 HGB was exercised in drawing up the list of holdings.

The disclosures refer to the last financial year for which financial statements were available. Financial statements denominated in foreign currencies were translated into euros at the mean spot rate at balance sheet date.

Subordinate liabilities

Gothaer Versicherungsbank VVaG has issued a premium bond with an entitlement to a non-performance-related basic rate of interest as well as an additional yield component dependent on consolidated profit. The premium bond is in 2,799 portfolio deposits, with take-up totalling € 49.7 million.

Liabilities

Liabilities with a residual term of more than five years totalled € 250.0 million (PY: € 250.2 million).

Board membership and remuneration

Members of the Supervisory Board and Management are identified by name at the beginning of this report.

Management of the parent company received remuneration totalling € 11.4 million (PY: € 6.3 million) No advance payments were made in the year under review (PY: € 0.1 million). Retirement and survivors' benefits for former members of Management came to € 4.9 million (PY: € 4.3 million). Further accruals totalling € 69.6 million (PY: € 67.1 million) exist for current pensions and pension entitlements for this group of individuals.

Remuneration paid to the Supervisory Board totalled € 1.0 million (PY: € 1.0 million). Remuneration paid to members of the Advisory Board came to € 0.1 million (PY: € 0.1 million). No amounts were paid to former members of the Supervisory Board and the Advisory Board, or deferred for them.

No loans were granted to members of Management and the Supervisory Board, neither in the prior year nor the year under review.

Directorships of Members of the Supervisory Board and Management

Supervisory Board	Membership of other statutory supervisory boards	Comparable domestic and foreign directorships and officerships
Prof. Dr. Werner Görg Chair	Gothaer Finanzholding AG (Chair), Gothaer Krankenversicherung AG (Chair), Gothaer Allgemeine Versicherung AG (Chair), Gothaer Lebensversicherung AG (Chair), Gothaer Towarzystwo Ubezpieczeń S. A. up to 28 February 2019	
Carl Graf von Hardenberg Vice Chair	Gothaer Finanzholding AG, Gothaer Allgemeine Versicherung AG, Hardenberg Wilthen AG (Chair), m3Team AG, Volksbank Kassel Göttingen eG (Chair)	
Urs Berger	Gothaer Finanzholding AG, Schweizerische Mobiliar Genossenschaft (Administrative Board Chair), Schweizerische Mobiliar Holding AG (Administrative Board Chair), van Baerle AG, BernExpo Holding AG, Swiss Tertianum International AG, Basler Kantonalbank, Loeb Holding AG (Administrative Board Chair) until April 2019, Jarowa AG (Administrative Board Chair), SensoPro AG	

Supervisory Board	Membership of other statutory supervisory boards	Comparable domestic and foreign directorships and officerships
Gabriele Eick	Gothaer Finanzholding AG, Die Mobiliar AG	Goethe-Universität Frankfurt am Main (Foundation), Landesstiftung Miteinander in Hessen, Aramark GmbH (Chair)
Prof. Dr. Johanna Hey	Gothaer Finanzholding AG, ADVA Optical Networking SE (Vice Chair), Flossbach von Storch AG	Cologne Business School GmbH until September 2019
Jürgen Wolfgang Kirchhoff	Gothaer Finanzholding AG, Märkische Bank eG (Chair)	

Management	Membership of other statutory supervisory boards	Comparable domestic and foreign directorships and officerships
Dr. Karsten Eichmann Chair	Gothaer Pensionskasse AG (Chair), Gothaer Asset Management AG (Chair), ROLAND Rechtsschutz-Versicherungs-AG	
Oliver Brüß	Janitos Versicherung AG, Gothaer Pensionskasse AG (Vice Chair), A. S. I. Wirtschaftsberatung AG (Chair), Gothaer Vertriebs-Service AG (Chair)	
Dr. Mathias Bühring-Uhle	Janitos Versicherung AG (Chair), A. S. I. Wirtschaftsberatung AG, Gothaer Systems GmbH (Chair), CG Car-Garantie Versicherungs-AG (Chair)	
Harald Epple	Gothaer Pensionskasse AG, Aachener Bausparkasse AG up to 31 December 2019, Gothaer Asset Management AG, ROLAND Rechtsschutz-Versicherungs-AG	

Management	Membership of other statutory supervisory boards	Comparable domestic and foreign directorships and officerships
Michael Kurtenbach	A. S. I. Wirtschaftsberatung AG (Vice Chair), Gothaer Vertriebs-Service AG (Vice Chair), Pensionskasse der BERLIN-KÖLNISCHE Versicherungen VVaG (Chair), Versorgungskasse Gothaer Versicherungsbank VVaG (Chair), GDV Dienstleistungs-GmbH	
Dr. Christopher Lohmann	Janitos Versicherung AG (Vice Chair), Gothaer Towarzystwo Ubezpieczeń S. A. (President) up to 28 February 2019, Wiener TU S. A. Vienna Insurance Group (Deputy Chairman) as of 28 February 2019, Gothaer Asigurări Reasigurări S. A. (Chair)	
Oliver Schoeller	Gothaer Systems GmbH (Vice Chair), ROLAND Rechtsschutz-Versicherungs-AG (Vice Chair)	

Total fee for the statutory auditor

		€ million
	2019	2018
Auditing of financial statements	1.7	1.8
Tax advisory services	0.0	0.2
Other services	0.2	0.1
Total	**2.0**	**2.1**

Personnel expenses

		€ million
	2019	2018
Wages and salaries	308.8	325.9
Social security contributions and employee benefits	48.4	49.1
Expenses for employees' pensions	20.0	23.3
Total	**377.2**	**398.3**

Human resources on average

		Persons
	2019	2018
In house	4,043	4,697
In the field	500	513
	4,544	5,210
Apprentices	201	202
Total	**4,744**	**5,412**

The decrease in human resources on average is essentially due to the sale of the former Polish subsidiary Wiener TU S. A. (formerly Gothaer Towarzystwo Ubezpieczeń S. A.).

Contingent liabilities and other financial commitments

In compliance with section 28 (1) EGHGB, accruals of € 4.5 million have not been recognized for pension-related obligations for which a legal entitlement was acquired prior to 1 January 1987.

Pension accruals of € 22.4 million were not recognized on the balance sheet because the apportionment option under section 67 (1) EGHGB was exercised.

At year-end, contributions totalling € 901.3 million were outstanding for shares held in affiliated companies and associates as well as for other investments.

Other financial commitments arising from long-term leasing and rental agreements totalled € 66.2 million at balance sheet date.

An exemption for trade tax in excess of € 35.0 million is granted to the purchaser under an acquisition and transfer agreement. Current extrapolations show a tax volume below this ceiling, so the risk of exemption being claimed is considered low.

An obligation to acquire shares and ownership interest to the amount of € 10.0 million was assumed under a company acquisition agreement concluded in the financial year.

Standard market purchase price adjustment and indemnification obligations as well as purchase price guarantees totalling approximately € 60.4 million have been assumed from the sale of shareholdings in the financial year. The risk of claims actually being made on these obligations and guarantees is considered very low because the litigation risk inherent in indemnification risks is not currently believed likely to materialize and the acquisition of title risk that is crucial for an assessment of total risk volume is de facto non-existent.

In accordance with sections 221 ff. VAG, the life insurers of the Group are members of the guarantee fund for life insurers (Sicherungsfonds für die Lebensversicherer). In addition to the obligatory current contributions, the fund can levy special contributions up to 1‰ of the sum of net underwriting reserves on the basis of the Guarantee Fund Financing Ordinance (Life). Furthermore, in the event of the fund not having the resources needed to handle a rescue case, the companies have committed to make financial resources available to the guarantee fund – or alternatively to Protektor Lebensversicherungs-AG – in an amount equal to 1% of the sum of net underwriting reserves, taking account of the contributions already made to the guarantee fund. The total commitment to the guarantee fund at balance sheet date was € 205.9 million.

On the basis of sections 221 ff. VAG, health insurers are also required to be members of a guarantee fund. After the assumption of insurance contracts, the fund can levy special contributions up to 2‰ of the sum of net underwriting reserves for the fulfilment of its duties.

Gothaer Allgemeine Versicherung AG and Janitos Versicherung AG are members of the association “Verkehrsopferhilfe e. V.”. This membership entails an obligation to contribute to the funds that the association requires to carry out its activities. The contribution is based on the share of the premium income generated by member companies from direct written motor and liability insurance in the year prior to the previous calendar year.

Events of special significance

In December 2019, the novel virus SARS-CoV-2 and coronavirus disease COVID-19 were discovered in the Chinese city of Wuhan (Hubei province). The disease resembles influenza, the risk of infection is high and a vaccine does not yet exist. The estimated mortality rate is 0.5–2 %, which is higher than in the case of a classical influenza epidemic (0.1 %). The first cases of coronavirus infection in Germany were identified at the end of January. The number of reported cases then increased significantly through to the end of February and the first deaths occurred in March. On 23 March, nationwide restrictions on movement and far-reaching contact bans started to be introduced across Germany to slow the spread of the disease. This placed severe restrictions on public and economic life. Because the measures resulted in a slower rate of infection, it was decided that some of the coronavirus restrictions would be relaxed with effect from 20 April.

The disease is spreading rapidly not only in Germany but worldwide. After China and Europe, the USA has now become the epicentre of the outbreak. In an attempt to contain the pandemic, many governments have taken measures similar to those implemented in Germany. The infection and death tolls in other countries are even worse than in Germany.

To limit the impacts of the coronavirus crisis on the economy, the German government put together a nearly € 1,200 billion recovery package. The key elements include easier access to short-time working compensation, tax deferrals and a safety net for businesses. The aim is to prevent a rise in insolvency and unemployment. To stabilize the European Union, the EU finance ministers also agreed on a € 500 billion aid package. The USA similarly resolved to provide massive financial aid for employees, the unemployed, businesses and hospitals.

Since the number of cases of infection started to rise in Germany, we have focused intensively on the possible impacts of the coronavirus crisis. On the one hand, we have ensured that business operations are maintained. Opportunities were swiftly created for a large percentage of our employees to work from home. For those whose work does not permit a home office arrangement, the necessary protective measures have been taken.

At the same time, we continuously analyze the economic consequences of the coronavirus crisis. In property and casualty insurance, loss exposure exists particularly in media and film insurance, event cancellation insurance and accident insurance. In business interruption insurance, our terms and conditions disallow claims for a large proportion of losses but, out of a sense of social responsibility, we offer voluntary partial adjustment to support affected employers who have taken out a business interruption policy with us. In health insurance, benefit expenses for outpatient and hospital treatment may rise. In the area of dynamic hybrid unit-linked life insurance, sharp price falls could prompt more shifts towards conventional assets. Across all insurance segments, the economic consequences for our customers could lead to downturns in sales. Furthermore, the current developments in capital markets will result in lower valuation reserves for investments.

Negative impacts are therefore to be expected. The situation is still in constant flux. Both in Germany and worldwide, political decisions are being taken not only on lockdowns and their relaxation but also on further economic support packages. Owing to the undiminished highly dynamic nature of the situation and the difficulty of assessing second- and third-round effects, it is not possible at present to make a valid assessment of the fundamental impacts on our net assets, financial position and earnings.

No other events of special significance occurred.

Proposal for the appropriation of profit

The profit for the year registered by our parent company Gothaer Versicherungsbank VVaG was € 44,915,665.85. Including the profit of € 6,557.05 brought forward from 2018, the retained profit available to the General Members Meeting for appropriation is € 44,922,222.90.

We propose to the General Members Meeting that the sum of € 44,920,000.00 should be transferred to other revenue reserves and € 2,222.90 should be carried forward.

Cologne, 27 April 2020

Management

Dr. Karsten Eichmann	Oliver Brüß	Dr. Mathias Bühring-Uhle
Harald Epple	Michael Kurtenbach	Dr. Christopher Lohmann
Oliver Schoeller		

Independent Auditors' Report

GOTHAER Versicherungsbank VVaG, Cologne

Report on the Audit of the Consolidated Financial Statements and the Group Management Report

Audit opinions

We have audited the consolidated financial statements of GOTHAER Versicherungsbank VVaG, Cologne, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated income statement, the statement of changes in equity and the cash flow statement for the financial year 1 January to 31 December 2019 as well as the notes to the consolidated financial statements, including the presentation of accounting and valuation policies. We have also audited the Group management report of GOTHAER Versicherungsbank VVaG, Cologne, for the financial year from 1 January to 31 December 2019. In line with the requirements of German law, we have not audited the content of the parts of the management report referred to in this report under "Other information".

In our opinion, based on the knowledge obtained in the course of the audit,

– the accompanying consolidated financial statements comply in all material respects with the rules of German commercial law applicable to insurance companies and, in accordance with German general accounting principles, present a true and fair picture of the net assets and financial position of the Group as at 31 December 2019 as well as the results of its operations from 1 January to 31 December 2019 and

– the accompanying Group management report as a whole provides an accurate view of the situation of the Group. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development. Our audit opinion on the Group management report does not cover the content of the parts of the management report referred to under "Other information".

Pursuant to section 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not resulted in any reservations with regard to the legal compliance of the consolidated financial statements or the Group management report.

Basis for the audit opinions

We conducted our audit of the financial statements and the management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014, hereinafter referred to as "EU Audit Regulation "), observing the German Generally Accepted Standards on Auditing as promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany).

Our responsibilities under those regulations and standards are described in more detail in the section of our auditor's report headed "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and the Group Management Report". We are independent of the Group companies 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 Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained provides an adequate and reasonable basis for our opinions on the consolidated financial statements and Group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These matters were considered in the context of our audit of the consolidated financial statements as a whole and in the process of forming our audit opinion on them; we do not provide a separate audit opinion on these matters.

Valuation of gross policy reserves

With regard to the accounting and valuation policies adopted, please refer to the sections on underwriting reserves in life insurance and underwriting reserves in health insurance in the accounting and valuation policies chapter of the notes to the consolidated financial statements. Risk disclosures are contained in the Group management report in the sections on life insurance, biometric risk as well as health insurance and underwriting risks under opportunities and risks for the Group in the chapter on opportunities and risks of future developments.

THE FINANCIAL STATEMENT RISK

GOTHAER Versicherungsbank VVaG recognizes gross policy reserves totalling € 23,351.9 million in its consolidated financial statements. This was 69.6 % of the balance sheet total.

As a matter of principle, policy reserves in the life insurance segment are the sum of the policy reserves estimated for each individual policy. Policy reserve valuations are reached by the prospective method and derived from the cash values of future benefits less future premiums. Depending on tariff, individual policy reserves are estimated on the basis of a large number of machine and manual calculations.

Regulatory and commercial law rules need to be observed here. They particularly include rules on biometric variables, cost assumptions and interest rate assumptions, including the rules on strengthening interest rates (additional interest reserves and interest-driven reserve strengthening).

The rules on reserve strengthening, in particular, were changed in the financial year 2018 and the so-called corridor method introduced. Use of these assumptions is partly discretionary.

The risk of policy reserves being over- or undervalued at individual policy level exists to the extent that calculation parameters might be inconsistently or incorrectly applied.

As a matter of principle, the policy reserves reported in the health insurance segment are the sum of the ageing reserves estimated for each individual policy. Depending on tariff, the ageing reserves of individual policies are estimated on the basis of a large number of machine and manual calculations.

Policy reserves consist of tariff-based ageing reserves, accumulated funds from the direct credit pursuant to section 150 VAG as well as reserves for the statutory supplement pursuant to section 149 VAG.

Regulatory and commercial law rules need to be observed here. In particular, ageing reserves must always be calculated on the basis of the same assumptions that were used for calculating premiums. The volume of ageing reserves is essentially determined by the assumptions made regarding actuarial burning costs (average claim payments per person and year) as well as interest rate and lapse assumptions. In the case of actuarial burning costs, it is particularly important to consider the change as the insured get older. As a matter of principle, changes in assumptions in connection with premium adjustments may only be made with the approval of the independent trustee.

The risk to the financial statements is that, owing to the highly complex nature of the calculations, policy reserve volume may not be in line with statutory requirements.

OUR AUDIT APPROACH

We used our own actuaries in the audit team to audit the policy reserves in the life insurance segment and performed the following key audit procedures:

– We established to our satisfaction that all of the insurance contracts in the portfolio management systems were taken into account for the policy reserves. We took the controls created by GOTHAER Versicherungsbank VVaG as a basis and checked that they were appropriate and properly implemented. At the same time, we performed reconciliations between portfolio management systems, statistical systems and the general ledger to verify that the data transfer procedures used work correctly.

– To ensure the accuracy of the policy reserves at individual policy level, we used our own DP systems to calculate the policy reserves for the main parts of the direct written portfolios (around 47 % of policy reserves for the total volume of direct written insurance business in the financial year) and compared the results with those of GOTHAER Versicherungsbank VVaG.

– With regard to the additional interest reserves (Zinszusatzreserve – ZZR) formed as part of policy reserves for new policies, we conducted an adequacy test on the assumptions that GOTHAER Versicherungsbank VVaG made on the reference interest rate and on the respective lapse and capital settlement probabilities estimated.

– We verified that the Bundesanstalt für Finanzdienstleistungsaufsicht approved business plans were used for old policies. The plans also contain guidelines for interest-induced reserve strengthening.

– We verified that the general tables published by the German Actuary Association as well as the customized tables used were applied properly. At the same time, by analyzing the breakdown of profit sources, we established to our satisfaction that there were no long-term negative risk results.

– Furthermore, we compared the development of policy reserves with our own extrapolations of policy reserves, which we established both in a time series and for the current financial year as a whole.

– We also studied the Responsible Actuary's report. In particular, we established to our satisfaction that the report contains no statements that are inconsistent with our audit results.

We also used our own actuaries in the audit team to audit the policy reserves in the health insurance segment and performed the following key audit procedures:

– We verified that all of the insurance contracts in the portfolio management systems were taken into account for the policy reserves. We took the controls created by GOTHAER Versicherungsbank VVaG as a basis and checked that they were appropriate and properly implemented. At the same time, we performed reconciliations to establish whether data from the portfolio management system had been fully processed and registered in the general ledger. We particularly focused on controls which ensure that new tariffs are properly recorded and that changes in assumptions are correctly implemented in the systems.

– To verify that tariff-based ageing reserves are formed in compliance with the so-called Technical Basis for Calculation, we recalculated the ageing reserves for a randomly selected part of the portfolio and compared the results with the GOTHAER Versicherungsbank VVaG figures. We also verified in this connection that the assumptions used to estimate ageing reserves (actuarial interest rate, actuarial burning costs, mortality and lapse tables) are consistent with those used for calculating premiums.

– In the course of the audit procedures performed on premium adjustments made during the financial year, we established to our satisfaction that the changes made were approved by the independent trustee. In the case of actuarial interest rate changes, we calculated that the actuarial interest rate used was consistent with the actuarial corporate interest rate (AUZ). To ensure that premium adjustments approved by the independent trustee were properly implemented, we checked the calculations in selected instances, correctly applying the new bases for calculation. In addition, we checked the way in which premium refund reserve funds were calculated for limiting purposes.

– We calculate the "policy reserves/written premiums" ratio for every tariff and analyze the changes against past years.

– From the overall change in policy reserves, we isolate known factors such as premium refund reserve funds used for limiting purposes, direct credits, actuarial interest rates and Zillmer adjustments and analyze the remaining (so-called adjusted) change over time.

– Taking net return as a starting point, we recalculated the direct credit pursuant to section 150 (1) and (2) VAG and reconciled the corresponding assignment to policy reserves.

OUR CONCLUSIONS

The methods used to value the policy reserves are appropriate and compliant with commercial law and regulatory standards. Calculation parameters were derived and used in a correct manner. The stipulations in the Technical Basis for Calculation were properly implemented.

Valuation of the partial reserves for outstanding claims included in the gross re-serve for losses incurred but not reported in direct written business

With regard to accounting and valuation policies, please refer to the section on underwriting reserves in property and casualty insurance in the accounting and valuation policies chapter of the Notes to the Consolidated Financial Statements. Risk disclosures are contained in the Group management report in the sections on property/casualty insurance and underwriting risks under opportunities and risks for the Group in the chapter on risks of future developments.

THE FINANCIAL STATEMENT RISK

Gross reserves for outstanding claims in direct insurance business totalled € 3,004.0 million at balance sheet date. This was 9.0 % of the balance sheet total.

Gross reserves for outstanding claims are subdivided into various partial loss reserves. The reserve for reported and unreported losses accounts for a substantial amount of the gross reserve for outstanding claims.

The valuation of the reserve for reported and unreported losses is uncertain in terms of the prospective volume of loss and is thus very much a discretionary exercise. According to commercial law, estimation must not be risk-neutral in the sense that equal weight is given to opportunities and risks; it is required to conform to the principle of accounting prudence (section 341e (1) sentence 1 HGB).

Reserves for reported losses are estimated on the basis of the prospective expense of each individual claim. For unreported losses, belated claim reserves are formed, predominantly calculated on the basis of empirical values and recognized actuarial methods.

The risk presented by claims that have been reported by balance sheet date is that the reserves are not sufficient to cover the outstanding claim payments. In the case of losses incurred but not yet reported (unreported claims), there is the additional risk that the volume of losses may fail to be taken correctly into account.

OUR AUDIT APPROACH

We performed the following key audit procedures during the audit of the partial loss reserves for reported and unreported losses:

– We gained a thorough overview of the process for calculating reserves, identified key controls for assessing the completeness and accuracy of the estimates made and tested them for adequacy and efficacy. In particular, we established to our satisfaction that the controls designed to ensure that claims are promptly registered and processed and thus correctly valued are appropriately structured and effectively performed.

– On the basis of both careful screening and random selection, we verified the volume of individual, reported loss reserves by referencing records for different lines and types of insurance.

– We verified the GOTHAER Versicherungsbank VVaG's calculations for ascertaining levels of losses incurred but not reported. At the same time, we verified, in particular, the derivation of the estimated number and volume of such losses on the basis of historical experience and current developments.

– We analyzed the development of loss reserves by comparing time series of the number of claims, claims frequency, average claim size and speed of settlement as well as loss ratios for the financial year.

– We performed our own actuarial reserve calculations for selected segments, which were chosen on the basis of risk considerations. In each case, a point estimate was determined using statistical probabilities and compared with the calculations performed by GOTHAER Versicherungsbank VVaG.

– We analyzed the actual development of the reserve for outstanding claims recognized in the prior year on the basis of settlement results.

OUR CONCLUSIONS

The methods used to value the gross partial loss reserves for reported and unreported losses in direct written business are appropriate and in line with the applicable accounting principles. The underlying assumptions were made on an appropriate basis.

Other information

The legal representatives and/or the supervisory board are responsible for other information. Other information comprises:

– the Group governance statement (proportion of women) contained in the "Gender diversity" section of the Group management report and

– the Group non-financial declaration contained in the "Non-financial Declaration" section of the Group management report.

Other information also includes the following remaining parts of the Group annual report:

– the section "Financial Highlights"
– the section "Foreword"
– the folllowing overviews in the section "Corporate Governing Bodies":
– Representatives of Members
– Advisory Board Gothaer Versicherungsbank VVaG
– and the report of the Supervisory Board.

Other information does not include the consolidated financial statements, the audited content of the Group management report or our auditor's report thereon.

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

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

– whether it is materially inconsistent with the consolidated financial statements, the audited content of the Group management report or the knowledge we obtained in the audit, or

– whether it otherwise appears to be materially misstated.

Responsibilities of the legal representatives and the Supervisory Board for the consolidated financial statements and Group management report

The legal representatives are responsible for the preparation of consolidated financial statements that comply, in all material respects, with the requirements of German commercial law pertaining to insurance companies and that, in accordance with German general accounting principles, give a true and fair view of the net assets, financial position and results of the operations of the Group. In addition, the legal representatives are responsible for such internal control as they have determined necessary, in accordance with German general accounting standards, to permit the preparation of consolidated financial statements that are free from material misstatement, whether deliberate or unintentional.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for making disclosures, as appropriate, in relation to going concern. In addition, they have a responsibility to draw up consolidated financial statements based on the going concern assumption, unless it is intended that the Group should be liquidated or its business operations discontinued or there is no realistic alternative to doing so.

Furthermore, the legal representatives are responsible for preparing a Group management report that, as a whole, provides an accurate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with the requirements of German law and accurately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for making the arrangements and implementing the measures (systems) that they deemed necessary to permit the preparation of a Group management report in accordance with the relevant German legal requirements and to enable sufficient appropriate evidence to be provided for the assertions in the Group management report.

The Supervisory Board is responsible for overseeing the financial reporting process for the preparation of the consolidated financial statements and Group management report.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether deliberate or unintentional, and whether the management report as a whole provides an accurate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the requirements of German law and accurately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and Group management report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with the German Generally Accepted Standards on Auditing 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the present consolidated financial statements and Group management report.

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

– Identify and assess the risks of material misstatement in the consolidated financial statements and Group management report, whether deliberate or unintentional, 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. There is a higher risk of a material misstatement resulting from fraud going undetected than one resulting from error because fraud may involve collusion, forgery, deliberate omissions, misrepresentations or the overriding of internal control mechanisms.

– Obtain an understanding of the internal controls relevant to the audit of the consolidated financial statements and the 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 those systems.

– Evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures.

– Conclude on the appropriateness of the legal representatives' use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the relevant disclosures in the consolidated financial statements and Group 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 Group to cease to be able to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and assess whether the consolidated financial statements present the underlying transactions and events in such a way as to present a true and fair picture of the net assets, financial position and results of the operations of the Group in compliance with German general accounting principles.

– Gather sufficient appropriate audit evidence for the accounting information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and the Group management report. We are responsible for directing, monitoring and carrying out the group audit. We bear sole responsibility for our audit opinions.

– Evaluate the consistency of the management report with the financial statements, its conformity with German law and the view of the Group's position that it provides.

– Perform audit procedures on the prospective information presented by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives 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 or the assumptions. 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 deficiencies in the internal control system that we identify in the course of our audit.

We provide those charged with governance with a statement confirming that we have complied with the relevant independence requirements and discuss with them any relationships or other matters that might reasonably be thought to have a bearing on our independence and the relevant safeguards that have been put in place.

From the matters discussed with those charged with governance, we identify the matters that were of most significance in the audit of the consolidated financial statements for the current reporting period and therefore constitute the key audit matters. We describe these matters in our auditor's report unless public disclosure is precluded by law or regulation.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor at the Supervisory Board meeting on 15 May 2019. We were appointed by the Supervisory Board on 21 August 2019. We have been the auditor of GOTHAER Versicherungsbank VVaG without interruption since the financial year 2002.

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

In addition to performing the audit for the Group companies, we provided the following services that were not disclosed in the consolidated financial statements or Group management report:

For GOTHAER Versicherungsbank VVaG, we audited the solo solvency overview and the group solvency overview.

For controlled companies, we audited solvency overviews, audited and reviewed financial statements, audited dependency reports, performed WpHG and FinVermV audits, performed verifications and certification for foreign authorities, verified notifications of contributions pursuant to SichLVFinV, performed EEG audits, verified and certified observance of procedures for submission to BaFin and provided tax consultancy services and general advice.

Responsible Auditor

The auditor responsible for the audit is Roland Hansen.

Cologne, 29 April 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft

Hansen	Theißen
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

The Supervisory Board continuously monitored the conduct of business by Management in the course of the financial year in fulfilment of its duties under the law and the bylaws of the Company. Management regularly submitted written reports on business developments and the situation of the Company and reported orally to the Board at four meetings. The Board was involved in all decisions of fundamental importance for the Company. The committees of the Board were also involved in informational and oversight activities. The Investment Committee and the Audit Committee each convened on three occasions and the Executive Committee met four times during the past financial year. The progress and outcomes of the committee meetings were reported and discussed at the meetings of the Supervisory Board.

In line with the stipulations of the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), the members of the Supervisory Board conducted a self-appraisal, assessing their knowledge of investment, underwriting and accounting. This appraisal will form the basis for a development plan drawn up by the Board each year identifying the topics in which the Board as a whole or individual members of it wish to deepen their knowledge. Two training events were held for Board members on underwriting, accounting, investment and IT.

The issues addressed regularly by the Supervisory Board included developments in premiums, claims and costs, the performance of major Group holdings and the impact of such developments on the financial statements. Special attention was also paid to the issues of competition, product design, distribution and the development of the sales volume, costs and earnings of the Group companies. In addition, the Board focused intensely on the solvency situation under Solvency II in the Gothaer Group. It also received information from Management on the medium-term corporate planning, risk strategy and risk situation of the Association as well as on IT strategy.

Key issues in the year under review included new regulatory requirements and the low-interest environment as well as digitalization and its impacts on the insurance sector. Against the backdrop of an insurance sector undergoing an ever-faster transformation, 2019 was a year of ongoing development for Gothaer. The Supervisory Board welcomed Management's efforts to actively shape and drive forward digital developments across the Group. The Board also focused intensely on the implementation of the "Gothaer 2020" corporate strategy and the specification, communication and realization of its targets.

The Board monitored the development of membership figures and received detailed reports on the measures taken to raise the standard of service and advice for the exclusive organization. The Board also regularly met with Management to discuss basic strategic issues for the future gearing of the Group and its national and international subsidiaries. A major focus here was on the Romanian property insurance subsidiary S. C. Gothaer Asigurări Reasigurări S. A. and Janitos Versicherung AG as well as on follow-up work on the sale of Polish subsidiary Gothaer Towarzystwo Ubezpieczeń S. A. on 28 February 2019.

Special attention was also paid by the Board to the impacts of the low-interest environment on the personal insurance companies in the Group in 2019. The Board received regular reports on the programme for realigning Gothaer Lebensversicherung AG and Gothaer Pensionskasse AG – a programme designed to ensure that appropriate account is taken of the challenges presented by the low-interest phase, the need to form additional interest reserves (Zinszusatzreserve) and Solvency II. Attention focused on the solvency margin required and the resulting consequences for product and pricing strategy in new business as well as the different interest rate scenarios and their implications for Gothaer Lebensversicherung AG and Gothaer Pensionskasse AG. The Board also examined in detail the measures taken to reposition and meet the financial requirements of additional interest reserving.

The financial strength rating carried out for the Group companies again produced positive findings, attesting to the continued security and financial strength of the Group despite the more difficult market environment. Standard & Poor's once again awarded Gothaer Allgemeine Versicherung AG, Gothaer Lebensversicherung AG and Gothaer Krankenversicherung AG confirmatory A- ratings and raised outlook to "positive" in 2019.

The Supervisory Board discharged its statutory duty to examine HR issues relating to Management. The Management Board appointment of Mr. Oliver Brüß was extended.

Management's investment planning and policy were regularly a subject of Investment Committee meetings. Management reported to the Board in detail on developments in the capital markets and their impacts on investments, changes in undisclosed liabilities/undisclosed reserves and the development of investment income and discussed the possible macroeconomic consequences of the development of interest rates and the implications for the insurance industry.

The Audit Committee established by the Supervisory Board in line with section 107(3) AktG monitored the accounting process and verified the effectiveness of the internal control system, risk management system, compliance organization and internal auditing system. There were no objections. Key performance indicators in the financial statements were discussed in detail with Management and the auditors of the financial statements, taking comparable company benchmarks into account. The Audit Committee therefore proposed to the Supervisory Board that the financial statements for the financial year 2019 should be formally adopted in accordance with section 172 AktG.

The company financial statements for the 2019 financial year and the accompanying management report as well as the consolidated financial statements and the accompanying Group management report were audited by the auditor appointed pursuant to section 341k HGB, KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne. In each case, the audit included an assessment of the early risk warning system.

Both sets of financial statements received an unqualified audit opinion from the audit firm pursuant to section 322 HGB. The auditors attended the Supervisory Board meeting on the financial statements and reported on the key results of the audits.

The Supervisory Board received the audit reports submitted and took note of and approved the results of the audits.

After examination of the presented financial statements and management report for the 2019 financial year and the consolidated financial statements and Group management report for the 2019 financial year, the Supervisory Board raised no objections. The Supervisory Board approved the financial statements and the consolidated financial statements for the year 2019. The financial statements are therefore adopted pursuant to section 172 of the German Stock Corporation Act (AktG).

The Supervisory Board approves Management's proposal for the use of retained profit.

The Supervisory Board wishes to express its special appreciation and heart-felt thanks to Management and to the staff, directors and executives of the Gothaer Group companies for the work they performed last year in what continued to be an extremely difficult environment.

Cologne, 29 April 2020

The Supervisory Board

Prof. Dr. Werner Görg	Carl Graf von Hardenberg	Urs Berger
Gabriele Eick	Prof. Dr. Johanna Hey	Jürgen Wolfgang Kirchhoff

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