Gothaer Group

Annual Report 2020

Three-year comparison

€ thousand	2020	2019	2018
Gross premiums written	4,557,025	4,524,645	4,382,848
Earned premiums net of reinsurance	4,196,470	4,164,489	3,976,593
Retention ratio (in %)	92.2	92.1	91.1
Claims expenses net of reinsurance	3,082,030	3,183,244	3,251,512
Change in other net underwriting reserves	880,901	1,184,315	222,607
Underwriting expenses net of reinsurance	740,695	737,655	736,872
Net income for the year	72,431	114,990	118,749
Return on equity (in %)	5.6	9.5	10.8
Investments	30,666,518	29,473,399	28,745,775
Investment result	1,025,244	993,960	885,196
Net return (in %)	3.4	3.4	3.1
Underwriting reserves net of reinsurance	28,847,969	27,863,537	27,301,799
Equity	1,326,456	1,263,692	1,159,166
Subordinate liabilities	299,677	299,677	299,677
Employees (average number)	4,795	4,744	5,412

The Gothaer Group

With over 4.1 million members and premium income of € 4.56 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. In 2020, Gothaer celebrated 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:

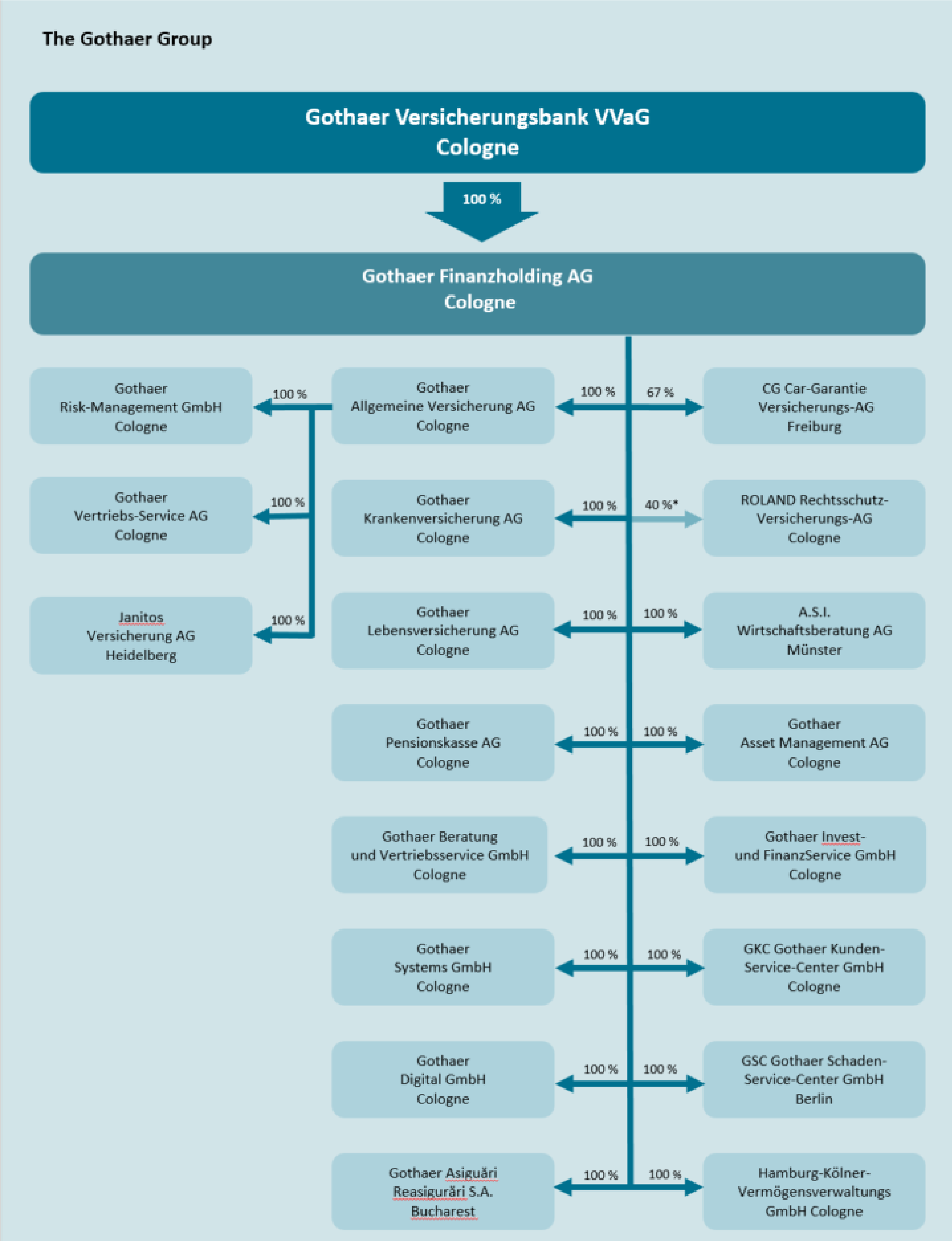
Gothaer Allgemeine Versicherung AG is the largest risk-bearing entity in property and casualty insurance within the Gothaer Group. This company has ranked among the largest German property insurance companies ever since its foundation in the year 1820. Classical single-line products aside, its focus 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. The product portfolio is steadily expanded to include innovative solutions, for example in the smart home sector. 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 onshore wind farm insurance, 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. Even in coronavirus crisis year 2020, Gothaer Lebensversicherung AG registered growth in single-premium business. Gothaer Index Protect, a product launched in 2017, continues to be a great success. At the same time, the company will focus even more in the coming years on developing regular-premium business. 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 continues to gain in importance. 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 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 50 years of experience and premium revenues running to around € 200 million a year as well as a market presence in 19 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.



* Total Group interest

January 2020

For purposes of clarity, shareholding structure simplified.

Gothaer Versicherungsbank VVaG
Annual Report

Report for the Financial Year as of
1 January to 31 December 2020

Registered Office of the Company
Arnoldiplatz 1
50969 Cologne/Germany

Cologne Local Court, HRB 660

Table of Contents

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

The Gothaer Group remains stable in the crisis

Prof. Dr. Werner Görg

Chairman of the Supervisory Board of the Gothaer Group

The insurance industry proved to be an extraordinarily stable sector in 2020, the year that will go down in history as the year of the coronavirus pandemic. None of the German insurance companies needed the comprehensive and essential financial support packages provided by the government – unlike the retail, catering and event sectors, for example. Although the economy and stock market went into a state of shock – at least initially – the insurance sector once again proved to be a stabilizing factor.

Despite these uncertain times the Gothaer Group's business has developed positively. Particularly impressive growth was achieved with client-specific solutions for our core target group of mid-sized companies. We traditionally see growth in property and casualty in this sector, so we were particularly pleased to note growth in health insurance business, too. Gothaer's life insurance business developed in line with the market. In this segment we offer needs-oriented solutions which are by nature consultation-intensive, especially when it is necessary to develop attractive insurance concepts for entire workforces.

In the area of investments we have continued to consistently apply our strategy of ensuring that all our investment positions are compliant with our sustainability criteria. The public attention gained through this positioning and the multiple awards received as a result have considerably strengthened Gothaer's brand image, as well as its positioning as a sustainable insurance provider. In times like these, when the yields on government bonds are negative and Solvency II limits equity investment options, it has become impossible to generate the same level of investment income that we were accustomed to in the past. Since the interest structure is unlikely to change in the foreseeable future, the insurance industry and therefore also Gothaer will have to prepare for a long period of declining yields.

2020 was also a year in which the changing roles of the Management Board and the Supervisory Board were evident and proved to be valuable. In the past, the Supervisory Board's has primarily focused on checking the Management Board's figures. Today, increasingly, it is acting as a decision-making sounding board for the Management Board, particularly when it comes to strategic decisions. The establishment of a digitalization committee by the Gothaer Supervisory Board is evidence of the supporting role it now performs. The committee collaborates with the Management Board to bring about a permanent improvement in market performance. At the same time, it will highlight business segments that could never have been developed without digitalization.

The Gothaer Group's Supervisory Board understands its role to be that of a supervisory body which advises the Management Board in relation to future challenges without seeking to discuss the operative side of the business. Not only has the Supervisory Board embraced this wider role, it has also proven to be particularly helpful in crisis years.

On behalf of the Supervisory Board I would like to thank the entire Gothaer team for its hard work and valuable contribution to the positive development of our business in 2020. The employees' flexibility and the works councils' commitment to solution finding have been instrumental to the conclusion of agreements that permitted the majority of our employees to work from home. There were no resulting impairments to service availability, service quality or customer satisfaction – in fact, the contrary has been the case. This arrangement has also helped us to make very fast progress with the digitalization of our business processes. We are currently working on the evolution of our workplaces and office environments so that Gothaer and its employees can embrace the possibilities of change.

We are also pleased to thank the independent sales agents for their excellent advisory and sales performance in 2020 – particularly in the problematic environment of a pandemic. The independent sales agent partners once again impressively demonstrated what an important element of the Group sales organization they are in 2020.

Sincerely,

2020 was carried by the Gothaer community. It is the bedrock for a dynamic and prospering future

Oliver Schoeller

Chief Executive Officer of the Gothaer Group

Gothaer celebrated its 200th anniversary in 2020. The COVID-19 pandemic turned it into a year that, better than most, illuminated the value of a Group built on the foundations of a long-term orientation and a strong community.

It was a year in which Germany and the rest of the world experienced the fragility of health systems and economies in our globally networked society, and a year in which the community particularly benefitted from Gothaer's entrepreneurship and commitment to social issues. We delivered those benefits in our role as health service provider, as insurer for art and culture event cancellations and, above all, as insurance services provider to mid-sized companies and businesses in Germany.

Gothaer was established in 1820 by merchants for merchants. Today, medium-sized German companies and businesses are still one of the mainstays of the country's economy as well as our business portfolio. In 2020 they profited more than usual from Gothaer's commitment to continuity and community. Strong growth in this segment in an unusual year is impressive proof of our corporate clients' trust in and loyalty to Gothaer. Our employees and Gothaer's many independent agents have worked untiringly to deliver insurance solutions to our clients that will help them to survive the pandemic.

The Group achieved growth in 2020, particularly Gothaer Allgemeine Versicherung AG with 4.7 percent and Gothaer Krankenversicherung AG with 2.7 percent. However, in line with the market development, there was a slight downturn in premiums at Gothaer Lebensversicherung AG due to the COVID-19 crisis. Premium revenues at Group level increased by 0.7 percent to € 4.56 billion. The Group's net profit for the year proved to be crisis-resistant, and consolidated net income of € 72 million was posted.

Despite our firm focus on the Group's financial stability and helping our clients to get through the COVID-19 crisis, we remained fully committed to sustainability, which is one of the existential issues of this current day and age. The lives of future generations depend to a great extent on us taking ambitious and courageous steps to halt climate change today. The Gothaer organization has been pursuing opportunities to contribute to the wider community throughout its entire 200-year history. Back in the 1990s we began insuring facilities that generated electricity from renewable energies – and today Gothaer is the number one in Europe. So Gothaer is making an important contribution to the transformation of the German energy sector. At the same time, over € 1.3 billion have now been invested in this segment. We have been transitioning our investment strategy towards ESG compliance since 2018. Gothaer is also working to reduce its own ecological footprint with the ultimate objective of climate neutrality. The headquarters in Cologne has been carbon neutral since 2020 and the other sites will follow. By 2025 we intend to have reduced our emissions by one-third. In 2020 we established the Gothaer Foundation with the objective of promoting sustainable economic and societal development.

Reflecting our convictions, we have incorporated sustainability into our group strategy and we aim to ensure that the entire organizational culture embraces and adopts the concept of 'credible sustainability'.

In 2020 Gothaer launched its new 'Ambition25' group strategy. After a consolidation phase, it is now taking the Group forward into a profitable growth phase. To make this possible, the Group significantly strengthened its equity base and focused on its core business in the previous strategy periods. As a result of that we have a very strong starting position.

We aim to consolidate our position as a leading partner to mid-sized companies and support our clients in an increasingly complex world with Ambition25. In the future our clients won't just expect us to cover their risks. They will also want us to help them to understand those risks, prevent them from happening and, if and when they do manifest, to assist them in dealing with the consequences. As a result, the spectrum of insurance types will expand, which means we will have to extend our value added services and build on our strengths.

As far as our private-sector clients are concerned, primacy has to be accorded to comprehensive advice. We want our clients to experience insurance as less complex, more accessible and, crucially, human. This can only be achieved if we simplify our products, digitalize our processes and gain an in-depth understanding of our clients. As a result, we will continue to rely on our sales agent partners as one of the key elements in the client relationship.

2020 will no doubt be remembered as the year that challenged us to draw on the strengths and solidarity of the Gothaer Group's tradition-steeped and eventful history. Our people are the key to our business performance: both our employees and our sales partners. I would therefore like to say a special thank-you to them on behalf of the entire Management Board. When Ernst Wilhelm Arnoldi founded the company he embraced the principle of putting the common good before self-interest according to the motto of „You act for yourself when you live for others", and that principle has been very much in evidence this year.

Sincerely,

Representatives of Members

Wilm-Hendric Cronenberg Chairman	Managing Partner of Julius Cronenberg oH
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 and partner 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
Dr. Karin Ebel	Managing director of Peter May Family Business Consulting GmbH & Co. KG, as of 3 July 2020
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
Willi Hullmann	Former Chairman of Kölner Wohnungsgenossenschaft eG, as of 3 July 2020
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	University professor of the Economics Faculty of the Catholic University of Eichstätt-Ingolstadt
Dr. Anja Marzuillo	Lawyer, as of 3 July 2020
Hans Mauel	Chairman of the Board of Stiftung der Cellitinnen zur hl. Maria, up to 3 July 2020

Rudolf Nüllmeier	Diplom-Finanzwirt, Tax accountant (retd.), up to 30 September 2020
Uwe von Padberg	Diplom-Kaufmann, Managing Director of Creditreform Köln v. Padberg GmbH & Co. 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, up to 3 July 2020
Astrid Schulte	Member of the Board of Heraeus Bildungsstiftung
Birgit Schwarze	President of DSSV e. V. Arbeitgeberverband deutscher Fitness- und Gesundheits-Anlagen
Walter Stelzl	Pensioner, up to 3 July 2020
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, Tax Advisor
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. KGaA

Management

Oliver Schoeller Chairman as of 1 July 2020	
Dr. Karsten Eichmann Chairman	up to 30 June 2020
Thomas Bischof	as of 1 January 2021
Oliver Brüß	
Dr. Mathias Bühring-Uhle	
Dr. Sylvia Eichelberg	as of 1 January 2021
Harald Epple	
Michael Kurtenbach	
Dr. Christopher Lohmann	up to 31 July 2020

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 (HGB).

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 Friedrich	Managing Director of Friedrich & Sohn Transport / Spedition GmbH
Dr. Ulrich Gauß	Chairman of the Management of VPV Lebensversicherungs-AG, up to 31 December 2020
Lorenz Hanelt	Executive Officer of Delvag Versicherungs-AG
Hans Jürgen Hesse	Managing Partner of Hesse GmbH & Co. KG
Willi Hullmann	Former Chairman of Kölner Wohnungsgenossenschaft eG, up to 30 June 2020
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, up to 31 December 2020
Dr. Karsten Kölsch	Executive Officer of Ahlers AG, up to 31 December 2020
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
Wolfgang Öxler	Archabbot of the Benedictine Abbey St. Ottilien
Dr. Melanie Peterhoff	Managing Partner of F. J. Peterhoff Beteiligungs-GmbH
Dr. Peter Ramsauer	Diplom-Kaufmann
Thomas Regge	Managing Director of Mittelrhein-Verlag GmbH
Hermann Reichenecker	Managing Partner of Storopack Hans Reichenecker GmbH
Erich Staake	Diplom-Kaufmann, Chairman of the Management of Duisburger Hafen AG

Group Management Report

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 2020

Insurance industry as a whole

The macroeconomic environment in 2020 was characterized by major uncertainties, particularly with regard to the development of the Corona pandemic and its implications for the economy. Germany's gross domestic product (GDP) is expected to shrink by 4.9 % overall. The economic situation of private households remained stable. Extensive government support measures helped stabilize income levels, so private households' disposable incomes showed only a modest fall compared with GDP, down by 1.0 %. Pandemic-related restrictions and uncertainties resulted in a 6.0 % decrease in private consumption, while savings increased. In light of these developments, the German Insurance Association GDV – on whose findings these comments are based – anticipates a moderately positive trend in premium revenues. In property and casualty insurance, the development of premiums is significantly curbed by the coronavirus pandemic but premium growth of 2.1 % is still expected. Robust premium growth of 3.8 % is anticipated in private health insurance. This is due mainly to significant growth in nursing care insurance and supplemental insurance business. The decline in life insurance premiums is put at 0.4 % in 2020. Among other things, this is attributable to the restrictions on distribution, which had a particular impact on new business in advice-intensive life insurance products. While regular premium revenues were recessive, single-premium business registered growth. For the insurance sector as a whole, premium growth of 1.2 % is thus forecast. Without single-premium business in life insurance, the anticipated increase in premiums is around 1.4 %.

Property and casualty insurance

In **motor insurance** – the property and casualty insurance class generating 38 % and € 28.7 billion in premium income – premium income weakened significantly in 2020 as a result of the coronavirus pandemic. The downturn was particularly due to temporary shutdowns affecting commercial business, lower annual road performance and reductions in the scope of comprehensive insurance cover. The average motor liability premium is currently expected to decrease by 0.5 % and the average collision & comprehensive premium by 1.0 %. The average partial own damage premium also looks like falling by another 2.5 %. Overall, premium growth in motor insurance is expected to edge up by 0.6 %. The reduction in mobility resulted in lower accident figures and lower claims expenses. Natural hazard claims are also expected to be below average. Overall, a marked decline of 9.1 % is anticipated in claims expenses for the financial year. Assuming that run-off and cost ratios remain virtually unchanged, the underwriting result in motor insurance should therefore be significantly improved. The projected combined ratio will thus be lower than in the prior year at around 90 %.

In **property insurance**, premium income is expected to grow by 5.4 % to € 22.7 billion, fuelled by a somewhat weaker upturn in private property insurance than in the non-private segment. The growth in private property insurance is driven by rising insured sums as well as extensions of cover for water damage and for additional natural hazards. In non-private property insurance, growth is particularly noted in the industrial lines and in engineering insurance. Despite a below-average volume of natural hazard claims and major losses, claims expenses in property insurance are expected to rise by around 7.5 % in 2020. The increase in claims expenditure was driven by the considerable volume of payments made under business closure policies. This more than outweighed declines in burglary. Overall, the underwriting result will thus remain at around the prior-year level and the combined ratio is forecast to be 92 %.

Despite the coronavirus crisis and the economic slowdown connected with it, the German Insurance Association GDV expects premium revenues from **property and casualty insurance as a whole** to show moderate growth in 2020, rising by 2.1 % to € 74.8 billion. The number of policies in force should increase by 0.9 %. Claims expenses for the financial year decreased by 2.5 % against the prior year. Here, higher property claims expenses due to the pandemic were mitigated by lower expenses in the motor class. The aforementioned developments, coupled with downturns in major claims and natural hazard expenses, make for an overall combined ratio of 90 %, which is again lower than in the prior year, and a significantly improved underwriting profit of approx. € 7.4 billion.

Life insurance

The coronavirus crisis and its consequences had a particularly severe impact on growth for German life insurers. The growth trend registered in 2019 initially continued through the first quarter of 2020 but, in April to June especially, the effects of the Covid-19 pandemic were felt in the form of a slump in new business. The reasons for this are complex: the number of consultations between agents and customers, which remain highly relevant in life insurance in particular, declined significantly as a result of the pandemic. The effect of this is compounded by the fact that willingness to conclude long-term savings contracts also suffers in uncertain and economically troubled times. With the coronavirus pandemic forcing numerous companies into short-time working, occupational pension schemes were and still are also massively affected. It was not until the start of the second half of the year that a slow recovery set in. The growing acceptance and increasingly widespread use of digital consulting formats certainly contributed to this.

At the same time, life insurers demonstrated soon after the onset of the pandemic that customers experiencing payment difficulties could expect fast and flexible support. Significant use was made of the corona assistance offered by life insurers in the form of payment suspensions, deferrals and premium waivers.

The coronavirus crisis also had a pronounced negative effect on the investment side of life insurers' activities. As a result of the pandemic, interest rates reached new lows last year. While the euro swap rate relevant for calculating additional interest reserves and Solvency II was still +0.21 % at the end of 2019, it has been permanently in negative territory since the first quarter of 2020. At the end of December, the rate was -0.27 %. The sharp downturn in interest rates naturally has an appreciable impact on the level of return achievable on new investments. It also resulted – and still results – in increased allocations to additional interest reserves (Zinszusatzreserve = ZZR).

All of this continues to require a security-based business strategy as well as continuous fine-tuning of the business model and product range in response to changes in the business environment. On the product side the most important trends are the further reduction of guarantees, the growing range of unit-linked life insurance products and strong competition in the area of biometric products.

The coronavirus crisis also resulted in ad-hoc re-prioritization of reform projects. Contrary to original expectations, for example, the law regulating acquisition commissions in life insurance did not pass through parliament in 2020. The reform of the Riester pension, which had been planned for some time, was likewise postponed. And as things stand at present, the lowering of the maximum actuarial interest rate needed to take account of interest rates has been shelved until 1 January 2022.

Against this backdrop, the development of life insurance business in 2020 was as follows:

Across the life insurance industry in the narrower sense (excluding pension trusts and pension funds) gross written premiums decreased against the prior year by 0.1 % to € 99.39 billion. Regular premiums accounted for € 62.11 billion (-0.8 %) of this total and single premiums made up € 37.28 billion (+1.2 %). The latter maintained a share of more than 37 % of total premiums in 2020. One of the main drivers of the sustained growth of single-premium business was the "investment crisis" due to the fall in interest rates – a crisis deepened by the increasingly widespread practice of banks and savings banks charging "holding fees" for deposits over a certain amount.

The decline in interest rates also had a considerable negative impact on life insurers' earnings. The further fall in return on new investment and reinvestment made it difficult for life insurers to generate a sufficiently high net return, which is needed, in particular, to meet high guarantee commitments under existing policies.

The same is true of the large annual transfers to additional interest reserves (ZZR – Zinszusatzreserve) that life insurers have a statutory obligation to make. The purpose of the ZZR 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 insurance

The coronavirus pandemic was the dominant topic in 2020, especially for private health insurance. The economic, political and social consequences of the pandemic are still hard to predict. What we do know and can say, however, is that the private health insurance industry is not only committed to guaranteeing protection for its policyholders; it also takes seriously its social responsibility to help tackle the pandemic. Payments totaling more than a billion euros in 2020 to mitigate effects of the coronavirus crisis demonstrate a clear commitment to the health system as a whole.

People notice our efforts. The positive trend of recent years in comprehensive private health insurance continued through 2020. For the third year in succession, more people opted for private health insurance and the number of customers switching from statutory health insurance to private health insurance was also greater than vice versa. This is a very positive development.

Health risks have been a particular focus of attention this year. The pandemic has made it clear how important it is to have adequate health protection. Demand for private supplemental insurance to top up statutory health insurance benefits thus continues to be very high.

Supplemental insurance also showed very strong growth this year. The success of occupational health insurance was a contributory factor here. In times when skilled workers are in short supply, a company health insurance scheme is an important instrument for employee retention and is increasingly popular with both insureds and employers. We see further potential for both employer-financed and employee-financed variants.

Robust premium growth is anticipated for the private health insurance industry as a whole in 2020.

Outlook for 2021

Insurance industry as a whole

Although economic life at the beginning of the year will be shaped by more and tougher restrictions, the German economy as a whole is expected to return to growth in 2021. GDP is forecast to increase by around 3 %. Progressive immunization of the population could lead to a gradual lifting of existing restrictions over the course of the year. If uncertainties decrease, the financial year may see private households spend some of the savings that they built up last year. The expiry of the insolvency moratorium in 2021 is likely to be followed by an increase in insolvencies with a consequent rise in unemployment and greater loss of income. With the economic situation of private households generally weakened, premium revenues from property and casualty insurance are expected to grow by 1.6 %. For life insurers, recovery and catch-up effects are anticipated, resulting in premium growth of 2.4 %. Contributions to this growth will be made by both regular premium business, with a plus of 0.9 %, and single-premium business with a surge of 4.9 %. The development of premium revenues from private health insurance will be characterized by rate increases in comprehensive insurance. High growth rates continue to be forecast for supplemental insurance business. Across the insurance industry as a whole, premium volume is expected to increase by 2.7 %. Excluding single-premium business, growth is forecast to be 2.3 %.

Property and casualty insurance

Developments in property and casualty insurance business will continue to be influenced in 2021 by the weakened economic situation of private households, which is only slowly recovering. A further attenuation of premium dynamics is expected in the coming year, although premium revenues are still expected to be 1.6 % higher than in the prior year. At the same time, private property insurance will continue to be characterized by intense price competition. Demand for extensions of cover and stable construction activity will have a supportive effect. In non-private property insurance, premium growth will be weakened by huge economic uncertainties and constraints on policyholder liquidity. For motor insurance, 2021 is expected to bring a pandemic-related reduction of policyholder mobility and premium growth on a par with the prior year. For marine and aviation insurance, downturns in premium volume are anticipated due to marked economic uncertainties and slow recovery of the travel sector.

Life insurance

The uncertainties in forecasting due to the lack of empirical values for a pandemic also apply to the forecasts for 2021. What is certain is that developments in 2021 and probably also the years thereafter will continue to be shaped by a negative or very low interest rate environment. This will further accelerate the restructuring of the product landscape with the ongoing shift away from guarantees.

With the approval of the first vaccines and the commencement of vaccination of the first sections of the population, pandemic-related restrictions are expected to be eased in 2021. In the wake of the general economic recovery, normality will then also return to the insurance industry.

Hopes for a broad-fronted uptrend, however, are based to a large extent on the approved vaccines proving effective against infection and also being available in sufficient quantities. After events in early 2021, a question mark seems to hang over the issue of availability, so last year's forecasts for the development of business in 2021 need to be considered in that light.

Looking forward, however, it is expected that long-term provision and protection against existential risks will become more important again and the industry will thus experience catch-up effects. Benefits will probably also be felt from sales organizations and customers adjusting to digital consulting tools. To that extent, digital sales are likely to become more important from 2021.

It remains to be seen what impact the end of the insolvency moratorium will have on corporate client business and thus specifically on the level of new business and company pension scheme cancellation rates. The option of not having to file for insolvency despite imminent illiquidity has been constantly extended since the moratorium was introduced in 2020 and – as of February 2021 – will now be available until April 2021.

The situation of private households is expected to improve slightly in 2021 – but not to return to its pre-crisis level. The labour market is likely to remain significantly affected by job insecurity and short-time working.

In light of the above, the outlook for 2021 compared to the prior year is as follows: Premium revenues across the life insurance industry in the narrower sense (excluding pension trusts and pension funds) are expected to grow by 2.5 %. According to the forecasts, that growth will be largely shaped by a vigorous upturn in single-premium business (+5.0 %), while premium volume from policies with regular premium payments is expected to increase by a moderate 1.0 %.

Health insurance

Health policy will continue to be a dominant topic in 2021. Statutory health insurers will come under pressure financially due to additional pandemic-related expenditures, on the one hand, and reduced revenues on the other. If we as private health insurers can offer powerful, simple, economical products, we will be perceived as an attractive alternative for insureds and will be able to operate successfully in the market.

Digitalization in the health care system also pays dividends for an efficient private health insurance industry. The health policy landscape will be transformed and improved by the Digital Health Care Act (DVG). The pace of innovation in e-health solutions and digital care concepts will increase. Digital health applications will increasingly be available on prescription and online consultations will become the new norm.

The coming year will naturally bring no end to the discussions about aligning private and statutory health insurance benefit levels. We face the political and media debate with confidence.

The development of private health insurance premiums will be shaped by tariff increases for comprehensive insurance. High growth rates are still expected for supplemental insurance business.

Development of business in 2020

Despite the difficult environment due to the coronavirus pandemic, we achieved robust results in 2020. Premium growth at Group level was 0.7 %, investments generated a net return of 3.4 % and net profit for the year reached € 72.4 million.

						€ million
	Gross premiums written		Underwriting result net of reinsurance		Investment result	
	2020	2019	2020	2019	2020	2019
Property and casualty	2,222.9	2,190.5	89.1	96.9	98.3	111.4
Life	1,444.9	1,468.5	76.2	67.3	659.8	596.9
Health	889.2	865.7	69.6	51.7	246.5	239.8
Other Activities	0.0	0.0	0.0	0.0	20.7	45.9
Total	4,557.0	4,524.6	234.9	215.9	1,025.2	994.0

At Group level, gross written premiums totalled € 4.56 billion (PY: € 4.52 billion) in the financial year, which exceeded our expectations. Property and casualty insurance registered a 1.5 % increase in gross premium income to € 2.22 billion. In life insurance, growth was influenced by the coronavirus pandemic. Gross written premiums fell by 1.6 % to € 1.44 billion. Gross premiums written in health insurance increased by 2.7 % to € 889.2 million. Premium volume upturns in both comprehensive and supplemental insurance contributed to this result.

Primary insurance, which is our core business, accounted for € 4.46 billion (PY: € 4.43 billion) of gross written premiums. Premiums written in reinsurance assumed from extra-group insurers totalled € 97.2 million (PY: € 96.5 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.

The underwriting result net of reinsurance at Group level increased to € 234.9 million (PY: € 215.9 million). Developments in the individual segments varied. In property and casualty insurance, the underwriting result net of reinsurance was recessive in the financial year at € 89.1 million (PY: € 96.9 million). In property and motor classes, the coronavirus pandemic had contradictory effects on claims expenses. Both the number of major claims reported and the volume of major claims expenses were significantly below prior-year levels. The burden of natural and accumulation losses was also lighter in the financial year. The underwriting result net of reinsurance produced by life and health insurance business rose to € 145.8 million (PY: € 119.0 million).

Total investment result increased due to the financing requirements for the formation of additional interest reserves in the life insurance segment. However, the more relevant portion of investment result – the portion attributable to property and casualty insurance – decreased.

Together with an increase in tax expenses, the above developments produced a net profit for the year of € 72.4 million, following a prior-year profit of € 115.0 million.

Underwriting result

Property and casualty insurance

In property and casualty insurance, the financial year was fundamentally shaped by the coronavirus pandemic. Despite a difficult environment, we achieved gratifying premium growth, albeit below expectations. Gross written premiums increased by 1.5 % to 2.22 % in the financial year. Upturns in premium volume were registered both in direct written insurance business, where the figure rose by 1.5 % to € 2.13 billion, and in reinsurance business assumed, where volume grew by € 0.7 million to € 97.2 million. Earned premiums net of reinsurance in property and casualty insurance increased by a total of 0.7 % to € 1.87 billion.

At the Group's largest property insurer, Gothaer Allgemeine Versicherung AG, foundations for success were laid by a radically modernized product range for the private client business segment. As part of the modernization programme, a policy for e-scooters and a premium discount for purely electric cars were introduced last year. Household insurance was expanded to include "Internet Protection" and "Electronics Protection" modules and an optional no-claims bonus system was added to homeowners insurance. In line with our motto "Protecting values in the community", we provided free child accident cover for all private clients' children whose childcare or school facilities had closed due to coronavirus in Germany. We receive positive feedback on our products and services from external product comparison services and in the form of good sales results. Analysts Franke und Bornberg gave our private liability insurance policies an outstanding "FFF" rating. In corporate client business, we continued to systematically restructure our industrial property insurance and architects' liability portfolios. At the same time, we laid another important foundation stone for our ambitions by updating our Gothaer GewerbeProtect (GGP) modular product system. Across all lines – from public liability to contents and works traffic insurance – basic cover, Plus modules and extensions of cover were expanded and more finely attuned to the needs of small and medium-sized enterprises. In 2020, we made it possible for commercial customers to access rapid assistance for legal issues connected with coronavirus. In conjunction with Jurpartner Services, a subsidiary of ROLAND Rechtsschutz-Versicherungs-AG, we offered free initial telephone advice for all self-employed persons with a commercial insurance policy. To support our corporate motor clients under lockdown, we developed a quick and easy option in the form of non-contributory downtime insurance without official closure.

Gross claims expenses in property and casualty insurance were 2.3 % lower than in the prior year at € 1.38 billion. Within this figure, the coronavirus pandemic had contradictory effects on claims experience. On the one hand, claims expenses increased as a result of so-called coronavirus losses, mainly in connection with event cancellation and plant closure risks; on the other, significantly fewer motor claims were registered due to the restrictions on public life and the increase in home office activity. In addition, the volume of natural or accumulation losses was lower in 2020 and there was a significant improvement in major claims compared to the prior year. Contrary to expectations, the number of claims reported and, above all, the volume of major loss expenses in the financial year – especially in industrial fire business – were significantly lower than in the prior year. With the rise in gross premium income, the gross loss ratio moved down to 62.1 % in the financial year (PY: 64.4 %). After deductions for reinsurance, claims expenses net of reinsurance were below the prior-year figure of € 1.21 billion at € 1.17 billion. The net loss ratio decreased by 2.3 percentage points to 62.5 %. Net loss reserves, at € 2.40 billion, were moderately higher than the prior-year figure of € 2.38 billion. The loss reserve ratio – the ratio of net loss reserves to net earned premiums – was also marginally above the prior-year level at 128.3 % (PY: 128.0 %).

Underwriting expenses net of reinsurance edged up by 0.4 % to € 556.1 million. While acquisition costs rose to € 359.9 million (PY: € 348.4 million), administrative expenses decreased – despite increased investments in digitalization activities for the future, such as modernization of the private client portfolio management system – to € 284.6 million (PY: € 292.0 million). Reinsurance commissions were € 1.9 million higher than in the prior year at € 88.5 million. The gross cost ratio fell by 0.2 percentage points to 29.1 % and the net cost ratio moved down by 0.1 percentage points to 29.7 %. This resulted in a further improved net combined ratio of 92.1 % (PY: 94.5 %) for the property and casualty insurance segment as a whole.

The underwriting result before adjustment of equalization reserves improved against the prior year with a profit of € 131.1 million (PY: € 83.6 million). An amount of 41.9 million euros was transferred to equalization reserves in the financial year (PY: € 13.3 million withdrawal). After allowance for this allocation, the underwriting result net of reinsurance was € 89.1 million in the year under review, which is less than the € 96.9 million reported in the prior year. This figure includes underwriting income from reinsurance business assumed totalling € 23.1 million (PY: € 31.7 million).

Life insurance

In life insurance, the coronavirus crisis impacted on a number of key figures in 2020. Gross written premiums fell below expectations, down by 1.6 % at € 1.44 billion. Ultimately, however, the downturn in sales in the coronavirus crisis year was still moderate.

New premium income decreased by 7.0 % to € 1,685.7 million. The new premium sum is the sum total of premiums due during the term of newly concluded policies. It is pleasing to note that biometric products and capital-efficient pension plans – which are important segments for the future – accounted for 80.8 % (PY: 78.8 %) of total new business in 2020.

Under profit-sharing arrangements, the sum of € 31.2 million (PY: € 29.2 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 decreased by 5.7 % to € 1.25 billion. This was largely due to a significant drop in claim payments, which fell by € 65.4 million to € 1.23 billion as a result of lower run-off in comparison to the prior year.

Policy reserves net of reinsurance increased by € 645.7 million to € 16.75 billion in the financial year, further boosting the policyholder balance. These reserves include additional interest reserves (Zinszusatzreserve – ZZR), to which a sum of € 183.6 million (PY: € 136.2 million) was transferred in the financial year. The sharp upturn in ZZR was due to the marked fall in interest rates.

Underwriting reserves for life insurance where investment risk is borne by policyholders decreased by € 17.1 million to € 2.46 billion.

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 € 118.6 million (PY: € 119.7 million) was withdrawn from reserves for premium refunds for the surplus bonuses due to policyholders. After an allocation of € 101.7 million (PY: € 107.7 million), reserves for premium refunds totalled € 609.5 million (PY: € 626.4 million).

The allocated investment return from the non-technical account for life insurance was shown in the underwriting account as € 670.0 million (PY: € 609.8 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 moderately increased to € 110.6 million in the financial year (PY: € 109.8 million). Acquisition costs fell by 6.8 % to € 87.6 million against the prior year. Production decreased by 7.0 %, boosting new business income to € 1.69 billion. The acquisition cost ratio – the ratio of acquisition costs to new business income – remained at the prior-year level of 5.2 %, as anticipated. Administrative costs totalled € 25.9 million in the financial year (PY: € 27.2 million) while the administrative cost ratio – the ratio of administrative expenses to gross written premiums – was moderately recessive at 1.8 % (PY: 1.9 %). We continue to seek to reduce costs by increasing productivity, provided that our insurance products remain attractive and the level of service rendered by our inhouse and field staff continue to meet the rising expectations of customers.

Overall, the underwriting result net of reinsurance was € 76.2 million for life insurance in the coronavirus crisis year (PY: € 67.3 million).

Health insurance

Against the backdrop of a difficult general economic situation, gross written premium income from health insurance increased more sharply than anticipated in 2020, rising by 2.7 % to € 889.2 million. New business increased to € 2.18 million for the company, a gratifying upturn of 15 % against the prior year. The number of comprehensively insured persons continues to be recessive. This decreased by 2.8 % to 130 thousand persons. At the same time, the number of supplemental insureds rose by 12.1 % to 547 thousand, largely due to cooperation with AOK Rheinland-Pfalz/Saarland . The total number of insured persons increased by 8.9 % to 677 thousand.

As a result of the coronavirus pandemic, the topic of "health" and its importance for society as a whole and every individual in it has become *the* focus of public attention. We are happy to meet the challenges thus presented. This is why, among other things, agile teams have been formed since 2019 to develop new and improved products. The teams consist of employees with backgrounds in product development, mathematics, marketing, sales and IT and are sharply focused in their work on the needs of customers, agents and stakeholders. The distinguishing features of this "Health" value stream are speed and flexibility. One successful product of the stream is the MediZ Duo supplemental dental tariff, which again produced good sales results in 2020.

With our health app, with cooperation models (e.g. supplemental dental insurance MediZ AOK RPS with AOK Rheinland-Pfalz/Saarland) and by networking private health insurance with pharmaceutical companies, physicians and hospitals, we play a part in providing customers with even better health care. This helps meet the challenges of an ageing society.

To limit the premium adjustments made and to reduce premiums for policyholders in later years, a sum of € 67.0 million was withdrawn from reserves for premium refunds (PY: € 102.7 million) and recognized under the relevant premium item. Premium adjustments were also softened in the financial year by the fact that € 14.0 million used for limiting purposes was directly written off against earnings.

The allocated investment return from the non-technical account for health insurance business in the financial year was shown in the underwriting account as € 250.0 million (PY: € 255.0 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 € 661.4 million (PY: € 652.2 million). Contrary to expectations, the claim payments contained in this sum increased in the year under review. From a total of € 645.1 million in the prior year, gross claim payments including claims adjustment expenses rose to € 657.5 million. Reserves for outstanding claims increased by € 4.5 million to € 181.1 million. The gross loss ratio – a yardstick for assessing expenses for the insured – stood at 76.5 %, which was below the prior-year level.

Policy reserves totalled € 7.41 billion at the end of the year (PY: € 7.12 billion).

A total of € 118.7 million (PY: € 151.3 million) was withdrawn from reserves for profit-related and non-profit-related premium refunds for policyholders in the financial year. Substantial funds were thus placed once again at policyholders' disposal. After a transfer of € 104.6 million in the financial year (PY: € 112.9 million), reserves for performance-related and non-performance-related premium refunds totalled € 309.7 million (PY: € 323.8 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 27.6 % was achieved in the Health segment in the financial year, following a prior-year figure of 29.4 %.

Underwriting expenses net of reinsurance remained at the prior-year level, totalling € 74.0 million against € 73.9 million in 2019. At the same time, acquisition costs edged down to € 50.8 million (PY: € 51.4 million). The acquisition cost ratio – the ratio of acquisition expenses to earned premiums – stood at 5.7 % (PY: 5.9 %) as anticipated. Policy management expenses increased in the financial year, from € 22.5 million to € 23.2 million. In line with 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.

The underwriting result net of reinsurance in the health insurance segment improved from € 51.7 million in the prior year to € 69.6 million in the year under review.

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 2020, the Gothaer Group 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 even in the current market environment of sustained low interest rates and to ensure that risks are reduced overall by being spread as broadly as possible over the different types of investment. Since 2019, investment decisions have taken greater account of environmental, social and governance criteria – so-called sustainability criteria. The consequent reduction of investment positions that failed to meet the developed sustainability criteria continued through 2020. In addition, the fund landscape restructuring project launched in 2019 was largely completed in 2020.

In the period under review, global economic development continued along the moderate growth path established in the previous year. From February 2020 onwards, when Covid-19 spread from China and became a global pandemic, the infection dynamics became *the* major pacemaker for the global economy, which was subject to extreme volatility over the rest of the year. For the year as a whole, this resulted in a 3.5 % decline in global economic output against the prior year. Compared with the other major EU countries, Germany came off lightly in comparison with other major EU economies, sustaining a 4.9 % drop in gross domestic product (GDP). From March 2020, the central banks further intensified the already ultra-expansive course of their monetary policy to prevent the global economic shock from turning into a protracted economic depression. Mirroring its impact on the economy, the coronavirus pandemic also had a defining influence on capital market developments in 2020. From the beginning of the year, German government bonds followed an accelerating downward yield trend that briefly took the yield of ten-year Bunds to a new all-time low of -0.9 % on 9 March 2020. After a ten-day correction to -0.2 %, it then entered a flat downtrend for the rest of the year, reaching -0.6 % at year-end. Like German government bonds, US government bonds traced a downward yield path in the first half of the year. From August onward, they entered a flat uptrend, reaching 0.9 % by the end of the year.

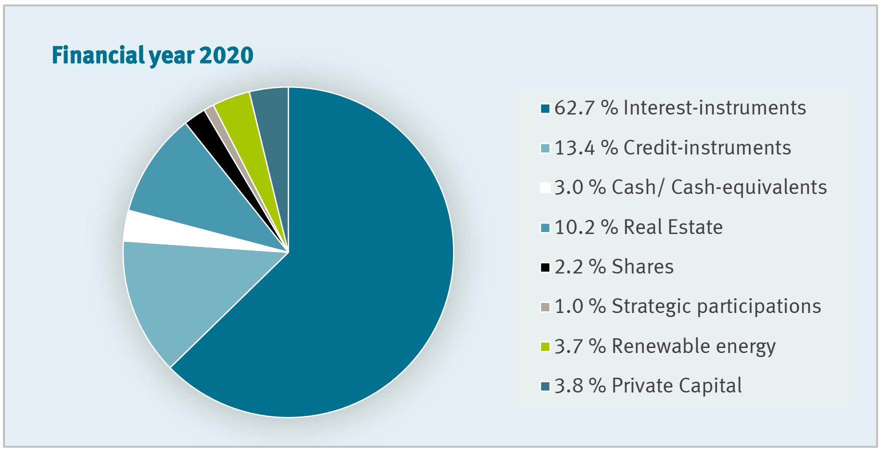
Equity investors experienced a breathtaking rollercoaster ride in 2020. The major market indices started the year with a vigorous surge, climbing to new record levels by mid-February, only to plummet within weeks by around 40 %. From mid-March, in response to monetary and fiscal pandemic containment measures, share prices then staged a similarly rapid recovery. German equities ended the year with a slightly positive overall return (Dax Performance Index: +3.5 %).

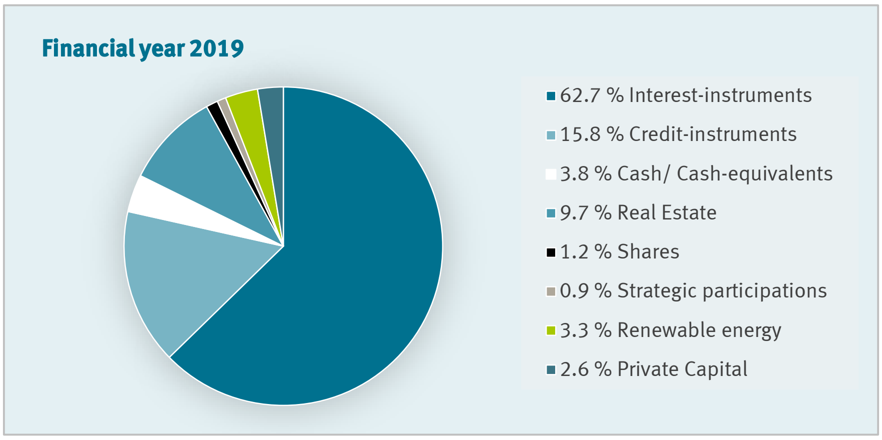
The book value of the Gothaer Group investment portfolio increased by € 1.19 billion to € 30.67 billion in the year under review.

The carrying value of investments for the account and risk of life insurance policyholders was € 2.46 billion in the year under review (PY: € 2.48 billion).

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:





Selective optimization of returns and risk in the investment portfolio continued to be a major focus of investment activity last year, so the asset allocations of the relevant risk carriers and thus also those of the Group remained largely unchanged. Within the interest rate instrument asset class, greater emphasis continued to be placed on investing in alternative fixed-income investments such as Dutch mortgage loans. Disposals in the credit instrument asset class again resulted in a significantly lower credit ratio in the year under review. Some of the capital thus released was reinvested in attractive real estate, private capital and equity opportunities in 2020. The equity investments mainly consisted of two Solvency II optimized equity mandates with option hedges. In the real estate and private capital classes, there was increased investment in debt investments. In view of the strategic asset allocation of the relevant risk carriers, duration overall increased over the course of the year from 9.4 to 10.7. Investment in property (real estate asset class) within the investment structure is mostly not reported under the balance sheet item "Land, land rights and buildings, including buildings on third-party land".

The investment result, at € 1.03 billion, was higher than in the prior year (PY: € 994.0 million) overall. The increase was particularly due to financing requirements for the formation of additional interest reserves in the life insurance segment. In health insurance, investment income remained at the prior-year level. In property and casualty insurance, however, as well as in other activities – the more relevant contributor to the result – investment income was lower than in the prior year.

Alongside current income, extraordinary income also made a contribution to the overall result. Current income totalled € 890.8 million in 2020 (PY: € 818.3 million). Extraordinary income amounted to € 203.8 million (PY: € 247.8 million). While individual assets were subject to crisis-related write-downs, the coronavirus pandemic gave rise to no systematic losses in value across the portfolio. Furthermore, income from the disposal of investments was higher than in the prior year. Overall, the net return on investment for the financial year, calculated as the ratio of investment income to the average value of the investment portfolio excluding unit-linked life insurance, remained at the prior- year level of 3.4 %.

Net profit for the year

With the result from Other Activities negative at virtually the same level as in the prior year, net profit for the year before taxes totalled € 189.2 million, compared to € 198.6 million in 2019. The tax expense of € 116.7 million was higher than in the prior year due to various effects affecting both current taxes for the financial year and taxes for the previous year. Deduction of the tax expense left an – unprojected – net profit for the year of € 72.4 million (PY: € 115.0 million).

The net profit for the year attributable to non-controlling interests amounted to € 1.6 million (PY: € 2.2 million). This resulted in a consolidated net profit of € 70.9 million (PY: € 112.8 million).

Shareholders' equity

Including the net profit for the year and taking into account currency effects and other changes, shareholders' equity totalled € 1.33 billion (PY: € 1.26 billion). With average equity thus increased and net profit for the year recessive, the return on equity was 5.6 % (PY: 9.5 %). Together with subordinate liabilities of € 299.7 million, the guarantee assets of the Group grew to € 1.63 billion (PY: € 1.56 billion) at balance sheet date. Group equity included non-controlling interests of € 32.3 million (PY: € 30.7 million).

Insurance lines and coverages

Property and casualty insurance

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

Personal insurance

- Life insurance[2]
- Health insurance[2]

Employees

Qualified, motivated employees are crucially important for the Company. 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.

The way we dealt with the challenges of the coronavirus pandemic showed that we are on the right track. To protect the health of our employees, we made it possible for many to work from home. Skype for Business was implemented to support virtual collaboration and the worktime framework was extended to provide greater time flexibility for employees. Thanks to these measures and the commitment and creativity of our employees, we were able to continue to operate without any major restrictions on productivity.

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

[1]only reinsurance business assumed
[2]only direct written insurance business

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 new Gothaer Group strategy Ambition25 clearly defines cornerstones and core objectives, establishing a basic frame of reference for HR action. The goals set out in the Team Capacity for Change strategy module are a particular focus. They comprise the following lines of action:

- New Work
- Agile Organization
- Mindset and Diversity
- Skill Portfolio and Personal Development
- Attractive Employer

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, multiple award-winning company health management and affirmative action for the advancement of women are naturally elements of our 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 boards and management boards as well as for the first two tiers of management below the management board.

The following chart shows the targets and actual representation figures as of 30 June 2020 as well as the new targets the companies have set for their supervisory boards as of 30 June 2023, their management boards as of 31 December 2023, and for Gothaer Systems GmbH as of 30 June 2023:

in %

	Supervisory board			Management board	Executives	
	Shareholders' side	Employees' side	Total		Management level 1	Management level 2
Gothaer Finanzholding AG						
Target value 30.06.2020	16.7	16.7	33.3	0.0	15.4	29.4
Actual value 30.06.2020	16.7	16.7	33.3	0.0	13.3	31.3
Target value 30.06.2023	16.7	16.7	33.3	14.0	30.0*	40.0*
Gothaer Allgemeine Versicherung AG						
Target value 30.06.2020	16.7	16.7	33.3	0.0	10.0	10.0
Actual value 30.06.2020	16.7	16.7	33.3	0.0	6.3	14.3
Target value 30.06.2023	16.7	16.7	33.3	20.0	20.0*	20.0*
Gothaer Krankenversicherung AG						
Target value 30.06.2020	16.7	16.7	33.3	0.0	20.0	20.0
Actual value 30.06.2020	16.7	0.0	16.7	0.0	20.0	12.5
Target value 30.06.2023	16.7	16.7	33.3	20.0	30.0*	30.0*
Gothaer Lebensversicherung AG						
Target value 30.06.2020	16.7	16.7	33.3	0.0	20.0	29.4
Actual value 30.06.2020	16.7	0.0	16.7	0.0	28.6	40.0
Target value 30.06.2023	16.7	16.7	33.3	20.0	30.0*	40.0*
Gothaer Systems GmbH						
Target value 30.06.2020	16.7	16.7	33.3	0.0	16.7	30.0
Actual value 30.06.2020	16.7	16.7	33.3	0.0	17.0	16.0
Target value 30.06.2023	16.7	16.7	33.3	0.0	23.0	23.0

*) Target value for 31 December 2023

The targets set for the proportion of women on the supervisory boards of Gothaer Finanzholding AG, Gothaer Allgemeine Versicherung AG and Gothaer Systems GmbH were met.

The supervisory boards of Gothaer Krankenversicherung AG and Gothaer Lebensversicherung AG are each composed of six members. In both cases, the targets set for the proportion of women on the shareholder side were achieved. The targets on the employee side were not met, however, because two men were elected to office at the last employee representative elections in April 2017 and March 2019 respectively.

The insurance companies' targets for the executive board and management of Gothaer Systems GmbH were achieved.

The shortfalls in management tier I of Gothaer Finanzholding Ag, Gothaer Allgemeine Versicherung AG and Gothaer Systems GmbH as well as in management tier II of Gothaer Krankenversicherung AG and Gothaer Systems GmbH are due to changes in organizational structures and management tier assignments. Against the backdrop of extensive change processes in the period under review, it was not possible to meet all the targets set despite the implementation of a wide range of measures – such as a mentoring programme and various initiatives promoting reconciliation of work and family life. Gothaer Lebensversicherung met the targets for the top two tiers of management.

Further measures are being developed and successively implemented to increase the proportion of women in management. Some key examples: The issue is anchored in the "Mindset & Diversity" action line of the new Group strategy "Ambition 25" and thus receives special attention, including from management, for this reason alone.

Furthermore, an awareness-raising process was initiated across the Group – starting with short presentations on the topic of "Unconscious Bias" at Management Board meetings and in departmental meetings with managers in management tier I – which will be systematically carried forward and expanded in the future. In addition, we aim to heighten the focus on female talent in our employer branding and recruitment activities.

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. Gothaer is among the 10 best-known insurance brands in Germany and remains a relevant and attractive brand even 200 years after its foundation. Our brand image and positioning as a symbol of "Added Value through Community" – based on the founding idea of Gothaer as a mutual insurance company – is supported by modern advertising communication. In 2020, the year of the coronavirus pandemic, the message – strikingly communicated by the brand claim "Kraft der Gemeinschaft" (Power of the Community) – was linked to the brand in a very emotional and tangible way. The modern target-group-oriented approach, coupled with an efficient integrated mix of digital and classical media as well as other brand communication tools, give Gothaer a contemporary brand presence.

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.

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. At the same time, the insurance industry has a key role to play in the transition to a sustainable economy. As a link between the financial and real economies, insurance companies have the opportunity to influence financial flows and shape their capital investments in a sustainable manner.

As a mutual insurance company, we see responsible and sustainable use of the resources entrusted to us as a core value and part of our corporate identity. Our motto is "Protecting values in the community". With a focus on sustainability, we protect resources that are vital for all human life and thus the greatest asset we all share. We enshrined this in our risk strategy and, in particular, in the "Code of Conduct for the Gothaer Group" as a mandatory standard of conduct for all management board members, CEOs, executives and employees, regardless of their position or role.

We placed a clear focus on sustainability in 2020. The goal of being credibly sustainable for the community is firmly anchored in our new Group strategy Ambition25. Against this backdrop, a new Sustainability Management unit was created and the Sustainability Network was launched with a membership representing all business units. We established the Gothaer Foundation and our Cologne headquarters was certified carbon neutral for the first time. A materiality analysis involving internal and external stakeholders was carried out to identify the main sustainability issues. In 2021, we intend to issue the first declaration of conformity with the German Sustainability Code and publish the first Gothaer sustainability report. Our various sustainability activities can be followed on our homepage www.gothaer.de/ueber-uns/nachhaltigkeit.

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.

In 2020, after the pursuit of a gradual reduction of carbon emissions using the environmental management system introduced in 2003, our head office in Cologne became the first location to be certified as climate neutral by the certifying body TÜV Nord. We plan to extend emission monitoring to other locations and to take further steps to reduce emissions. Gothaer has set itself the target of cutting its emissions by a third by 2025 (baseline 2018). Unavoidable emissions are offset by climate protection projects.

Corporate carbon footprint analysis is an important tool used for monitoring emissions at our head offices in Cologne. By drawing up our first carbon footprint – prepared initially for Cologne headquarters using data from 2018 and, like our climate neutrality, verified by TÜV Nord – we created a baseline for measuring future emissions. The carbon footprint based on 2019 data, which will form the basis for verification by TÜV Nord in 2021, already shows signs of improving.

The carbon footprint is prepared in accordance with the Greenhouse Gas Protocol (GHG Protocol), an internationally recognized standard for greenhouse gas emission accounting. It was developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). The emissions reported in the carbon footprint are divided into three scopes:

Scope 1: greenhouse gas (GHG) emissions resulting directly from a company's business activities, e.g. consumption of primary fuels

Scope 2: GHG emissions resulting indirectly from the generation of energy purchased by a company

Scope 3: all other indirect GHG emissions resulting from upstream and downstream activities, e.g. employee commuting or supplies such as paper.

The largest source of emissions is employee commuting. The second-largest is heat emissions and in third place are emissions from rental and private vehicles.

Carbon dioxide emissions		**in t**
Source of emissions	**2019**	**2018**
Scope 1		
Heat	4,982.3	5,123.6
Vehicle fleet	972.6	1,064.0
Refrigerant leakage	74.4	3.3
Emergency diesel generators	14.5	14.5
Subtotal	**6,043.8**	**6,205.4**
Scope 2		
Electricity (market based)	1,386.7	1,963.4
Subtotal	**1,386.7**	**1,963.4**
Scope 3		
Employee commuting	5,981.3	5,949.3
Upstream heating/cooling	1,111.0	1,142.5
Rental and private vehicles	584.3	539.8
Upstream electricity	486.2	503.5
Air travel	455.2	752.9
Office paper	343.1	349.0
Upstream fuel	164.0	212.2
Printed matter	117.9	137.3
Waste disposal	93.0	0.0
Rail travel	83.7	88.7
Water	23.4	27.7
Subtotal	**9,443.1**	**9,702.9**
Total	**16,873.6**	**17,871.7**

All figures subject to 5 % safety margin

Sustainable and targeted optimization of the carbon footprint is achieved by avoiding and reducing carbon emissions, among other things, by taking the following action:

- switching to renewable energies for the electricity purchased to meet head office requirements,
- modernizing head office's combined heat and power plant,
- more teleworking,
- more digitalization (introduction of digital whiteboards to avoid business trips),
- promoting environment-friendly mobility by subsidizing "Job Ticket" use and offering e-bike leasing arrangements,
- laying foundations for the development of electric mobility on the Cologne campus by installing six charging stations for electric vehicles.

In addition, after avoidance and reduction, the remaining emissions at head office – plus a 5 % safety margin – will be offset from 2020 onwards by support for climate protection projects harnessing solar energy in Nanyang Danjiang, China, and wind energy in Sidrap, Indonesia.

The photocopier paper we use is largely certified by the Forest Stewardship Council (FSC). FSC certification of the entire supply chain ensures that the paper is a product of sustainable, environmentally sound and socially responsible forestry. In a fundamental move to reduce paper consumption, double-sided printing was introduced as standard across the Group in 2020.

In addition, we support the future-proofing, climate-friendly solutions offered by renewable energies. More than 20 years ago, for instance, we became the first to develop 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 and solar parks.

In cooperation with ClimatePartner – an organization delivering consultancy services and arranging climate protection 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 support for 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 and, with the Kasko-Top-Schutz module, enjoy better benefits in the event of damage to batteries or onboard electronics.

We are involved in two reforestation projects. In Cologne, we support the project "A Third Forest for Cologne", providing € 16,700 to plant 2,000 trees. In Thuringia, Gothaer has teamed up with the Leinefelde forestry office, contributing € 15,000 to plant young trees in an area of forest damaged by climate and weather conditions. This campaign is made possible by paper savings made as a result of company pension scheme users taking advantage of our online self-service option.

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. Implementing the measures needed to meet the increasingly stringent sustainability requirements for investment calls for appropriate human and professional resources. For this reason, we established a new ESG department at Gothaer Asset Management AG in 2020. It coordinates the further development and implementation of the Gothaer Group investment sustainability strategy, reports directly to the Management Board of Gothaer Asset Management AG and is a member of the Gothaer Group Sustainability Network.

As of 2019, Gothaer has taken account of environmental, social and governance criteria – so-called sustainability or ESG criteria – in investment decisions. The Gothaer sustainability concept is based on an end-to-end approach that focuses equally on environmental, social and governance factors and is designed to reduce investment risk and thus strengthen our service promise to customers.

For liquid business investments, the foundations of the sustainability concept are formed 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 revolve around:

- 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 fail to meet the following standards:

- 10 principles of the United Nations Global Compact (world's largest and most important initiative for responsible corporate governance),
- Core Labour Standards of the International Labour Organization (specialized UN agency promoting international employment and social standards) and
- 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 2020, 98.7 % of our liquid business investments complied with the stipulated exclusion criteria.

A sustainability concept developed in the prior year for countries was also implemented in 2020. While corporate entities pursue specific business interests, government action is much more diverse and can vary considerably. 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 – are given virtually equal weighting. Ranking within the Gothaer ESG country index indicates the individual states' sustainability, which is graded from 1 to 5.

- Countries graded 1 to 3 are cleared for investment without restrictions.
- Countries with a grade of 4 require more in-depth sustainability analysis and written justification by the portfolio management.
- Countries with the very poor grade of 5 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 steadily increase, we will continue to develop the Gothaer ESG country index.

To emphasize the importance of responsible investment even more, Gothaer joined the UN Principles for Responsible Investment (UN PRI) network in May 2020. UN-PRI is an international investor initiative in partnership with the UNEP Finance Initiative and the UN Global Compact. It has the overarching goal of promoting a more sustainable global financial system. Gothaer's membership means a commitment to higher ESG standards in approving investments. Specifically, all investments are subject to comprehensive reporting. Membership will help us build on the experience of other UN PRI members to achieve continuous improvement in terms of sustainable investments.

In becoming a member of the Global Real Estate Sustainability Benchmark (GRESB), Gothaer takes yet another step towards sustainable investment. GRESB is the leading assessment system for measuring the sustainability performance of real estate companies and real estate funds. Assessment focuses on the aspects of sustainability that are considered by investors and the real estate industry to be material issues.

Employee matters

Covid-19 challenges

In spring 2020, the challenges of Covid-19 put us under intense pressure to take action. Gothaer crisis management set itself the goal of protecting the health of our employees, ensuring operational stability and avoiding chains of infection.

Through constructive cross-departmental cooperation, we swiftly implemented measures that included making it possible for many employees to work from home, extending framework working hours to provide greater time flexibility for employees and supporting virtual collaboration by introducing Skype for Business. Digital collaboration is supported by numerous online options.

An employee's suggestion to donate time credits to support colleagues with family care responsibilities gave rise to the GOforfamily initiative. More than 530 employees donated 8,087 flexitime hours and hours from their annual leave entitlement, which were doubled by Gothaer. More than a third of those donations have now been used to help employees.

Company health management

The aim of company health management is to maintain and promote the health, wellbeing and motivation of employees across all age groups throughout their working life. It is thus firmly established at Gothaer 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 2020, Gothaer received its sixth 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 6.1 %, is significantly lower than the insurance industry average of 6.3 %.

Gender balance

The gender ratio of the Gothaer core company workforce is fairly balanced at 51.7 % female to 48.3 % male (as of 31 December 2019). At management level, only one in five (22.0 %) leadership positions is held by a woman. To further increase the proportion of women in leadership positions, Gothaer Insurance launched a cooperation with Global Digital Women. Global Digital Women is an international company that offers female designers and high-potential women in the digital industry the opportunity to network.

2009 saw the introduction of a mentoring programme specifically designed to promote career advancement for women. In five cycles, the programme has given 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 personnel. From 2021, the programme will be changed into a gender mentoring programme and thus open to all genders. In pursuit of gender diversity, more areas of activity will be analyzed and measures taken to increase the proportion of women in leadership positions.

On 1 January 2021, we also welcomed our first female member to the Gothaer Group Management Board.

Mobile and flexible working

The teleworking option introduced in 2016 to help reconcile work and family life was taken up by 820 employees prior to Covid-19, which is 35.2 % of the target group. Furthermore, under the company agreement on mobile device management, in-house personnel with high mobility requirements are given the opportunity, with the agreement of their line manager, to use smartphones or tablets for work.

Gothaer offers employees flexible work time arrangements such as the flexitime model with no fixed core hours at Cologne head office as well as individual part-time arrangements tailored to personal needs and operational requirements.

Reconciliation of career and family life is also promoted by childcare services arranged in cooperation with pme Familienservice and services for the care of relatives in cooperation with Homecare-Eldercare.

Onboarding programme for new Gothaer employees

An onboarding programme is in place to welcome new employees to the Gothaer community and support them in the induction process. This takes place on Welcome@Gothaer Day – or virtual Welcome@Gothaer Day because of the coronavirus pandemic – involves introductions to employer services, lectures and virtual blind dates and is supported by an onboarding platform.

Qualifications

Very high priority is given to professional qualifications for our employees. Accordingly, our qualification rate averages 4.4 training days per employee with 89 % participation in continuing education and training. Qualifications are acquired in numerous seminar and e-learning formats developing professional and non-professional skills as well as in trainee and management programmes.

Work safety

Gothaer employees receive annual training in occupational health and safety through mandatory instruction in the Gothaer Training Cockpit. Emergency plans and the names of first aiders are required to be kept at every workplace. An emergency button is installed for the purpose on the GoNet title page. In addition, a self-instruction guide has been produced on fire safety and comprehensive new fire safety rules have been developed with tips on fire prevention, fire-fighting and how to behave in the event of a fire or accident. Furthermore, a guide has been published on 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 is anchored in our Group strategy Ambition25.

Group Dialogue

To maintain an effective dialogue with employees, we carried out a follow-up survey on selected categories of the Group dialogue conducted at the end of 2018 under the motto "Listen and move forward together!" The aim was to verify that the planned measures brought about a sustainable improvement. This was confirmed by 82 % of the employees surveyed.

Diversity Management

The aim 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.

On 2 July 2020 – the date of our 200th anniversary – we celebrated the establishment of the Gothaer Foundation. Its mission is to promote sustainable economic and social development and has a triple focus:

- promotion of research on socially relevant developments
- raising public awareness on the issue of sustainability and
- implementation of projects relating to all dimensions of sustainable development.

The Gothaer Foundation was endowed with an initial capital of € 500,000 and received a gift of € 500,000 for foundation business in 2020. In the following years, 0.5 % of the Group's profit will be allocated to the foundation each year for foundation business.

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.

The GoTogether initiative launched in 2019, in which employees seek crowdfunding support within the workforce for social projects, continued to operate despite the restrictions for Covid-19 control. Around 50 employees participated in five projects, which ranged in scope from maintaining outdoor facilities at a retirement home and nursery school to designing Christmas decorations for retirement homes.

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 has been 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.

Outlook for 2021

Proviso

The forecasts and estimates contained in this annual report are based on information available in December 2020. Assessments of the impacts that coronavirus will have on future business are still subject to a huge degree of uncertainty. Even estimation of the possible duration of the pandemic is influenced by various factors: vaccine successes and simultaneous mutation of the virus. This presents further challenges for the assessment of coronavirus-related restrictions on private and economic life.

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.

General forecasts

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.

The aims of the new 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. To achieve the growth targets set, we will build on Gothaer's existing competitive strengths in the coming years.

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.

We expect premium income for the Gothaer Group in 2021 to be below the high prior-year level. The downturn is due to life business, especially in the single-premium product segment. Modest growth is projected for property and casualty business and a moderate upturn in premium income is forecast for the health segment. The gross underwriting result, following a good claims year in 2020, will return to a normal level. The net underwriting result after adjustment of equalization reserves will also come down to a normalized level.

Despite a marked downturn, our forecasts show that the investment result will reach a good level in 2021. Given these assumptions, we anticipate that the net profit for the year will be significantly higher than in the prior year owing to positive special tax effects in 2021.

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 corporate strategy in the coming year will again be on stable and substantial revenue growth.

For direct written business, our projections show modest growth continuing through 2021. In the private client segment, significant growth impetus is again anticipated from comprehensive homeowners insurance. In the corporate client segment, the impetus will come particularly from industrial property insurance.

In private property, liability and accident insurance, intense competition on prices and conditions continues unabated. In addition, the entry into the market of digital insurers is intensifying the fierce (price) competition that already existed within the industry. Against the backdrop of these challenges, our private client segment will focus on a strong commitment to the customer in line with strategic planning. New business models and digital sales approaches will be developed for this purpose. Preventive solutions for clients will be strategically developed through cooperative smart home ventures with partners ABUS, Grohe and Bosch. In digital sales, cooperations with Getaway (insurance cover for car rentals between private individuals) and Mami Poppins (insurance cover for the rental of baby carriages) will continue. Our specialist insurer CG Car-Garantie Versicherungs-Aktiengesellschaft also sees opportunities in new cooperations, including cooperative ventures with banks.

On the corporate client side, the coronavirus crisis will have a significant impact on the development of premium income in 2021 due to the high proportion of sales-based risks. We again expect significant boosts to new business in the coming year from our modular multi-line commercial product Gothaer GewerbeProtect. A special focus in the future will be on creating digital interfaces that meet the market-wide standards of the Industry Institute for Process Optimization for the trouble-free connection of brokerage houses, pools and platforms. The product and IT landscape will be continuously and flexibly developed by line functions, sales and IT departments in interdisciplinary agile teams. In 2021, cyber insurance is expected to be a special source of new impetus for the commercial segment.

For reinsurance business assumed, the coming year is expected to bring a significant downturn in premium income.

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. The generally growing risk presented by natural disasters is hedged by appropriate reinsurance programmes. Given our portfolio structure and the year of extraordinary claims experience due to the coronavirus pandemic, we anticipate a significantly higher gross loss ratio in 2021 than in 2020.

Due to investment in strategic planning, there will be a modest increase in administrative costs next year in relation to premiums.

Owing to the level of claims forecast, the gross underwriting result will be significantly lower than in the prior year. However, the gross combined ratio should remain below the 95 % mark.

Life insurance

The market environment for life insurers will remain challenging in the coming year. The extremely low level of interest rates and the persistence of the coronavirus pandemic continue to have a stifling effect on the industry's growth and earnings prospects. The pension trust business model in particular is suffering acutely from the ongoing low-interest phase. Despite this challenging market environment, we are confident that our strategic gearing will strengthen our market position and we will continue to develop our customer relationship in the coming year. Customers will gain a sense of our enduring commitment to their interests and needs.

More than half of all life insurers will continue to respond to the ongoing low-interest phase in 2021 by progressively reducing surplus bonuses. As in 2020, Gothaer Lebensversicherung AG has declared that surplus participation will remain stable in 2021.

The product portfolio transition process 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 2021.

We strive to compensate for the significant portfolio erosion that has for years affected the regular premium sub-portfolio. In 2021, for instance, we project growth in new regular premium business and a decline in single-premium products.

Total written premiums from life insurance are expected to be below the high prior-year level.

Owing to investment in strategic gearing, the ratio of administrative costs to premiums will remain stable next year. The ratio of acquisition costs to gross premium volume will also be higher than in the prior year.

Further transfers to additional interest reserves will be needed because of the ongoing low-interest rate environment. The change in the method used to calculate such reserves may ease the pressure on life insurers but the point at which they are forecast to peak is postponed by the reduced annual transfers. Allowance for a transfer to additional interest reserves will thus still need to be made in 2021.

We expect the sum total of gross surpluses at our subsidiaries Gothaer Lebensversicherung AG and Gothaer Pensionskasse AG to be significantly below the good level registered in 2020.

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 appreciably upscale the company's capacity as a modern health service provider. The role played by supplemental insurance will also be stepped up to strengthen the resilience of Gothaer Krankenversicherung AG 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. With the launch of the new FlexSelect budget tariff in autumn 2020, we take account of market needs in the area of company health insurance schemes and anticipate further growth impetus in 2021. In addition, we plan to modify the full-coverage tariffs in order to strengthen competitiveness in comprehensive insurance.

We anticipate a moderate upturn in premium income in 2021. In light of the good performance noted in 2020, our projection for 2021 shows a stabilization of new business volume at a high level.

In line with our strategy, Gothaer Krankenversicherung AG projects significant growth in supplemental insurance. At the same time, the company health insurance segment will continue to play a major role.

Benefit expenses are expected to be moderately higher than in the prior year, driven up partly by the coronavirus pandemic. Coupled with a rise in premium income, this is forecast to produce a modestly lower loss ratio at a level significantly below 80 %.

Owing to investment in strategic gearing, underwriting expenses will increase in 2021. A modest upturn in the acquisition cost ratio is anticipated and the administrative cost ratio is forecast to remain virtually constant.

The above developments will result in an underwriting profit ratio of around 15 % in 2021.

We expect transfers to reserves for premium refunds to be significantly above the prior-year level in 2021.

Investments

With the unexpectedly rapid development and approval of effective coronavirus vaccines, 2021 is set to see the end of the recession caused by the pandemic. However, the process is a race against time because as many people as possible need to be vaccinated before the virus mutates and creates variants against which the vaccines that are currently available are ineffective. In addition, many countries started the new year with high infection rates and thus economic restrictions which, the longer they last, increase the risk of a GDP contraction in the first quarter of 2021. Apart from the massive ongoing monetary and fiscal policy support being delivered, positive factors for the global economy include the robust growth seen in China and Asia and the change of government in the USA, which brings hope of more friction-free global trade and a stronger fiscal policy impulse. Beyond 2021, economic development will continue to be shaped by the three global megatrends – deglobalization, digitalization and decarbonization.

In 2021, accelerated economic activity with only a moderate increase in price pressure is thus anticipated worldwide. In the developed countries of the northern hemisphere, the most vigorous growth momentum is expected in the summer half-year, when activity revives in the sectors previously most affected by the pandemic. The growth rates expected for the year as a whole will be high by historical standards. Nevertheless, economic performance will probably not return to its pre-pandemic level until 2022. For Germany, real GDP growth of around 4.0 % against the prior year seems achievable in 2021, with annual average inflation around 2.0 %.

In the bond markets, the trends established in the second half of 2020 are expected to continue through 2021. Yields in the euro area should move sideways with little fluctuation because the ECB will maintain its 'steady hand' approach to interest rate policy and, through asset purchases, control both the yields of German government bonds and risk premiums in the other market segments. The yield on ten-year Bunds is likely to trade in a narrow range around -0.3 %. Political risks such as the government crisis in Italy, parliamentary elections in the Netherlands in March or German Bundestag elections in September will probably only influence the development of yields in the short term. Similarly, US government bond yields should follow the dictates of the Federal Reserve this year. Ten-year maturities are likely to hover around 1.25 % with moderate fluctuations.

As in the previous year, stock market developments in 2021 will be driven primarily by a flood of liquidity and high investment pressure. In view of the low double-digit total index returns achieved in the prior year, distinctly positive expectations are already factored in for corporate earnings in 2021. They now need to be confirmed. Valuation levels – which are already very high – will also noticeably soften the upswing in prices in the current year. Somewhat stronger price potential is seen for the European stock markets, which lagged behind global market development in 2020.

Our forecasts thus 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 current income. We expect investment income in 2021 to be significantly lower than in the prior year. Against that backdrop, we also anticipate a lower net return.

Net profit for the year

Based on the anticipated development of underwriting and investment income as well as positive special tax effects in 2021, we expect the net profit for the year to be significantly higher 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, corporate governance across the Group is geared to the "safety first" principle and value-based management. The operational framework in which the companies in the Group accept risks and do business is defined by risk principles approved by the Management. Furthermore, internal and external standards need to be observed 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

The risk management unit at Gothaer Finanzholding AG has central responsibility for Gothaer risk management. Central guidelines ensure that uniform standards are applied throughout the Group. Group Risk Management also consults regularly with subsidiaries that have their own decentralized risk management systems in order to perform support and monitoring tasks.

Risk management is regarded as a process consisting of five phases:

- risk identification
- risk analysis
- risk bassessment
- 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, counter-party default risk and operational risk. However, it also examines other, non-Standard Formula risks such as 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, deputation 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 identified in risk inventories are deemed insignificant. 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 includes an annual systematic inventory of risks, a qualitative and quantitative risk assessment, various risk management measures and 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-eye principle or proxy arrangements, for example, 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.

Representatives of Gothaer Asset Management AG, the actuarial functions and representatives of other specialist departments sit on 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 and further developing uniform risk assessment and management methods and processes across the Group.

The efficacy of the risk management system, checks and balances and management and monitoring processes is constantly improved. Gothaer organization and procedures 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.

The ongoing Covid-19 pandemic and its macroeconomic impacts will result, first and foremost, in a fall in premium income from the sales-related insurance policies of our corporate clients. We estimate that this will be in line with the downturn in gross domestic product in the real economy. On the claims side, the pandemic has given rise to an increased claims volume, particularly for the business closure and event cancellation lines. Our systematic use of reinsurance protection provides appreciable relief for those operations.

We see opportunities in increasingly dynamic fields such as cyber insurance as well as in existing sectors. Increasingly frequent extreme weather events are also expected to continue to push up demand for insurance from both corporate and private clients.

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. Good credit and company ratings are 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 situation is characterized by growing transparency of prices and conditions and, the entry into the market of digital insurers and the consequent high level of attrition. 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. Furthermore, a new product and pricing strategy was implemented for the private client segment in property, liability and casualty insurance. It permits flexible marketing of up to five product lines depending on the state of the market for the various types of insurance.

Our corporate client portfolio is well spread across types and 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 annually by relevant product managers to ensure 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

When reinsurance treaties came up for renewal on 1 January 2020, a number of reinsurers cited increased retrocession costs to justify demands for higher reinsurance premiums market-wide. Ultimately, however, those market participants failed to prevail and higher rates for reinsurance cover needed to be accepted at most for loss-impacted reinsurance treaties. The renewal of reinsurance treaties at 1 January 2020 was therefore unproblematic and all reinsurance treaties were placed on terms that were regarded as satisfactory by Gothaer.

The structure of reinsurance cover remained virtually unchanged 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 was moderately raised for our non-proportional general accident cover.

As in the prior year, the results of Gothaer reinsurance cessions for reinsurers were largely unaffected by natural hazard losses. However, there was a rise in claims expenses connected with pandemic-related major losses – particularly in event cancellation insurance. Reinsurers contributed proportionately to the pandemic-related benefits paid by Gothaer to its policyholders. This resulted in very high net relief from reinsurance.

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
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
2020	64.3	8.3

Risks arising from reinsurance assumed

Within the Gothaer Group, Gothaer Allgemeine Versicherung AG acts as a reinsurance provider 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 exposure to 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.

Risks arising from ceded reinsurance business

We cede reinsurance only to high-class reinsurers. 64 % of business (ceded reinsurance premiums) is ceded to reinsurers with a rating of AA- or better. Accounts receivable in connection with assumed and ceded reinsurance business totalled € 35.5 million at balance sheet date. Receivables in connection with reinsurance ceded amounted to € 32.3 million. The structure of receivables from reinsurance partners by rating class was as follows:

Breakdown by rating class	€ million
AA	23.9
A	7.5
BBB	0.2
Not rated	0.7

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

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.

The Covid-19 pandemic and its economic impacts have given rise to downturns in new business production and written premium volume.

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.

In the coming year, the focus will be on further developing our capital-efficient products across all areas of pension provision.

Legal risks may arise in the future as a result of changes in case law and tighter regulation. The latter includes possible adjustments to the Riester pension and to maximum actuarial interest rates, on which the position of the legislature has been intimated but not yet made clear.

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). In 2020, 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. We will monitor the portfolios continuously and increase policy reserves if necessary, although we consider the risk minor because of the small number of policies in force.

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 the years prior to 2020, cancellation behaviour tended to be unremarkable and slightly recessive. In 2020, however, a moderate increase was noted, both at Gothaer and across the market. 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 interest rates remain at the present low level. In the year under review, they reached another historical low, with 10-year euro interest swap rates consistently negative.

The current maximum actuarial interest rate of 0.9 % is expected to be lowered again. The DAV currently recommends a reduction to 0.25 % as of 1 January 2021. In new business, Gothaer Lebensversicherung AG applies actuarial interest rates lower than 0.9 %. The range of tariffs where this is the case was extended again for new business concluded on or after 1 January 2021. Even so, 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 2020 was 2.77 % and thus below the average actuarial interest rate of 2.90 %. 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 € 138.6 million was transferred to ZZR, bringing the year-end total to € 1,414.1 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. The allocation to ZZR totalled € 45.0 million in 2020. This increases the aggregate ZZR for Gothaer Pensionskasse AG at the end of the year to € 148.5 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. In recent years they have included, 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. A pledge for funding of € 30 million has already been made by Gothaer Finanzholding AG.

Growth risk

The economic impacts of the coronavirus pandemic throughout the market were also reflected in a downturn in production volume at Gothaer Lebensversicherung AG in the year under review. Moreover, there is a risk that demand for life insurance policies with a conventional savings component will decline. The reasons for this may vary – from the prolonged phase of low interest rates coupled with rising inflation to societal change and perception of alternatives as more modern.

Growth opportunities are presented by the further development of Gothaer Lebensversicherung AG's innovative new insurance products, which are highly regarded in the market and receive excellent marks in comparative tests.

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 registered upturns in both premium income and the number of persons insured. This was despite the tougher conditions imposed by the coronavirus pandemic. Customized contracts and intensive customer care are prioritized here to achieve further portfolio expansion. In 2020, a cooperation agreement was concluded with the health insurance fund AOK Rheinland-Pfalz / Saarland. This resulted in a sharp increase in the number of supplemental insureds.

In private health insurance, lawsuits are pending against the effectiveness of premium adjustments. In the fourth quarter of 2020, the number of such suits also increased at Gothaer Krankenversicherung AG. Following general clarification by the Federal Court of Justice in rulings dated 16 December 2020 on the requirement for a statement of reasons, we do not see any financial implications for Gothaer Krankenversicherung AG. We nevertheless assume that the proceedings pending will be continued. Gothaer Krankenversicherung AG is closely monitoring the situation from a legal and actuarial perspective.

The Covid-19 pandemic will further exacerbate the capital market situation, which was already challenging before the coronavirus crisis. 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. In addition, due to the aforementioned pressures on statutory health insurance anticipated in 2021, there is the opportunity to reach new customers as a result of being seen as an attractive alternative.

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 supplemental 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 reset 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. The coronavirus pandemic had little impact on comprehensive insurance business in 2020: as in previous years, new business was at a low level while no significant change was seen 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. The coronavirus pandemic's impact on the capital market as well as the possible implications for investment were subjected to particularly close scrutiny this year. To ease the pressure on investment and guarantee security, the actuarial interest rate was lowered for more tariffs for 2021. 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.

The costs incurred due to the coronavirus pandemic are offset by reduced benefits due to cancelled or postponed treatments. Overall, the volume of benefits registered in 2020 showed a modest increase. Beyond that, no significant increase was noted in fatalities or bad debts (see below). Nor was there any appreciable change in cancellation or tariff change rates. The coronavirus pandemic thus posed no risk in 2020. However, developments will continue to be monitored very closely.

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 € 120.5 million at balance sheet date. € 30.8 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 € 5.4 million, which is an average of 1.3 ‰ of the gross premiums written.

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 10.7 (PY: 9.4) reduced the market value of interest-bearing securities by € 2,980.1 million (PY: € 2,566.4 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. Equity exposure at balance sheet date essentially consisted of two Solvency II optimized equity mandates with option hedge. Risk capital stress testing (20 % downturn in prices) at balance sheet date resulted in a fall in market value of around € 780.2 million (PY: € 559.7 million).

Developments in the real estate market were shaped by Covid-19 in 2020 and will continue to be influenced by it. What can be observed at present is that the markets for the various types of occupancy are developing differently. Due to these uncertainties, investments in real estate loans currently remain attractive. Change risks (risks of long-term change) are reduced here by the generally shorter and limited investment period compared with equity investments as well as by the right to repayment (compared with equity investments). The portfolio is valued at market prices and highly diversified. In light of market developments and the structure of the portfolio, we do not anticipate the need for substantive extraordinary depreciation. A price fall of 10 % results in a loss of market value of € 360.4 million (PY: € 323.6 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 credit-worthiness 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.

As a result of active cutbacks, credit instruments accounted for a further reduced 13.4 % of the total market value of Group investments (PY: 15.8 %) in 2020. At year-end, there was no significant credit risk discernible. Major investments in PIIS-government bonds accounted for around 6.0 % (PY: 6.5 %) of the market value of the investment portfolio. At year-end, these investments produced an aggregate unrealized profit of around € 381.2 million (PY: € 260.0 million).

Breakdown by rating class		in %
	2020	2019
AAA	19.7	21.7
AA+	14.9	14.4
AA	13.2	10.7
AA-	8.2	8.3
A+	7.7	9.3
A	8.5	4.2
A-	6.9	6.9
BBB+	5.2	6.0
BBB	5.6	5.4
BBB-	6.0	5.3
Speculative Grade (BB+ to D)	2.2	2.0
Not rated	1.9	5.8

• 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

The ever-increasing role of information and communication technologies (IT) in business process support enables insurance companies to digitize and automate processes. As the importance of uninterrupted professional IT services for Gothaer grows, so too does Group-wide risk management's focus on IT risks.

Professionalized criminal organizations seek to exploit the growing dependence on IT to launch targeted attacks against companies and their service providers. To counter this mounting threat, the Gothaer Group operates a certified information security management system (ISMS). That system focuses, in particular, on maintaining business processes through risk-oriented protection of the confidentiality, integrity, availability and authenticity of the information assets involved.

We broadly guarantee compliance with the supervisory IT requirements for insurance enterprises ("Versicherungsaufsichtliche Anforderungen an die IT") of the Federal Financial Supervisory Authority (BaFin) and other statutory requirements. Controlling and implementing measures ensure that the arrangements we make are continuously upgraded to meet the ever-growing risks.

We also essentially 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.

Organizational and technical measures within the ISMS are geared to the relevant regulatory requirements as well as to recognized standards and the current state of the art. In addition, critical business processes, including the resources required for them, are safeguarded by further business continuity management (BCM) measures. The effectiveness of the entire ISMS is reviewed during the course of the year on a risk-oriented basis by means of internal audits, and external monitoring and certification in accordance with ISO/IEC 27001 is carried out annually by TÜV Rheinland.

Regular ad-hoc reporting on risk management, level of security and significant events ensures that risk-minimizing measures are managed in accordance with regulatory requirements.

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 the newly developed Group strategy, HR strategy, change processes within the Group, the economic situation of the Group companies 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
- Ensuring the health and safety of employees
- Securing the skills critical for Gothaer's future
- Strengthening capacity for change across the Gothaer Group.

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 are important players 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 Group companies. 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 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. In 2020, highly targeted analyses and measurements were performed in light of the challenges presented by the coronavirus pandemic. Detailed studies were carried out on the development of incapacity to work and utilization of more flexible worktime frameworks. Furthermore, a comprehensive staff survey was undertaken to monitor the health, productivity, and well-being of employees working from home.

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 Gothaer because of their 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 (location of Group headquarters), 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 in Führung" (Women in Leadership) 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-eye 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 these elements is performed by the Internal Auditing unit. We also respond to challenges arising from changes in accounting rules by running constant staff development and training programmes.

Legal risks

Due to mounting legislative requirements and judiciary developments at European and national level, the insurance industry faces major challenges even from a purely administrative perspective. Recent examples include the pending Association Sanctions Act in Germany and, at European level, the Schrems II ruling by the ECJ.

Targeted legal monitoring coordinated by Gothaer's Chief Compliance Officer 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 safeguards are in place to prevent life insurance, refund-of-premium accident insurance or loans with insurance companies being used to launder money or finance terrorism. For mortgage loans granted by the Gothaer companies 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 2020, 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 maintained outlook at 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.

Consolidated Statement of Financial Position as of 31 December 2020

Assets

				€ thousand
			2020	2019
A. Intangible assets				
I. Acquired concessions, industrial property rights, similar rights and assets as well as licences for such rights and assets		215,017		227,193
II. Goodwill		2,453		0
III. Payments in advance		35,962		52,371
			253,432	279,564
B. Investments				
I. Real estate, real estate rights, and buildings, including buildings on third-party land		23,850		24,449
II. Investments in affiliated companies and participations				
1. Shares in affiliated companies	74,887			82,877
2. Loans to affiliated companies	2,437			2,437
3. Shares in joint ventures and associated companies	259,622			275,491
4. Participations	890,882			967,288
5. Loans to participations	8,573			5,635
		1,236,401		1,333,727
III. Other investments				
1. Shares, investments in unit trusts and funds and other non-fixed-interest securities	20,099,217			17,378,970
2. Bearer bonds and other fixed-interest securities	4,316,200			5,301,638
3. Mortgages, liens on real property and annuities	69,927			87,068
4. Other loans	4,435,277			4,775,791
5. Bank deposits	482,401			568,612
6. Miscellaneous investments	2			2
		29,403,024		28,112,080
IV. Deposits made in connection with reinsurance business assumed		3,244		3,143
			30,666,518	29,473,399
C. Investments held for unit-linked life insurance policies			2,461,100	2,478,187

				€ thousand
			2020	2019
D. Accounts receivable				
I. Accounts receivable in connection with direct insurance business from:				
1. Policyholders	130,370			146,207
2. Insurance agents	64,616			61,723
		194,986		207,930
II. Accounts receivable in connection with reinsurance business		35,537		49,457
of which from associated companies: € 3,631 thousand (PY: € 2,144 thousand)				
III. Other accounts receivable		212,947		327,271
of which from affiliated companies: € 13,287 thousand (PY: € 6,060 thousand)				
of which from associated companies: € 2,398 thousand (PY: € 521 thousand)				
of which from participations: € 883 thousand (PY: € 3,379 thousand)				
			443,470	584,658
E. Other assets				
I. Tangible assets and inventories		41,157		31,881
II. Current credit balances with banks, checks and cash on hand		180,218		146,615
III. Miscellaneous assets		57,346		57,742
			278,721	236,238
F. Prepaid expenses				
I. Prepaid interest and rent		120,196		138,302
II. Other prepaid expenses		18,287		11,182
			138,483	149,484
G. Deferred tax assets			337,504	342,400
Total assets			**34,579,228**	**33,543,930**

Equity and liabilities

						€ thousand
					2020	2019
A.	Equity					
	I.	Revenue reserve				
		1. Loss reserve in accordance with section 193 VAG	66,442			66,442
		2. Other revenue reserves	1,157,682			1,054,442
				1,224,124		1,120,885
	II.	Consolidated net income for the year		70,859		112,799
	III.	Equity difference from currency translation		-814		-707
	IV.	Minority interests		32,286		30,715
					1,326,456	1,263,692
B.	Subordinate liabilities				299,677	299,677
C.	Underwriting reserves					
	I.	Unearned premiums				
		1. Gross amount	554,566			553,476
		2. less: amounts ceded	66,044			68,649
				488,522		484,827
	II.	Aggregate policy reserves				
		1. Gross amount	24,246,718			23,351,898
		2. less: amounts ceded	54,292			90,676
				24,192,426		23,261,222
	III.	Reserve for outstanding claims				
		1. Gross amount	3,189,083			3,128,879
		2. less: amounts ceded	442,892			428,524
				2,746,191		2,700,354
	IV.	Reserve for performance-related and non-performance-related premium refunds				
		1. Gross amount	923,473			954,903
		2. less: amounts ceded	134			95
				923,340		954,808
	V.	Equalization reserves and similar reserves		459,510		417,584
	VI.	Other underwriting reserves				
		1. Gross amount	35,047			42,160
		2. less: amounts ceded	-2,932			-2,581
				37,980		44,741
					28,847,969	27,863,537

				€ thousand
			2020	2019
D. Underwriting reserves for unit-linked life insurance policies				
I. Aggregate policy reserves				
1. Gross amount	2,403,867			2,417,965
2. less: amounts ceded	39			30
		2,403,828		2,417,935
II. Miscellaneous underwriting reserves				
Gross amount		57,233		60,222
			2,461,061	2,478,157
E. Other accruals				
I. Accruals for pensions and similar obligations		417,856		397,170
II. Accruals for taxes		187,898		195,588
III. Miscellaneous accruals		165,851		167,094
			771,605	759,851
F. Deposits held in connection with reinsurance business ceded			114,920	155,639
G. Other liabilities				
I. Accounts payable in connection with direct insurance business to				
1. Policyholders	394,409			404,041
2. Insurance agents	30,667			25,601
		425,075		429,642
II. Accounts payable in connection with reinsurance business		46,730		83,832
III. Liabilities to banks		41,377		41,376
IV. Miscellaneous liabilities		244,216		168,315
of which for taxes: € 85,088 thousand (PY: € 64,954 thousand)				
of which for social security: € 202 thousand (PY: € 196 thousand)				
of which from affiliated companies: € 3,256 thousand (PY: € 5,407 thousand)				
of which from associated companies: € 1,759 thousand (PY: € 294 thousand)				
of which from participations: € 15,218 thousand (PY: € 2,496 thousand)				
			757,398	723,165
H. Deferred income			143	211
Total equity and liabilities			34,579,228	33,543,930

Consolidated Income Statement for the period from 1 January to 31 December 2020

				€ thousand
			2020	2019
I. Underwriting account for property and casualty insurance business				
1. Earned premiums net of reinsurance				
a) Gross premiums written	2,222,926			2,190,508
b) Reinsurance premiums ceded	338,759			320,853
		1,884,167		1,869,655
c) Change in gross unearned premiums	-6,975			-2,512
d) Change in gross unearned premiums ceded	2,975			5,759
		-9,950		-8,272
			1,874,218	1,861,384
2. Technical interest net of reinsurance			2,487	3,141
3. Other underwriting income net of reinsurance			4,257	5,268
4. Claims expenses net of reinsurance				
a) Claims paid				
aa) Gross amount	1,354,196			1,424,869
bb) Amount ceded	195,705			176,356
		1,158,491		1,248,513
b) Change in reserve for outstanding claims				
aa) Gross amount	21,018			-16,563
bb) Amount ceded	8,963			26,394
		12,055		-42,957
			1,170,546	1,205,556
5. Change in other net underwriting reserves				
a) Net policy reserve		-2,786		-2,913
b) Other net underwriting reserves		5,016		7,502
			2,229	4,589
6. Expenses for performance-related and non-performance-related premium refunds net of reinsurance			2,674	4,050
7. Underwriting expenses net of reinsurance				
a) Gross underwriting expenses		644,511		640,458
b) less: commissions and profit sharing received on reinsurance business ceded		88,454		86,506
			556,057	553,952

				€ thousand
			2020	2019
8. Other underwriting expenses net of reinsurance			18,377	18,042
9. Subtotal			131,078	83,604
10. Change in equalization reserves and similar reserves			-41,937	13,316
11. Underwriting result net of reinsurance in property and casualty insurance business			89,141	96,921
II. Underwriting account for life and health insurance business				
1. Earned premiums net of reinsurance				
a) Gross premiums written	2,334,099			2,334,137
b) Reinsurance premiums ceded	15,541			35,389
		2,318,558		2,298,748
c) Change in net unearned premiums		3,694		4,357
			2,322,252	2,303,105
2. Premiums from the gross provision for premium refunds			98,207	131,924
3. Allocated interest transferred from the non-underwriting account			919,941	864,806
4. Unrealized gains on investments			472,207	419,802
5. Other underwriting income net of reinsurance			15,326	17,577
6. Claims expenses net of reinsurance				
a) Claims paid				
aa) Gross amount	1,898,205			1,966,580
bb) Amount ceded	10,351			26,072
		1,887,854		1,940,508
b) Change in reserve for outstanding claims				
aa) Gross amount	23,618			36,169
bb) Amount ceded	-13			-1,012
		23,631		37,181
			1,911,485	1,977,688
7. Change in other net underwriting reserves				
a) Policy reserves				
aa) Gross amount	884,431			1,171,520
bb) Amount ceded	1,188			-2,717
		883,242		1,174,238
b) Other net underwriting reserves		-4,570		5,489
			878,672	1,179,726

				€ thousand
			2020	2019
8. Expenses for performance-related and non-performance-related premium refunds net of reinsurance			206,333	220,625
9. Underwriting expenses net of reinsurance				
a) Acquisition expenses	138,409			145,341
b) Administrative expenses	49,161			49,758
		187,570		195,099
c) less: commissions and profit sharing received on reinsurance business ceded		2,932		11,395
			184,638	183,703
10. Unrealized losses on investments			482,648	23,288
11. Other underwriting expenses net of reinsurance			18,363	33,207
12. Underwriting result net of reinsurance in life and health insurance business			145,793	118,977
III. Non-underwriting account				
1. Underwriting result net of reinsurance				
a) in property and casualty insurance business		89,141		96,921
b) in life and health insurance business		145,793		118,977
			234,934	215,897
2. Investment income				
a) Income from joint ventures and associated companies	14,131			13,189
b) Income from participations of which from affiliated companies: € 7,417 thousand (PY.: € 1,959 thousand)	54,311			67,213
c) Income from other investments of which from affiliated companies: € 82 thousand (PY.: € 100 thousand)				
aa) Income from real estate, real estate rights, and buildings, including buildings on third-party land	1,467			750
bb) Income from other investments	820,785			737,061
	822,253			737,811
d) Income from write-ups	7,421			51,143
e) Proceeds from the disposal of investments	333,950			262,709
f) Income from profit transfer agreements	94			89
		1,232,160		1,132,154

				€ thousand
			2020	2019
3. Investment expenses				
a) Cost of portfolio management interest expense and other expenses in connection with investments	69,345			72,099
b) Amortization of investments	76,733			42,237
c) Losses from the disposal of investments	60,838			23,858
		206,916		138,194
			1,025,244	993,960
4. Allocated interest transferred to the underwriting account for property and casualty insurance business		2,823		3,405
4a. Allocated interest transferred to the underwriting account for life and health insurance business		919,941		864,806
			922,764	868,211
			102,479	125,749
5. Other income		159,528		137,339
6. Other expenses		305,144		282,298
			-145,616	-144,959
7. Operating income			191,798	196,688
8. Extraordinary income		0		4,573
9. Extraordinary expenses		2,623		2,628
10. Extraordinary result			-2,623	1,944
11. Income before taxes			189,175	198,632
12. Taxes on income of which from deferred taxes € 4,897 thousand (PY: € 7,187 thousand)		115,115		82,558
13. Other taxes		1,629		1,084
			116,744	83,642
14. Net income for the year			72,431	114,990
15. Net income attributable to minority interests			1,574	2,193
16. Net loss attributable to minority interests			2	2
17. Consolidated net income for the year			**70,859**	**112,799**

Statement of Changes in Equity

	Loss reserve in accordance with section 193 VAG	Other revenue reserves	Sum Revenue reserve
Balance as of 1 January 2019	**66,442**	**945,433**	**1,011,875**
Transfers to/withdrawals from reserves	0	117,181	117,181
Dividend	0	21	21
Currency translation	0	-10	-10
Other changes	0	-5,767	-5,767
Changes in the basis of consolidation	0	-2,416	-2,416
Net income for the year	0	0	0
Balance as of 31 December 2019	**66,442**	**1,054,442**	**1,120,885**
Transfers to/withdrawals from reserves	0	112,799	112,799
Dividend	0	0	0
Currency translation	0	0	0
Other changes	0	-5,987	-5,987
Changes in the basis of consolidation	0	-3,573	-3,573
Net income for the year	0	0	0
Balance as of 31 December 2020	**66,442**	**1,157,682**	**1,224,124**

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

				€ thousand
Equity difference from currency translation	Consolidated net income for the year	Sum parent company equity	Minority interests	Equity
-421	117,181	1,128,636	30,530	1,159,166
0	-117,181	0	0	0
0	0	21	-1,980	-1,959
-276	0	-286	0	-286
0	0	-5,767	0	-5,767
-10	0	-2,427	-26	-2,452
0	112,799	112,799	2,191	114,990
-707	112,799	1,232,977	30,715	1,263,692
0	-112,799	0	0	0
0	0	0	0	0
-107	0	-107	0	-107
0	0	-5,987	0	-5,987
0	0	-3,573	-1	-3,574
0	70,859	70,859	1,572	72,431
-814	70,859	1,294,169	32,286	1,326,456

Statement of Cash Flows

	€ thousand	
	2020	2019
Profit for the period *	72,431	114,990
Increase/decrease in underwriting reserves net	967,596	1,141,129
Increase/decrease in deposits with ceding undertakings and receivables from reinsurance business	13,819	22,501
Increase/decrease in deposits received from reinsurers and liabilities from reinsurance business	-77,703	39,925
Increase/decrease in other receivables	50,575	-14,037
Increase/decrease in other liabilities	49,452	-3,238
Changes in other balance sheet items not attributable to investing or financing activities	-1,027,272	-740,605
Other non-cash expenses/income and adjustments to profit or loss for the period	107,252	-304,139
Gain/loss on disposal of investments, tangible fixed assets and intangible fixed assets	-272,337	-238,636
Expenses for/income from extraordinary items	-2,623	0
Income tax expense/income	115,115	82,558
Income taxes paid	-12,236	-46,606
Cash flows from operating activities	**-15,929**	**53,842**
Proceeds from disposal of entities included in the basis of consolidation	142,693	50,000
Proceeds from disposal of tangible assets	996	613
Proceeds from disposal of intangible assets	0	3,967
Payments to acquire entities included in the basis of consolidation	-3,283	0
Payments to acquire tangible assets	-18,224	-13,726
Payments to acquire intangible assets	-48,069	-43,848
Proceeds from disposal of investments relating to unit-linked life insurance policies	14,893	7,584
Payments to acquire investments relating to unit-linked life insurance policies	-19,524	-17,452
Cash flows from investing activities	**69,482**	**-12,861**
Dividends paid to minority interests	0	-1,959
Proceeds from/payments for other financing activities	-19,356	-51,879
Cash flows from financing activities	**-19,356**	**-53,838**
Net change in cash funds	**34,197**	**-12,856**
Effect on cash funds of exchange rate movements and remeasurements	-111	-344
Effect on cash funds of changes in the basis of consolidation	-482	-473
Cash funds at beginning of period	146,615	160,287
Cash funds at the end of period	**180,218**	**146,615**

*incl. non-controlling interests in profit for the period

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.

Cash funds include € 132 thousand from the pro-rata consolidated company.

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.

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 2020 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 2020 have been included. Pursuant to section 299 (3) HGB, transactions with a material impact on assets, finances and earnings between 30 September 2020 and 31 December 2020 are taken into account separately.

In the case of our foreign insurance company 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 joint ventures consolidated at equity and associated companies have generally 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 generally valued at equity in the consolidated financial statements pursuant to section 312 HGB. One joint venture is included in the consolidated financial statements on a pro-rata basis pursuant to section 310 HGB. For this joint venture, all consolidation measures are performed according to the share in equity. 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.

Subsidiaries

Accordingly, 28 subsidiaries (PY: 30) were fully consolidated in the consolidated financial statements along with the parent company because of the parent company's controlling influence pursuant to section 290 (2) HGB. They comprised seven insurance companies (PY: seven), one pension trust (PY: one) and 21 other companies (PY: 22).

In the prior year, one special-purpose entity was also fully consolidated under section 290 (2) no. 4 HGB. That entity, Caerus Real Estate Debt Lux. S.C.A., SICAV-SIF - Fund III, was sold and deconsolidated in 2020.

In addition, the restructuring of the Aquila Group initiated in 2019 continued. In the process, Aquila Capital Wasserkraft Invest GmbH and Aquila Capital Wasserkraft Invest II GmbH were merged with Aquila GAM Fund GmbH & Co. geschlossene Investmentkommanditgesellschaft.

VBMC ValueBasedManagedCare GmbH, incorporated in 2019, was included in the consolidated accounts in 2020.

Joint ventures and associated companies

In addition, four associated companies (PY: five) in which a significant influence can be exercised according to section 311 (1) HGB were recognized in the consolidated financial statements at equity pursuant to section 312 HGB. The scope of consolidation also includes two participations (PY: two) managed as joint ventures. One of the two companies is valued at equity in accordance with section 312 HGB. One joint venture that will engage in insurance business in the future is consolidated on a prorata basis in line with section 310 HGB. A total of six associated companies were not consolidated by the equity method due to lack of materiality.

Aachener Bausparkasse AG was sold and deconsolidated in 2020. TRIFORUM Verwaltung GmbH & Co. Objekt Neu-Isenburg III KG was also sold and subsequently removed from the scope of consolidation in the wake of accrual.

In addition, the joint venture Scira AG joined the group of consolidated companies and was included in the consolidated financial statements on a pro rata basis for the first time.

The list of holdings pursuant to section 313 (2) HGB is found at the beginning of the section "Other disclosures". It includes the consolidated companies of the Gothaer Group in 2020. 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 annual 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).

Consolidated balance sheet, consolidated income statement, statement of changes in equity, cash flow statement and notes to the consolidated financial statements are prepared in thousand euros. In explanatory text, e.g. in the Group Management Report, values are given in million euros for better readability. 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 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

Internally generated intangible fixed assets are not capitalized. Acquired intangible assets are recognized at cost less straight-line depreciation based on an anticipated economic life of two to 20 years for the relevant asset. Where permanent impairment is anticipated, depreciation is applied in accordance with section 253 (3) HGB.

In accordance with section 301 (3) sentence 2 in conjunction with section 310 (2) HGB, goodwill of € 2,453 thousand was reported for a joint venture. This will be written down by the straight-line method over the expected useful life of six years.

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 generally 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 one joint venture, use is made of the option to consolidate on a pro rata basis pursuant to section 310 HGB.

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 exchange 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.

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.

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.

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 performed 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.

Bank deposits are carried at nominal value.

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 are 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.

Tangible assets and inventories

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 16.8 %.

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.

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 is used to quantify unearned premiums. The costs that need to be deducted from unearned premiums are calculated in accordance with the letter from the Federal Ministry of Finance dated 30 April 1974. Reinsurers' shares are calculated on the basis of contractual arrangements.

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 are 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 are consistently established at amounts equal to those provided by ceding companies plus necessary increases.

Accepted actuarial methods are 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 are 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) in 2018, additional interest reserves (Zinszusatzreserve – ZZR) have been calculated by the so-called corridor method. 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 2020 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 portfolio of Gothaer Pensionskasse AG, the procedure agreed with the supervisory authority involves spreading the ZZR increase over a longer period.

The increase in additional interest reserves presented an expense of € 138.6 million for Gothaer Lebensversicherung AG and € 45.0 million for Gothaer Pensionskasse AG. Additional interest reserves account for 9.6 % of policy reserves at Gothaer Lebensversicherung AG and 7,2 % at Gothaer Pensionskasse AG.

Reserves for known outstanding claims and redemptions are calculated for each individual claim or redemption incurred by balance sheet date and reported by the date on which reserves are established. Weighted reserves based on previous years' experience are formed for unresolved claims under invalidity policies. Flat-rate reserves are formed 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 rules for calculating terminal bonus funds are set out in the relevant approved principle business plan for surplus participation (old policies as defined by section 336 VAG) or comply with the requirements of section 28 (7) RechVersV (new contracts as defined by section 336 VAG).

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. For consortium agreements with external lead management, reserves are calculated on the basis of the values reported by the lead company.

Reinsurers' shares of underwriting reserves for insurance business ceded are calculated on the basis of the relevant reinsurance treaties.

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 2.656 % (PY: 2.831 %).

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 2018 to 2020 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. Outstanding PKV-Verband invoices due to contractual arrangements and legal regulations – in particular in connection with the Corona pandemic – were also taken into account in reserves.

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 were 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		2.31 % and 2.41 % (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.

Accruals for pensions and similar obligations of our Austrian branch were calculated by the present-value method applying the AVÖ 2018-P bases for calculating pension insurance (Pagler & Pagler tables) and taking into account a pension trend of 1.60 % and an actuarial interest rate of 2.31 %.

The reserve for obligations in connection with pre-retirement employment agreements is determined by applying actuarial principles. Calculation is 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 0.48 %.

Accruals for taxes and all other miscellaneous accruals are recognized at the amount dictated by sound 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.

Other liabilities

Deposits held in connection with reinsurance business ceded and miscellaneous liabilities are 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 in the financial year 2020

				Carrying amount previous year
A.		Intangible assets		
		1.	Acquired concessions, industrial property rights, similar rights and assets as well as licences for such rights and assets	227,193
		2.	Goodwill	0
		3.	Payments in advance	52,371
		4.	**Subtotal A.**	**279,564**
B	**I.**	**Real estate, real estate rights, and buildings, including buildings on third-party land**		**24,449**
B	**II.**	**Investments in affiliated companies and participations**		
		1.	Shares in affiliated companies	82,877
		2.	Loans to affiliated companies	2,437
		3.	Shares in joint ventures and associated companies	275,491
		4.	Participations	967,288
		5.	Loans to participations	5,635
		6.	**Subtotal B II.**	**1,333,727**
Total				**1,637,740**

					€ thousand
Additions	Reclassfications	Disposals	Reversals	Amortization	Carrying amount financial year
2,773	50,924	702	0	65,171	215,017
2,943	0	0	0	491	2,453
45,288	-50,924	0	0	10,773	35,962
51,004	**0**	**702**	**0**	**76,434**	**253,432**
212	**0**	**0**	**0**	**812**	**23,850**
1,215	0	9,121	46	130	74,887
1,150	0	1,150	0	0	2,437
0	0	13,471	19,154	21,552	259,622
69,949	0	118,888	5,925	33,392	890,882
4,012	1,964	3,037	0	0	8,573
76,325	**1,964**	**145,667**	**25,125**	**55,074**	**1,236,401**
127,542	**1,964**	**146,369**	**25,125**	**132,320**	**1,513,682**

Intangible assets

Non-scheduled depreciation of € 29,720 thousand (PY: € 4,036 thousand) 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 € 22,691,084 thousand that are classified as long-term assets pursuant to section 341b (2) HGB. The fair value of these assets comes to € 25,972,316 thousand. Hidden liabilities amounted to€ 561 thousand.

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

			€ thousand
		Carrying amount	Fair value
B.II.4.	Participations	243	176
B.III.1.	Shares, investments in unit trusts and funds and other non-fixed-interest securities	45	0
B.III.2.	Bearer bonds and other fixed-interest securities	90,489	89,999
B.III.4.a)	Registered bonds	11,969	10,328
B.III.4.b)	Promissory notes and loans	57,807	56,684
B.III.4.c)	Loans and advance payments on insurance policies	49	49

In the case of one participation, depreciation was waived because the company is in the startup phase.

In the case of units or shares in mixed investment funds, depreciation was waived on the grounds that they are capitalized costs incurred before the first capital call.

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

		€ thousand			
		Trading/Nominal volume		Carrying amount	Fair value
B. II. 4.	Participations			28,452	28,429
	Forward currency sales	35,900	TUSD		1,079
	Forward currency purchases	800	TUSD		-8
	Micro valuation unit	**35,100**	**TUSD**	**28,452**	**29,500**
B. II. 4.	Participations			444,011	516,222
	Forward currency sales	645,140	TUSD		18,076
	Forward currency purchases	22,750	TUSD		-461
	Portfolio valuation unit	**622,390**	**TUSD**	**444,011**	**533,837**
B. II. 4.	Participations			110,760	143,463
	Forward currency sales	123,500	TGBP		-3,134
	Micro valuation unit	**123,500**	**TGBP**	**110,760**	**140,329**
B. II. 4.	Participations			42,441	42,660
	Forward currency sales	19,730	TGBP		-219
	Portfolio valuation unit	**19,730**	**TGBP**	**42,441**	**42,441**
B. II. 4.	Participations			36,596	40,578
	Forward currency sales	6,140	TUSD		185
	Forward currency sales	7,540	TGBP		-184
	Forward currency sales	22,800	TNOK		-35
	Forward currency sales	11,040	TCAD		60
	Portfolio valuation unit			**36,596**	**40,604**
B. III. 1.	Investments in funds			212,643	207,449
	Forward currency sales	260,600	TUSD		7,186
	Forward currency purchases	5,830	TUSD		-198
	Portfolio valuation unit	**254,770**	**TUSD**	**212,643**	**214,437**
B. III. 1.	Investments in funds			12,252	11,817
	Forward currency sales	14,500	TUSD		435
	Micro valuation unit	**14,500**	**TUSD**	**12,252**	**12,252**
B. III. 1.	Investments in funds			48,681	48,860
	Forward currency sales	30,630	TGBP		-179
	Portfolio valuation unit	**30,630**	**TGBP**	**48,681**	**48,681**

		Trading/ Nominal volume		Carrying amount	Fair value
					€ thousand
B. III. 2.	Bearer bonds			10,154	10,191
	Forward currency sales	12,000	TUSD		362
	Micro valuation unit	**12,000**	**TUSD**	**10,154**	**10,553**
B. III. 2.	Bearer bonds			117,019	122,216
	Forward currency sales	139,200	TUSD		4,196
	Portfolio valuation unit	**139,200**	**TUSD**	**117,019**	**126,412**
B. III. 4. a)	Registered bonds			6,164	6,165
	Forward currency sales	8,400	TGBP		-46
	Forward currency purchases	2,900	TGBP		45
	Portfolio valuation unit	**5,500**	**TGBP**	**6,164**	**6,164**
B. III. 4. d)	Other miscellaneous loans			89,557	86,289
	Forward currency sales	121,450	TUSD		3,632
	Forward currency purchases	16,050	TUSD		-364
	Micro valuation unit	**105,400**	**TUSD**	**89,557**	**89,557**

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.

Shares in joint ventures and associated companies

Shares in joint ventures and associated companies include no goodwill.

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

					€ thousand
Type of fund/ investment objective	Carrying amount	Fair value	Difference	Payout	Redemption option
Equity fund	1,373,788	1,373,941	153	5,172	daily
Pension fund	16,678,685	18,932,432	2,253,747	427,738	daily or within one month
Property fund	1,658,082	1,826,468	168,386	46,260	daily or within max. six months
Other	1,218,592	1,256,806	38,215	2,078	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.

Other loans

		€ thousand
	2020	2019
B.III.4. Other loans		
a) Registered bonds	1,764,437	1,898,382
b) Promissory notes and loans	2,145,775	2,327,214
c) Loans and advance payments on insurance policies	22,816	27,364
d) Other miscellaneous loans	502,250	522,831
Total	4,435,277	4,775,791

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 carry forwards.

Equity and Liabilities

Other accruals

The difference resulting from the valuation of accruals for pensions and similar obligations was € 44,108 thousand (PY: € 44,438 thousand).

Offsetting of assets and liabilities

Pursuant to section 246 (2) sentence 2 HGB, plan assets of € 714 thousand (PY: € 642 thousand) have been offset against corresponding pension obligations of € 714 thousand (PY: € 642 thousand). The fair value of the plan assets offset is equal to value at cost.

Notes to the Consolidated Income Statement

Gross written premiums

€ thousand	2020	2019
Life insurance business	1,444,864	1,468,463
Health insurance business	899,403	875,700
Property and casualty insurance business	2,115,559	2,083,942
Of which:		
Germany	4,328,962	4,261,220
Other EEA States	124,258	160,776
Third countries	6,606	6,109
Direct insurance business	4,459,826	4,428,105
Reinsurance business assumed	97,199	96,540
Total	**4,557,025**	**4,524,645**

Investment expenses

Amortization of investments includes non-scheduled depreciation of € 59,634 thousand (PY: € 35,929 thousand) in accordance with section 277 (3) HGB.

Other income

Income from currency translation totals € 9,136 thousand (PY: € 1,382 thousand).

Other income includes € 16 thousand (PY: € 0 thousand) income from the discounting of reserves.

Other expenses

Currency translation expenses total € 7,379 thousand (PY: € 908 thousand).

Other expenses include € 28,609 thousand (PY: € 33,735 thousand) from the discounting of reserves.

Offsetting of income and expenses

In line with the offsetting of retirement pension commitments and the corresponding plan assets, related expenses of € 334 thousand (PY: € 407 thousand) were offset against related income of € 72 thousand (PY: € 74 thousand) as stipulated in section 246 (2) sent. 2 HGB.

Other disclosures

List of holdings

Subsidiaries included in consolidated financial statements

			as %
Name	**Domicile**		**Ownership interest***
Parent company			
Gothaer Versicherungsbank VVaG	Cologne	DE	
Aquila GAM Fund GmbH & Co. geschlossene Investmentkommanditgesellschaft	Hamburg	DE	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 Asigurari Reasigurari S. A.	Bucharest	RO	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
VBMC ValueBasedManagedCare GmbH	Cologne	DE	100.0

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

Subsidiaries not included in consolidated financial statements

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:

			as %
Name	Domicile		Ownership interest*
A.S.I. Wirtschaftsberatung AG	Münster	DE	100.0
Annex-Produkte Vertriebs GmbH	Cologne	DE	100.0
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 Vertriebs-Service AG	Cologne	DE	100.0
GSC Gothaer Schaden-Service-Center GmbH	Berlin	DE	100.0
GSG Garantie-Service GmbH	Freiburg i. Brsg.	DE	67.0
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
ZIPPEL NetMarket GmbH i.L.	Elsdorf-Heppendorf	DE	55.0

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

Joint ventures and associated companies included in the consolidated financial statements

			as %
Name	Domicile		Ownership interest*
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
Scira AG	Hannover	DE	31.7
Skogberget Vind AB	Malmö	SE	45.0

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

The joint venture Scira AG is included in the consolidated financial statements on a pro-rata basis.

Joint ventures and associated companies not included in the consolidated financial statements

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:

			as %
Name	**Domicile**		**Ownership interest***
Derya Elektrik Üretimi Ve Ticaret A.S.	Istanbul	TR	26.0
Ideal Enerji Üretimi Sanayi Ve Ticaret A.S.	Istanbul	TR	26.0
IWS International Warranty Solutions GmbH	Cologne	DE	33.5
LM+ - Leistungsmanagement GmbH	Cologne	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.

Participations not included in consolidated financial statements

					€ thousand
Name	**Domicile**		**Ownership interest * as %**	**Equity**	**Net result for the year**
100% RE IPP GmbH & Co. KG	Wörrstadt	DE	0.5	-47,748	-4,389
Aberdeen Asia Pacific II, L.P.	George Town	KY	13.4	98,381	1,893
Accession Mezzanine Capital III L.P.	St. Helier	JE	16.9	66,926	4,353
Achmea B.V.	Zeist	NL	1.1	10,183,000	480,000
AMP Capital Infrastructure Debt Fund II (EUR), LP	London	GB	60.8	48,025	2,390
Beechbrook Mezzanine II L.P.	Edinburgh	GB	16.6	49,851	-8,599
Beechbrook Private Debt III L.P.	London	GB	15.5	138,927	-7,937
Behrman Capital PEP L.P.	Wilmington	US	2.5	735,522	102,641
Behrman Capital IV, L.P.	Wilmington	US	12.3	195,645	2,933
Curzon Capital Partners IV L.P.	London	GB	8.6	272,714	-14,990
EMF NEIF I (A) L.P.	London	GB	42.5	21,999	-2,935
EPISO III, L.P.	London	GB	2.6	327,273	-137,080
EPISO IV, L.P.	London	GB	2.7	1,417,653	172,831
European Alliance Partners Company AG	Zürich	CH	12.5	9,092	295
EXTREMUS Versicherungs-Aktiengesellschaft	Cologne	DE	5.0	64,100	42
Falcon Strategic Partners IV, L.P.	Wilmington	US	2.8	665,564	-47,093
Falcon Strategic Partners V (Cayman), L.P.	George Town	KY	31.1	755,738	98,474
FirstMark Capital II, L.P.	Wilmington	US	13.3	434,292	88,998
FirstMark Capital III L.P.	Wilmington	US	13.5	396,124	126,117

					€ thousand
Name	Domicile		Ownership interest * as %	Equity	Net result for the year
FirstMark Capital OF I, L.P.	Wilmington	US	16.7	171,149	18,366
GDV Dienstleistungs-GmbH	Hamburg	DE	1.1	28,941	1,511
GoldPoint Mezzanine Partners IV, L.P.	Wilmington	US	7.7	1,067,269	99,257
GoldPoint Partners Co-Investment V, L.P.	Wilmington	US	11.1	511,050	127,974
GoldPoint Partners Co-Investment VI, L.P.	Wilmington	US	8.2	407,822	45,944
Lovell Minnick Equity Partners V-A LP	Delaware	US	9.2	40,364	-8,897
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	7,910	1,454
NYLCAP Mezzanine Partners III, LP	Wilmington	US	4.9	20,174	3,713
PineBridge Secondary Partners III L.P.	Wilmington	US	11.4	157,285	7,519
PineBridge Secondary Partners IV Feeder, SLP	Luxemburg	LU	10.5	251,918	15,911
Praesidian Capital Bridge Fund, L.P.	Wilmington	US	19.9	42,897	6,383
Praesidian Capital Opportunity Fund III-A, L.P.	Wilmington	US	32.7	34,262	566
Protektor Lebensversicherungs-AG	Berlin	DE	2.3	7,851	7
RREEF Pan-European Infrastructure Feeder GmbH & Co. KG	Eschborn	DE	27.8	315,797	-116
Sana Kliniken AG	München	DE	2.4	505,377	13,305
SilkRoad Asia Value Parallel Fund, SICAV-SIF	Luxemburg	LU	15.7	302,570	11,461
Småkraft AS	Bergen	NO	15.4	203,175	8,815
Surface Technologies GmbH & Co. KG	Baruth	DE	13.4	17,435	1,117
WAI S.C.A., SICAV- FIS / Private Equity Secondary 2008	Luxemburg	LU	22.1	24,834	217

* 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 2,801 portfolio deposits, with take-up totalling € 49,677 thousand.

Liabilities

Liabilities with a residual term of more than five years totalled € 250,000 thousand (PY: € 250,036 thousand).

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 € 9,260 thousand (PY: €11,424 thousand). No advance payments were made in the year under review. Retirement, survivors' benefits and other payments for former members of Management came to € 4,926 thousand (PY: € 4,914 thousand). Further accruals totalling € 75,268 thousand (PY: € 69,603 thousand) exist for current pensions and pension entitlements for this group of individuals.

Remuneration paid to the Supervisory Board totalled € 1,024 thousand (PY: € 1,021 thousand). Remuneration paid to members of the Advisory Board came to € 51 thousand (PY: € 80 thousand). 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)	
Carl Graf von Hardenberg Vice Chair	Gothaer Finanzholding AG, Gothaer Allgemeine Versicherung AG, Hardenberg-Wilthen AG (Chair), 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 until August 2020, Basler Kantonalbank, Jarowa AG (Administrative Board Chair) until November 2020, SensoPro AG, Ringier AG as of 4 September 2020, Ammann Group Holding AG as of 14 August 2020	
Gabriele Eick	Gothaer Finanzholding AG, Die Mobiliar AG	Goethe-Universität Frankfurt am Main (Foundation), Landesstiftung Miteinander in Hessen, Zoologische Gesellschaft Frankfurt (Foundation), Aramark GmbH (Chair)
Prof. Dr. Johanna Hey	Gothaer Finanzholding AG, ADVA Optical Networking SE (Vice Chair), Flossbach von Storch AG	

Jürgen Wolfgang Kirchhoff	Gothaer Finanzholding AG, Märkische Bank eG (Chair)	

Management	Membership of other statutory supervisory boards	Comparable domestic and foreign directorships and officership
Oliver Schoeller Chair as of 1 July 2020	Gothaer Systems GmbH (Vice Chair), ROLAND Rechtsschutz-Versicherungs-AG (Vice Chair), Gothaer Pensionskasse AG as of 24 April 2020, Gothaer Asset Management AG (Vice Chair) as of 1 July 2020	
Dr. Karsten Eichmann Chair up to 30 June 2020	Gothaer Pensionskasse AG (Chair) up to 24 April 2020, Gothaer Asset Management AG (Chair) up to 30 June 2020, ROLAND Rechtsschutz-Versicherungs-AG up to 30 November 2020	
Thomas Bischof	./.	
Oliver Brüß	Janitos Versicherung AG (Full Member) up to 3 August 2020, (Vice Chair) as of 3 August 2020, 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)	
Dr. Sylvia Eichelberg	./.	

Harald Epple	Gothaer Pensionskasse AG (Full Member) up to 24 April 2020, (Chair) as of 24 April 2020, Gothaer Asset Management AG (Full Member) up to 30 June 2020, (Chair) as of 1 July 2020, ROLAND Rechtsschutz-Versicherungs-AG
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, Gothaer Asset Management AG as of 1 July 2020
Dr. Christopher Lohmann	Janitos Versicherung AG (Vice Chair) up to 31 July 2020, Wiener TU S.A. Vienna Insurance Group (Vice Chair) up to 31 July 2020, Gothaer Asigurări Reasigurări S. A. (Chair) up to 31 July 2020

Total fee for the statutory auditor

	2020	2019
	€ thousand	
Auditing of financial statements	1,638	1,713
Attestation services	11	35
Tax advisory services	68	50
Other services	40	180
Total	1,758	1,978

Personnel expenses

	2020	2019
	€ thousand	
1. Wages and salaries	323,199	308,755
2. Social security contributions and employee benefits	51,246	48,372
3. Post retirement benefits	15,309	20,036
4. Total expenses	**389,753**	**377,163**

Human resources on average

	2020	2019
	Persons	
In house	4,102	4,043
including a prorated 1 employee (PY: 0) of proportionally consolidated companies		
In the field	480	500
	4,581	4,544
Apprentices	214	201
Total	4,795	4,744

Related party transactions not conducted at arm's length

CG Car-Garantie Versicherungs-Aktiengesellschaft waived receivables from a related company for services in the amount of € 1,113 thousand in the financial year.

Contingent liabilities and other financial commitments

In compliance with section 28 (1) EGHGB, accruals of € 4,464 thousand have not been recognized for pension-related obligations for which a legal entitlement was acquired prior to 1 January 1987.

Pension accruals of € 17,841 thousand were not recognized on the balance sheet because the apportionment option under section 67 (1) EGHGB was exercised.

At year-end, contributions totalling € 1,398,332 thousand 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 to-talled € 133,624 thousand 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.

Under a guarantee bond, Gothaer Lebensversicherung AG and Gothaer Krankenversicherung AG have an obligation towards their house bank to meet potential demands by US tax authorities for the repayment of tax refunds totalling USD 4,042 thousand in connection with credited US cheques. Based on years of experience with comparable US cheque credits, we currently see no significant risk of a claim being made on the guarantee bond.

Standard market purchase price adjustment and indemnification obligations as well as purchase price guarantees totalling approximately € 60,336 thousand have been assumed from the sale of shareholdings in the prior 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.

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.

On the basis of sections 221 ff. VAG, health insurers are 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.

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 € 211,182 thousand.

Events of special significance

No events of special significance occurred after the conclusion of the financial year 2020.

Proposal for the appropriation of profit

The profit for the year registered by our parent company Gothaer Versicherungsbank VVaG was € 49,091,612.21. Including the profit of € 2,222.90 brought forward from 2019, the retained profit available to the General Members Meeting for appropriation is € 49,093,835.11.

We propose to the General Members Meeting that the sum of € 49,090,000.00 should be transferred to other revenue reserves and € 3,835.11 should be carried forward.

Cologne, 16 April 2021

Management

Oliver Schoeller	Thomas Bischof	Oliver Brüß
Dr. Mathias Bühring-Uhle	Dr. Sylvia Eichelberg	Harald Epple
Michael Kurtenbach		

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 2020, the consolidated income statement, the statement of changes in equity and the cash flow statement for the financial year 1 January to 31 December 2020 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 2020. 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 2020 as well as the results of its operations from 1 January to 31 December 2020 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 2020. 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 € 24,246.7 million in its consolidated financial statements. This was 70.1 % 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 almost completely automated calculation steps.

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 requirement.

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 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 reserve 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 and 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 € 3,047.4 million at balance sheet date. This was 8.8 % 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 Statement " section of the Group management report.

Other information also includes the remaining parts of the Group annual report.

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 consolidated financial statements and the Group 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 29 April 2020. We were appointed by the Supervisory Board on 28 October 2020. 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 and net present value calculations, 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 fulfilment of eligibility criteria, rendered tax consultancy services and provided business and general advice.

Responsible Auditor

The auditor responsible for the audit is Roland Hansen.

Cologne, 23 April 2021

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 over-sight activities. The Investment Committee, Audit Committee and Executive Committee each convened on three occasions 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. A training event was held for Board members on investment and IT. The time-slot reserved for a further training event was used to hold an extraordinary Supervisory Board meeting, at which the Board was briefed on the financial, operational and sales implications of the Covid-19 pandemic and its consequence for the "Ambition25" corporate strategy.

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.

The Supervisory Board paid special attention to the "Ambition25" group strategy, in which the Company addresses market distinction issues such as "Leading Partner for SMEs", "Strong Commitment to the Customer" and "More than Insurance" and embeds the implementation strategies and programmes required to ensure that processes, structures and products are attuned to the needs of an organization that is – both internally and externally – increasingly digital. During three meetings, the Board also received reports on the impacts of the coronavirus pandemic and action taken by the Group companies to support affected policyholders. In addition, the Board addressed the matter of a new requirement profile for Management Board members and considered proposals for the introduction of a company pension scheme for employees.

Key issues in the year under review also included new regulatory requirements and the low-interest environment as well as digitalization and its impacts on the insurance sector. The Supervisory Board welcomed Management's efforts to actively shape and drive forward digital developments across the Group.

The Board 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 Gothaer Asigurări Reasigurări S.A. and Janitos Versicherung AG.

The impacts of the low-interest environment on the personal insurance companies within the Group remained a matter of special interest for the Supervisory Board in 2020. 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.

Despite the special challenges presented by the Covid-19 pandemic and the difficult market environment, the Group companies again reported good results. Standard & Poor's awarded Gothaer Allgemeine Versicherung AG, Gothaer Lebensversicherung AG and Gothaer Krankenversicherung AG confirmatory A- ratings with positive outlook in 2020. The rating result again attests to the continued security and financial strength of the Group.

The Supervisory Board also discharged its statutory duty to examine HR issues relating to Management. Dr. Eichmann and Dr. Lohmann resigned their Management positions. Mr. Schoeller was appointed Management Board Chairman. Dr. Eichelberg and Mr. Bischof were newly appointed to the Management Board. Mr. Kurtenbach's term of office on the Management Board 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.

Among the issues addressed in the Investment Committee meetings, Supervisory Board training programme and ORSA report was the resolution to align investments with ESG criteria.

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 2020 should be formally adopted in accordance with section 172 AktG.

The company financial statements for the 2020 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 2020 financial year and the consolidated financial statements and Group management report for the 2020 financial year, the Supervisory Board raised no objections. The Supervisory Board approved the financial statements and the consolidated financial statements for the year 2020. 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 staff and Management for their work last year in an environment made significantly more difficult by the impacts of the Covid-19 pandemic and the measures taken to contain it.

Cologne, 29 April 2021

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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