



**Gothaer Allgemeine Versicherung AG
Annual Report 2018**

Five-Year Summary

€ thousand					
	Financial Year				
	2018	2017	2016	2015	2014
Gross premiums written	1,810,124	1,822,082	1,722,724	1,703,286	1,617,272
Premiums net of reinsurance	1,565,542	1,598,422	1,485,952	1,471,728	1,391,503
Retention (in %)	86.5	87.7	86.3	86.4	86.0
Claims expenses net of reinsurance	1,071,392	998,573	1,009,073	1,011,046	922,045
In % of premiums earned	68.5	63.3	67.6	68.9	66.8
Underwriting expenses net of reinsurance	461,918	469,405	445,318	431,492	415,027
In % of premiums earned	29.5	29.8	29.8	29.4	30.1
Net income for the year ¹⁾	114,803	123,885	89,839	120,981	88,778
Investments ²⁾	3,544,163	3,481,268	3,228,229	3,470,660	3,043,072
Net return (%)	3.3	3.1	3.4	5.2	4.1
Gross underwriting reserves	3,349,938	3,301,762	3,182,125	3,133,260	3,018,004
In % of gross premiums	185.1	181.2	184.7	184.0	186.6
Equity capital ³⁾	609,423	609,423	575,602	825,602	575,602
In % of premiums net of reinsurance	38.9	38.1	38.7	56.1	41.4
Policies in force (thousands)	6,285	6,237	5,694	5,595	5,510
Claims reported (thousands)	386	381	359	395	385

¹⁾ Before transfer of profit and tax charged by the controlling company

²⁾ Exclusive of outstanding deposits

³⁾ Including subordinate liabilities, less outstanding contributions not called in

Gothaer Allgemeine Versicherung AG

**Report for the Financial Year as of
1 January to 31 December 2018**

**Registered Office
Gothaer Allee 1
50969 Cologne
Germany**

Cologne Local Court, HRB 21433

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

Supervisory Board

Prof. Dr. Werner Görg Chairman	Lawyer
Peter-Josef Schützeichel *) Vice Chairman	Employee, Chairman of the Central Works Council of Gothaer Allgemeine Versicherung AG
Dieter Bick	Diplom-Betriebswirt, Management Consultant up to 10 July 2018 †
Carl Graf von Hardenberg	Chairman of the Supervisory Board of Hardenberg-Wilthen AG
Uta Kemmerich-Keil	CEO Procter & Gamble Health International, as of 23 July 2018
Florian Knackstedt *)	Departmental head of the Business Clients Competence Centre, up to 31 October 2018
Dr. Judith Kerschbaumer *)	Trade Union Secretary of ver.di, Lawyer
Dr. Dirk Niedermeyer	Managing Director of NZD Grundbesitzverwaltung GmbH & Co. KG
Gesine Rades	Diplom-Kauffrau, Auditor/Tax Consultant Rades partnership
Dr. Hans-Werner Rhein	Lawyer, up to 7 December 2018
Georg Rokitzki *)	Employee
Thorsten Schlack *)	Employee, Chairman of the Central Works Council of Gothaer Krankenversicherung AG
Edgar Schoenen *)	Employee
Ulrich Heinz Wollschläger	Lawyer, as of 7 December 2018
Markus Wulfert *)	Employee, Head of Liability Claims Department, as of 1 November 2018

*) Elected by employees

Management

Dr. Christopher Lohmann

Chairman

Oliver Brüß

Dr. Mathias Bühring-Uhle

Dr. Karsten Eichmann

Director of
Industrial Relations

Harald Epple

Pursuant to section 285 no. 10 of the German Commercial Code (HGB), the names of the members of the Supervisory Board and Management must also be disclosed in the Notes to the Financial Statements.

Advisory Board

Christina Begale	Consultant
Wilm-Hendric Cronenberg	Managing Partner of Julius Cronenberg o.H.
Werner Dacol	Real Estate Valuer
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
Birgit Heinzel	Master craftswoman in ophthalmic optics and auditory acoustics, Managing Director of HEINZEL Sehen + Hören
Knut Kreuch	Lord Mayor of the City of Gotha
Uwe von Padberg	Diplom-Kaufmann, Managing Director of Creditreform Cologne v. Padberg KG
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), as of 22 June 2018
Jürgen Scheel	Chairman of the Management of Kieler Rückversicherungsverein a. G., (Retd.)
Dr. h.c. Fritz Schramma	Former Lord Mayor of the City of Cologne
Birgit Schwarze	President of DSSV e.V. Arbeitgeberverband deutscher Fitness- und Gesundheits-Anlagen

Management Report

Developments in the property and casualty insurance sector

Trends in 2018

Motor insurance is the largest class of property and casualty insurance, generating around 39 % and € 27.8 billion of total premium revenues. As a result of intense price competition, average premiums in motor liability and collision & comprehensive insurance are expected to rise less sharply than in the prior year, by around 1 % and 2 % respectively. Considering the anticipated growth of policies in force, premium revenues from motor insurance as a whole are expected to increase by 3.2 %. On the outgoings side, a similarly marked upturn in claims expenses (+ 2.7 %) is anticipated. This is due, in particular, to a sustained sharp increase in the price of insurance-relevant spare parts. As a result, motor insurance business should continue to produce an underwriting profit. The overall combined ratio will be around 98 %.

Premium revenues from **property insurance** business are expected to rise by 4.4 % to € 20.3 billion, boosted largely by business in the private client segment. Cyclone Friederike (Storm David) at the very beginning of the year was followed by more storm events, especially in the first half of 2018. This is predominantly reflected in comprehensive homeowners insurance, where a combined ratio of 108 % is anticipated. In non-private property insurance in the industrial, commercial and agricultural sectors, claims expenses are expected to rise even more steeply. Here, the impact of storm events was compounded by other major events, especially fire events, producing claims of around € 900 million. The combined ratio for this sub-class of property insurance is expected to be as high as 117 %. Overall, the anticipated combined ratio for property insurance stands at 103 %.

For **property and casualty insurance as a whole**, the German Insurance Association GDV expects premium revenues to grow by 3.3 % to € 70.6 billion in 2018. The number of policies in force should rise by 1.0 %. Property and casualty business continues to benefit here from the good economic situation of private households because around two-thirds of premium receipts come from private clients. At the same time, claims expenses for the financial year rose significantly by an approximate 6.8 %. Apart from the storm events that occurred in the first half of the year, a number of major fire losses were also registered. With an anticipated gross combined ratio of 96 %, the underwriting profit from property and casualty business is expected to be significantly down on the prior-year level at around € 2.6 billion.

Outlook 2019

Developments in property and casualty insurance business should continue to be buoyed in 2019 by the favourable economic situation of private households. Industrial and commercial lines could feel the impact of the weaker growth of gross domestic product. As a result, premium growth is expected to be slightly weaker in 2019 at 2.7 %. Growth stimuli are seen in natural hazards cover and, increasingly, cyber insurance. On the claims side, storm events are again set to play a significant role in 2019. This should not be taken, however, as an indication of a trend.

Business developments in 2018

Gothaer Allgemeine Versicherung AG ended the financial year with net income of € 114.8 million (PY: € 123.9 million) before profit transfer and before tax due to the controlling company. In view of the high loss expenditure associated with storm events, this is a very satisfactory result.

Gross written premiums showed a moderate downturn of 0.7%. This is essentially due to a special effect connected with our Polish affiliate, which reduced our reinsurance premium income. Premium income from direct written business, on the other hand, increased by 1.2%. This is all the more pleasing since, in line with our goal of generating substantial and profitable growth, we continued to prune our architects liability and industrial property insurance portfolios and further reduced the direct insurance portfolios taken over from Asstel Sachversicherung AG. For future growth, a start was made on a drive to modernize the entire product range, which will be completed by the end of 2019. This year, for example, sees the introduction of a new pet health policy for private clients. Moreover, an innovative product option for the homeowners insurance market has been launched in the form of a no-claims discount system. The focus is also on promising new areas such as cyber insurance. With an FF+ rating from the rating agency Franke und Bornberg, the all-round protection we offer to our commercial and industrial clients is hailed as one of the five best cyber insurance products on the German market. Gothaer Gewerbe Protect, a modular product launched on the market in summer 2017 for commercial clients – who are an important target group for us – is also performing well, with more than 72,000 policies already in force.

The underwriting result side was burdened from the very beginning of 2018 by high natural event claims. Cyclone Friederike (Storm David) resulted in gross claims expenses of € 36 million arising from around 24,000 claims. Other storm and heavy rain events followed, with the result that gross claims expenses rose by 7.2% in the financial year and the gross loss ratio stood at 66.1%. Partly as a result of our efforts in the Group project EffizienzPlus, the gross cost ratio fell as anticipated to 29.0%. Driven by claims expenses, the gross underwriting account showed a significantly reduced profit in the financial year. The gross combined ratio, at 95.1%, nevertheless remained below the market level.

Both our reinsurance structure and the conditions on which our reinsurance treaties were concluded showed only moderate change against the prior year. The development of reinsurance premiums paid and reinsurance commissions received was thus in line with the development of the reinsured portfolios. The retention rate, at 86.5%, was moderately lower in 2018. As the incidence of individual reinsured losses was unremarkable in the financial year, the reinsurance result – despite reinsurers' pro-rated share of the increased natural event claims – is recessive.

Overall, these developments produced a significantly lower underwriting result net of reinsurance before adjustment of equalization reserves in the financial year. After equalization reserves were adjusted, the underwriting account showed a profit of € 38.5 million net of reinsurance.

2018 was another difficult year for investment. The year-end yield of low-risk German government bonds (Bunds) with a residual term of 10 years was just over 0.2%, which was lower than at the beginning of the year. Against this backdrop, our investment portfolios produced a satisfactory net return of 3.3%. Investment thus continued to contribute to the success of the Company.

After allowance for other income and expenses, income before taxes totalled € 116.1 million. After taxes, profit amounted to € 114.8 million, which was transferred as a tax allocation and as a profit transfer to our parent company, Gothaer Finanzholding AG, under the existing profit transfer agreement.

Premium income

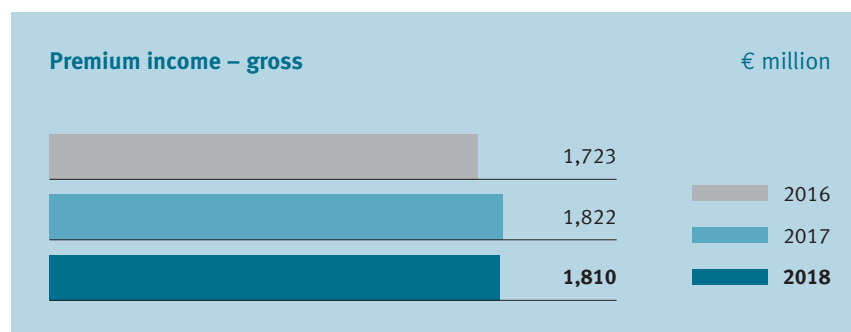
Contrary to expectations, the gross premiums written by Gothaer Allgemeine Versicherung AG edged down in the financial year, falling by € 12.0 million to € 1.81 billion. Our growth strategy is based on a profit-oriented underwriting policy and thus selective writing of new business.

The volume of direct written premiums increased by € 19.6 million to € 1.63 billion. This included direct premiums of € 17.4 million written by our branch operation in France (PY: € 18.2 million).

Reinsurance business assumed in the prior year was influenced by a special effect from business with our Polish affiliate. Without that special effect, the volume of reinsurance premiums assumed in the financial year 2018 decreased, as anticipated, by € 31.6 million to € 178.2 million.

Premiums ceded to our reinsurance providers totalled € 244.6 million (PY: € 223.7 million). This made for a retention rate of 86.5 % (PY: 87.7 %). As a result, net premium income amounted to € 1,565.5 million (PY: € 1,598.4 million). After deduction of unearned amounts, net earned premiums fell by € 12.6 million to € 1,564.4 million.

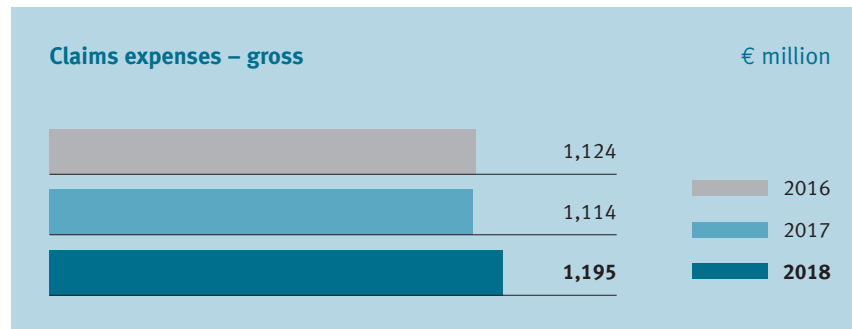
At the end of the year, the insurance portfolio comprised 6,284,933 direct policies with a residual term of at least one year (PY: 6,237,264).



Claims

The number of claims reported in 2018 rose from 381,382 to 386,462. The high prior-year figure was exceeded yet again as a result of storm and heavy rain events. As a result of this heavy workload, our claims settlement speed slowed moderately to 76.7 % (PY: 76.9 %). On the major loss front, both the number of reported claims and the volume of major claims expenses in 2018 were below the prior-year level. Overall, gross claims expenses in connection with direct written business increased by € 86.9 million to € 1,083.7 million. Accordingly, the gross loss ratio for direct written business rose more sharply than anticipated to 66.5 % (PY: 62.0 %). Gross claims expenses in connection with reinsurance business assumed showed a moderate decrease, from € 117.5 million to € 111.3 million.

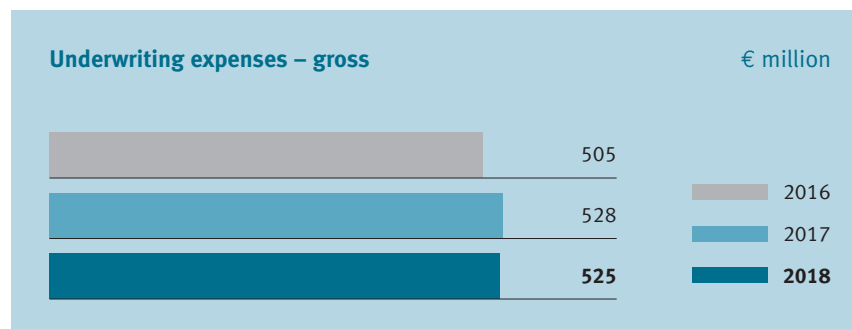
After deductions for reinsurance, total claims expenses net of reinsurance were significantly higher than in the prior year at € 1,071.4 million (PY: € 998.6 million). The loss ratio net of reinsurance stood at 68.5 %, after 63.3 % in 2017. The loss reserve ratio net of reinsurance was 145.0 % (PY: 139.3 %). The ratio of gross underwriting reserves to gross premiums written – at 185.1 % – (PY: 181.2 %) – remained at a constant high level.



Underwriting expenses

Gross underwriting expenses, at € 524.8 million, were moderately lower than in the prior year. Total underwriting expenses included € 247.8 million (PY: € 237.1 million) in acquisition costs and € 277.0 million (PY: € 291.0 million) for management of insurance policies. The gross cost ratio improved to 29.0% (PY: 29.3%) as anticipated.

Underwriting expenses net of reinsurance totalled € 461.9 million (PY: € 469.4 million). Owing to changes in the structure of our reinsurance portfolio, reinsurance commissions were moderately higher than in the prior year, up by € 4.2 million at € 62.9 million. As a result, the cost ratio net of reinsurance improved by 0.3 percentage points to 29.5%.



Underwriting result

Essentially shaped by the increase in claims expenses, the underwriting result before adjustment of equalization reserves showed a profit of € 20.2 million in the under review, after € 100.6 million in the prior year. On balance, the sum of € 18.3 million needed to be withdrawn from equalization reserves, whereas the previous year had required a € 35.8 million allocation. After this withdrawal, the underwriting result amounted to € 38.5 million (PY: € 64.8 million).

Investments

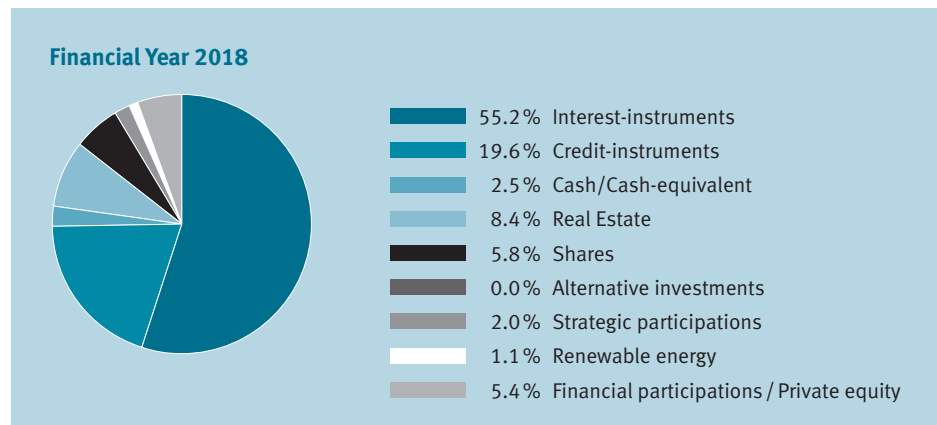
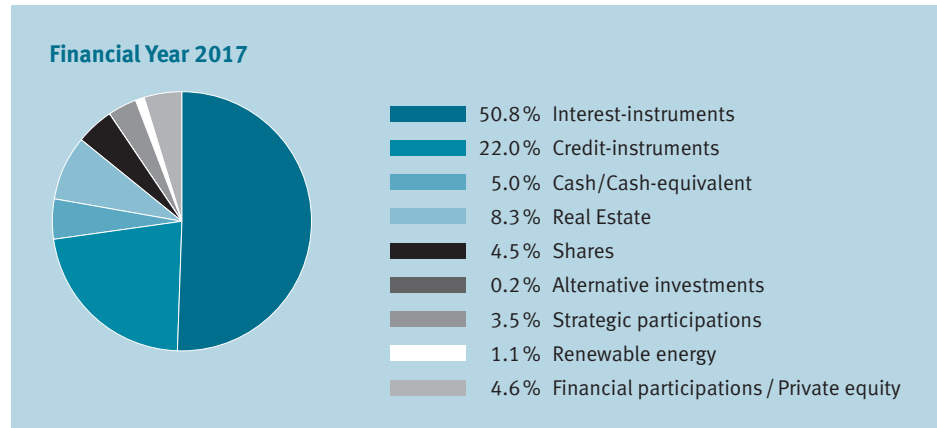
Gothaer Allgemeine Versicherung AG pursues an investment strategy that is primarily geared to generating a robust, sustained net return in a competitive environment while taking account of regulatory requirements that need to be met by investment earnings, liquidity, security and quality as well as Solvency II requirements. This is ensured by the systematic use of risk-adjusted and risk-balanced performance management aimed at optimizing the return/risk ratio of the investment portfolio. The Company's current investment strategy and the resulting asset allocation should therefore be seen as the result of a continuous and comprehensive asset liability management process that also, and particularly, takes account of underwriting requirements. In 2018, Gothaer Allgemeine Versicherung AG 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.

From a macroeconomic perspective, 2018 was a year of mixed signals. In the first few months of the period under review, the global economy initially looked in good shape. In the second half of the year, however, there were mounting signs of flagging economic dynamism, which was reflected in a downward revision of growth forecasts for the year. Developments in capital markets were essentially marked by fluctuations in macroeconomic momentum, on the one hand, and escalating trade disputes, concern over the stability of certain emerging economies, the budget conflict between the European Commission and Italy and the risk of the UK making a disorderly exit from the European Union, on the other. After a volatile year, the yield of 10-year German government bonds ended 2018 at just over 0.2 %, which was lower than at the beginning of the year. In autumn, the yield of US Treasuries with 10 years left to maturity also fell as a result of growing economic pessimism, ending the year at 2.7 %. On the stock markets, growing risk aversion during the year coincided with historically high valuations and ambitious profit forecasts, which resulted in falling prices. Over the 2018 calendar year as a whole, the performance of the S&P500 Total Return Index in USD reached – 4.4 %. The performance of European and Japanese stocks over the year was much worse, at – 12.0 % (EuroStoxx50 Total Return Index) and – 16.0 % (Topix Total Return Index in JPY) respectively. Even emerging market stocks failed to withstand the downward stock markets pressure; the MSCI Emerging Markets TR Index in USD ended 14.6 % lower.

The book value of the Gothaer Allgemeine Versicherung AG investment portfolio increased by around € 62.3 million to € 3,570.6 million in the year under review (PY: € 3,508.3 million). Largely as a result of material gains and broader spreads, net valuation reserves at overall portfolio level decreased by € 109.5 million to € 132.1 million (PY: € 241.6 million).

Composition of investments

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



Optimization of returns and – in the light of Solvency II – particularly optimization of risk in the investment portfolio continued to be a major focus of investment activity last year, with the result that a number of changes were made in asset allocation. The credit ratio fell sharply, mostly because of disposals but also because of market developments. Hedge funds were sold in their entirety. However, the stock ratio was raised again by additions to a mutual fund. Duration was moderately reduced in comparison to the prior year. Against the backdrop of Solvency II and the current financial market situation, equity investment in venture capital assets (private equity, real estate, renewable energy, infrastructure) continued to be limited while borrowed and hybrid capital investment in those asset classes, which requires little or no equity, will play a more prominent role in the future allocation of Gothaer Allgemeine Versicherung AG resources. In the real estate sector, a fund was created in 2018 to bundle a large number of minor property investments in run-off. Because of the indirect real estate strategy pursued, investment in property (real estate asset class) within the investment structure is not reported under the balance sheet item “Land, land rights and buildings, including buildings on third-party land”.

In addition to current income, extraordinary income also made a contribution to the overall result. Extraordinary income totalled € 3.8 million (PY: € 7.3 million). Write-downs on special bond funds were by and large offset by profits from the sale of two strategic shareholdings and the restructuring of the real estate portfolio.

Over the year as a whole, investment income totalled € 118.2 million (PY: € 107.0 million). This made for a net return of 3.3 % (PY: 3.1 %).

Net income for the year

The downturn in underwriting profit after adjustment of equalization reserves was largely compensated by a significant improvement in income from non-underwriting business. Income before taxes totalled € 116.1 million (PY: € 122.3 million) overall.

Shareholders' equity

At € 359.4 million, shareholders' equity in the Company was unchanged at the end of 2018. The equity ratio – defined here as the ratio of equity to premiums earned net of reinsurance – reached 23.0 % (PY: 22.8 %). Together with subordinate liabilities of € 250.0 million, the guarantee assets of the Company totalled € 609.4 million at balance-sheet date.

Comments on the individual lines of direct written business

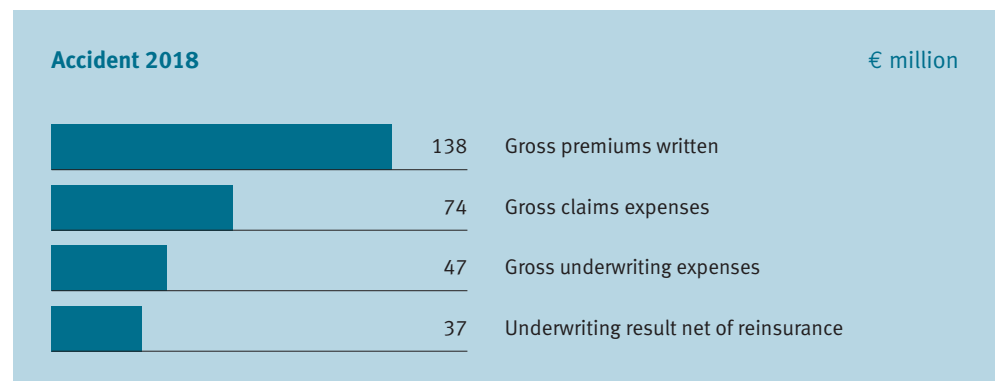
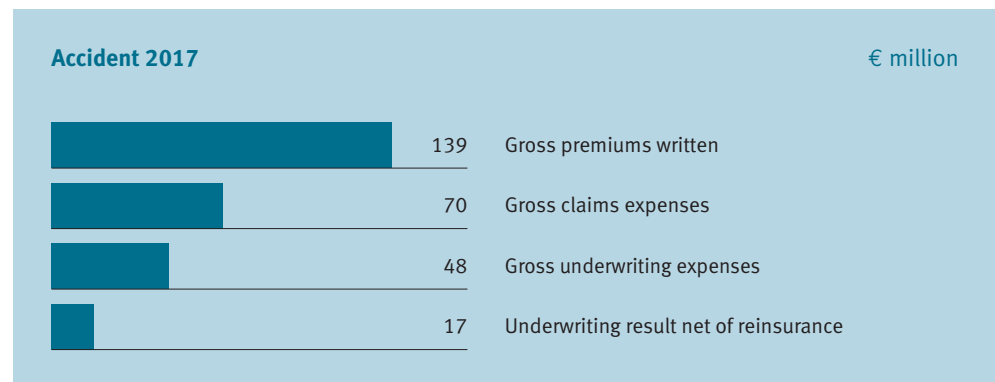
Accident

Despite a recessive insurance portfolio, gross premiums written in accident insurance remained virtually constant at € 138.1 million (PY: € 139.3 million).

Accident insurance with premium return – a combination of insurance protection and savings similar to endowment insurance – is no longer actively pursued. Gross premium income from this insurance line totalled € 2.5 million (PY: € 2.9 million). At year-end, aggregate policy reserves for the savings component of policyholders' premiums totalled € 40.9 million (PY: € 44.2 million).

Gross claims expenses for all accident insurance increased by € 4.4 million to € 74.3 million in the financial year, making for a gross loss ratio of 53.8% after 50.1% in the prior year. Gross underwriting expenses remained virtually unchanged at € 47.4 million (PY: € 48.0 million) in line with the development of premium income.

A sum of € 16.1 million needed to be withdrawn from equalization reserves in the financial year (PY: € 7.7 million allocation). With claims no longer at the prior year's exceptional level, the standard variance of loss ratios and thus also the amount required for equalization reserves were significantly lower. Consequently, after adjustment of equalization reserves, the underwriting result net of reinsurance was a profit of € 37.4 million (PY: € 17.3 million).

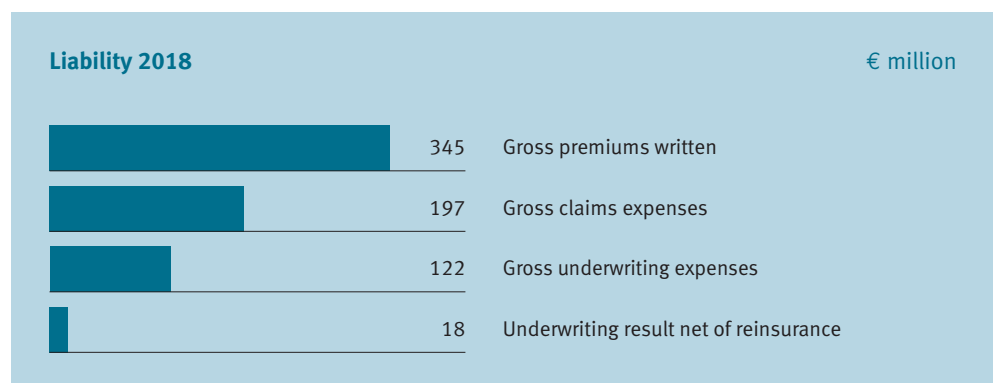
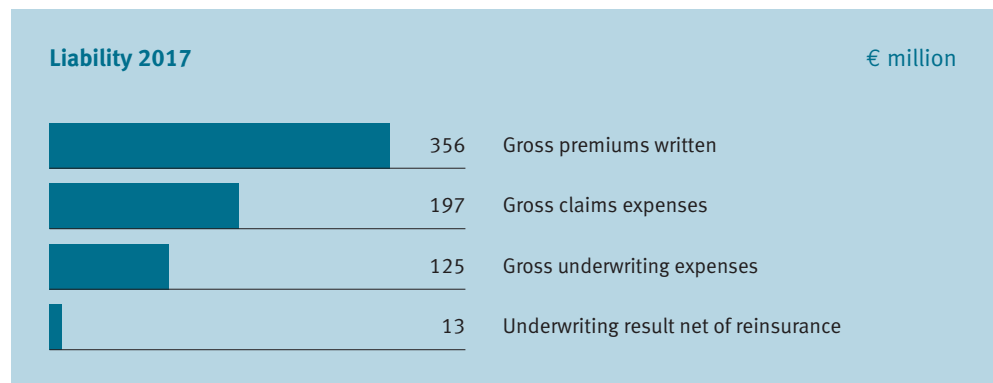


Liability

At € 345.0 million, premium income from general liability business was € 11.4 million lower in the financial year 2018. This downturn was consciously accepted as a result of our portfolio pruning efforts in architects liability insurance.

Gross claims expenses, at € 196.8 million, remained at the prior year's very good level, partly because expenses relating to major losses were recessive. As a result of the lower premium income, the gross loss ratio edged up from 55.2 % to 56.9 %. Gross underwriting expenses fell by € 3.2 million to € 121.7 million in line with the volume of business.

After reinsurance and particularly after adjustment of equalization reserves, this line of insurance produced a positive result, generating a profit of € 18.3 million (PY: € 13.2 million).

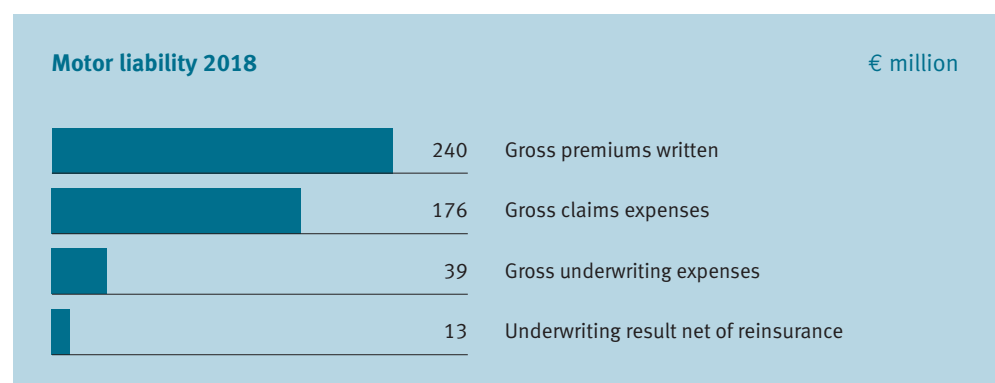
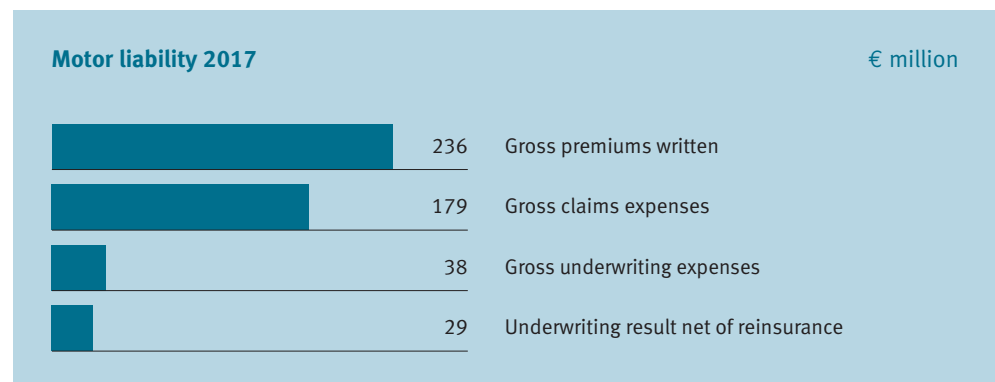


Motor liability

In motor insurance, we continue to improve our risk structure through systematic portfolio management. In line with the restrictive underwriting policy that this entails, the direct insurance portfolios taken over from Asstel Sachversicherung AG were partially reduced. Nevertheless, despite a moderately recessive number of policies in force, gross premiums written grew by € 3.8 million to € 239.7 million.

The number of reported claims fell by 1.6 % to 52,826, while gross claims expenses shrank at a similar rate (1.4 %) to € 176.2 million. This made for a loss ratio of 73.5 %, after 75.7 % in the prior year. Gross underwriting expenses totalled € 39.4 million (PY: € 38.3 million).

After reinsurance and a transfer of € 2.2 million to equalization reserves (PY: € 9.6 million withdrawal), the underwriting result for the financial year was a profit of € 13.1 million (PY: € 28.6 million).



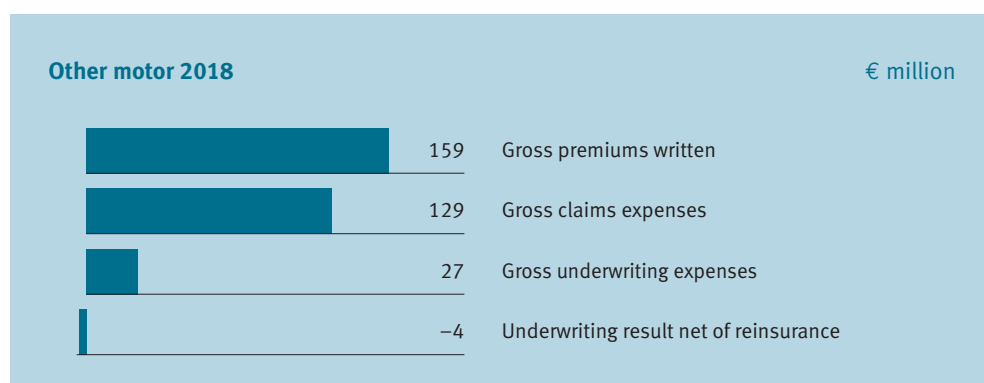
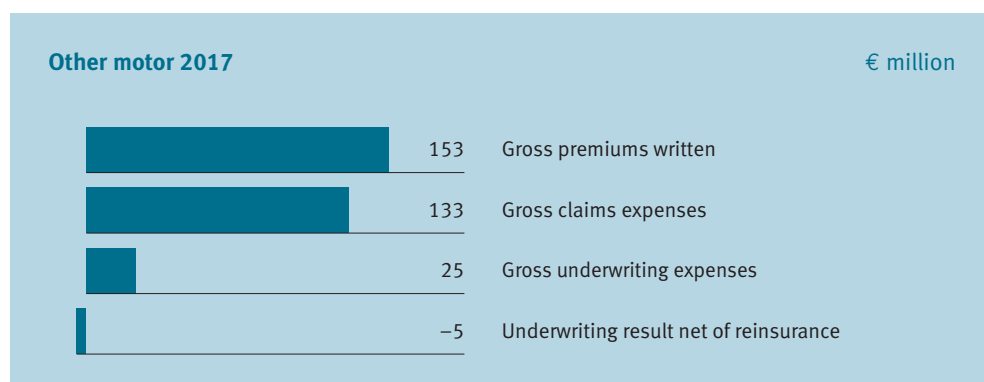
Other motor

Performance in the other lines of motor insurance – which include collision & comprehensive and partial own damage insurance – is essentially dependent upon the same factors that shape motor liability business.

The other motor insurance lines also saw a fall in the number of policies in force – a decrease of 1,027. However, the volume of gross premiums written grew by 3.3% to € 158.5 million. Collision & comprehensive policies accounted for € 139.6 million of this figure (PY: € 134.3 million); partial own damage premiums written totalled € 18.9 million (PY: € 19.2 million).

As in motor liability insurance, the financial year brought a fall in the number of claims reported in the other motor lines. This resulted in lower gross claims expenses, which decreased to € 129.5 million (PY: € 133.4 million). The gross loss ratio stood at 81.7%, down from 86.9% in the prior year. Gross underwriting expenses totalled € 26.6 million (PY: € 25.5 million).

A sum of € 1.8 million was allocated to equalization reserves (PY: € 2.9 million withdrawal). Net of reinsurance, the underwriting account for other motor insurance continued to show a loss, which stood at € –3.9 million after € –5.5 million in the prior year.



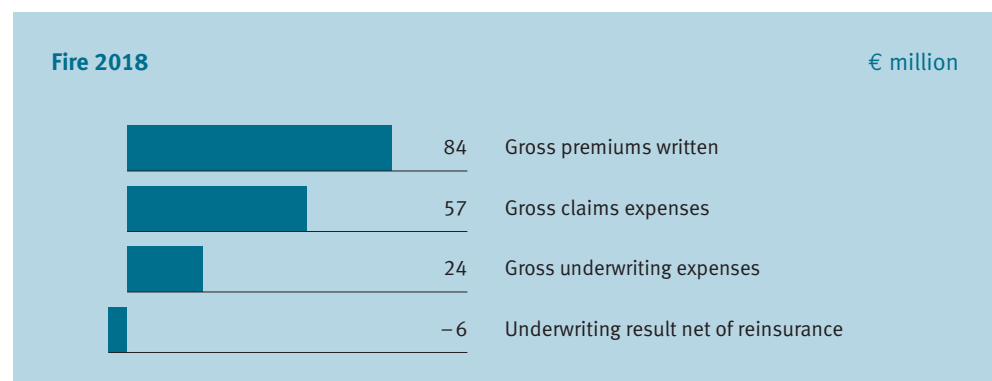
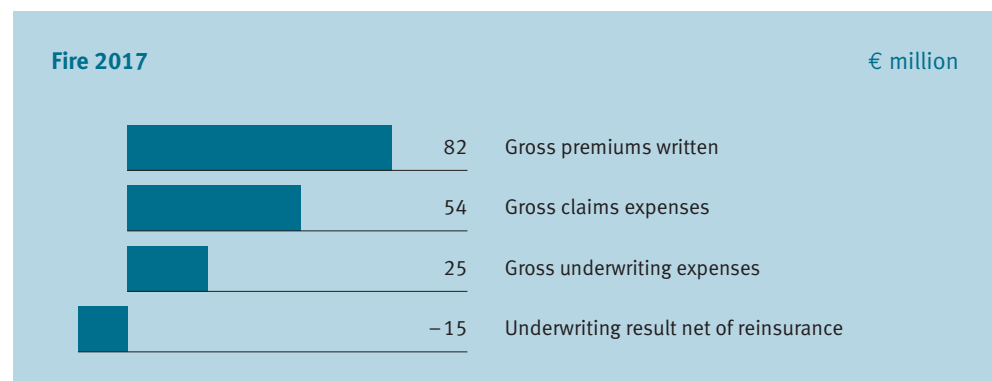
Fire

Gross premiums written in fire insurance increased by 1.8% to € 83.8 million. Within fire insurance, we make a further distinction between industrial and other fire insurance. The lion's share of premium income in the fire class is generated by industrial fire insurance, which contributed € 54.8 million in the financial year (PY: € 54.1 million).

In other lines of fire insurance, which include contents and fire insurance for larger commercial buildings as well as agricultural fire insurance, written premiums totalled € 29.0 million, which was € 0.8 million more than in the prior year.

Gross claims expenses increased by € 2.5 million to € 56.9 million in the financial year. As a result, the gross loss ratio in this very volatile, claims-prone class moved to 68.3% (PY: 66.1%). Gross underwriting expenses totalled € 24.0 million (PY: € 25.2 million).

After deduction of reinsurers' shares and a withdrawal from equalization reserves, fire business produced a reduced underwriting loss of € – 6.2 million in the financial year (PY: € – 14.6 million).

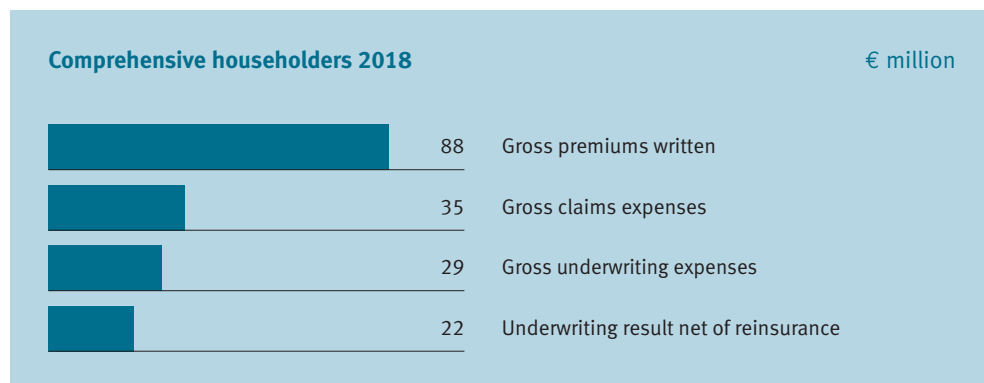


Comprehensive householders

Gross premiums written in comprehensive householders insurance were moderately higher than in the prior year at € 88.3 million (PY: € 87.8 million).

The number of reported claims decreased by 2.7% to 31,082 in the financial year. A moderate increase in average claims was paralleled by an upturn in gross claims expenses to € 34.6 million (PY: € 31.3 million). The gross loss ratio, at 39.3% (PY: 35.6%) remained at a very good level. Gross underwriting expenses totalled € 29.1 million (PY: € 30.1 million).

Net of reinsurance, the underwriting account for comprehensive householders insurance showed a profit of € 21.6 million in the financial year (PY: € 24.3 million).

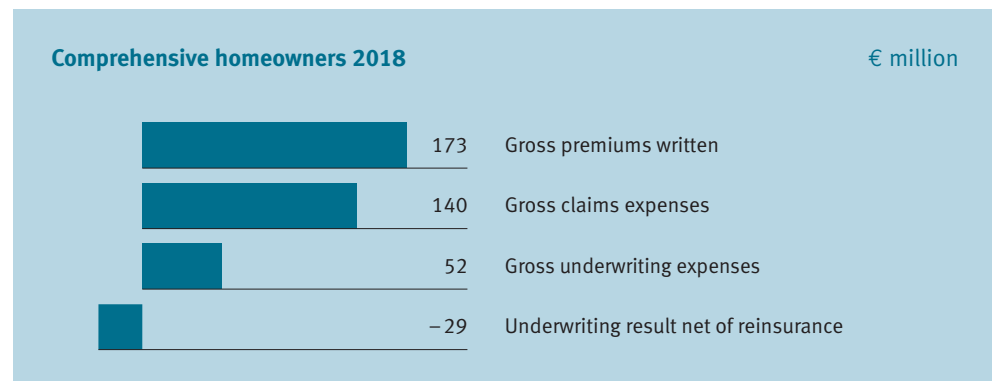
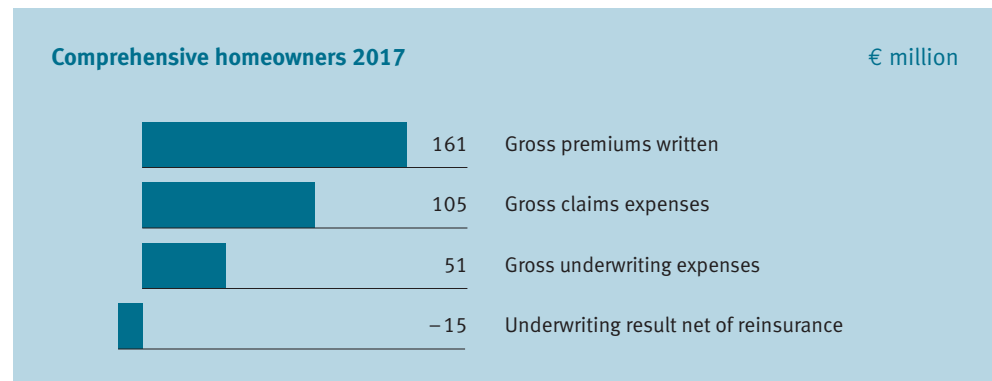


Comprehensive homeowners

As in the prior year, a significant increase was noted in the volume of gross premiums written in comprehensive homeowners insurance. The figure rose by € 11.8 million to € 172.9 million.

Storm and heavy rain events had a very marked impact on performance in comprehensive homeowners insurance. The number of reported claims rose from 56,320 to 63,799. As a result, gross claims expenses increased by € 34.3 million to € 139.5 million. This produced a gross loss ratio of 81.8% (PY: 66.0%). Gross underwriting expenses rose by € 1.5 million to € 52.2 million.

After allowance for reinsurance and an allocation to equalization reserves, the underwriting account thus again showed a loss in the financial year 2018, amounting to € – 28.8 million (PY: € – 15.1 million).



Other property

Other property insurance includes a large group of diverse lines of insurance. Lines that are significant in terms of premium include business interruption, burglary, water damage, glass, storm and extended coverage as well as engineering insurance. Premium income from other property insurance increased by 2.7% to € 239.5 million.

Because of storm events during the financial year as well as a heavier burden of major losses, gross claims expenses increased to € 172.7 million (PY: € 109.6 million). Gross underwriting expenses totalled € 83.5 million after € 80.8 million in the prior year.

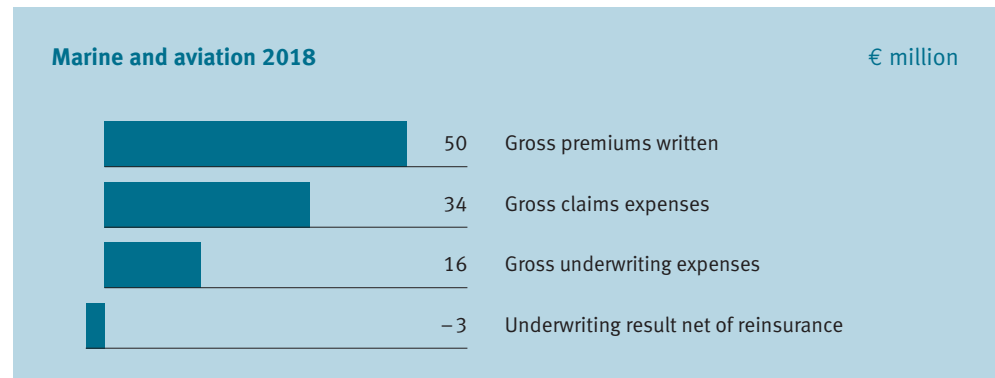
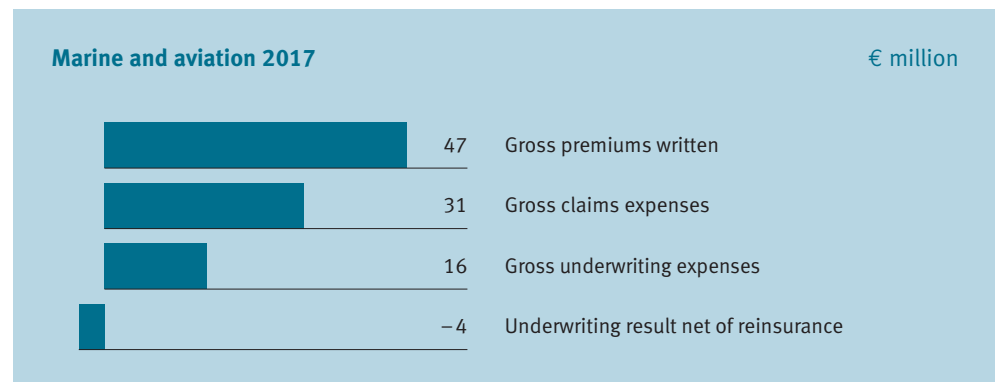
After deduction of reinsurers' shares and transfers to equalization reserves, the underwriting account for the lines of insurance in this group showed a loss of € 19.3 million (PY: € 19.5 million profit).

Marine and aviation

Premium income from marine insurance business rose by € 2.5 million to € 49.9 million in the financial year.

The number of reported claims decreased sharply in the financial year, falling by 12.0% to 5,013. With run-off back to normal in comparison to the prior year and major claims expenses higher, total gross claims expenses rose by € 3.0 million to € 33.6 million. The gross loss ratio thus stood at 67.6% after 64.4% in the prior year. Gross underwriting expenses, at € 15.7 million, were on a par with the prior year.

Net of reinsurance, the underwriting account showed an underwriting loss of € – 3.4 million (PY: € – 4.0 million) after adjustment of equalization reserves.



Other insurance

Other insurance includes credit and surety insurance, motorist assistance insurance products and other lines and types of insurance. They are shown individually in the list of lines and types of insurance offered by the Company at the end of the Management Report. The total volume of gross premiums written in this group of insurance lines increased by € 0.7 million to € 116.3 million. The upturn resulted essentially from all risks business.

Claims experience was also essentially due to all risks business, which was affected by an exceptionally large major loss in the prior year. Without the impact of this extraordinary expense, gross claims expenses for the entire group of other insurance lines fell by € 16.9 million to € 69.5 million. Underwriting expenses decreased marginally, by € 0.5 million to € 33.9 million.

After allowance for reinsurance and an allocation to equalization reserves, these developments resulted in an underwriting profit of € 2.7 million net of reinsurance in the financial year, after a loss of € 6.3 million in the prior year.

Foreign business

Gross premiums from direct foreign business totalled € 43.1 million (PY: € 41.8 million) in the year under review, € 17.4 million of which (PY: € 18.2 million) was generated by our branch operation in France. Our local presence in France is a major prerequisite for the development of renewable energy business. This manifests itself in our market leadership as an insurer of wind power installations.

Insurance cover provided under German policies for risks located in EU member states (FOS-policies) is also treated as foreign business. In the year under review, premiums from FOS business totalled € 25.6 million (PY: € 23.6 million)

Comments on reinsurance business assumed

Premium income from reinsurance business assumed was positively influenced in the prior year by the one-off effect of a change in our business relationship with affiliate Gothaer Towarzystwo Ubezpieczeń S. A. Without that extraordinary factor, gross premium income in the year under review decreased by € 31.6 million to € 178.2 million as anticipated. Claims expenses improved by € 6.3 million to € 111.3 million. After deduction of reinsurers' shares and an allocation to equalization reserves, reinsurance business assumed produced an underwriting profit of € 7.2 million net of reinsurance. This is virtually on a par with the prior year.

List of insurance lines and coverages

Direct written insurance business

- **Accident insurance**
Personal accident, group accident, clinical trials, motor accident, accident insurance with premium return, other general accident insurance
- **Liability insurance**
Personal, employers' and professional malpractice, environmental, property damage, carriers liability, radiation and nuclear plant, fire, marine, inland and river shipping, other liability insurance
- **Motor insurance**
Motor liability, other motor insurance (collision and comprehensive, and partial own damage coverage)
- **Fire insurance**
Fire industrial, agricultural and other fire insurance
- **Aviation insurance**
Aviation hull, spacecraft hull, other aviation insurance
- **Comprehensive householders insurance**
- **Comprehensive homeowners insurance**
- **Marine insurance**
Hull, goods in transit, valuables (commercial), war risk and other marine insurance
- **Credit and surety insurance**
Delcredere insurance
- **Motorist assistance insurance**
Motor travel service
- **Aviation and spacecraft liability insurance**
- **Other property insurance**
Burglary and robbery, water damage, glass, storm, engineering insurance (machinery, electronic, erection and contractor's all risks and other engineering insurance), stock in transit, insurance of extended coverage for fire and fire business interruption insurance (EC), business interruption insurance (fire business interruption, engineering and other business interruption insurance)

- **Other non-life insurance**

Other property damage insurance, other financial loss, other combined insurance, fidelity insurance

Reinsurance business assumed

- **Health insurance**
- **Accident insurance**
- **Liability insurance**
- **Motor insurance**
- **Aviation insurance**
- **Legal expenses insurance**
- **Fire insurance**
- **Comprehensive householders insurance**
- **Comprehensive homeowners insurance**
- **Marine insurance**
- **Aviation and spacecraft liability insurance**
- **Other property insurance**
- **Other non-life insurance**

Membership in associations and similar organizations

Our Company is a member of the following associations:

- Gesamtverband der Deutschen Versicherungswirtschaft e. V., Berlin
- Arbeitgeberverband der Versicherungsunternehmen, Munich
- Wiesbadener Vereinigung, Cologne
- Der Versicherungsombudsmann e. V., Berlin
- Verein Hanseatischer Transportversicherer e. V., Hamburg and Bremen
- Verkehrsofferhilfe e. V., Hamburg

We also belong to the following European associations:

- Fédération Française de l'Assurance (FFA), Paris
- France Énergie Éolienne, Paris
- L'Office franco-allemand pour la transition énergétique (OFATE)
- Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE), Brussels
- Verband der Versicherungsunternehmen Österreichs VVO, Vienna

Employees

Qualified, motivated employees are crucially important for our corporate success. That success is ensured by employees with high competence, intense motivation and exceptional commitment. In view of the ways in which digitalization is transforming business processes and the work environment, human resources will play an increasingly important role in the coming years in helping us steadily strengthen our competitive capacity.

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

Building on the Gothaer 2020 Strategy, the Gothaer Group has adopted a new HR strategy designed to help the Group address changes that typically need to be made in the industry. Particular emphasis is on action in the areas “mobile and flexible working”, “capacity for innovation and change” and “transformational management”. We meet the challenges of mobile and flexible working with home office solutions, modern office concepts and innovative processes and techniques. Digitalization is also a major priority here – one which we address by internal development and external acquisition of necessary qualifications and skills. In view of the need to maximize employees’ capacity for innovation and adaptation, we make special efforts to develop expertise in management and change management. However, interdepartmental networking, integration of agile methodologies in project management and piloting agile organization models are also part of this topic. The new HR strategy thus has a direct influence on the present and future working environment of our employees.

Our efforts are particularly 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. Demographic management, company health management and affirmative action for the advancement of women are also naturally elements of our multi-award winning human resource management.

Gender diversity

Under the “Law for Equal Participation of Women and Men in Leadership Positions within the Private and Public Sector”, Gothaer Allgemeine Versicherung AG is required to set recurrent gender quotas for the Supervisory Board, the Management Board and for one to two tiers of management below the Management Board.

In 2017, the Supervisory Board approved a 33.3% quota target for female membership of the Supervisory Board by 30 June 2020. The mandates reserved for women will be divided equally between the employee and employer sides. The target for the Management Board was set at 0% because of the present composition of the Board.

A target of 10 % was approved for the first and second tier of management below the Management Board.

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

The above statements simultaneously constitute the declarations required for compliance with section 289f paragraph 4 of the German Commercial Code (HGB).

Brand

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

Code of conduct for sales and distribution

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

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

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

Non-financial Declaration

We claim exemption on grounds of group membership under Section 289b (2) of the German Commercial Code (HGB). The Non-financial Declaration is contained in the consolidated financial statements of Gothaer Versicherungsbank VVaG Cologne, in which the Company is included. The consolidated financial statements are published on the Gothaer website (www.gothaer.de) as well as in the Federal Gazette.

Outlook for 2019

Premium income

Our corporate strategy in the property and casualty sector in the coming year will continue to focus on stable and substantial sales performance.

After the restructuring undertaken in 2018, we project appreciable market-level growth in direct written business. Vigorous growth impulses in the private client segment are expected to come from comprehensive homeowners insurance while in the corporate client segment the main drivers will be industrial property, liability and motor insurance.

In private property, liability and accident insurance, the current intense competition on prices and conditions is expected to continue. Against this backdrop, we will take a range of measures to strengthen our growth target. For example, refined householders and multi-risk products will be introduced in 2019. To meet the increasingly exacting requirements of the law and the market, the goal of establishing the Company as a solution-based provider of demand-driven and digitalized retail products has been explicitly enshrined in our strategy. That goal will be supported by the use of strategic cooperations and platforms with a digital focus. Our cooperation with EMIL, a new motor model for low-kilometrage drivers, is an example of this.

On the corporate client side, after the successful launch of our new modular multi-line commercial product Gothaer Gewerbe Protect, we significantly extended the scope of its application last autumn. Against this backdrop, we expect to see marked growth impulses for this product in 2019.

Our sights are set on creating an agile, mobile, cooperative work environment to ensure that we remain an innovative service-provider for our clients. Agile interdisciplinary teams using modern techniques and operating in a flexible, inspirational environment will work together towards specific goals. This will enable us at all times to act flexibly in dynamic market situations and respond swiftly to ever-changing customer requirements.

Premium income from reinsurance business assumed will be significantly influenced this year by the dissolution of a fairly major reinsurance relationship within the Gothaer Group. The volume of premiums in 2019 will be substantially reduced as a result. Our projections for the coming year take account of this lower premium income from assumed reinsurance business.

Claims	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. On the basis of our portfolio structure, we anticipate a significantly lower gross loss ratio in 2019 than the one shaped by the extreme burden of natural event claims in 2018.
Underwriting expenses	With the sustained implementation of efficiency programmes as well as quality improvements in processes, we will achieve significant positive effects in the coming year that will drive down our cost ratio.
Underwriting result	Owing to the level of claims forecast, the gross underwriting result will be distinctly more positive than in the prior year. After the surge in natural event claims in 2018, the gross combined ratio will again be below the 95 % mark.
Investments	Because of the continuing low level of interest rates forecast and the challenges connected with it, we anticipate an appreciable downturn in investment income and net return.
Income before taxes	In view of the projected positive development of underwriting income, we expect the coming year to produce distinctly positive net earnings despite a fall in investment income. After the exceptionally tense claims situation in 2018, we expect total income before taxes to be moderately higher than in the prior year. In the medium term, we expect the Company to generate sustained positive earnings at a high level and thus remain a sound and dependable partner for clients in the future.
Proviso	The forecasts and estimates contained in this annual report were made on the basis of information available at the time. The influencing factors assumed for the purpose of forecasting may develop differently, depending on economic developments, capital market developments, unanticipated major or accumulation losses, changes in the legal or tax environment and changes in the competitive situation of the Company.

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 is geared to the “safety first” principle and value-based management. The operational framework in which the Company accepts risks and does 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

Risk management at Gothaer Allgemeine Versicherung AG is part of the risk management system of the Gothaer Group. It is regarded as a process consisting of five phases:

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

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

To facilitate the Company-wide identification of risks in risk inventories, risk officers have been designated at the operative units to define duties, responsibilities, deputization arrangements and authority for dealing with risks while ensuring separation of functions. They also assess risks in terms of foreseeable damage and probability of occurrence. 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 department of Gothaer Allgemeine Versicherung AG 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-eyes 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.

Gothaer Allgemeine Versicherung AG is also represented in the risk committee established at Group level. Its responsibilities include monitoring risks from a Group perspective by means of an indicator-based early warning system, observing the risk category limits defined in the limit system and further developing uniform cross-Group risk assessment and management methods and processes.

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

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

We see opportunities for the Company in new emerging 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.

The "Expedition GA 2022" project has been launched to meet the challenges of the future. Made up of three pillars – Renewal, Transformation and Cultural Change – it is intended, among other things, to address issues such as digitalization and process optimization and harness the opportunities they offer.

Underwriting risks

Assumption of risk lies at the core of our business activities.

Since we assume that natural events resulting from climate change will continue to influence underwriting risk in the future, we will continue to place greater emphasis on 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 each individual underwriting risk to be separately assessed by Gothaer Risk-Management GmbH.

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 and provisions are calculated on the basis of actuarial models. Both loss reserves and reserve run-off are reviewed on a yearly basis. We are thus able to guarantee the long-term fulfilment of our obligations. To even out fluctuations, we form equalization reserves calculated on the basis of the statutory requirements stipulated for insurers.

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

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

Our corporate client portfolio is well spread across classes of insurance but naturally more exposed to individual risks. It is thus appreciably more volatile than the private client portfolio. As a result, we attach great importance to premiums commensurate with risks and to responsible underwriting. Accordingly, we pay particular attention to ensuring that our underwriters are highly qualified. To ensure long-term high standards here and steadily improve our performance, we have implemented a professional training and young talent concept for underwriters. Here, too, potential risks are limited by binding underwriting guidelines as well as authorization and competency rules for each line of insurance. Because of the competitive dynamics of this segment, professional

supervision is provided to keep a regular check on the relevance and strict observance of underwriting guidelines. In the case of special and particularly large risks, we reduce exposure by involving other insurers as risk partners or concluding risk-specific facultative reinsurance treaties. One of the principal factors of our success in the corporate client segment is profit-oriented portfolio management, which also means that we consciously terminate unprofitable risks or insurance portfolios.

Reinsurance

The natural catastrophes that occurred in the second half of 2017 in North America caused a historically extreme level of damage but did not result in an appreciable global increase in prices in the natural hazards reinsurance market. The renewal of reinsurance treaties on 1 January 2018 in Germany thus proceeded smoothly. Owing to the ongoing high supply of reinsurance capacity, all reinsurance treaties were placed on terms that were regarded by Gothaer as satisfactory.

The structure of the Gothaer reinsurance operation underwent very little change in comparison to 2017. On the one hand, the excess of loss programme covering natural hazard losses was extended to take account of the increased size of the portfolio. On the other, additional cover was secured for more effective reinsurance of possible accumulations within the commercial/industrial liability segment.

Despite the fact that reinsurers shouldered a large prorated portion of the claims volume generated by winter storms “Burglind” and “Friederike”, Gothaer reinsurance cessions produced a positive result for reinsurers in 2018. This was mainly because the incidence of reinsured single losses remained unremarkable overall.

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 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	
2009	67.9	12.2	
2010	68.5	13.1	
2011	66.5	12.6	
2012	66.8	12.5	
2013	70.0	11.3	
2014	67.0	10.8	
2015	69.1	10.4	
2016	67.4	9.7	
2017	62.9	12.3	
2018	69.5	11.6	

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.

Loss of receivables risk

Accounts receivable from policyholders and insurance agents in connection with direct written insurance business totalled € 79.1 million for Gothaer Allgemeine Versicherung AG at balance sheet date. € 23.0 million of the aggregate total of accounts receivable handled by our central collection systems has been due for more than 90 days. The average collection loss (unsuccessful court orders) in the last three years was € 3.2 million, which represented an average of 1.8 ‰ of gross premiums written.

Risks arising from business ceded for reinsurance

We cede reinsurance only to high-class reinsurers. 69 % of our reinsurance premiums are ceded to reinsurers with a rating of AA- or better. Accounts receivable in connection with assumed and ceded reinsurance business totalled € 85.0 million at balance sheet date. Accounts receivable in connection with reinsurance ceded amounted to € 19.0 million. The structure of receivables from reinsurers by rating class was as follows:

Rating class	€ million
AA	12.7
A	4.9
BBB	0.6
Not rated	0.7

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

Investment risks

Risk strategy

The risk strategy for investments derives directly from the business strategy implemented by Gothaer Allgemeine Versicherung AG. At its heart is the guarantee of the Company'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 Company itself are also observed. In the context of diversification and to avoid excessive concentrations of risks, Gothaer Allgemeine Versicherung AG continues 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. Management of market price risks is supported by regular stochastic and deterministic model calculations. The investment portfolio is subjected to stress scenarios at regular intervals in order to measure risk potential.

Simulating interest rate change risk in line with German Accounting Standard DRS 20 A2.14 produced the following result for Gothaer Allgemeine Versicherung AG: a 1 percentage point parallel increase in the interest curve with a modified duration of 5.3 reduced the market value of interest-bearing securities by € 152.7 million (PY: € 164.2 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. The hedge fund portfolio was sold in its entirety and share exposure increased by additions to a mutual fund. Risk capital stress testing (20% downturn in prices) resulted in a fall in market value of around € 105.5 million (PY: € 104.3 million) at balance sheet date.

Real estate markets continued to develop well in 2018, most of them producing high transaction volumes. In view of the attractive long-term investment opportunities available, commitments were entered into in the real estate asset class in order to achieve closer proximity to the strategic target ratio. Because of consistent valuation at market prices and the broad spread of the portfolio, it is anticipated that there will be no need for extraordinary depreciation in the next few years. A price fall of 10% results in a loss of market value of € 31.2 million (PY: € 31.2 million).

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

• **Credit/solvency risk**

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

Credit instruments in the fixed-interest portfolio accounted for around 19.6 % of the total volume of investments by the Company (PY: 22.0 %). At year-end, there was no significant credit risk discernible. The percentage of investments made up of subordinated financials fell to around 0.8 % by market value (PY: 0.9 %). In the coming financial year, too, further defaults on interest – perhaps even on principal – cannot be ruled out in the case of individual subordinated financials. A (partial) default on the principal of PIIS-government bonds (Portugal, Italy, Ireland, Spain) is considered unlikely. Total investment in PIIS-government bonds accounted for around 6.8 % (PY: 7.5 %) of the market value of the investment portfolio. The breakdown by country was as follows: Portugal 0.6 % (PY: 0.6 %), Spain 1.9 % (PY: 1.6 %), Ireland 2.2 % (PY: 2.8 %) and Italy 2.1 % (PY: 2.5 %). At year-end, these investments produced an aggregate unrealized profit of around € 10.1 million (PY: € 9.6 million).

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

Rating class	in %	
	2018	2017
AAA	26.0	21.5
AA+	11.0	9.3
AA	8.4	5.5
AA–	5.1	4.5
A+	7.5	10.3
A	6.7	4.4
A–	6.5	11.2
BBB+	7.1	7.9
BBB	13.2	16.3
BBB–	5.5	4.9
Speculative Grade (BB+ to D)	1.0	2.1
Not rated	2.0	2.1

• Liquidity risk

A viable liquidity planning and management system is a prime requirement for effective investment management. Group-wide liquidity planning, which encompasses both investment and underwriting, 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 at any time during the year under review. In the course of ALM analysis, underwriting commitment flows and the maturities of fixed-interest securities held are compared in a medium- and long-range projection. Owing to the uniform distribution of maturities, no liquidity bottlenecks are foreseen in any of the years considered.

Operational and other risks

IT risks

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

HR risks

The management of HR risks (scarcity, departure, motivation, adaptation and loyalty risks) and the identification and utilization of opportunities are major constituents of Gothaer HR management.

Key points of reference are HR strategy objectives, the economic situation of the Company, change processes within the Group and external factors such as market developments, digitalization and changes in population demographics.

The HR topics of primary importance at present are as follows: acquiring and retaining employees (especially for specialized or key functions), securing skills critical for success and strengthening capacity for change in Group companies. HR work thus focuses on integrated management of the employee portfolio through the use of appropriate HR information and management systems, training and development programmes and employer brand strengthening. At the same time, HR management supports the further development of Group companies with a whole range of divisional change process monitoring programmes, innovative projects such as the development of modern office concepts and increasing digitalization of HR processes and services.

Gothaer faces challenges that are typical for the industry, including challenges connected with the economic development of the insurance market in a low-interest environment, growing regulatory requirements and changes in consumer behaviour. The Group has responded to those challenges with the development of the Gothaer 2020 strategy and a range of major implementation projects, including the EffizienzPlus programme. A very close eye is kept on the adjustment risks connected with those responses. The Change@Gothaer 2020 project is designed in this context to raise capacity for change at Gothaer to a new level. Sustainability, practical relevance, dovetailing with relevant projects for implementing the 2020 strategy and iterative, agile procedures are the principles shaping the design of this project.

The Group Dialogue conducted in 2018 permits a differentiated analysis of the views of employees and management on matters such as corporate strategy, customer orientation, leadership, cooperation and sustained commitment. Consultations of this kind are thus important for the further development of the Group.

Gothaer has extensive experience and professional expertise in change management in many areas. Those assets are being augmented even more by targeted training in change, process and project management.

Gothaer faces challenges that are typical for the industry, e.g. the need to create a multi-channel sales system and to develop solutions against the backdrop of digitalization. This presents HR-related adaptation and scarcity risks at various levels. There is thus a need to develop or procure skills and qualifications for both general application and specific areas of activity. 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. In managing and minimizing such risks, Gothaer focuses specifically on the strategy-relevant core competences of the Company as well as the positions relevant for strategy implementation.

Demographic change also presents major challenges for insurance companies in the acquisition and retention of employees and thus fundamentally increases scarcity and departure risks – even more so in the Cologne local market, with its dense cluster of insurance companies competing for human resources. Gothaer long ago identified these risks both internally (e.g. by calculating scenarios) and externally (e.g. by taking part in employer rankings) and thus possesses an extensive risk management data-base. Gothaer’s enhanced employer marketing activities as well as projects such as “Frauen im Management” (Women in Management) help successfully counter the risks described above.

Regulatory compliance of financial statements

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

By keeping abreast of legislative activity and current case law, we are able to respond promptly to developments and implement change immediately according to the specific circumstances of the Company.

Money laundering

Internal guidelines and checks have been adopted to prevent refund-of-premium accident insurance being used to launder money or finance terrorism. For mortgage loans granted in the past by Gothaer Allgemeine Versicherung AG, run-off is handled centrally. No new mortgage loans are granted. Internal guidelines and hedging measures are also used to minimize risks.

Summary of the risk situation

Gothaer Allgemeine Versicherung AG is both very 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 for Gothaer Allgemeine Versicherung AG comes from natural catastrophes. We hedge that risk through selective reinsurance agreements. Risk controlling is performed by quantitative and qualitative analysis. The control mechanisms, instruments and analytical processes described above ensure effective risk management. The result is a risk profile that is accurate and stable over time.

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

In 2018, Standard & Poor's gave Gothaer Allgemeine Versicherung AG a positive rating for financial stability, awarding a confirmatory A- follow-up rating.

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

Balance Sheet as at 31 December 2018

Assets

	€ thousand	
	2018	2017
A. Intangible assets		
I. Acquired concessions, industrial property rights, similar rights and assets as well as licences for such rights and assets	52,555	57,592
II. Payments in advance	<u>27,622</u>	<u>13,552</u>
	80,177	71,144
B. Investments		
I. Investments in affiliated companies and associates		
1. Shares in affiliated companies	151,995	164,120
2. Loans to affiliated companies	225,000	225,200
3. Investments in associated companies	211,737	176,555
4. Loans to associated companies	<u>7,702</u>	<u>24,509</u>
	596,434	590,384
II. Other investments		
1. Shares, investments in unit trust and funds and other non-fixed-interest securities	1,335,517	1,329,944
2. Bearer bonds and other fixed-interest securities	1,117,496	972,701
3. Mortgages, liens on real property and annuities	1,290	1,454
4. Other loans		
a) Registered bonds	284,699	293,992
b) Promissory notes and loans	132,064	134,431
c) Loans and advance payments on insurance policies	10	24
d) Other miscellaneous loans	<u>13,551</u>	<u>12,736</u>
	430,324	441,183
5. Bank deposits	63,100	145,600
6. Miscellaneous investments	<u>2</u>	<u>2</u>
	2,947,729	2,890,883
III. Deposits made in connection with reinsurance business assumed of which from affiliated companies: € 25,804 thousand (PY: € 26,327 thousand)	<u>26,454</u>	<u>27,027</u>
	3,570,617	3,508,294

Assets

		€ thousand	
		2018	2017
C. Accounts receivable			
I. Accounts receivable in connection with direct insurance business from:			
1. Policyholders	32,609		31,564
2. Insurance agents	<u>46,445</u>		<u>49,543</u>
	79,054		81,107
II. Accounts receivable in connection with reinsurance business of which from affiliated companies: € 63,842 thousand (PY: € 61,328 thousand) of which from associated companies: € 2,219 thousand (PY: 4,986 thousand)			
	85,000		119,960
III. Other accounts receivable			
	<u>52,148</u>		<u>39,865</u>
		216,202	240,931
of which from affiliated companies: € 10,835 thousand (PY: € 14,338 thousand) of which from associated companies: € 91 thousand (PY: € 0 thousand)			
D. Other assets			
I. Tangible assets and inventories			
	2,287		2,480
II. Current credit balances with banks, checks and cash on hand			
	37,916		28,783
III. Miscellaneous assets			
	<u>766</u>		<u>783</u>
		40,968	32,046
E. Prepaid expenses			
I. Prepaid interest and rent			
	25,513		27,549
II. Other prepaid expenses			
	<u>707</u>		<u>501</u>
		26,220	28,050
F. Excess of plan assets over pension liability			
		<u>2,158</u>	<u>2,584</u>
Total assets		3,936,342	3,883,049

Shareholders' equity and liabilities

	€ thousand	
	2018	2017
A. Shareholders' equity		
I. Called-in capital		
Subscribed capital	153,388	153,388
Less outstanding contributions not called in	<u>10,226</u>	<u>10,226</u>
	143,162	143,162
II. Capital reserve	216,256	216,256
III. Revenue reserve		
Statutory reserve	<u>5</u>	<u>5</u>
	359,423	359,423
B. Subordinate liabilities	250,000	250,000
C. Underwriting reserves		
I. Unearned premiums		
1. Gross amount	268,507	266,445
2. less:		
amounts ceded	<u>20,151</u>	<u>18,756</u>
	248,356	247,689
II. Aggregate policy reserve		
1. Gross amount	40,917	44,168
2. less:		
amounts ceded	<u>0</u>	<u>0</u>
	40,917	44,168
III. Reserve for outstanding claims		
1. Gross amount	2,614,817	2,550,562
2. less:		
amounts ceded	<u>345,857</u>	<u>354,484</u>
	2,268,959	2,196,078
IV. Reserve for performance-related and non-performance-related premium refunds		
1. Gross amount	3,796	4,426
2. less:		
amounts ceded	<u>106</u>	<u>101</u>
	3,690	4,325
V. Equalization reserves and similar reserves	414,022	432,319
VI. Other underwriting reserves		
1. Gross amount	7,879	3,843
2. less:		
amounts ceded	<u>-1,316</u>	<u>-1,614</u>
	9,195	5,457
	2,985,140	2,930,036

Shareholders' equity
and liabilities

		€ thousand	
		2018	2017
D. Other accruals			
I. Accruals for pensions and similar obligations	556		612
II. Accruals for taxes	6,240		11,021
III. Miscellaneous accruals	<u>36,071</u>		<u>48,596</u>
		42,867	60,229
E. Deposits held in connection with reinsurance business ceded			
		25,150	31,470
F. Other liabilities			
I. Accounts payable in connection with direct insurance business to			
1. Policyholders	84,578		86,577
2. Insurance agents	<u>12,070</u>		<u>8,209</u>
	96,648		94,787
II. Accounts payable in connection with reinsurance business of which to affiliated companies: € 869 thousand (PY: € 0 thousand)			
	32,812		24,582
III. Miscellaneous liabilities of which:			
for taxes:	<u>144,302</u>		<u>132,523</u>
€ 21,514 thousand (PY: € 18,675 thousand)		<u>273,762</u>	<u>251,892</u>
for social security:			
€ 0 thousand (PY: € 0 thousand)			
toward affiliated companies:			
€ 106,405 thousand (PY: € 96,357 thousand)			
toward associated companies:			
€ 324 thousand (PY: € 3,679 thousand)			
Total shareholders' equity and liabilities		3,936,342	3,883,049

I hereby confirm that the aggregate policy reserve for accident insurance with premium return shown under item C II. under Shareholders' Equity and Liabilities in the amount of € 40,917,134 and the annuity reserve for claims under item C III. in the amount of € 75,486,894 on the face of the balance sheet were calculated in compliance with sections 341f and 341g of the German Commercial Code (HGB) and the statutory instrument issued pursuant to section 88 (3) of the German Insurance Supervision Act (VAG); in the case of older accident insurance policies with premium return within the meaning of section 336 VAG, the aggregate policy reserve was calculated on the basis of the authorized current business plan.

Cologne, 15 March 2019

Dr. Land
Appointed actuary

I hereby certify pursuant to section 128 (5) VAG that the assets recorded in the list of assets have been invested in compliance with legal and regulatory requirements and are kept in proper custody.

Cologne, 15 March 2019

Bertrams
Trustee

Income Statement for the Year Ended 31 December 2018

	€ thousand	
	2018	2017
I. Underwriting account		
1. Earned premiums net of reinsurance		
a) Gross premiums written	1,810,124	1,822,082
b) Reinsurance premiums ceded	<u>244,582</u>	<u>223,661</u>
	1,565,542	1,598,422
c) Change in gross unearned premiums	-2,562	-22,155
d) Change in gross unearned premiums ceded	<u>-1,395</u>	<u>-696</u>
	<u>-1,166</u>	<u>-21,458</u>
	1,564,376	1,576,963
2. Technical interest net of reinsurance	2,641	2,741
3. Other underwriting income net of reinsurance	3,464	2,001
4. Claims expenses net of reinsurance		
a) Claims paid		
aa) Gross amount	1,135,509	1,125,010
bb) Amount ceded	<u>132,231</u>	<u>192,132</u>
	1,003,278	932,878
b) Change in reserve for outstanding claims		
aa) Gross amount	59,473	-10,703
bb) Amount ceded	<u>-8,642</u>	<u>-76,397</u>
	<u>68,115</u>	<u>65,695</u>
	1,071,392	998,573
5. Change in other net underwriting reserves		
a) Net aggregate policy reserve	3,251	2,137
b) Other net underwriting reserves	<u>-3,738</u>	<u>988</u>
	-487	3,125
6. Expenses for performance-related and non-performance-related premium refunds net of reinsurance	3,006	3,156
7. Underwriting expenses net of reinsurance		
a) Gross underwriting expenses	524,801	528,084
b) less:		
commissions and profit sharing received on reinsurance business ceded	<u>62,883</u>	<u>58,679</u>
	461,918	469,405
8. Other underwriting expenses net of reinsurance	<u>13,430</u>	<u>13,109</u>
9. Subtotal	20,246	100,588
10. Change in equalization reserves and similar reserves	<u>18,297</u>	<u>-35,789</u>
11. Underwriting result net of reinsurance	38,543	64,799

€ thousand		
	2018	2017
II. Non-underwriting account		
1. Investment income		
a) Income from investments of which from affiliated companies € 25,359 thousand (PY: € 7,723 thousand)	50,298	22,860
b) Income from other investments of which from affiliated companies € 12,675 thousand (PY: € 12,699 thousand)	74,080	90,206
c) Income from write-ups	2,452	4,430
d) Proceeds from the disposal of investments	<u>29,254</u>	<u>27,972</u>
	156,084	145,467
2. Investment expenses		
a) Cost of portfolio management, interest expenses and other expenses in connection with investments	9,992	9,831
b) Amortization of investments	17,439	23,705
c) Losses from the disposal of investments	10,465	1,362
d) Expenses from loss transfers	<u>0</u>	<u>3,572</u>
	37,896	38,470
	118,188	106,997
3. Technical interest		
		<u>-2,965</u>
		115,223
4. Other income	60,154	68,917
5. Other expenses	<u>97,793</u>	<u>115,372</u>
		<u>-37,639</u>
6. Income before taxes		122,266
7. Taxes on income and tax charged by the controlling company	1,160 <u>41,786</u>	-1,779 <u>47,614</u>
	42,946	45,834
8. Other taxes	<u>163</u>	<u>160</u>
	43,109	45,995
9. Profit transferred on the basis of a profit-transfer or pooling agreement		<u>76,271</u>
	<u>73,018</u>	<u>76,271</u>
10. Net income for the year	0	0

Notes to the Financial Statements

Accounting and Valuation Policies

Introduction

The 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 Insurance Accounting Regulation (RechVersV).

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

Currency translation

Foreign currency positions have been translated into euros at the foreign exchange reference rate as at balance sheet date.

Intangible assets

Internally generated intangible assets recognized as fixed assets have not been capitalized. Acquired intangible assets are recognized at cost less straight-line depreciation based on an anticipated economic life of 3 to 10 years for the relevant asset.

Investments

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.

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 with equity characteristics and a fixed income 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. Differences between the cost and repayment amount of these securities are amortized by the effective interest method as a matter of principle.

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

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

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

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

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

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

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

Valuation units between investments exposed to a foreign exchange risk (underlying transactions) and foreign exchange sale contracts (hedging instruments) are formed in the same currency. The valuation units exist for the 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 285 no. 23 HGB (disclosures on valuation units) in the notes to the financial statements in this report.

Bank deposits are carried at nominal value.

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

Deposits with ceding companies are recognized at nominal value.

Accounts receivable in connection with direct insurance business

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

Tangible assets and inventories

Operating and office equipment was capitalized at cost less straight-line depreciation based on an anticipated economic life of 2 to 15 years for the assets. Low-cost assets with a cost value up to € 250 were written down directly. Inventories were carried at cost.

Surplus from offsetting

The surplus is stated at fair value.

Other assets

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

Underwriting reserves

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

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 methods are applied to a limited extent. In the engineering and marine insurance lines, the flat-rate method was used to quantify unearned premiums. The costs that need to be deducted from unearned premiums were calculated in accordance with the BdF decree of 30 April 1974. Reinsurers' shares were established on the basis of contractual agreements.

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 and the annuity reserves were determined in compliance with the relevant legal provisions, in particular the German Insurance Accounting Regulation (RechVersV). They were certified by the appointed actuary underneath the balance sheet. Aggregate policy reserves were determined on the basis of individual policies using the prospective method and taking into account future expenses. Reported losses incurred and losses incurred but not reported (IBNR) were 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 policy reserve (Zinszusatzreserve) is formed for policies where actuarial interest is above the reference interest rate. For new policies, the additional policy reserve 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 (with the exception of annuities) included in the reserves for outstanding claims in connection with direct insurance business was determined on the basis of the anticipated requirement and calculated individually. The reserve for losses incurred but not yet reported was 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 on the basis of the letter from the Federal Ministry of Finance dated 2 February 1973.

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

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

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

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

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

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

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

The reserve for obligations in connection with membership in “Verkehrsofferhilfe 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 is based on a general allowance pursuant to article 9 of the Fire Business Interruption Insurance Conditions (FBUB).

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

Reinsurers’ shares of underwriting liabilities are determined on the basis of the respective reinsurance treaties.

Accruals for pensions and similar obligations

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 (RückAbzinsV), 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 3.21 %
- Wage and salary trend 2.20 %
- Pension progression rate 1.60 %
- Fluctuation
 - up to age 35 6.00 %
 - up to age 45 3.00 %
 - up to age 60 1.00 %

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

Miscellaneous accruals

The reserve for obligations in connection with pre-retirement employment agreements was determined by applying actuarial principles. Calculation was based on the 2018 G mortality tables developed by Prof. Dr. Klaus Heubeck, taking account of a wage and salary trend of 2.20 % and actuarial interest of 0.97 %.

Accruals for taxes and all other reserves were recognized at the settlement amount dictated by prudent business judgement. Reserves with a residual term of more than a year were discounted over the rest of their life at the average rate of market interest over the last seven years.

Other liabilities

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

Notes to the Balance Sheet

Assets

**Changes in assets
(items A, B I. and B II.)
in the financial year
2018 ¹⁾**

	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	57,592
2. Payments in advance	13,552
3. Subtotal A.	71,144
B I. Investments in affiliated companies and associates	
1. Shares in affiliated companies	164,120
2. Loans to affiliated companies	225,200
3. Investments in associated companies	176,555
4. Loans to associated companies	24,509
5. Subtotal B I.	590,384
B II. Other investments	
1. Shares, investments in unit trusts and funds and other non-fixed-interest securities	1,329,944
2. Bearer bonds and other fixed-interest securities	972,701
3. Mortgages, liens on real property and annuities	1,454
4. Other loans	
a) Registered bonds	293,992
b) Promissory notes and loans	134,431
c) Loans and advance payments on insurance policies	24
d) Other miscellaneous loans	12,736
5. Bank deposits	145,600
6. Miscellaneous investments	2
7. Subtotal B II.	2,890,883
Total	3,552,411

¹⁾ Exchange rate gains and losses in connection with the translation of carryforwards at 1 January are recognized as additions and disposals respectively.

					in Tsd. EUR
Additions	Reclassifications	Disposals	Reversals	Amortization	Carrying amounts Financial year
0	4,522	0	0	9,560	52,555
18,592	-4,522	0	0	0	27,622
18,593	0	0	0	9,560	80,177
46,319	-2,741	56,593	928	38	151,995
2,865	0	3,065	0	0	225,000
16,582	48,064	30,014	1,524	974	211,737
256	0	17,063	0	0	7,702
66,022	45,323	106,736	2,452	1,012	596,434
98,825	-45,323	31,501	0	16,428	1,335,517
426,209	0	281,413	0	0	1,117,496
0	0	164	0	0	1,290
599	0	9,893	0	0	284,699
18	0	2,385	0	0	132,064
2	0	16	0	0	10
2,672	0	1,857	0	0	13,551
0	0	82,500	0	0	63,100
0	0	0	0	0	2
528,325	-45,323	409,729	0	16,428	2,947,729
612,939	0	516,464	2,452	26,999	3,624,339

Carrying amounts and fair value of investments

	€ thousand		
	Carrying amount	Fair value	Valuation reserves
B.I. Investments in affiliated companies and associates			
1. Shares in affiliated companies	151,995	163,997	12,001
2. Loans to affiliated companies	225,000	242,828	17,828
3. Investments in associated companies	211,737	244,996	33,259
4. Loans to associated companies	7,702	7,702	0
B.II. Other investments			
1. Shares, investments in unit trusts and funds and other non-fixed-interest securities	1,335,517	1,335,647	130
2. Bearer bonds and other fixed-interest securities	1,117,496	1,151,555	34,059
3. Mortgages, liens on real property and annuities	1,290	1,339	49
4. Other loans			
a) Registered bonds	284,699	314,503	29,804
b) Promissory notes and loans	132,064	136,619	4,555
c) Loans and advance payments on insurance policies	10	11	1
d) Other miscellaneous loans	13,551	13,973	422
5. Bank deposits	63,100	63,100	0
6. Miscellaneous investments	2	2	0
B.III. Deposits in connection with reinsurance business assumed	26,454	26,454	0
Total	3,570,617	3,702,725	132,108

B II. 1. and 2. include investment fund certificates, bearer bonds and other fixed-interest securities with a carrying amount of € 2,229,453 thousand that are classified as long-term assets pursuant to section 341b (2) HGB. The fair value of these assets comes to a total € 2,249,000 thousand. Hidden liabilities amounted to € 23,748 thousand.

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

Total investments included for purposes of payment of surplus bonuses

In the case of accident insurance with premium refunds, investments carried at a cost of € 58,967 thousand with a fair value of € 63,945 thousand are included for purposes of payment of surplus bonuses. As of 31 December 2018, the difference between cost and fair value came to € 4,978 thousand.

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

		€ thousand	
		Carrying amount	Fair value
B.II.1.	Investment fund certificates with a fixed income	92,910	92,628
B.II.1.	Mixed investment fund certificates	1,619	1,565
B.II.1.	Investment fund certificates with equity characteristics	150,712	132,796
B.II.2.	Bearer bonds	88,930	83,435
B.II.4.b)	Promissory notes and loans	32,431	29,992

In the case of mixed investment fund certificates, depreciation was waived because impairment was temporary and due solely to the J-curve effect.

In the case of investment fund certificates with equity characteristics, depreciation was waived because impairment was temporary and due solely to normal market fluctuations in share prices.

In the case of investment fund certificates with a fixed income, bearer bonds, registered bonds and loans, 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. I. 1.	Shares in affiliated companies		3,780	3,802
	Forward currency sales	4,350 TUSD		-22
	Forward currency purchases	0 TUSD		0
	Portfolio valuation unit	4,350 TUSD	3,780	3,780
B. I. 3.	Investments in associated companies		53,789	75,158
	Forward currency sales	87,790 TUSD		-394
	Forward currency purchases	1,440 TUSD		2
	Portfolio valuation unit	86,350 TUSD	53,789	74,766
B. I. 3.	Investments in associated companies		15,044	14,998
	Forward currency sales	12,130 TGBP		405
	Forward currency purchases	0 TGBP		0
	Portfolio valuation unit	12,130 TGBP	15,044	15,403
B. I. 3.	Investments in associated companies		22,338	25,248
	Forward currency sales	7,480 TDKK		1
	Forward currency sales	21,230 TNOK		91
	Forward currency sales	2,870 TGBP		96
	Portfolio valuation unit		22,338	25,436
B. II. 2.	Bearer bonds		26,785	23,107
	Forward currency sales	31,000 TUSD		-156
	Micro valuation unit		26,785	22,951
B. II. 4. d)	Other loans		3,395	3,396
	Forward currency sales	3,970 TUSD		2
	Forward currency purchases	90 TUSD		-1
	Portfolio valuation unit	3,880 TUSD	3,395	3,397

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

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

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

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

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

€ thousand					
Type of fund/ investment objective	Carrying amount	Fair value	Difference	Payout	Redemption option
Equity fund	150,712	132,796	- 17,916	4,939	daily
Pension fund	962,606	966,256	3,649	18,681	daily or within one month
Property fund	97,860	109,184	11,324	4,253	daily or within max. six months
Other	84,965	85,481	517	0	daily

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

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

Shareholders' equity and liabilities

Shareholders' equity

€ thousand		
	2018	2017
I. Called-in capital		
Subscribed capital	153,388	153,388
Less outstanding contributions not called in	10,226	10,226
<p>The subscribed capital in the amount of € 153,387,564.36 consists of 300,000 registered shares of € 511.29 each (see bylaws of 19.12.2011). Gothaer Finanzholding AG has informed our Company that it controls a majority of the voting rights pursuant to section 20 (4) AktG.</p>		
Total	143,162	143,162
II. Capital reserve	216,256	216,256
of which pursuant to section 272 (2) no. 4 HGB	51,821	51,821
III. Revenue reserve		
Statutory reserve	5	5
Total	359,423	359,423

Gross underwriting reserves

€ thousand		
	2018	2017
Accident	362,718	379,065
Liability	1,161,700	1,145,424
Motor liability	617,798	621,622
Other motor	27,792	28,751
Fire and property:	613,937	574,190
Of which		
Fire	105,990	116,473
Comprehensive householders	41,430	40,039
Comprehensive homeowners	182,653	167,245
Other property	283,864	250,434
Marine and aviation	75,812	71,545
Other insurance	114,045	113,849
Direct insurance business	2,973,801	2,934,446
Reinsurance business assumed	376,137	367,317
Total	3,349,938	3,301,762

**Of which
gross reserves for
outstanding claims**

	€ thousand	
	2018	2017
Accident	271,431	268,253
Liability	1,029,598	1,009,852
Motor liability	536,048	542,778
Other motor	23,581	26,570
Fire and property:	388,687	345,172
Of which		
Fire	86,508	89,063
Comprehensive householders	15,490	14,399
Comprehensive homeowners	77,066	67,582
Other property	209,623	174,128
Marine and aviation	56,111	53,096
Other insurance	96,614	96,492
Direct insurance business	2,402,070	2,342,214
Reinsurance business assumed	212,746	208,348
Total	2,614,817	2,550,562

The evaluation of the figures of gross reserves for outstanding claims has taken into account salvage, subrogation and loss sharing agreements in the amount of € 8,031 thousand (PY: € 8,158 thousand).

**Reserve for
performance-related
and non-performance-
related premium refunds**

	€ thousand	
Performance-related	2018	2017
Opening balance	712	1,104
Withdrawals	497	557
Additions	260	164
Final balance	475	712

The reserve for premium refunds in connection with accident insurance with premium return includes

- € 172 thousand (PY: € 170 thousand) for current surplus bonuses that have already been fixed but not yet distributed
- € 36 thousand (PY: € 43 thousand) for terminal bonuses that have already been fixed but not yet distributed
- € 1 thousand (PY: € 23 thousand) for amounts that have already been fixed but not yet distributed for participation in valuation reserves

The terminal bonus fund amounts to € 228 thousand (PY: € 232 thousand).

The terminal bonus fund is calculated for each individual policy. The value of the terminal bonus fund per policy is the discounted final value of terminal bonuses, the final value being the sum of eligible return premiums multiplied by the terminal bonus rate declared. The discount rate is 2.5 %.

The following rates apply for surplus bonuses due in the calendar year 2019 on the basis of contractual provisions. Where rates have changed against 2018, the prior-year rates are shown in brackets:

• **Old policies**

Interest on bonus	5.00 % (4.25 %)	on the eligible aggregate policy reserve of basic insurance
	1.50 % (0.75 %)	on the eligible aggregate policy reserve of bonus insurance
Basic bonus	6.00 %	on the annual return premium
Terminal bonus	30.00 % (15.00 %)	on total eligible return premiums

• **New policies**

Policies with rates BR-E, BR-K, BR-S, BR/E, BR/K, BR/S

Interest on bonus	0.00 %	on the eligible aggregate policy reserve
Basic bonus	0.00 %	on the annual return premium
Terminal bonus	0.00 %	on total eligible return premiums

Policies with rates BR#E, BR#K, BR#S

Interest on bonus	0.00 %	on the eligible aggregate policy reserve of basic insurance
	0.00 %	on the eligible aggregate policy reserve of bonus insurance
Basic bonus	0.00 %	on the annual return premium
Terminal bonus	0.00 %	on total eligible return premiums

Policies with rates BRE1, BRK1, BRS1, BRT1

Interest on bonus	0.00 %	on the eligible aggregate policy reserve of basic insurance
	0.00 %	on the eligible aggregate policy reserve of bonus insurance
Basic bonus	0.00 %	on the annual return premium
Terminal bonus	0.00 %	on total eligible return premiums

Policies with rates BRE2, BRK2, BRS2, BRT2

Interest on bonus	0.00 %	on the eligible aggregate policy reserve of basic insurance
	0.00 %	on the eligible aggregate policy reserve of bonus insurance
Basic bonus	0.00 %	on the annual return premium
Terminal bonus	0.00 %	on total eligible return premiums

Increase in policy reserve for interest rate risk (Zinszusatzreserve) As of the financial year 2011, the German Policy Reserve Ordinance (DeckRV) requires that a calculation be performed comparing guaranteed interest rates with an average current yield of public investments. Where guaranteed interest rates are higher than the current yield, an additional policy reserve needs to be formed for the relevant insurance policies. The funds required for this are charged on net profit for the year and are thus no longer available for surplus bonuses. The amount of surplus bonus rates determined takes account of this subject to all supervisory regulations and contractual arrangements.

In the financial year, all refund-of-premium accident insurance policies were affected.

This additional policy reserve (Zinszusatzreserve) is not assigned to individual policies but to the relevant portfolio on a flat-rate basis.

Participation in valuation reserves

Since 1 January 2008, holders of accident insurance with premium return policies have participated in the valuation reserves of the guarantee assets for accident insurance with premium return. Guarantee assets for accident insurance with premium return represent part of the investment portfolio of Gothaer Allgemeine Versicherung AG that serves to secure the claims of holders of accident insurance with premium refund policies. In the case of investments, application of valuation rules results in valuation reserves (non-realized profit) or valuation deficits (non-realized losses). In line with section 153 of the German Insurance Contract Act (VVG), policyholders participate in any positive balance of valuation reserves and valuation deficits (less the security [Sicherungsbedarf] required by Section 139 of the Insurance Supervision Act (VAG) for the deregulated portfolio) on the basis of causation. The principles applied to determine participation, which are based on the proposal of the German Insurance Association (GDV), are presented below.

Where the term “valuation reserves” is used below, it always means the net balance of valuation reserves and deficits (less the security [Sicherungsbedarf] required by Section 139 of the Insurance Supervision Act (VAG) for the deregulated portfolio) subject to the exclusion of any negative balance.

Eligible policies

All accident insurance with premium return policies are eligible.

Time of irrevocable allocation of valuation reserves	A share of the valuation reserves is allocated to the insurance policy upon termination.
Determination of valuation reserves available for distribution	<p>The valuation reserves available for distribution are determined by multiplying the entire valuation reserves of the guarantee assets for accident insurance with premium return policies by the ratio of the sum of interest-bearing equity and liabilities items exclusive of the non-allocated reserve for premium refunds to the sum of the guarantee assets for accident insurance with premium return policies. The interest-bearing equity and liabilities items include:</p> <ul style="list-style-type: none"> • the aggregate policy reserve (exclusive of prefinancing) less amounts due to policyholders (not yet payable) • unearned premiums • reserve for premium refunds (gross) • accrual for outstanding surrenders • liabilities to policyholder
Allocation of valuation reserves upon maturity of policies	The valuation reserves as of the first trading date of the month preceding the month in which a policy matures are used for the purpose of calculating the amount of the distribution to policyholders. (For example, the valuation reserves as of 11 February are taken for purposes of calculating the amount of distribution in the case of a policy that matures on 2 January, assuming that the latter is a trading day.)
Allocation of valuation reserves available for distribution upon maturity of policies	Valuation reserves are allocated to the individual eligible policies as a function of experience on the basis of distribution factors that determine the respective share of the valuation reserves. The distribution factors for the individual policies are determined once a year in November with effect from the reporting date. The factors are valid for the following calendar year.
Distribution factor of a policy	The distribution factor of a policy is based on the ratio of the policy assets to the assets of all active policies at the end of the financial year. The assets of a policy at the end of the financial year are based on the sum of the assets at the end of the previous financial year and the positive aggregate policy reserve (exclusive of prefinancing) of the policy at the end of the financial year. The aggregate policy reserve (exclusive of prefinancing) includes the rate reserve and the bonus reserve.
Distribution of valuation reserves upon maturity of policies	An amount equal to 50% of valuation reserves available for distribution multiplied by the distribution factor of the policy is distributed upon maturity.

Equalization reserves and similar reserves

	€ thousand	
	2018	2017
Accident Liability	28,176	44,299
Motor liability	73,076	77,656
Other motor	77,010	74,854
Fire and property:	2,022	192
Of which	112,326	120,516
Fire	10,052	18,533
Comprehensive householders	0	0
Comprehensive homeowners	65,151	61,597
Other property	37,123	40,386
Marine and aviation	13,288	12,069
Other insurance	2,324	1,196
Direct insurance business	308,222	330,782
Reinsurance business assumed	105,800	101,536
Total	414,022	432,319

Other accruals

The difference resulting from the valuation of pension accruals and similar obligations totals € 78 thousand (PY: € 84 thousand).

	€ thousand	
	2018	2017
III. Miscellaneous accruals for:		
Pre-retirement employment	5,007	3,290
Anniversary payments	0	11,074
Social plans/severance payments	9,473	16,945
Bonuses	11,439	8,736
Leave/Time credits	2,075	1,946
Employer's liability insurance contributions	452	430
Compensatory levy (disabled employment)	2	2
Sales remuneration	743	143
Financial statement expenses	564	585
Interest commitments	3,952	2,734
Legal disputes	440	347
Anticipated losses	1,926	2,366
Total	36,071	48,596

Offsetting of assets and liabilities

In line with section 246 (2) sent. 2 HGB, plan assets of € 7,085 thousand (PY: € 5,866 thousand) have been offset against corresponding pension obligations of € 9,933 thousand (PY: € 6,572 thousand). The fair value of the plan assets offset is equal to value at cost.

Other liabilities

Other liabilities include advance payments on future income from shareholdings in commercial partnerships totalling € 0 thousand (PY: € 2,380 thousand).

Notes to the Income Statement

Gross premiums written

	€ thousand	
	2018	2017
Accident	138,084	139,288
Liability	344,992	356,376
Motor liability	239,661	235,848
Other motor	158,503	153,484
Fire and property:	584,516	564,353
Of which		
Fire	83,801	82,314
Comprehensive householders	88,293	87,769
Comprehensive homeowners	172,942	161,179
Other property	239,481	233,092
Marine and aviation	49,926	47,408
Other insurance	116,264	115,584
Direct insurance business	1,631,947	1,612,342
Reinsurance business assumed	178,177	209,740
Total	1,810,124	1,822,082

Gross premiums earned

	€ thousand	
	2018	2017
Accident	138,191	139,322
Liability	345,810	357,018
Motor liability	239,590	235,857
Other motor	158,430	153,488
Fire and property:	580,706	562,283
Of which		
Fire	83,292	82,197
Comprehensive householders	88,118	88,020
Comprehensive homeowners	170,692	159,466
Other property	238,604	232,600
Marine and aviation	49,773	47,621
Other insurance	117,594	113,187
Direct insurance business	1,630,093	1,608,776
Reinsurance business assumed	177,469	191,152
Total	1,807,562	1,799,928

Net premiums earned

	€ thousand	
	2018	2017
Accident	137,175	138,391
Liability	302,276	316,234
Motor liability	205,415	205,248
Other motor	133,913	132,077
Fire and property:	465,868	457,556
Of which		
Fire	49,039	50,813
Comprehensive householders	87,777	87,693
Comprehensive homeowners	144,203	135,915
Other property	184,849	183,135
Marine and aviation	48,469	46,421
Other insurance	99,597	96,774
Direct insurance business	1,392,713	1,392,701
Reinsurance business assumed	171,663	184,262
Total	1,564,376	1,576,963

Technical interest net of reinsurance

In the area of direct insurance business, the technical interest was calculated on the basis of the annuity reserve and the premium policy reserve. The return on the reserve for annuities was calculated on the basis of 1.75 %, 2.25 % or, as the case may be, 2.75 % of the arithmetic average of the balance of the reserve at the beginning and end of the period.

In the case of accident insurance with premium return, the technical interest represents income from investments less the corresponding direct expenses incurred in connection with the related guarantee assets.

The ceded interest on annuity reserves corresponds to the interest paid on deposits. In the area of reinsurance assumed, deposit interest was recognized on the basis of information received from the cedants.

Gross claims expenses

	€ thousand	
	2018	2017
Accident	74,302	69,865
Liability	196,847	197,218
Motor liability	176,214	178,627
Other motor	129,484	133,359
Fire and property:	403,675	300,576
Of which		
Fire	56,866	54,324
Comprehensive householders	34,591	31,321
Comprehensive homeowners	139,549	105,291
Other property	172,670	109,641
Marine and aviation	33,636	30,659
Other insurance	69,548	86,466
Direct insurance business	1,083,705	996,771
Reinsurance business assumed	111,276	117,536
Total	1,194,982	1,114,308

Gross claims expenses include claims expenses in the financial year and the result of loss adjustment from reserves for outstanding claims taken over from the previous year (gross in each case). Profit on adjustments represents 9.8 % (PY: 10.3 %) of the reserve at the beginning of the period.

Expenses for performance-related and non-performance-related premium refunds net of reinsurance

	€ thousand	
	2018	2017
Performance-related	260	164
Non-performance-related	2,738	2,919
Direct insurance business	2,998	3,083
Reinsurance business assumed	8	73
Total	3,006	3,156

Gross underwriting expenses

	€ thousand	
	2018	2017
Accident	47,375	47,993
Liability	121,656	124,872
Motor liability	39,358	38,309
Other motor	26,624	25,491
Fire and property:	188,800	186,688
Of which		
Fire	24,025	25,164
Comprehensive householders	29,060	30,069
Comprehensive homeowners	52,226	50,692
Other property	83,490	80,763
Marine and aviation	15,744	15,682
Other insurance	33,868	34,394
Direct insurance business	473,425	473,429
Reinsurance business assumed	51,376	54,655
Total	524,801	528,084

Gross underwriting expenses include acquisition expenses of € 247,810 thousand (PY: € 237,118 thousand) and administrative expenses of € 276,990 thousand (PY: € 290,966 thousand).

Net for reinsurance business

(– = credit to reinsurers)

	€ thousand	
	2018	2017
Accident	– 287	– 784
Liability	– 13,339	– 13,297
Motor liability	– 8,563	73
Other motor	– 4,315	– 2,988
Fire and property	– 15,715	– 25,593
Marine and aviation	– 1,043	– 1,180
Other insurance	– 10,115	– 438
Direct insurance business	– 53,377	– 44,207
Reinsurance business assumed	– 3,338	– 4,344
Total	– 56,715	– 48,551

**Underwriting result
net of reinsurance**

	€ thousand	
	2018	2017
Accident	37,353	17,266
Liability	18,324	13,205
Motor liability	13,072	28,639
Other motor	- 3,940	- 5,461
Fire and property:	- 32,745	14,116
Of which		
Fire	- 6,231	- 14,604
Comprehensive householders	21,647	24,328
Comprehensive homeowners	- 28,830	- 15,059
Other property	- 19,331	19,452
Marine and aviation	- 3,442	- 3,996
Other insurance	2,714	- 6,314
Direct insurance business	31,336	57,454
Reinsurance business assumed	7,207	7,344
Total	38,543	64,799

**Number of direct
insurance policies with
a residual term of at
least one year**

	PIF	
	2018	2017
Accident	700,030	710,524
Liability	1,669,615	1,668,515
Motor liability	884,935	885,558
Other motor	686,746	687,773
Fire and property:	1,706,510	1,661,226
Of which		
Fire	107,250	103,958
Comprehensive householders	760,509	773,177
Comprehensive homeowners	346,599	336,334
Other property	492,152	447,757
Marine and aviation	24,150	23,280
Other insurance	612,947	600,388
Total	6,284,933	6,237,264

Investment expenses	Amortization of investments includes non-scheduled depreciation of € 15,951 thousand (PY: € 12,729 thousand).
Other income	Other income includes € 2,101 thousand (PY: € 475 thousand) resulting from currency translations.
Other expenses	Other expenses include € 3,716 thousand (PY: € 2,704 thousand) resulting from compounding of other reserves and € 255 thousand (PY: € 4,125 thousand) from currency translations.
Offsetting of income and expenses	In line with the offsetting of retirement pension commitments and the corresponding plan assets, related expenses of € 3,551 thousand (PY: € 3,549 thousand) were offset against related income of € 3,551 thousand (PY: € 3,483 thousand) as stipulated in section 246 (2) sent. 2 HGB.

Other disclosures

List of holdings

€ thousand					
Name	City of domicile	Country of domicile	Equity interest in %	Shareholders' equity	Year result
Aberdeen Asia Pacific II, L.P.	George Town	KY	5.3	152,122	18,536
Accession Mezzanine Capital III L.P.	St. Helier	JE	3.4	122,417	11,547
Achmea B.V.	Zeist	NL	0.5	9,941,000	215,000
Advanced Laser Separation International N.V. (i.L.)	Beuningen	NL	5.6	n/a	n/a
Aquila Capital Wasserkraft Invest GmbH	Hamburg	DE	25.6	9,446	- 826
Aquila GAM Funds S.A.	Senningerberg	LU	25.6	81,142	3,147
Behrman Capital PEP L.P.	Wilmington	US	1.0	622,438	169,667
Behrman Capital IV, L.P.	Wilmington	US	4.9	194,106	47,145
Caerus Real Estate Debt Lux. S.C.A., SICAV-SIF – Fund III	Luxemburg	LU	6.4	142,994	6,189
Curzon Capital Partners IV L.P.	London	GB	4.9	548,820	106,373
EMF NEIF I (A) L.P.	London	GB	8.4	37,066	410
EPISO III, L.P.	London	GB	1.3	767,194	106,519
EPISO IV, L.P.	London	GB	1.5	698,591	32,243
European Property Investors Special Opportunities, L.P.	Edinburgh	GB	1.3	212,566	732
Falcon Strategic Partners V (Cayman), L.P.	George Town	KY	12.4	78,323	11,051
FirstMark Capital III L.P.	Wilmington	US	3.4	216,877	42,660
FirstMark Capital II, L.P.	Wilmington	US	13.3	296,110	18,904
GDV Dienstleistungs-GmbH	Hamburg	DE	1.1	26,529	- 515
GG-Grundfonds Vermittlungs GmbH	Cologne	DE	100.0	- 16,939	- 15
GoldPoint Partners Co-Investment V, L.P.	Wilmington	US	4.4	663,696	114,757
Gothaer Erste Kapitalbeteiligungsgesellschaft mbH	Cologne	DE	20.4	49,919	9,981
Gothaer Vierte Kapitalbeteiligungsgesellschaft mbH	Cologne	DE	19.9	27,907	17,126
Hydro GAM Invest I S.à.r.l.	Luxemburg	LU	25.6	9,609	- 5,160
Ideal Enerjo Üretimi Sanayi Ve Ticaret A.S.	Erzurum	TUR	6.7	23,898	2,776
Janitos Versicherung AG	Heidelberg	DE	100.0	16,398	154
KILOS Beteiligungs GmbH & Co. Vermietungs-KG	Pöcking	DE	93.1	60,570	4,506
Nuveen Immobilien GmbH & Co. GB I KG	Frankfurt a.M.	DE	3.3	20,888	2,759
NYLCAP 2010 Co-Invest L.P.	New York	US	39.6	12,330	4,801
NYLCAP Mezzanine Partners III 2012 Co-Invest, L.P.	Wilmington	US	38.0	33,938	3,804

€ thousand					
Name	City of domicile	Country of domicile	Equity interest in %	Shareholders' equity	Year result
PE Holding USD GmbH	Cologne	DE	40.0	217,389	16,157
PineBridge Secondary Partners III L.P.	Wilmington	US	4.5	153,667	22,299
PineBridge Secondary Partners IV Feeder, SLP	Luxemburg	LU	4.2	30,707	3,861
Praesidian Capital Bridge Fund, L.P.	Wilmington	US	8.0	49,264	5,659
Praesidian Capital Opportunity Fund III-A, L.P.	Wilmington	US	13.1	44,243	1,165
Rocket Internet Capital Partners (Euro) SCS	Luxemburg	LU	2.6	139,611	17,726
ROLAND Rechtsschutz Beteiligung GmbH	Cologne	DE	10.0	20,281	1,002
SilkRoad Asia Value Parallel Fund, SICAV-SIF	Luxemburg	LU	6.3	298,021	56,187
Surface Technologies GmbH & Co. KG	Potsdam	DE	6.7	15,700	707
W. Classen GmbH & Co. KG	Kaisersesch	DE	10.0	74,214	2,149
WAI S.C.A., SICAV- FIS / Private Equity Secondary 2008	Luxemburg	LU	4.5	48,816	-4,686
ZIPPEL COMMUNICATIONS GmbH	Elsdorf-Heppendorf	DE	9.2	-30,557	-184
ZIPPEL NetMarket GmbH	Elsdorf-Heppendorf	DE	25.9	-5,175	990

The figures relate to the last financial year for which annual financial statements were available. Financial statements in foreign currencies were translated into euro at the average spot exchange rate at balance sheet date.

The option set out in section 286 (3) no. 1 of the German Commercial Code (HGB) was exercised.

Commissions and other remuneration of insurance agents, personnel expenses

	€ thousand	
	2018	2017
1. Commissions of insurance agents within the meaning of section 92 HGB in connection with direct insurance business	330,962	333,608
2. Other remuneration of insurance agents within the meaning of section 92 HGB	988	632
3. Wages and salaries	112,637	132,143
4. Social security contributions and employee benefits	19,187	19,416
5. Post retirement benefits	9,558	6,798
6. Total expenses	473,332	492,596

Liabilities

Total liabilities with a residual term of more than 5 years come to € 250 million (PY: € 250 million).

Members of the Supervisory Board and Management

The names of the members of the Supervisory Board and Management are provided at the beginning of this report.

No remuneration was paid to the Management. Retirement benefits, survivors' benefits and other remuneration for former members of Management amounted to € 572 thousand. Provisions for pension benefits for this group of individuals total € 9,710 thousand.

Remuneration paid to the Supervisory Board came to € 540 thousand; remuneration for the Advisory Board totalled € 13 thousand.

No loans were granted to members of Management or the Supervisory Board.

Total fee for the statutory auditor

The total fee charged by the statutory auditors for the financial year is reported in the consolidated financial statement of Gothaer Versicherungsbank VVaG, Cologne, in which the financial statement of the Company is included.

Human resources on average

Gothaer Allgemeine Versicherung AG had an average of 1,739 employees in the financial year. Of these, 1,225 were employed in-house and 388 in the field. In addition, the Company had an average of 126 trainees in the course of the year.

Contingent liabilities and other financial commitments

In compliance with section 28 (1) EGHGB, accruals of € 1,439 thousand have not been recognized for pension-related obligations for which a legal entitlement was acquired prior to 1 January 1987.

There is a joint liability and debt of € 64,224 thousand for post-retirement benefits of employees and executive officers and former employees and executive officers disclosed by Gothaer Finanzholding AG. Owing to the intrinsic strength of Gothaer Finanzholding AG, there is no perceived risk from the present vantage of the Company having to fulfil this obligation instead of Gothaer Finanzholding AG.

At balance sheet date, contingent liabilities not shown in the balance sheet existed for letters of comfort for long-term and unlimited rental and leasing agreements concluded by affiliated companies. The annual obligation for these totals € 1,483 thousand.

At year-end, contributions totalling € 150,204 thousand (€ 65,938 thousand of which due to affiliated companies, € 9,764 thousand of which due to associated companies) were outstanding for shares held by the Company in affiliated companies and associates as well as for other investments.

Our membership of “Verkehrsofferhilfe e.V.” entails an obligation to contribute to the funds that this association requires to carry out its activities. Our contribution is based on our share of the premium income generated by member companies from direct motor liability insurance in the year prior to the previous calendar year.

Deferred taxes

Owing to consolidation for tax purposes, information on deferred taxes is provided at parent company level by Gothaer Versicherungsbank VVaG.

Group membership

The financial statements of our Company are included in the consolidated financial statements of Gothaer Versicherungsbank VVaG, Cologne. Gothaer Versicherungsbank VVaG prepares the consolidated financial statements for the largest and smallest group of companies. The consolidated financial statements are published in the Federal Gazette (Bundesanzeiger).

Events of special significance

No events of special significance occurred after the conclusion of the financial year 2018.

Cologne, 20 March 2019

Board of Management

Dr. Christopher Lohmann

Oliver Brüß

Dr. Mathias Bühring-Uhle

Dr. Karsten Eichmann

Harald Epple

Independent Auditors' Report

Gothaer Allgemeine Versicherung AG, Cologne

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

Audit opinions

We have audited the annual financial statements of Gothaer Allgemeine Versicherung AG, Cologne, which comprise the balance sheet as at 31 December 2018, the income statement for the financial year from 1 January to 31 December 2018 and the notes to the financial statements, including the presentation of accounting and valuation policies. We have also audited the management report of Gothaer Allgemeine Versicherung AG, Cologne, for the financial year from 1 January to 31 December 2018. In line with the requirements of German law, we have not audited the corporate governance statement (proportion of women) contained in the gender quota section of the management report.

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

- the accompanying 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 Company as at 31 December 2018 as well as the results of its operations from 1 January to 31 December 2018 and
- the accompanying management report as a whole provides an accurate view of the situation of the Company. In all material respects, this management report is consistent with the financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the corporate governance statement referred to above.

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 financial statements or the 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 Financial Statements and the Management Report”. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with 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 financial statements and management report.

Key Audit Matters in the Audit of the Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year from 1 January to 31 December 2018. These matters were considered in the context of our audit of the 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 the partial loss reserves for reported losses and losses incurred but not reported included in the gross reserve for losses incurred but not reported in direct written business

With regard to the accounting and valuation policies, please refer to the underwriting reserves section of the chapter on accounting and valuation policies in the notes to the financial statements of the Company. Risk disclosures are contained in the underwriting risks section of the chapter on opportunities and risks for the Company in the management report.

THE FINANCIAL STATEMENT RISK

The gross reserve for losses incurred but not reported in direct written business totalled €2,402.1 million at balance sheet date. This was 61.0 % of the balance sheet total.

The gross reserve for losses incurred but not reported is subdivided into various partial loss reserves. The reserve for reported and unreported losses accounts for substantial amount of the gross reserve for losses incurred but not reported.

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 Company'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 Company's calculations.
- 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 are responsible for the other information. The other information comprises

- the corporate governance statement and
- the remaining parts of the annual report, with the exception of the audited financial statements, the audited management report and our auditor’s report.

Our audit opinions on the financial statements and 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 financial statements, the 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 financial statements and management report

The legal representatives are responsible for the preparation of 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 Company. 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 financial statements that are free from material misstatement, whether deliberate or unintentional.

In preparing the financial statements, the legal representatives are responsible for assessing the Company’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 financial statements based on the going concern assumption unless there are actual or legal circumstances that preclude this.

Furthermore, the legal representatives are responsible for preparing a management report that, as a whole, provides an accurate view of the Company's position and is, in all material respects, consistent with the 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 management report in accordance with the relevant German legal requirements and to enable sufficient appropriate evidence to be provided for the assertions in the management report.

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

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

Our objectives are to obtain reasonable assurance about whether the 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 Company's position and, in all material respects, is consistent with the 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 financial statements and 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 these financial statements and this 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 financial statements and 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 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 Company 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the relevant disclosures in the financial statements and management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and assess whether the 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 Company in compliance with German general accounting principles.
- evaluate the consistency of the management report with the financial statements, its conformity with German law and the view of the Company'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 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 8 May 2018. We were appointed by the Supervisory Board on 11 October 2018.

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 audited company and the companies controlled by it, we provided the following services that were not disclosed in the financial statements or management report: audit of the solvency overview, audit of the financial statements of a controlled company, audit review of the financial statements of a controlled company, tax advisory services for controlled companies and certifications for foreign authorities.

Responsible Auditor

The auditor responsible for the audit is Roland Hansen.

Cologne, 10 April 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Hansen	Stümper
Wirtschaftsprüfer	Wirtschaftsprüferin

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 to the Board and reported orally at three meetings. The Board was involved in all decisions of fundamental importance for the Company. In addition, the Board received further detailed information at a special meeting about the digitalization strategy and its implementation status in the Group. The committees of the Board were also involved in informational and oversight activities. The Investment Committee, the Audit Committee and Executive Committee met three times each. It was not necessary to convene the committee established pursuant to section 27 (3) of the Co-Determination Act (MitbestG). The progress and outcomes of the committee meetings were reported and discussed at the meetings of the Supervisory Board.

The issues addressed regularly included developments as regards the Company's premiums, claims and costs as well as investment policy and the effect thereof on the financial statements. In addition, Management regularly reported to the Supervisory Board on the basic issues involved in corporate planning, the Company's risk strategy and exposure and the results of benchmarking comparisons with similarly structured companies. Attention also centred on the solvency situation under Solvency II. Furthermore, Management reported to the Board on the status of all major strategic programmes and projects. A special focus here was on the „Expedition 2020“ strategy developed as part of the “Gothaer 2020” group strategy, in which the Company addresses priority areas such as optimizing existing processes, structures, products and transitioning towards an internally and externally effective digital organization. In particular, strategic steps were taken to realign the product development process with a new product classification system and pricing, introduce digital retail products and value-adding digitalization initiatives and initiate new cooperations, especially with a digital focus, such as EMIL Deutschland AG. In addition, the Supervisory Board received reports on the ongoing refinement of the new portfolio management system for commercial business (GoSMART).

The Audit Committee established by the Supervisory Board in line with section 107 (3) of the German Corporation Act (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. The key performance indicators in the financial statements were discussed in detail with Management and auditors, taking benchmarks of comparable companies into account. The Audit Committee therefore proposed to the Supervisory Board that the financial statements for the financial year 2018 should be formally adopted in accordance with section 172 AktG.

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.

Despite high claims expenditure arising from natural events, the Company again achieved very good net earnings, which shows the financial strength and stability of Gothaer Allgemeine Versicherung AG. This is reflected in sustained good rating results. As in previous years, the performance of the Company was confirmed by an “A” rating from Standard & Poor’s.

The Supervisory Board discharged its statutory duty to examine HR issues relating to Management. The Management Board appointments of Dr. Karsten Eichmann and Mr. Harald Epple were extended.

The financial statements and accompanying management report presented for the financial year 2018 were audited by the auditor appointed in line with section 341k of the German Commercial Code (HGB), KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne, which also evaluated the early risk detection system.

The auditors fully certified the reports presented in accordance with section 322 HGB. The auditors reported on the key results of the audits at the Supervisory Board meeting on the financial statements. The Supervisory Board meeting on the financial statements was also attended by the Responsible Actuary.

The Supervisory Board received the audit report presented and duly noted and approved the result of the audit.

After examining the financial statements and Management Report presented for the financial year 2018, the Supervisory Board has no objections to raise. It endorses the 2017 financial statements. The financial statements are thus formally adopted pursuant to section 172 AktG.

The Supervisory Board wishes to express its special appreciation and heart-felt thanks to staff and Management for their work last year in an extremely difficult environment.

Cologne, 10 April 2019

The Supervisory Board

Prof. Dr. Werner Görg

Peter-Josef Schützeichel

Carl Graf von Hardenberg

Uta Kemmerich-Keil

Dr. Judith Kerschbaumer

Dr. Dirk Niedermeyer

Gesinde Rades

Georg Rokitzki

Thorsten Schlack

Edgar Schoenen

Ulrich Heinz Wollschläger

Markus Wulfert

Company Locations

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Authorized representative:
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Gothaer

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