Gothaer Allgemeine Versicherung AG
Annual Report 2016

Five-Year Summary

	€ thousand				
	Financial Year				
	2016	2015	2014	2013	2012
Gross premiums written	1,722,724	1,703,286	1,617,272	1,526,900	1,465,596
Premiums net of reinsurance	1,485,952	1,471,728	1,391,503	1,311,076	1,262,916
Retention (in %)	86.3	86.4	86.0	85.9	86.2
Claims expenses net of reinsurance	1,009,073	1,011,046	922,045	923,548	852,587
In % of premiums earned	67.6	68.9	66.8	70.7	67.4
Underwriting expenses net of reinsurance	445,318	431,492	415,027	396,337	380,543
In % of premiums net of reinsurance	30.0	29.3	29.8	30.2	30.1
Net income for the year [1]	89,839	120,981	88,778	50,740	101,912
Investments [2]	3,228,229	3,470,660	3,043,072	2,930,511	2,964,697
Net return (%)	3.4	5.2	4.1	4.1	3.8
Gross underwriting reserves	3,182,125	3,133,260	3,018,004	3,021,446	2,872,234
In % of gross premiums	184.7	184.0	186.6	197.9	196.0
Equity capital [3]	575,602	825,602	575,602	575,602	575,602
In % of premiums net of reinsurance	38.7	56.1	41.4	43.9	45.6
Policies in force (thousands)	5,694	5,595	5,510	5,407	5,310
Claims reported (thousands)	359	395	385	367	357

[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 2016

Registered Office
Gothaer Allee 1
50969 Cologne
Germany

Cologne Local Court, HRB 21433

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Supervisory Board

Prof. Dr. Werner Görg Chairman	Lawyer, Cologne
Peter-Josef Schützeichel *) Vice Chairman	Employee, Chairman of the Central Works Council of Gothaer Allgemeine Versicherung AG, Kornwestheim
Dieter Bick	Diplom-Betriebswirt, Management Consultant, Cologne
Carl Graf von Hardenberg	Chairman of the Supervisory Board of Hardenberg-Wilthen AG, Nörten-Hardenberg
Dr. Judith Kerschbaumer *)	Trade Union Secretary of ver.di, Lawyer, Berlin
Dr. Dirk Niedermeyer	Director of Fürst zu Bentheimsche Domänenkammer, Bielefeld
Harald Ommer *)	Head of Staff Sales Center, Overath
Gesine Rades	Diplom-Kauffrau, Auditor/Tax Consultant Rades partnership, Noer
Dr. Hans-Werner Rhein	Lawyer, Hamburg
Georg Rokitzki *)	Employee, Lohmar
Thorsten Schlack *)	Employee, Chairman of the Central Works Council of Gothaer Krankenversicherung AG, Hürth
Edgar Schoenen *)	Employee, Cologne

*) Elected by employees

Management

Thomas Leicht Chairman up to 30 April 2017, as of 30 April 2017 ordinary member	Cologne up to 31 May 2017
Dr. Christopher Lohmann as of 1 April 2017 ordinary member, as of 1 May 2017 chairman	Ottobrunn as of 1 April 2017
Oliver Brüß	Bonn as of 1 January 2016
Dr. Mathias Bühring-Uhle	Düsseldorf
Dr. Karsten Eichmann Director of Industrial Relations	Cologne
Harald Epple	Cologne
Michael Kurtenbach	Bornheim
Dr. Hartmut Nickel-Waninger	Cologne up to 31 August 2016
Oliver Schoeller	Cologne

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, Düsseldorf
Wilm-Hendric Cronenberg	Managing Partner of Julius Cronenberg o.H., Arnsberg
Werner Dacol	Managing Director of Aachener Siedlungs- und Wohnungsgesellschaft mbH, Cologne
Dr. jur. Jörg Friedmann	Lawyer, Law firm Dr. Friedmann & Partner mbB, Kraichtal as of 24 June 2016
Dr. Vera Nicola Geisel	Head of Executive Board Affairs & Executives Contracts, Corporate Function People Development & Executives Management of ThyssenKrupp AG, Düsseldorf
Birgit Heinzel	Master craftswoman in ophthalmic optics and auditory acoustics, HEINZEL Sehen + Hören, Bordesholm as of 24 June 2016
Knut Kreuch	Lord Mayor of the City of Gotha, Günthersleben-Wechmar
Uwe von Padberg	Diplom-Kaufmann, former President of the Verband der Vereine Creditreform e.V., Creditreform Cologne v. Padberg KG, Cologne
Jürgen Scheel	Chairman of the Management of Kieler Rückversicherungsverein a. G., (Retd.), Mühbrook
Dr. h.c. Fritz Schramma	Former Lord Mayor of the City of Cologne, Cologne
Birgit Schwarze	President of DSSV e.V. Arbeitgeberverband deutscher Fitness- und Gesundheits-Anlagen, Hamburg as of 24 June 2016
Prof. Dr. jur. Jürgen Vocke	Judge (Retd.), Member of the Landtag of Bavaria, President of Landesjagdverband Bayern e.V., Ebersberg up to 24 June 2016

Management Report

Developments in property/casualty insurance

Owing to developments in the economic situation of private households as well as the economic trend, the business environment for property and casualty insurance is favourable. The German Insurance Association (GDV) expects premium volume to continue to grow at a satisfactory rate of 2.9 % in 2016, which is 0.2 % more than in 2015. An increase of 3.7 % is also noted in claims. This is lower than in the prior year, however, partly because of the absence of significant storm and hail events in 2016. A combined ratio of 96 % – and thus another year of underwriting profits – is anticipated for property/casualty insurance as a whole. Nevertheless, for some lines of insurance the anticipated loss and cost ratios are likely to be above 100 %.

Overview of business developments

Gothaer Allgemeine Versicherung AG generated net income for the year of € 89.8 million in 2016 before profit transfer and before tax due to the controlling company. In the highly competitive property/casualty insurance market, this is a very satisfactory result.

Across all areas of business, the Company grew by 1.1 %. As anticipated, premium income from reinsurance business assumed was sharply recessive at – 9.6 % while the growth of premium income from direct insurance business continued undiminished at 2.5 %. As a result of favourable claims experience, gross claims expenses decreased by 1.0 %, making for a gross loss ratio of 65.0 % for the financial year. The gross cost ratio, at 29.2 %, was moderately higher. The gross underwriting account thus also showed a significant profit in 2016. The gross combined ratio, at 94.2 %, was below the market average of 96 %.

Except for minor changes, our reinsurance programme was largely retained. The retention rate was moderately recessive. As a result of an increase in the volume of our insurance portfolio, a moderate rise was noted in reinsurance premiums ceded and reinsurance commissions received.

Overall, these developments produced a positive underwriting result net of reinsurance before adjustment of equalization reserves in the financial year 2016. After equalization reserves were adjusted, the underwriting account showed a profit of € 31.9 million net of reinsurance, which was significantly more than in the prior year.

2016 was another difficult year for investment. German government bonds (Bunds) with a residual term of 10 years yielded 0.21 % at year-end after 0.64 % in the prior year and yields were negative during the course of the year. Against this backdrop, our investment portfolios produced a satisfactory net return of 3.4 %. Investment thus continued to contribute to the success of the Company.

After allowance for other income and expenses, income before taxes totalled € 93.4 million. After taxes, profit amounted to € 89.8 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

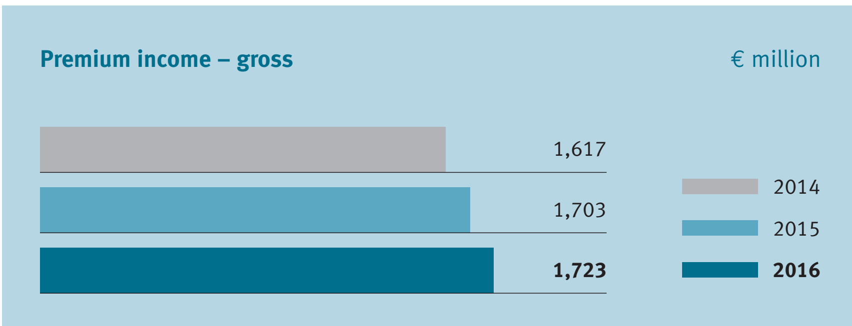
The gross premiums written by Gothaer Allgemeine Versicherung AG grew by 1.1 % in the financial year to € 1.72 billion. Premium income from reinsurance business assumed fell in 2016, although at € – 18.3 million the downturn was less pronounced than anticipated. Because the growth of premium income from direct insurance business also exceeded expectations, at € 37.8 million, premium revenues across all areas of business developed positively in 2016.

The volume of direct written premiums totalled € 1.55 billion in the year under review (PY: € 1.51 billion). This included direct premiums of € 18.4 million written by our branch operation in France (PY: € 18.3 million).

Reinsurance premiums assumed decreased from € 190.5 million in the prior year to € 172.1 million. This downturn was essentially due to reinsurance business with CG Car-Garantie Versicherungs-AG and Janitos Versicherung AG.

Premiums ceded to our reinsurance providers totalled € 236.8 million (PY: € 231.6 million). This made for a retention rate of 86.3 % (PY: 86.4 %). As a result, net premium income amounted to € 1,486.0 million (PY: € 1,471.7 million).

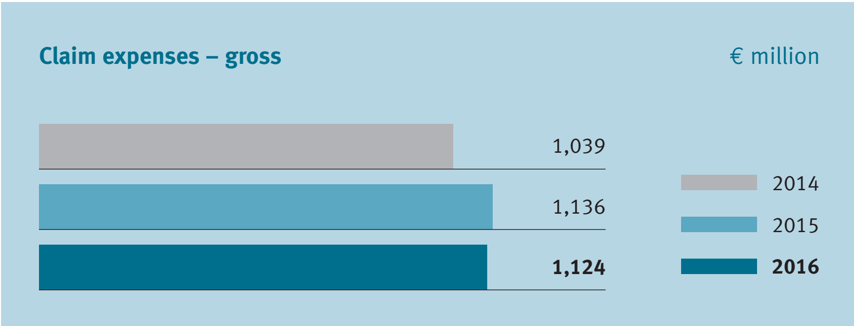
At the end of the year, the insurance portfolio comprised 5,693,654 direct policies with a residual term of at least one year (PY: 5,595,134).



Claims

In late May and early June, low-pressure areas “Elvira” and “Friederike” caused major rain damage. Otherwise, there were no notable accumulation events in 2016. Accordingly, the number of new claims fell in the financial year from 394,829 to 359,380. As for major losses, however, no improvement was noted; major loss expenses in 2016 were moderately higher than in 2015. Overall, gross claims expenses in connection with direct written business fell by € 6.4 million to € 1,008.6 million, as a result of which the gross loss ratio for direct written business improved to 65.0 % (PY: 67.2 %) as anticipated. Gross claims expenses in connection with reinsurance business assumed also decreased, from € 121.3 million to € 115.9 million.

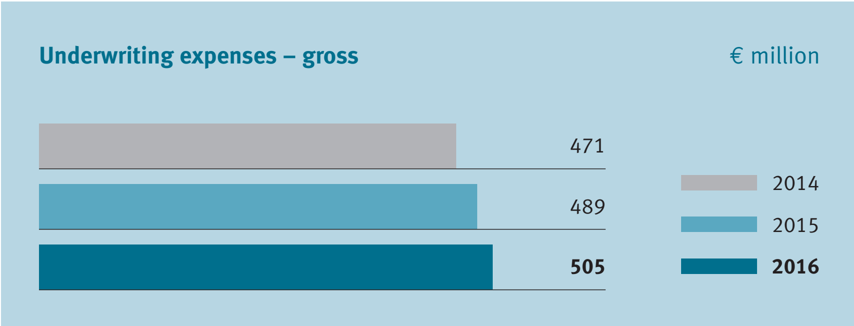
After deductions for reinsurance, total net claims expenses were marginally lower than in the prior year at € 1,009.1 million. The loss ratio net of reinsurance stood at 67.6 %, after 68.9 % in 2015. The loss reserve ratio net of reinsurance was 139.9 % (PY: 137.2 %). The ratio of gross underwriting reserves to gross premiums written – at 184.7 % (PY: 184.0 %) – remained at a constant high level.



Underwriting expenses

Gross underwriting expenses increased by € 15.7 million to € 505.0 million in the financial year 2016. Total underwriting expenses included € 231.7 million (PY: € 220.8 million) in acquisition costs and € 273.2 million (PY: € 268.4 million) for management of insurance policies. The gross cost ratio – defined here as the ratio of underwriting expenses to premiums written – improved from 28.7 % to 29.3 %, as anticipated.

Underwriting expenses net of reinsurance totalled € 445.3 million (PY: € 431.5 million). Owing to the increased volume of our insurance portfolio, reinsurance commissions were also moderately higher than in the prior year, up by € 1.9 million at € 59.6 million. As a result, the cost ratio net of reinsurance rose by 0.7 % to 30.0 %.



Underwriting result

The underwriting result before adjustment of equalization reserves was shaped by the development of three significant components. The upturn in underwriting expenses net of reinsurance was more than compensated by increased premiums earned net of reinsurance and moderately lower claims expenses net of reinsurance. The underwriting account before adjustment of equalization reserves thus showed a profit of € 31.2 million in the financial year 2016, after € 21.9 million in the prior year. On balance, € 0.7 million needed to be withdrawn from equalization reserves whereas the previous year required an allocation of € 14.8 million. After this withdrawal, the underwriting result improved by € 24.8 million to € 31.9 million).

Investments

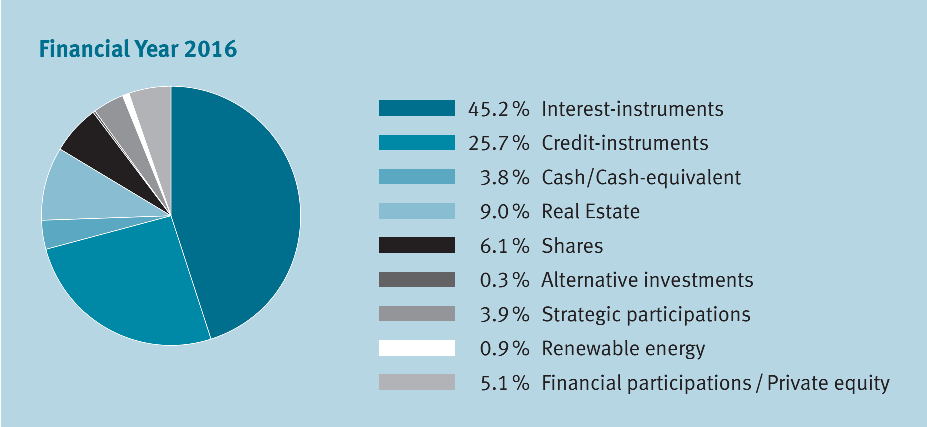
Gothaer Allgemeine Versicherung AG pursues an investment strategy that is primarily geared to generating a robust, sustained net return in a competitive environment while taking account of regulatory requirements that need to be met by investment earnings, liquidity and security as well as solvency requirements. 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 and thus also take account of underwriting requirements. In 2016, 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. Against the backdrop of the current Solvency II regime, the composition of the investment portfolio was further optimized to ensure that capital adequacy requirements are met and earnings remain adequate in the low-interest environment.

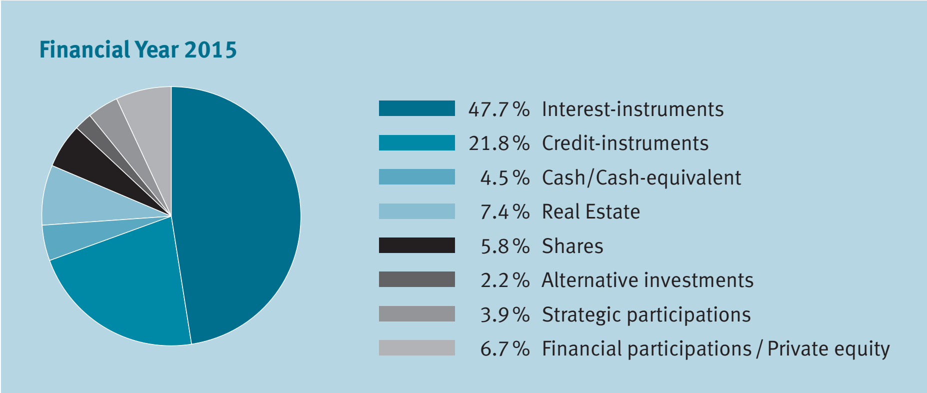
The generally positive development of the global economy as a whole had little or no impact on capital markets in 2016. On the contrary, developments in stock and bond markets worldwide were initially shaped by currency turbulence in China at the beginning of the year and then by political events (Brexit vote, US elections, Italian constitutional referendum) in subsequent months. Against that backdrop, the yield of German government bonds with a remaining period to maturity of 10 years dipped to a historical low of –0.19% but recovered in the second half of the year and stood at 0.21% at year-end. This was particularly due to increased expectations of inflation fuelled by the election of Donald Trump to the Presidency of the United States. Stock market prices were very volatile in 2016. Unfounded concerns about the state of the Chinese economy at the beginning of the year, the surprise Brexit outcome in the middle of the year and Donald Trump's election as US President repeatedly gave rise to short-term price fluctuations. In the fourth quarter of the year, the outcome of the US presidential election and ECB monetary policy measures boosted share prices, producing a vigorous year-end rally. While the performance of European shares reached +3.7% over the year, that of their Japanese counterparts remained virtually unchanged at +0.3%. American equities increased in value by +12.0%. Emerging market stocks also made considerable gains with a performance of +11.2% over the year.

Largely due to a corporate action (redemption of a subordinated bond), the book value of the Gothaer Allgemeine Versicherung AG investment portfolio decreased by around € 250.4 million to € 3,256.1 million (PY: € 3,506.5 million) in the year under review. Despite the reduced carrying value of the investment portfolio, net valuation reserves at overall portfolio level only edged down to € 199.2 million (PY: € 203.8 million), largely because of the movement of interest rates. During the course of the year, a bond issuer exercised a call option under Section 489 of the German Civil Code, which as a precautionary measure – subject to final legal appraisal – was duly taken into account in the valuation of the security.

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:





Because of the increased strategic significance of business in the renewable energy sector, a separate new “Renewable Energies” asset class was established. Up to the end of 2015, it was subsumed under the asset class Alternative Investments.

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, so there were a number of changes in asset allocation. Firstly, hedge funds were cut back further. Secondly, in the process of strategic asset allocation, credit instrument and real estate portfolios were significantly upscaled. Exposure to Portugal, Ireland, Italy and Spain was reallocated by tactical portfolio management. Partly in the light of Solvency II and the current financial market situation, equity investment in shareholdings or real estate continued to be limited, whereas debt and hybrid capital investments, which do not tie up equity, will figure more prominently in the future asset allocation policy of Gothaer Allgemeine Versicherung AG. The successful sale of a major shareholding eliminated its dominant presence within the equity portfolio. The capital released by the sale will predominantly be reinvested in private equity allocations with the emphasis on investments yielding regular interest. On the property front, proceeds from the sale-and-lease-back deal completed in 2015 were reinvested in real estate investments without additional leverage as well as in loan-issuing funds. 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 and land rights”. Investment activity as a whole continued to focus on strengthening the current average ROI of the portfolio.

Investment income as a whole was only minimally affected in 2016 by markets whose volatility at times reached historical extremes. In addition to high current income, extraordinary income also made an appreciable contribution to the overall result. The very positive extraordinary result totalling € 22.6 million (PY: € –50.4 million) was exceptionally high, essentially due to the sale of the major shareholding referred to above. Largely because of a valuation switch to net asset values (NAV), the result includes one-off write-downs of € 9.9 million in the real estate asset class.

Over the year as a whole, investment income was significantly less than in the prior year at € 114.4 million (PY: € 170.8 million). The overall results thus obtained made for a net return of 3.4 %, which was appreciably lower than in 2015 (PY: 5.2 %).

Net income for the year

With the upturn in underwriting profit after adjustment of equalization reserves and a significant downturn in the result of the non-underwriting account, income before taxes totalled € 93.4 million (PY: € 124.9 million) overall.

Shareholders’ equity

Shareholders’ equity in the Company was unchanged at the end of 2016 at € 325.6 million. This made for an equity ratio – defined here as the ratio of equity to premiums earned net of reinsurance – of 21.8 % (PY: 22.2 %).

Together with subordinate liabilities of € 250.0 million, the guarantee assets of the Company totalled € 575.6 million. In the financial year 2016 we took the first opportunity to call in the bond issued in 2006 and redeemed it in full.

Comments on the individual lines of direct written business

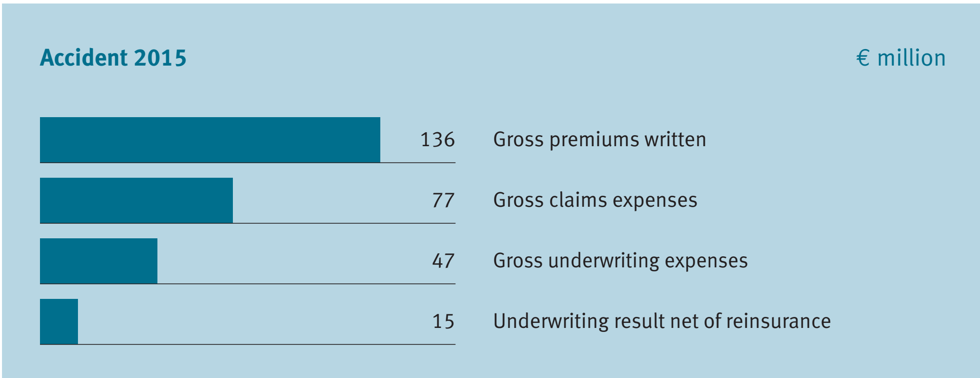
Accident

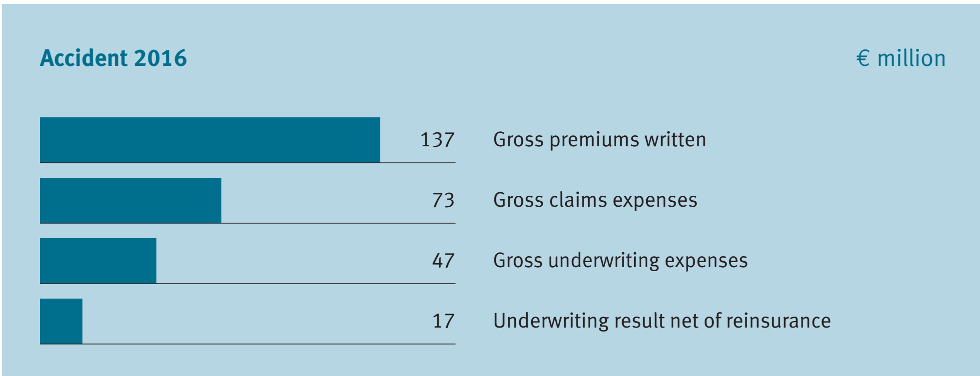
Despite a recessive insurance portfolio, gross premiums written in accident insurance were moderately higher in the financial year 2016 at € 136.5 million (PY: € 135.7 million).

Gross premium income from accident insurance with premium return totalled € 3.2 million (PY: € 3.7 million). This form of accident insurance is a combination of insurance coverage and capital formation similar to endowment insurance. At year-end, aggregate policy reserves for the savings component of policyholders' premiums totalled € 46.3 million (PY: € 49.1 million).

Gross claims expenses decreased by € 4.0 million to € 73.3 million in the financial year, making for a gross loss ratio of 53.6 % after 57.0 % in the prior year. In line with the development of premium income, gross underwriting expenses increased to € 46.9 million (PY: € 46.5 million).

A sum of € 4.5 million needed to be allocated to equalization reserves in the financial year (PY: € 1.8 million). After adjustment of equalization reserves, the underwriting result net of reinsurance was a profit of € 17.0 million (PY: € 15.1 million).



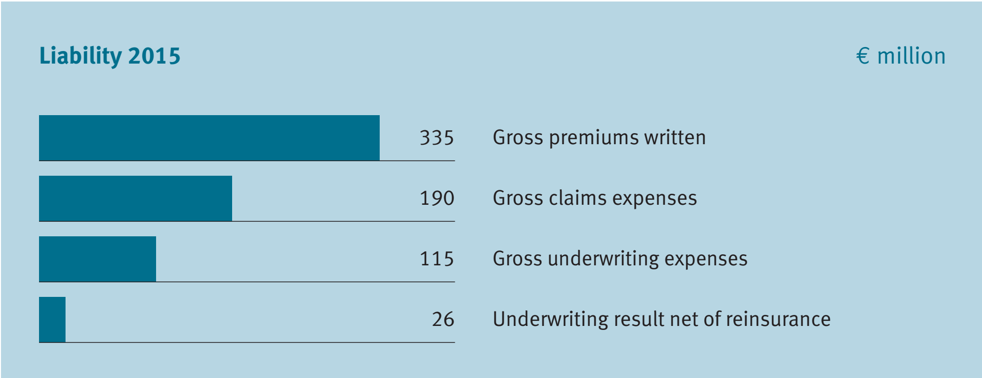


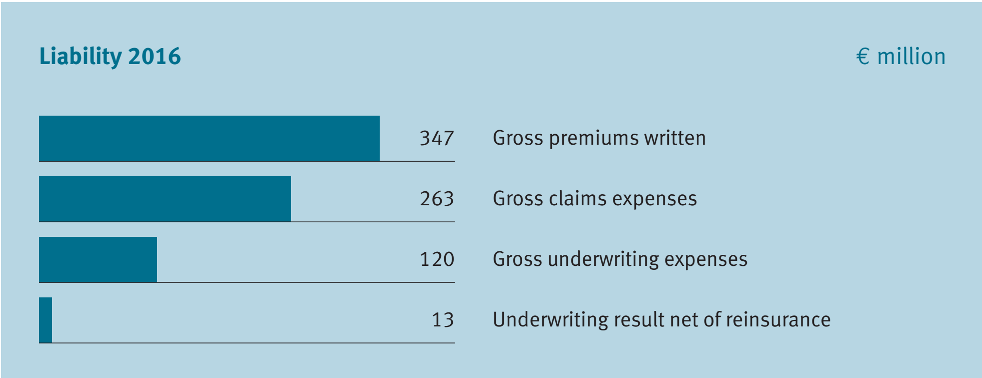
Liability

As in the prior year, premium revenues from general liability business increased. Premium income grew by 3.5 % to € 347.1 million.

At the same time, gross claims expenses rose by € 73.5 million to € 263.2 million, partly as the result of an increase in major losses. As a consequence, the gross loss ratio moved up from 56.7 % to 75.9 %. Gross underwriting expenses rose by € 5.1 million to € 119.7 million in line with the increased volume of business.

After reinsurance and particularly after adjustment of equalization reserves, this line of insurance continued to show a positive result, generating a profit of € 12.6 million (PY: € 25.5 million).



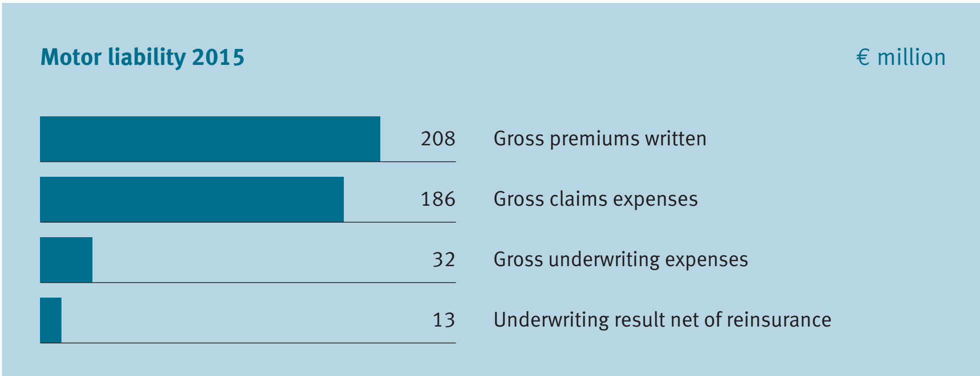


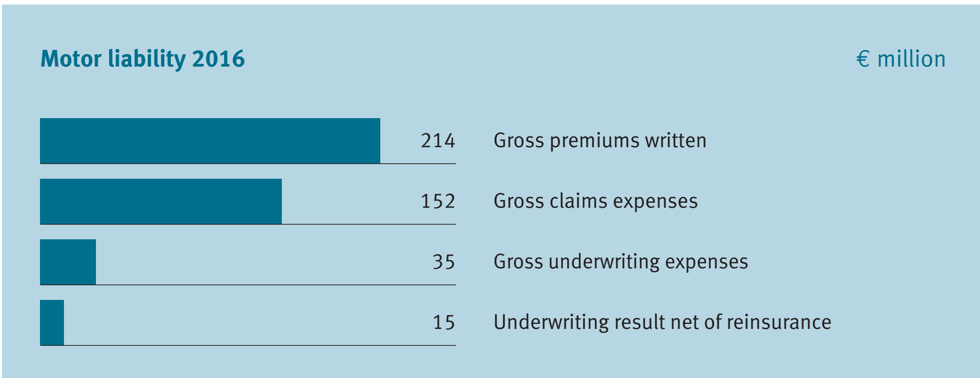
Motor liability

In motor insurance, we continue to improve our risk structure through systematic portfolio management. Despite the restrictive underwriting policy that this entails, the number of policies in force increased by 19,584, boosting gross premiums written by € 6.1 million to € 214.3 million.

The number of new claims rose by 4.2 % to 51,581 in the financial year 2016. However, a significant downturn was seen in major claims expenses. As a result, gross claims expenses fell by € 34.9 million to € 151.5 million. This made for a loss ratio of 70.7 %, after 89.4 % in the prior year. Gross underwriting expenses totalled € 35.3 million (PY: € 32.1 million).

After reinsurance and the allocation of € 4.7 million to equalization reserves (PY: € 17.0 million withdrawal), the underwriting account showed a profit of € 15.1 million in the financial year (PY: € 12.6 million).





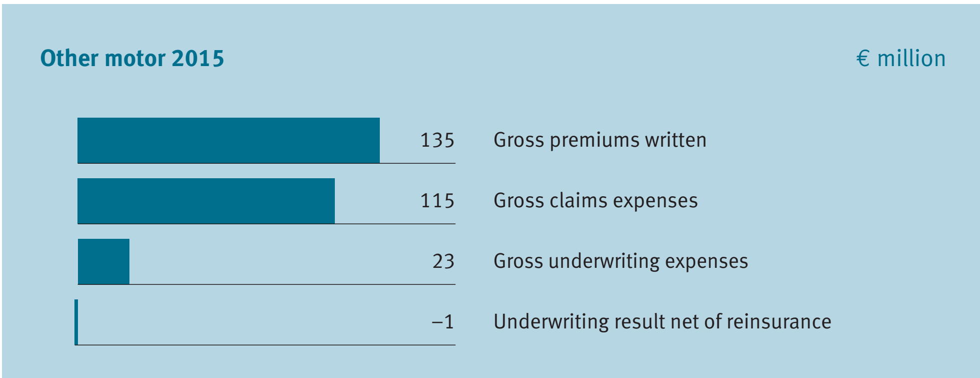
Other motor

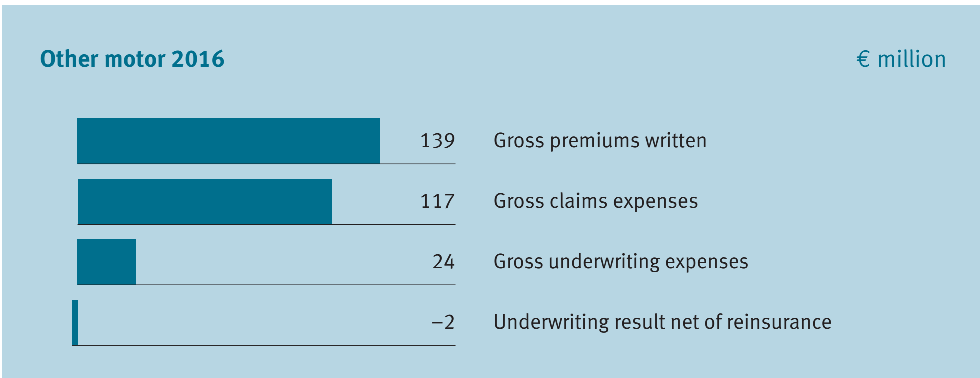
Performance in the other lines of motor insurance – which include collision & comprehensive and partial own damage insurance – is essentially dependent upon the same factors that shape motor liability business.

The other lines of motor insurance also saw an increase in both the number of policies in force and the volume of gross premiums written. The former rose by 16,871, the latter by 3.1 % to € 139.0 million. Collision & comprehensive policies accounted for € 120.9 million of this figure (PY: € 116.6 million); partial own damage premiums written totalled € 18.1 million (PY: € 18.3 million).

As in motor liability insurance, the number of claims rose in the financial year. This resulted in higher gross claims expenses, which rose to € 117.5 million (PY: € 115.4 million). The gross loss ratio stood at 84.5 %, down from 85.4 % in the prior year. Gross underwriting expenses totalled € 23.5 million (PY: € 22.8 million).

A sum of € 3.8 million was withdrawn from equalization reserves (PY: € 4.3 million). Net of reinsurance, the underwriting account for other motor insurance continued to show a loss, which amounted to € –1.5 million after € –1.3 million in the prior year.





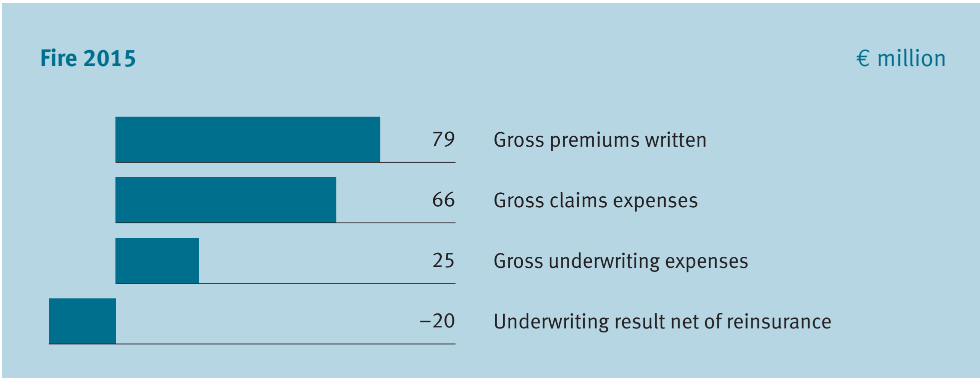
Fire

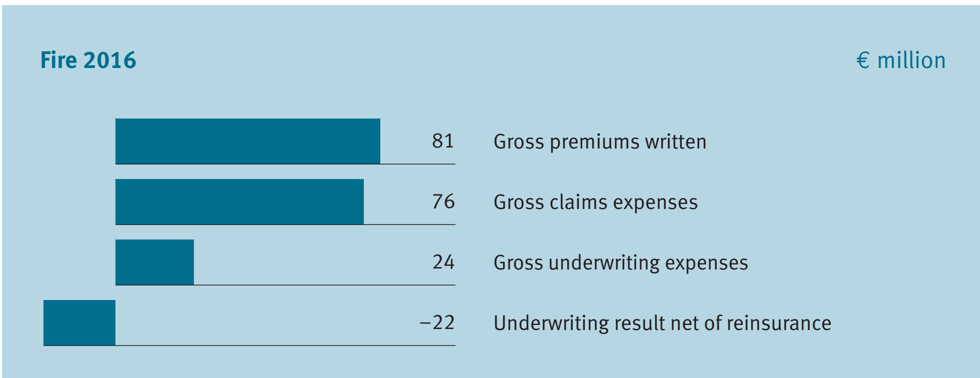
Gross premiums written in fire insurance increased by 2.9 % to € 81.0 million. This development was essentially shaped by industrial fire business, where premium income totalled € 53.1 million (PY: € 51.9 million).

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 € 27.8 million, which was € 1.1 million more than in the prior year.

Fire insurance was again affected by major losses in 2016, with the result that gross claims expenses increased by € 9.6 million to € 76.0 million. As a result, the gross loss ratio moved up to 94.4 % (PY: 84.6 %). Gross underwriting expenses totalled € 24.2 million (PY: € 24.7 million).

After deduction of reinsurers' shares and an allocation to equalization reserves, fire business produced a moderately increased underwriting loss of € – 21.7 million (PY: € – 20.2 million) in the financial year.



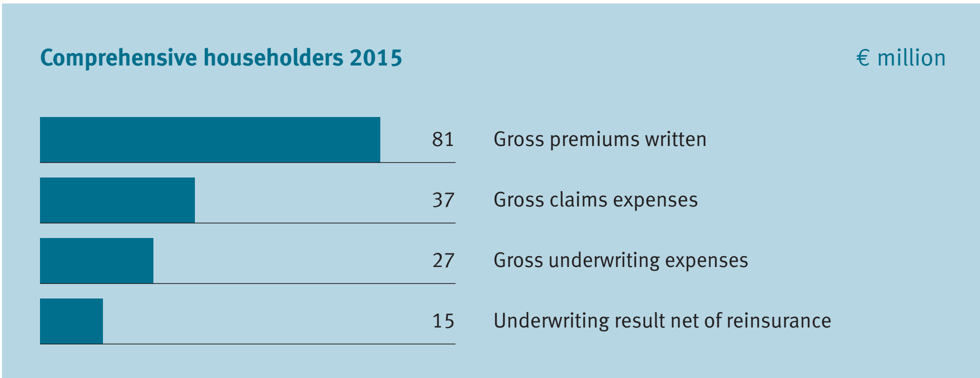


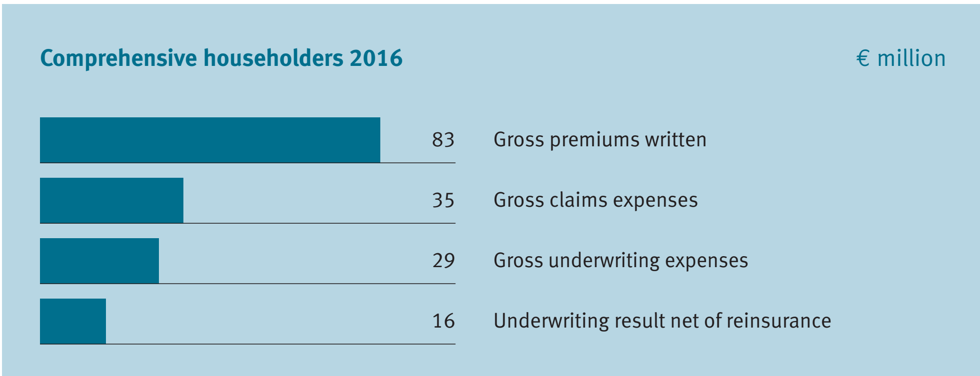
Comprehensive householders

Gross premiums written in comprehensive householders insurance remained virtually unchanged in the financial year 2016, at € 82.5 million against € 81.3 million in the prior year.

The number of reported claims in the financial year decreased by 12.2 % to 30,165. Gross claims expenses thus totalled € 35.4 million after € 37.0 million in the prior year. The gross loss ratio, at 42.8 % (PY: 45.7 %), remained at a good level. Underwriting expenses totalled € 28.5 million (PY: € 27.1 million).

Net of reinsurance, the underwriting account for comprehensive householders insurance showed a profit of € 16.4 million in the financial year (PY: € 14.8 million).





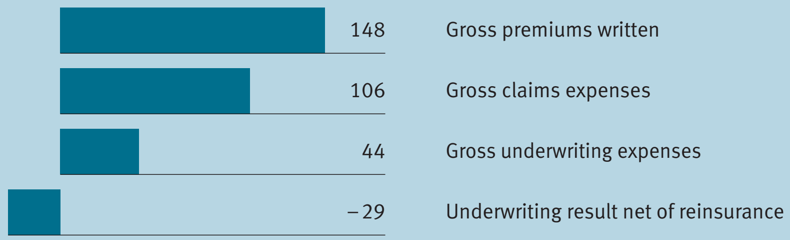
Comprehensive homeowners

The gross premiums written in comprehensive homeowners insurance showed another year-on-year increase, rising by 5.0 % to € 155.1 million.

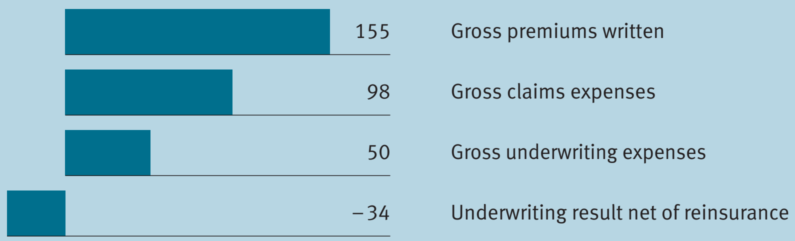
Comprehensive homeowners insurance is a line frequently affected by natural events. Since the financial year was not affected by any notable storm event, the number of reported claims fell by 35.0 % to 54,773 in 2016. As a result, gross claims expenses decreased by € 8.1 million to € 97.6 million. This produced a gross loss ratio of 63.3 % (PY: 72.7 %). Gross underwriting expenses increased by € 5.1 million to € 49.5 million.

Reinsurers shared in the favourable claims experience. After allowance for reinsurance and an allocation to equalization reserves, the underwriting account thus again showed a loss in the financial year 2016, amounting to € – 33.8 million (PY: € – 28.6 million).

Comprehensive homeowners 2015 € million



Comprehensive homeowners 2016 € 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 0.9 % to € 231.6 million. Gross claims expenses improved to € 110.3 million (PY: € 147.6 million). Gross underwriting expenses totalled € 74.7 million after € 73.8 million in the prior year.

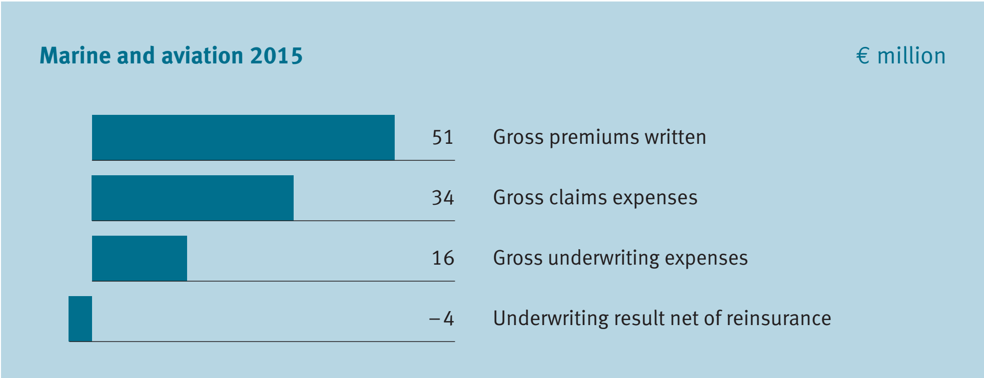
After deduction of reinsurers' shares and transfers to equalization reserves, the underwriting account for the lines of insurance in this group showed a profit of € 24.0 million, after a loss of € – 4.2 million in the prior year.

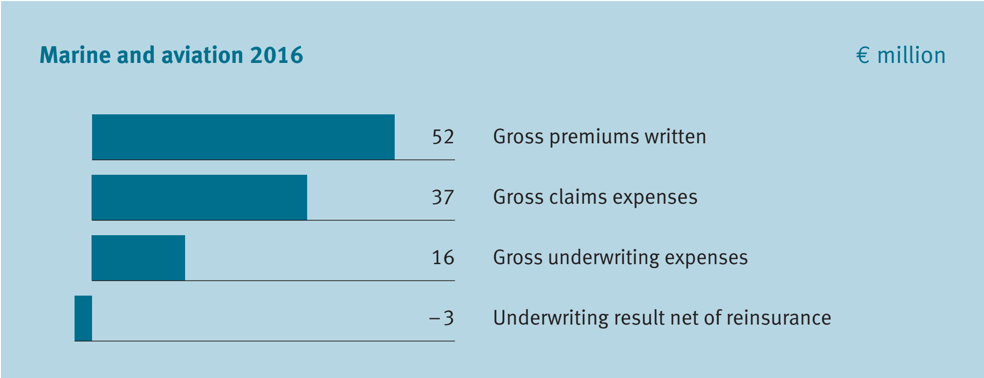
Marine and aviation

Premium income from marine and aviation insurance increased by 1.2 % to € 51.9 million in the financial year 2016. Revenues and earnings in this class of insurance are essentially defined at Gothaer by marine insurance business.

The number of claims reported during the financial year rose by 1.7 % to 5,304. As a result, gross claims expenses increased by € 3.4 million to € 37.5 million and the gross loss ratio moved up from 67.0 % to 72.2 %. Gross underwriting expenses, at € 15.6 million, were virtually on a par with the € 15.8 million registered in the prior year.

Net of reinsurance, the underwriting account for the two lines showed an underwriting loss of € – 2.8 million (€ – 3.7 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 € 1.3 million to € 111.7 million. The upturn resulted essentially from all risks business.

At the same time, gross claims expenses across the entire group of lines and coverages fell by € 9.0 million to € 46.3 million. Underwriting expenses showed only a marginal increase, rising by € 0.1 million to € 34.8 million. These developments led to an underwriting profit of € 14.1 million net of reinsurance in the financial year (PY: € 6.6 million).

Foreign business

Gross premiums from direct foreign business totalled € 18.4 million (PY: € 18.3 million) in the year under review, all of it 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.

Comments on reinsurance business assumed

Premium income decreased by € 18.3 million to € 172.1 million in the year under review. This downturn was essentially due to reinsurance business with CG Car-Garantie Versicherungs-AG and Janitos Versicherung AG. Claims expenses in connection with reinsurance business assumed also fell, decreasing by € 5.4 million to € 115.9 million. After an allocation to equalization reserves, the underwriting account net of reinsurance showed a loss of € –7.3 million (PY: € –9.5 million).

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

- **Life insurance**
- **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
- Verkehrsopferhilfe e.V., Hamburg

We also belong to the following European associations:

- Fédération Française de l'Assurance (FFA), Paris
- Syndicat des Énergies Renouvelables, Paris
- France Énergie Éolienne, Paris
- 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 corporate success at Gothaer. That success is ensured by employees with high competence, intense motivation and exceptional commitment.

In our HR operations, absolute priority is assigned to personnel recruitment, development and retention aimed at furthering corporate strategy. In addition to offering commercially viable financial performance incentives, we rely here on targeted development and further training programmes as well as career models. 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.

The resulting investment in human resources, their working environments (home office solutions, innovative processes and techniques) and their ability to change ensures that Gothaer has a pool of adequately skilled, competitive personnel for the medium and long term. One major priority here is digitalization, which we address by internal development and external acquisition of necessary qualifications and skills. Our efforts are particularly geared at present to preparing Gothaer for demographic change, maintaining staff performance and heightening job satisfaction.

In the coming years, our employees will become an increasingly important success factor for the continuous enhancement of our competitive strength, especially in the light of the changes in business processes and the working environment due to digitalization.

Gender quota

The “Law for Equal Participation of Women and Men in Leadership Positions within the Private and Public Sector” entered into force in 2015. The Group companies affected by it were required to set out their gender-equality goals by 30 September 2015.

The Supervisory Board resolved that women should make up 33.3 % of the Supervisory Board by 30 June 2017. Half of the mandates reserved for women should be on the employees’ side and half on the employer’s side. In view of the shortness of the target period, the target for the Management Board was set at 0 %.

For the two levels of management below the Management Board, it was decided, given the shortness of the target corridor, to set the current actual figures (status on 31 August 2015) as targets for 30 June 2017.

Further measures are being developed and successively implemented to increase the percentage of women in managerial positions. They will be taken into account in the targets that need to be set in 2017 for the following deadline.

The above statements simultaneously constitute the declarations required for compliance with section 289a 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. A strong brand is particularly important in the context of digitalization and hybrid consumer behaviour. In communication, Gothaer thus focuses particularly on brand positioning in the digital environment and strengthening brand awareness among younger target groups. Our brand rejuvenation strategy is implemented by appropriate integrated campaigns.

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. Observance of the stipulations set out in the GDV Code of Conduct was tested again on 31 December 2016 by independent auditors.

In parallel with that, Gothaer is gearing up to meet the requirements of the Insurance Distribution Directive (IDD), which will become mandatory in Germany in February 2018.

As far as sales and distribution are concerned, the requirements are designed to ensure objective customer information and needs-based counselling 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.

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 Standard Formula risks – market risk, underwriting risk, counterparty default risk and operational risk – but also examines other risks. These include liquidity risk, strategic risk, reputational risk and legal risks, which are identified, reviewed and assessed in the course of risk inventories.

For this purpose, 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. 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.

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 as well as further developing uniform cross-Group risk assessment and management methods and processes. 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 been created. Regular risk reporting and ad hoc reports on specific developments make for a transparent risk situation and provide pointers for targeted risk management.

The efficacy of the risk management system, the checks and balances and the management and monitoring processes was improved even more on the introduction of Solvency II. During the preparatory phase, the organization and procedures at Gothaer were adapted to ensure that the requirements of the three Solvency II pillars are met 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

Assumption of risk lies at the core of the business activities of an insurer. At the same time, those business activities are a cradle for opportunities.

Gothaer Allgemeine Versicherung AG writes insurance for both private and corporate clients, especially motor, liability, accident, property and marine insurance, mostly as direct business but also as indirect business. It thus has a diversified risk portfolio. Major risks are analysed 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 analysed 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.

Underwriting risks

Since we assume that natural events resulting from climate change will continue to influence underwriting risk in the future, we will continue to 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 either not renewed or renewed only subject to an increased deductible or premium. 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. A good credit or company rating is an essential requirement for any reinsurer selected. In addition, in order to identify hazards and risks to earning capacity, we model the impacts of different loss scenarios on our portfolio within the framework of our internal risk model.

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 less homogeneous and thus appreciably more volatile than the private client portfolio. We therefore attach great importance to premiums commensurate with risks and to responsible underwriting. As a result, 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

During the course of 2016, reinsurance industry capital increased moderately compared to the volume registered at the end of 2015. So-called alternative capital (e.g. cat bonds) also further increased its share of the total.

The consolidation process observed in the reinsurance sector since the end of 2014 continued through 2016.

Reinsurance treaties were renewed on 1 January 2016 without problems. Owing to the ongoing high supply of reinsurance capacity, Gothaer cessions were again placed well before 31 December 2016 on terms that were regarded as satisfactory by Gothaer.

The structure of the Gothaer reinsurance operation in 2016 remained virtually the same as in 2015. An adjustment was made to the excess of loss reinsurance programme for natural hazards, which moderately increased its capacity.

Gothaer reinsurance cessions produced a highly positive result for reinsurers in 2016. This was largely due to a below-average burden of natural hazard losses – especially storm losses – and significantly lower fire claims expenses.

Gothaer has closely examined the opportunities and options offered by alternative risk transfer for a number of years. At present, the price of conventional reinsurance is still lower than that of alternative risk transfer. If that should change, Gothaer will quickly be in a position to restructure its reinsurance accordingly. This will be facilitated by the exchange of expertise with Eurapco partners that already practise alternative risk transfer.

Once again, an external stochastic tool was used to monitor default risk.

Overall, we see a possible but very unlikely risk of a temporal mismatch between primary insurance and reinsurance protection. This stems from 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. 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. Owing to aforementioned developments in the reinsurance market, this scenario has become even more unlikely in recent years.

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
2007	65.8	11.2
2008	66.6	11.8
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

Risks arising from reinsurance assumed

Within the Gothaer Group, Gothaer Allgemeine Versicherung AG acts as a reinsurance provider for small property/casualty insurers and a number of cooperation partners. 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 affiliated 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 € 81.8 million for Gothaer Allgemeine Versicherung AG at balance sheet date. € 11.3 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 € 2.2 million, which represented an average of 1.3 ‰ of gross premiums written.

Risks arising from business ceded for reinsurance

We cede reinsurance only to high-class reinsurers. 59 % 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 € 69.5 million at balance sheet date. Accounts receivable in connection with reinsurance ceded amounted to € 31.0 million. The structure of receivables from reinsurers by rating class was as follows:

Rating class	€ million
AA	12.4
A	17.7
BBB	0.6
Not rated	0.3

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 to improve the risk and earnings ratio, Gothaer Allgemeine Versicherung AG continues to attach great importance to the decorrelation of investments. So the goal of investment activity is to achieve broad diversification within and across the various asset classes and at the same time avoid excessive concentrations.

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% parallel increase in the interest curve with a modified duration of 5.6 reduced the market value of interest-bearing securities by € 141.1 million (PY: € 116.1 million) in comparison to the year-end value of the portfolio.

Against the backdrop of attractive long-term investment opportunities, commitments were entered into in the real estate and renewable energies asset classes in order to advance towards strategic targets. In addition, the hedge fund portfolio was downscaled further. The strategic share portfolio established in 2015 will permit long-term participation in attractive dividend yields. Risk capital stress testing (20% downturn in prices) resulted in a fall in market value of around € 113.7 million (PY: € 138.3 million) at balance sheet date.

Real estate markets developed well in 2016, most of them producing high transaction volumes. Owing to the stable market situation, it was decided to abandon the practice of applying model values and to assess the entire portfolio on the basis of net asset values. Because of the broad spread of investment and greater gearing to lower-risk investments, the market value of the portfolio is considered stable for the coming year. A price fall of 10% results in a loss of market value of € 31.2 million (PY: € 27.3 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 concentra-

tion 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. Other value adjustments were negligible.

Owing to the general fall in interest rates for risk-free investments, reserving across the fixed-interest portfolio as a whole increased moderately. Credit instruments in the fixed-interest portfolio accounted for around 25.7 % of the total volume of investments by the Company (PY: 21.8 %). At year-end, there was no other significant credit risk discernible. As a result of active portfolio reduction, in particular, the percentage of investments made up of subordinated bank bonds fell to around 0.2 % by market value (PY: 0.4 %). In the coming financial year, too, further defaults on interest – perhaps even on principal – cannot be ruled out in the case of individual subordinated bank bonds. 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 9.3 % (PY: 7.3 %) of the market value of the investment portfolio. The breakdown by country was as follows: Portugal 0.5 % (PY: 0.5 %), Spain 2.2 % (PY: 2.0 %), Ireland 2.2 % (PY: 1.0 %) and Italy 4.4 % (PY: 3.8 %). At year-end, these investments produced an aggregate unrealized profit of around € 16.2 million (PY: € 29.8 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 %
	2016	2015
AAA	18.1	21.6
AA+	6.4	7.8
AA	2.6	5.1
AA–	3.7	3.1
A+	6.2	6.3
A	6.7	4.2
A–	11.9	12.0
BBB+	12.6	10.8
BBB	19.4	17.8
BBB–	6.5	5.3
Speculative Grade (BB+ to D)	3.8	3.7
Not rated	2.1	2.3

• **Liquidity risk**
A viable liquidity planning and management system is a prime requirement for effective investment management. Group-wide liquidity planning for 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. In the year under review, approval was given for a liquidity risk management concept that will be implemented in 2017 and will include regular analysis of liquidity sources and cover ratios and, in particular, the performance of liquidity stress tests. With the treasury concept currently being developed, another management tool will be available after the launch of a Group-wide cash pool.

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.

Stress test

Gothaer Allgemeine Versicherung AG continues to apply the BaFin stress test that is no longer prescribed for the Company and passes the test in all four variants. Based on data from financial statements, these stress tests simulate very negative capital market changes – sometimes for both shares and fixed-interest securities or investment property – and examine the impact on the insurer’s financial statements. The target horizon is the next reporting date. Surplus cover indicates that the company’s risk-bearing capacity and stability are sufficient.

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. 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 27001:2013.

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.

Coordinated HR information and management systems guarantee that quantitative and qualitative hazard potentials are promptly identified and countered with appropriate measures. Thanks to advanced HR IT systems (SAP HCM, HR-Cockpits, Bildungssystem, Talentlink etc.) as well as established qualitative risk appraisal processes such as development and succession planning, Gothaer has broad scope for action here, which distinguishes it favourably from many other insurance companies. In particular, 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, which presents HR-related adaptation and scarcity risks at various levels. This calls for the development or external procurement of key skills and qualifications, which Gothaer identifies generally and for specific areas of activity in the course of digitalization strategy development. Scarcity risks in the acquisition of external know-how carriers are primarily addressed by internal development programmes and appropriate HR marketing tools. In managing and minimizing those risks, Gothaer focuses specifically on the strategy-relevant core competences of the Company as well as the positions relevant for strategy implementation.

Gothaer faces challenges that are typical for the industry – challenges connected with the economic development of the insurance market in a low-interest environment, growing regulatory requirements, the digitalization process and changes in consumer behaviour. The Group has responded to those challenges with the development of a 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.

Prospects for personal development in combination with competitive performance-based incentive instruments help us ensure that employees remain motivated even in times of constant change and that high performers and individuals with high potential are retained. In managing these risks, Gothaer can build on a special degree of staff loyalty, which is reflected in exceptionally long periods of service compared to the rest of the industry. Furthermore, Gothaer already possesses extensive experience and professional expertise in change management and is further upgrading them with targeted training in change, process and project management. Gothaer proactively addresses demographic and other health risks through its multi-award winning health management scheme.

For insurance companies in particular, demographic change presents major challenges 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 database. Gothaer's enhanced employer marketing activities as well as projects such as "Frauen im Management" (Women in Management) help successfully counter the risks described above.

Regulatory compliance of financial statements

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

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 by the targeted purchase of reinsurance.

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 stable and accurate over time.

Fulfilment of the regulatory solvency requirements set out in the German Insurance Supervision Act (VAG) is disclosed in the Solvency and Financial Condition Report (solvency requirements and own funds), which is also published on the Gothaer website (www.gothaer.de).

In 2016, two independent rating agencies gave Gothaer Allgemeine Versicherung AG positive ratings for financial stability: Standard & Poor's (S&P) and Fitch Ratings awarded A- and A (strong) follow-up ratings respectively.

At the present time, we see nothing in the risk situation of Gothaer Allgemeine Versicherung AG that might jeopardize the fulfilment of commitments assumed under insurance contracts.

Forecast

General economic outlook 2017

Despite the ongoing risks for the macroeconomic environment worldwide, i.e. the policies pursued by the Trump Administration, Brexit negotiations, elections in France and Germany and sustained geopolitical tensions, the global economy is expected to continue to rally at a moderate pace in 2017.

Furthermore, as last year's oil price effect peters out, inflationary pressure will mount in the summer months from its very low current level. The economic environment may also fuel a moderate increase in core inflation. Against this backdrop, the inflation rate in the United States, where core inflation is running at more than 2 %, should again rise above the target set by the Federal Reserve. In the eurozone, however, where core inflation is very low at around 1 % at present, the harmonized consumer price index is not expected to rise in 2017 at a rate compatible with the ECB's target of price stability.

Against this backdrop, further hikes in key lending rates are anticipated in the US unless the economic environment there deteriorates. The yields of US government bonds should then also rise. On the basis of December 2016 forecasts, the yield of US government bonds is expected to reach 2.8 % at the end of 2017. From the level of yields at the end of December 2016, however, the increase in yield will be relatively minor at 40 basis points. German government bonds (Bunds) are expected to follow suit, albeit after some delay and to a lesser extent. When and how sharply Bund yields rise will depend essentially, as in the last two years, on the extent and duration of the ECB bond-buying programme.

Despite the anticipated increase in yields in the bond market, the outlook for stock markets in 2017 is decidedly positive. Nevertheless, with stock valuations above average, especially in the United States, the elections and political imponderables such as the fiscal policy measures that will be taken by the Trump Administration, stock market prices could again be subject to increased fluctuation in 2017. But the major driver of future stock market development will be the growth of company profits because a further rise in what is already an elevated level of valuation will be hard to justify in a late cyclical phase.

Developments in the insurance industry

The development of premium revenues from property and casualty insurance business is shaped by the general economic environment, demand and prices. In 2017, the unchanged favourable economic situation of private households will continue to support demand for insurance in the private client segment. Property and casualty in surance comprises diverse lines, which are subject to intense competition because of the high degree of market penetration. In corporate client business, continued scope for growth is anticipated because of the economic situation. A number of property/ casualty lines could be adversely affected by the UK leaving the EU. Across all lines, the German Insurance Association (GDV) forecasts 2.1 % premium growth for property and casualty insurance as a whole in 2017.

(NB: Market statements are based on the appraisal published by the Gesamtverband der Deutschen Versicherungswirtschaft e.V. in “GDV Volkswirtschaft, Geschäftsaussichten in der Versicherungswirtschaft 2017” 11/2016, “Konjunktur und Märkte” 12/2016, “Beitragsentwicklung in der deutschen Versicherungswirtschaft” 11/2016, “ifo Geschäftsklima Versicherungswirtschaft” 11/2016, “Makro und Märkte kompakt” No. 7 12/2016)

Outlook for Gothaer Allgemeine Versicherung AG

Premium income

Recent years have been characterized by continuous, sustained increases in premium volume and high growth rates. Our corporate strategy in the future will continue to be on stable and substantial premium growth.

Under the multi-channel strategy of the Gothaer Group, Asstel direct marketing and the independent Gothaer field force have been more closely integrated since 2016. In the wake of that realignment, no new business has been written for Asstel Sachversicherung AG since 1 July 2016 except with a number of cooperation partners. That role is played in the Gothaer Group by Gothaer Allgemeine Versicherung AG. The intention is to merge Asstel Sachversicherung AG with Gothaer Allgemeine Versicherung AG in 2017. The business assumed by Asstel will mean extra growth momentum in the coming year.

At the same time, we will continue to focus our attention on expanding commercial business more vigorously. In achieving that expansion, we will further drive forward the high degree of diversification achieved in recent years in our products and business segments. Our growth targets are systematically set on the premise that underwriting is profitable and portfolio management produces results that continue to guarantee the sustainable profitability of insurance business.

In the private client segment, we project increases in premium income across nearly all lines of insurance. At the same time, we continue to adopt a policy of developing standardized and economical product variants in the main lines. Owing to the merger with Asstel, our motor business will grow vigorously in the coming year. However, we also anticipate significant premium growth in accident, comprehensive householders and liability insurance. Under the multi-channel strategy of the Gothaer Group, direct marketing and the independent Gothaer field force has been closely integrated since 2016. We expect this to generate even more new business in the coming year.

Premium growth is also projected in nearly all lines of corporate client business. Along with liability business, a major driver of premium growth here is commercial and industrial property insurance. We also offer insurance solutions for fast-growing new sectors such as the renewable energy market. Here, we are already very well established in the market and intend to strengthen our market position even more in the coming year.

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 growing risk presented by natural disasters is hedged by purpose-designed reinsurance programmes. On the basis of our portfolio structure, we anticipate a gross loss ratio for 2017 at roughly the same level as in 2016.

Underwriting expenses

With the sustained implementation of efficiency programmes as well as quality improvements in processes, we will achieve positive effects in the coming year that will drive down our operating cost ratio, although our overall cost ratio will rise moderately as a result of premium growth.

Underwriting result

Owing to the level of claims forecast, the gross underwriting result will be just as positive as in 2016. The gross combined ratio will also remain below 95 % in the coming year. After deductions for reinsurance and the adjustment of equalization reserves, we anticipate a significant increase in net underwriting earnings in 2017.

Investments

Because of the continuing low level of interest rates forecast and the challenges connected with it, we anticipate a moderate downturn in investment income.

Income before taxes

In view of the anticipated continuing positive development of underwriting income, we expect the coming year to produce significantly higher net earnings than 2016 despite a fall in investment earnings.

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.

Balance Sheet as at 31 December 2016

Assets

					€ thousand
				2016	2015
A. Intangible assets					
I. Acquired concessions, industrial property rights, similar rights and assets as well as licences for such rights and assets			36,170		25,733
II. Payments in advance			22,212		23,064
				58,382	48,797
B. Investments					
I. Investments in affiliated companies and associates					
1. Shares in affiliated companies		189,359			276,738
2. Loans to affiliated companies		225,800			236,600
3. Investments in associated companies		176,210			110,627
4. Loans to associated companies		15,179			12,905
			606,548		636,870
II. Other investments					
1. Shares, investment in unit trust and funds, and other non-fixed-interest securities		1,382,684			1,353,404
2. Bearer bonds and other fixed-interest securities		654,803			681,664
3. Mortgages, liens on real property and annuities		1,724			2,006
4. Other loans					
a) Registered bonds	320,517				444,376
b) Promissory notes and loans	155,660				223,530
c) Loans and advance payments on insurance policies	25				46
d) Other miscellaneous loans	10,967				11,363
		487,169			679,314
5. Bank deposits		95,300			117,400
6. Miscellaneous investments		2			2
			2,621,681		2,833,789
III. Deposits made in connection with reinsurance business assumed			27,890		35,821
of which from affiliated companies: € 27,154 thousand (PY: € 34,806 thousand)				3,256,119	3,506,481

Assets

				€ thousand
			2016	2015
C. Accounts receivable				
I. Accounts receivable in connection with direct insurance business from:				
1. Policyholders	30,567			33,736
2. Insurance agents	51,221			48,261
		81,788		81,997
II. Accounts receivable in connection with reinsurance business		69,471		94,072
of which from affiliated companies: € 36,308 thousand (PY: € 40,980 thousand)				
of which from associated companies: € 2,645 thousand (PY: € 2,527 thousand)				
III. Other accounts receivable		124,581		56,594
			275,839	232,663
of which from affiliated companies: € 90,074 thousand (PY: € 9,902 thousand)				
of which from associated companies: € 755 thousand (PY: € 80 thousand)				
D. Other assets				
I. Tangible assets and inventories		2,378		2,315
II. Current credit balances with banks, checks and cash on hand		18,059		20,472
III. Miscellaneous assets		787		724
			21,224	23,511
E. Prepaid expenses				
I. Prepaid interest and rent		26,558		28,199
II. Other prepaid expenses		595		494
			27,152	28,693
F. Excess of plan assets over pension liability			3,466	4,101
Total assets			**3,642,182**	**3,844,246**

Shareholders' equity and liabilities

€ thousand			2016	2015
A. Shareholders' equity				
I. Called-in capital				
Subscribed capital	153,388			153,388
Outstanding contributions not called in	10,226			10,226
		143,162		143,162
II. Capital reserve		182,435		182,435
III. Revenue reserve				
Statutory reserve		5		5
			325,602	325,602
B. Subordinate liabilities			250,000	500,000
C. Underwriting reserves				
I. Unearned premiums				
1. Gross amount	237,629			245,578
2. less:				
amounts ceded	18,059			19,608
		219,570		225,970
II. Aggregate policy reserve				
1. Gross amount	46,305			49,098
2. less:				
amounts ceded	0			0
		46,305		49,098
III. Reserve for outstanding claims				
1. Gross amount	2,513,288			2,452,506
2. less:				
amounts ceded	425,993			440,142
		2,087,295		2,012,363
IV. Reserve for performance-related and non-performance-related premium refunds				
1. Gross amount	4,955			5,529
2. less:				
amounts ceded	163			219
		4,792		5,310
V. Equalization reserves and similar reserves		376,388		377,094
VI. Other underwriting reserves				
1. Gross amount	3,561			3,455
2. less:				
amounts ceded	– 2,818			– 4,224
		6,378		7,679
			2,740,728	2,677,514

Shareholders' equity and liabilities

			€ thousand	
			2016	**2015**
D. Other accruals				
I. Accruals for pensions and similar obligations		471		465
II. Accruals for taxes		13,040		10,777
III. Miscellaneous accruals		38,580		32,462
			52,091	43,705
E. Deposits held in connection with reinsurance business ceded			33,432	28,861
F. Other liabilities				
I. Accounts payable in connection with direct insurance business to				
1. Policyholders	87,709			83,266
2. Insurance agents	8,617			10,974
		96,326		94,240
II. Accounts payable in connection with reinsurance business of which to affiliated companies: € 1,593 thousand (PY: € 1,835 thousand)		20,944		24,176
III. Miscellaneous liabilities		123,061		150,147
of which: for taxes: € 17,938 thousand (PY: € 17,115 thousand) for social security: € 0 thousand (PY: € 0 thousand) toward affiliated companies: € 89,256 thousand (PY: € 116,645 thousand) toward associated companies: € 1,635 thousand (PY: € 15 thousand))			240,330	268,563
Total shareholders' equity and liabilities			**3,642,182**	**3,844,246**

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 € 46,304,929 and the annuity reserve for claims under item C III. in the amount of € 57,611,057 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, 22 March 2017

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, 22 March 2017

Bertrams
Trustee

Income Statement for the Year Ended 31 December 2016

				€ thousand
			2016	**2015**
I. Underwriting account				
1. Earned premiums net of reinsurance				
a) Gross premiums written	1,722,724			1,703,286
b) Reinsurance premiums ceded	236,772			231,558
		1,485,952		1,471,728
c) Change in gross unearned premiums	7,949			−5,669
d) Change in gross unearned premiums ceded	1,549			−812
		6,400		−4,857
			1,492,351	1,466,872
2. Technical interest net of reinsurance			2,800	2,955
3. Other underwriting income net of reinsurance			1,848	2,065
4. Claims expenses net of reinsurance				
a) Claims paid				
aa) Gross amount	1,068,700			1,044,600
bb) Amount ceded	129,476			151,940
		939,223		892,660
b) Change in reserve for outstanding claims				
aa) Gross amount	55,796			91,674
bb) Amount ceded	−14,053			−26,711
		69,849		118,386
			1,009,073	1,011,046
5. Change in other net underwriting reserves				
a) Net aggregate policy reserve		2,793		3,134
b) Other net underwriting reserves		1,301		4,498
			4,094	7,632
6. Expenses for performance-related and non-performance-related premium refunds net of reinsurance			3,528	3,582
7. Underwriting expenses net of reinsurance				
a) Gross underwriting expenses		504,953		489,221
b) less: commissions and profit sharing received on reinsurance business ceded		59,635		57,729
			445,318	431,492
8. Other underwriting expenses net of reinsurance			11,963	11,526
9. Subtotal			31,211	21,877
10. Change in equalization reserves and similar reserves			706	−14,782
11. Underwriting result net of reinsurance			31,917	7,095

				€ thousand
			2016	2015
II. Non-underwriting account				
1. Investment income				
a) Income from investments of which from affiliated companies €7,957 thousand (PY: €16,970 thousand)	16,403			116,065
b) Income from other investments of which from affiliated companies €12,150 thousand (PY: €12,253 thousand)	87,567			153,362
c) Income from write-ups	8,029			466
d) Proceeds from the disposal of investments	43,314			4,493
		155,312		274,385
2. Investment expenses				
a) Cost of portfolio management interest expense and other expenses in connection with investments	7,633			41,899
b) Amortization of investments	21,830			49,834
c) Losses from the disposal of investments	6,882			5,552
d) Expenses from loss transfers	4,553			6,300
		40,897		103,585
			114,416	170,800
3. Technical interest			–3,087	–3,168
			111,328	167,633
4. Other income		68,310		65,333
5. Other expenses		118,130		115,137
			–49,820	–49,805
6. Income before taxes			93,425	124,923
7. Taxes on income and tax charged	3,192			1,601
by the controlling company	36,500			38,718
		39,692		40,319
8. Other taxes		394		2,340
			40,086	42,659
9. Profit transferred on the basis of a profit-transfer or pooling agreement			53,339	82,264
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 scheduled depreciation based on the anticipated economic life of the 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 by an appropriate method in accordance with IDW RS HFA 10 in conjunction with IDW S1. The fair value of indirect real estate participations held as long term investments is established as a matter of principle on the basis of a forecast of the medium-term cash flow normally realizable from the participations. The key valuation parameter is the market value of the properties held by the associated companies and the amount of outside financing secured on the properties.

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 comments pursuant to section 285 no. 23 HGB 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.

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 scheduled depreciation based on the anticipated economic life of the assets. Low-cost assets with a cost value up to € 150 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.

For the most part, the 360/360-method is used to determine the volume of unearned premiums from direct insurance activities. 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. In the case of foreign business, the flat-rate method was applied to establish the amount of unearned premiums from assumed business.

The amount of unearned premiums from domestic business is essentially calculated on the basis of statistical premiums from policies in force. A smaller percentage of unearned premiums from domestic and foreign business was determined on the basis of premiums written.

In the case of domestic reinsurance assumed, unearned premiums were established on the basis of information from cedants. In the absence of such information, the 1/8-method was used for purposes of calculation on the basis of premiums written.

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, taking conservative account of lapse probabilities. For existing policies, reserving is based on the “business plan for strengthening existing policy interest rates”. As a result of lapse probabilities being taken into account for the first time for regulated policies, the additional policy reserve for all policies is reduced by 0.5 %.

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 “Verkehrsopferhilfe e.V.”, an association that assists victims of accidents caused by uninsured drivers, is based on the amount assessed by the association.

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

The reserve for contractual premium adjustments 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 2005 G mortality tables developed by Prof. Dr. Klaus Heubeck. Owing to the amendment of section 253 (2) sentence 1 HGB, 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. The effects of changes in actuarial interest are treated as interest earned.

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

• Actuarial interest		4.00 %
• 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 2005 G mortality tables developed by Prof. Dr. Klaus Heubeck, taking account of a wage and salary trend of 2.20 % and actuarial interest of 1.67 %.

The anniversary reserve is calculated by the projected unit credit method, taking account of a wage and salary trend of 2.20 % and actuarial interest of 3.22 %.

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 2016 [1)]

	Carrying amounts Previous year
A Intangible assets	
1. Acquired concessions, industrial property rights, similar rights and assets as well as licences for such rights and assets	25,733
2. Payments in advance	23,064
3. Subtotal A.	**48,797**
B I. Investments in affiliated companies and associates	
1. Shares in affiliated companies	276,738
2. Loans to affiliated companies	236,600
3. Investments in associated companies	110,627
4. Loans to associated companies	12,905
5. Subtotal B I.	**636,870**
B II. Other investments	
1. Shares, investments in unit trusts and funds and other non-fixed-interest securities	1,353,404
2. Bearer bonds and other fixed-interest securities	681,664
3. Mortgages, liens on real property and annuities	2,006
4. Other loans	
a) Registered bonds	444,376
b) Promissory notes and loans	223,530
c) Loans and advance payments on insurance policies	46
d) Other miscellaneous loans	11,363
5. Bank deposits	117,400
6. Miscellaneous investments	2
7. Subtotal B II.	**2,833,789**
Total	**3,519,457**

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

Additions	Reclassifications	Disposals	Reversals	Amortization	Carrying amounts Financial year
					€ thousand
0	16,859	0	0	6,422	36,170
16,006	−16,859	0	0	0	22,212
16,006	**0**	**0**	**0**	**6,422**	**58,382**
8,532	0	82,450	1,775	15,237	189,359
201,484	0	212,284	0	0	225,800
87,541	0	20,235	714	2,437	176,210
3,916	0	1,642	0	0	15,179
301,472	**0**	**316,610**	**2,489**	**17,674**	**606,548**
30,869	0	3,042	5,540	4,086	1,382,684
243,748	0	270,610	0	0	654,803
1	0	283	0	0	1,724
564	0	124,422	0	0	320,517
622	0	68,422	0	70	155,660
4	0	24	0	0	25
107	0	502	0	0	10,967
0	0	22,100	0	0	95,300
0	0	0	0	0	2
275,914	**0**	**489,406**	**5,540**	**4,156**	**2,621,681**
593,393	**0**	**806,016**	**8,029**	**28,252**	**3,286,611**

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	189,359	214,148	24,789
2. Loans to affiliated companies	225,800	239,503	13,703
3. Investments in associated companies	176,210	205,037	28,827
4. Loans to associated companies	15,179	14,993	– 185
B.II. Other investments			
1. Shares, investments in unit trusts and funds and other non-fixed-interest securities	1,382,684	1,418,335	35,651
2. Bearer bonds and other fixed-interest securities	654,803	703,361	48,558
3. Mortgages, liens on real property and annuities	1,724	1,832	108
4. Other loans			
a) Registered bonds	320,517	357,820	37,303
b) Promissory notes and loans	155,660	164,587	8,928
c) Loans and advance payments on insurance policies	25	33	7
d) Other miscellaneous loans	10,967	12,477	1,510
5. Bank deposits	95,300	95,300	0
6. Miscellaneous investments	2	2	0
B.III. Deposits in connection with reinsurance business assumed	27,890	27,890	0
Total	**3,256,119**	**3,455,318**	**199,199**

B II. 1. and 2. include investment fund certificates, bearer bonds and other fixed-interest securities with a carrying amount of € 1,761,079 thousand that are classified as long-term assets pursuant to section 341b (2) HGB. The fair value of these assets comes to a total € 1,826,229 thousand. Hidden liabilities amounted to € 9,523 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 € 63,393 thousand with a fair value of € 70,178 thousand are included for purposes of payment of surplus bonuses. As of 31 December 2016, the difference between cost and fair value came to € 6,785 thousand.

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

		Carrying amount	Fair value
			€ thousand
B. I. 3.	Shares in associated companies	13,424	12,715
B. I. 4.	Loans to associated companies	7,985	7,800
B. II. 1.	Investment fund certificates with equity characteristics	150,195	146,085
B. II. 2.	Bearer bonds	91,035	85,622
B. II. 4. b)	Promissory notes and loans	34,429	32,902

In the case of associated companies, depreciation was waived because impairment was temporary and due solely to normal market fluctuations in exchange rates.

In the case of loans to associated companies, bearer bonds as well as promissory notes and loans, depreciation was waived because impairment was temporary, due to interest rate movements or credit risk/price fluctuations.

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.

Information on valuation units

		Trading/Nominal volume	Carrying amount	Fair value
				€ thousand
B. I. 1.	Shares in affiliated companies		28,075	32,868
	Forward currency sales	46,600 TUSD		−2,623
	Forward currency purchases	9,150 TUSD		66
	Portfolio valuation unit	**37,450 TUSD**	**28,075**	**30,311**
B. I. 1.	Shares in affiliated companies		71,729	86,099
	Forward currency sales	91,560 TUSD		−4,777
	Forward currency purchases	4,050 TUSD		52
	Micro valuation unit	**87,510 TUSD**	**71,729**	**81,374**
B. I. 1.	Shares in affiliated companies		6,302	9,267
	Forward currency sales	7,570 TGBP		180
	Portfolio valuation unit		**6,302**	**9,447**
B. I. 3.	Investments in associated companies		53,575	70,077
	Forward currency sales	76,030 TUSD		−4,043
	Forward currency purchases	1,680 TUSD		77
	Portfolio valuation unit	**74,350 TUSD**	**53,575**	**66,111**
B. I. 3.	Investments in associated companies		3,352	3,311
	Forward currency sales	3,070 TUSD		−84
	Micro valuation unit		**3,352**	**3,227**
B. I. 3.	Investments in associated companies		8,343	11,229
	Forward currency sales	7,720 TGBP		183
	Portfolio valuation unit		**8,343**	**11,412**
B. II. 2.	Bearer bonds		39,117	41,109
	Forward currency sales	44,000 TUSD		−2,481
	Portfolio valuation unit		**39,117**	**38,628**
B. II. 2.	Bearer bonds		9,754	10,923
	Forward currency sales	11,300 TUSD		−640
	Micro valuation unit		**9,754**	**10,283**

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	184,082	189,313	5,231	5,619	daily
Pension fund	965,834	987,065	21,231	26,363	daily or within one month
Property fund	93,648	93,648	0	4,541	daily or within max. six months
Other	18,432	24,616	6,184	506	daily

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

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

Shareholders' equity and liabilities

Shareholders' equity

	2016	2015
	€ thousand	
I. Called-in capital		
Subscribed capital	153,388	153,388
Less outstanding contributions not called in	10,226	10,226
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.		
Total	**143,162**	**143,162**
II. Capital reserve	182,435	182,435
of which pursuant to section 272 (2) no. 4 HGB	18,000	18,000
III. Revenue reserve		
Statutory reserve	5	5
Total	**325,602**	**325,602**

Gross underwriting reserves

	2016	2015
	€ thousand	
Accident	362,332	352,984
Liability	1,138,271	1,089,329
Motor liability	601,490	611,775
Other motor	24,891	28,180
Fire and property:	549,204	533,627
Of which		
Fire	104,824	94,215
Comprehensive householders	38,834	40,269
Comprehensive homeowners	152,716	129,264
Other property	252,830	269,879
Marine and aviation	67,233	63,799
Other insurance	99,062	114,594
Direct insurance business	2,842,482	2,794,288
Reinsurance business assumed	339,644	338,972
Total	**3,182,125**	**3,133,260**

Of which gross reserves for outstanding claims

	2016	2015
	€ thousand	
Accident	259,761	251,169
Liability	1,021,987	934,100
Motor liability	519,894	535,119
Other motor	22,931	22,558
Fire and property:	348,918	361,249
Of which		
Fire	88,852	80,978
Comprehensive householders	14,672	15,929
Comprehensive homeowners	65,193	67,804
Other property	180,201	196,539
Marine and aviation	51,397	46,712
Other insurance	82,012	98,988
Direct insurance business	2,306,900	2,249,895
Reinsurance business assumed	206,388	202,611
Total	**2,513,288**	**2,452,506**

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 € 5,814 thousand (PY: € 5,528 thousand).

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

Performance-related	2016	2015
	€ thousand	
Opening balance	**1,849**	**2,595**
Withdrawals	745	746
Additions	0	0
Final balance	**1,104**	**1,849**

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

- € 199 thousand (PY: € 194 thousand) for current surplus bonuses that have already been fixed but not yet distributed
- € 56 thousand (PY: € 109 thousand) for terminal bonuses that have already been fixed but not yet distributed
- € 33 thousand (PY: € 34 thousand) for amounts that have already been fixed but not yet distributed for participation in valuation reserves

The terminal bonus fund amounts to € 319 thousand (PY: € 726 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 2017 on the basis of contractual provisions. Where rates have changed against 2016, the prior-year rates are shown in brackets:

- **Old policies**

Interest on bonus	4.25 %	(3.50 %)	on the eligible aggregate policy reserve of basic insurance
	0.75 %	(0.00 %)	on the eligible aggregate policy reserve of bonus insurance
Basic bonus	6.00 %		on the annual return premium
Terminal bonus	15.00 %	(8.00 %)	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 %	(0.25 %)	on the eligible aggregate policy reserve of bonus insurance
Basic bonus	0.00 %		on the annual return premium
Terminal bonus	0,00 %	(4.50 %)	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 %	(0.75 %)	on the eligible aggregate policy reserve of bonus insurance
Basic bonus	0.00 %		on the annual return premium
Terminal bonus	4.50 %	(5.00 %)	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 determined and the surplus bonus rates set take account of this subject to all supervisory regulations and contractual arrangements.

In the financial year, all refund-of-premium accident insurance policies except tariffs with a guaranteed interest rate of 2.25 % (policies based on rates BRE2, BRK2, BRS2 and BRT2) 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 the balance of valuation reserves and valuation deficits – provided the result is positive – 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 , but 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	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: • 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	
	2016	**2015**
Accident	34,814	30,334
Liability	61,064	99,851
Motor liability	77,914	73,234
Other motor	0	3,802
Fire and property:	95,707	67,975
Of which		
Fire	7,111	4,589
Comprehensive householders	0	0
Comprehensive homeowners	51,371	26,231
Other property	37,225	37,155
Marine and aviation	9,209	10,728
Other insurance	3,283	1,546
Direct insurance business	281,992	287,469
Reinsurance business assumed	94,396	89,624
Total	**376,388**	**377,094**

Other accruals

The difference resulting from the adjusted valuation of pension accruals and similar obligations totals € 69 thousand.

	€ thousand	
	2016	**2015**
III. Miscellaneous accruals for:		
Pre-retirement employment	975	1,322
Anniversary payments	11,993	11,796
Social plans/severance payments	7,802	1,849
Bonuses	4,312	6,271
Sales remuneration	100	150
Leave/Time credits	2,021	1,809
Employer's liability insurance contributions	440	453
Compensatory levy (disabled employment)	2	2
Financial statement expenses	586	503
Interest commitments	2,574	1,204
Legal disputes	5,202	4,947
Anticipated losses	2,574	2,157
Total	**38,580**	**32,462**

Offsetting of assets and liabilities

In line with section 246 (2) sent. 2 HGB, plan assets of € 7,643 thousand (PY: € 10,784 thousand) have been offset against corresponding pension obligations of € 5,152 thousand (PY: € 8,005 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 € 5 thousand (PY: € 0 thousand).

Notes to the Income Statement

Gross premiums written

	€ thousand	
	2016	**2015**
Accident	136,541	135,661
Liability	347,066	335,283
Motor liability	214,268	208,195
Other motor	139,048	134,878
Fire and property:	550,127	537,191
Of which		
Fire	80,950	78,673
Comprehensive householders	82,530	81,307
Comprehensive homeowners	155,087	147,684
Other property	231,561	229,526
Marine and aviation	51,852	51,247
Other insurance	111,699	110,365
Direct insurance business	1,550,601	1,512,819
Reinsurance business assumed	172,122	190,466
Total	**1,722,724**	**1,703,286**

Gross premiums earned

	€ thousand	
	2016	**2015**
Accident	136,704	135,539
Liability	346,916	334,422
Motor liability	214,251	208,358
Other motor	139,015	135,091
Fire and property:	549,922	535,321
Of which		
Fire	80,589	78,557
Comprehensive householders	82,700	81,063
Comprehensive homeowners	154,173	145,290
Other property	232,459	230,411
Marine and aviation	51,909	50,885
Other insurance	111,986	110,850
Direct insurance business	1,550,702	1,510,467
Reinsurance business assumed	179,971	187,150
Total	**1,730,673**	**1,697,617**

Net premiums earned

€ thousand	2016	2015
Accident	136,235	134,457
Liability	304,501	295,919
Motor liability	184,064	179,467
Other motor	117,306	114,137
Fire and property:	433,525	420,045
Of which		
Fire	43,242	41,428
Comprehensive householders	82,490	80,869
Comprehensive homeowners	129,885	121,736
Other property	177,909	176,011
Marine and aviation	50,492	49,354
Other insurance	93,938	93,103
Direct insurance business	1,320,060	1,286,482
Reinsurance business assumed	172,292	180,390
Total	**1,492,351**	**1,466,872**

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	
	2016	2015
Accident	73,261	77,248
Liability	263,240	189,773
Motor liability	151,505	186,362
Other motor	117,490	115,404
Fire and property:	319,322	356,793
Of which		
Fire	76,039	66,438
Comprehensive householders	35,389	37,041
Comprehensive homeowners	97,602	105,687
Other property	110,292	147,626
Marine and aviation	37,471	34,071
Other insurance	46,284	55,320
Direct insurance business	1,008,573	1,014,972
Reinsurance business assumed	115,923	121,303
Total	**1,124,496**	**1,136,275**

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 8.8 % of the reserve at the beginning of the period.

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

	€ thousand	
	2016	2015
Performance-related	0	0
Non-performance-related	3,538	3,426
Direct insurance business	3,538	3,426
Reinsurance business assumed	–10	156
Total	**3,528**	**3,582**

Gross underwriting expenses

	€ thousand	
	2016	**2015**
Accident	46,949	46,516
Liability	119,744	114,602
Motor liability	35,317	32,093
Other motor	23,504	22,768
Fire and property:	177,005	170,040
Of which		
Fire	24,192	24,699
Comprehensive householders	28,547	27,069
Comprehensive homeowners	49,518	44,461
Other property	74,749	73,811
Marine and aviation	15,611	15,820
Other insurance	34,834	34,664
Direct insurance business	452,965	436,503
Reinsurance business assumed	51,988	52,719
Total	**504,953**	**489,221**

Gross underwriting expenses include acquisition expenses of € 231,717 thousand and administrative expenses of € 273,236 thousand.

Net for reinsurance business
(– = credit to reinsurers)

	€ thousand	
	2016	**2015**
Accident	–167	–473
Liability	9,226	–8,695
Motor liability	–7,713	4,788
Other motor	–3,212	–2,605
Fire and property	–29,574	–18,615
Marine and aviation	–1,265	–2,079
Other insurance	–15,616	–13,553
Direct insurance business	–48,322	–41,232
Reinsurance business assumed	–14,941	–6,556
Total	**–63,263**	**–47,788**

Underwriting result net of reinsurance

€ thousand	2016	2015
Accident	17,008	15,146
Liability	12,609	25,517
Motor liability	15,074	12,554
Other motor	−1,535	−1,345
Fire and property:	−15,150	−38,179
Of which		
Fire	−21,704	−20,181
Comprehensive householders	16,389	14,802
Comprehensive homeowners	−33,798	−28,569
Other property	23,963	−4,230
Marine and aviation	−2,801	−3,719
Other insurance	14,062	6,641
Direct insurance business	39,266	16,614
Reinsurance business assumed	−7,349	−9,520
Total	**31,917**	**7,095**

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

PIF	2016	2015
Accident	677,046	687,747
Liability	1,418,634	1,371,862
Motor liability	817,315	797,731
Other motor	630,804	613,933
Fire and property:	1,550,569	1,547,193
Of which		
Fire	101,463	99,700
Comprehensive householders	700,889	705,726
Comprehensive homeowners	328,628	324,332
Other property	419,589	417,435
Marine and aviation	22,670	22,336
Other insurance	576,616	554,332
Total	**5,693,654**	**5,595,134**

Investment expenses

Amortization of investments includes non-scheduled depreciation of € 18,277 thousand (PY: € 40,118 thousand).

Other income

Other income includes € 1,743 thousand (PY: € 2,415 thousand) resulting from currency translations.

Other expenses

Other expenses include € 631 thousand (PY: € 4,506 thousand) resulting from compounding of other reserves and € 567 thousand (PY: € 1,840 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 € 3,183 thousand (PY: € 4,891 thousand) were offset against related income of € 3,183 thousand (PY: € 4,891 thousand) as stipulated in section 246 (2) sent. 2 HGB.

Other disclosures

List of holdings

€ thousand				
Name	**Registered office**	**Interest in %**	**Shareholders' equity**	**Year result**
Aberdeen Asia Pacific II, L.P.	George Town, KY	5.26	186,444	15,880
Accession Mezzanine Capital III LP	St. Helier, JE	3.38	116,210	16,259
Achmea B.V.	Zeist, NL	0.48	10,263,000	383,000
Advanced Laser Separation International N.V. (i.L.)	Beuningen, NL	5.60	n/a	n/a
Aquila Capital Wasserkraft Invest GmbH	Hamburg	25.64	8,849	–4,100
Aquila GAM Funds S.A.	Senningerberg, LU	25.64	72,678	4,422
Behrman Capital PEP L.P.	Wilmington, US	1.01	731,241	44,768
Behrman Capital IV, L.P.	Wilmington, US	4.80	144,167	–69,430
Bioceuticals Arzneimittel AG	Bad Vilbel	4.98	35,915	10,918
Brockton Capital Fund II, L.P.	George Town, KY	2.01	516,756	–4,565
Carlyle Infrastructure (Non-U.S.) L.P.	George Town, KY	3.98	n/a	n/a
City Asia Feeder GmbH & Co. KG	Frankfurt a.M.	20.00	6,425	–1,135
CPI Capital Partners Asia Pacific, L.P	George Town, KY	0.77	165,972	–51,414
Curzon Capital Partners II L.P.	London, GB	5.60	27,327	34,843
Curzon Capital Partners III L.P.	London, GB	2.40	302,043	36,322
Curzon Capital Partners IV L.P.	London, GB	5.00	115,090	8,066
Doughty Hanson & Co. European Real Estate II, LP	London, GB	5.08	22,980	18,678
EMF NEIF I (A) L.P.	London, GB	6.67	10,154	–13,571
EPISO III, L.P.	London, GB	1.32	792,175	159,111
EPISO IV, L.P.	London, GB	1.69	83,140	1,467
European Property Investors, L.P.	London, GB	14.30	43,503	–23,231
European Property Investors Special Opportunities, LP	Edinburgh, GB	1.27	384,911	84,683
FirstMark Capital III L.P.	Wilmington, US	3.33	70,696	3,386
FirstMark II L.P.	Wilmington, US	13.33	251,745	44,172
GDV Dienstleistungs-GmbH & Co. KG	Hamburg	2.25	19,893	–68
GG-GRUNDFONDS Immobilienmanagement GmbH (i.L.)	Cologne	100.00	n/a	n/a
GG-Grundfonds Vermittlungs GmbH	Cologne	100.00	–16,901	–34
Goldpoint Partners Co-Investment V, LP	Wilmington, US	4.44	375,173	86,313
Gothaer Erste Kapitalbeteiligungsgesellschaft mbH	Cologne	20.30	35,575	1,841
Gothaer Vierte Kapitalbeteiligungsgesellschaft mbH	Cologne	19.90	6,178	46
Gotham City Residential Partners I GmbH & Co. KG	Frankfurt a.M.	49.99	18,845	3,600
Gotham City Residential Partners I, L.P.	Dover, US	9.35	74,768	–1,922
HGI Immobilien GmbH & Co. GB I KG	Frankfurt a.M.	3.35	15,081	814
HSBC NF China Real Estate GmbH & Co. KG	Düsseldorf	8.33	26,740	–67
InfraRed NF China Real Estate Fund, L.P.	St Peter Port, GG	1.41	220,536	64,522

				€ thousand
Name	**Registered office**	**Interest in %**	**Share-holders' equity**	**Year result**
INVESCO Beteiligungsverwaltungs-GmbH & Co. KG	Munich	4.80	193,873	29,827
Janitos Versicherung AG	Heidelberg	100.00	16,244	0
KILOS Beteiligungs GmbH & Co. Vermietungs-KG	Pöcking	93.06	60,381	– 31
Munich Carlyle Productions GmbH & Co. KG	Grünwald	93.93	– 64,037	812
NYLCAP 2010 Co-Invest L.P.	New York, US	39.60	32,630	1,246
NYLCap Mezzanine Partners III 2012 Co-Invest, L.P.	Wilmington, US	38.00	45,795	5,483
PE Holding USD GmbH	Cologne	40.00	175,983	17,727
PineBridge Secondary Partners III L.P.	Wilmington, US	4.54	148,803	17,247
PLA Residential Fund III Green, L.P.	Ontario, US	3.04	2,528,796	– 8,114
Praesidian Capital Bridge Fund, L.P.	Wilmington, US	7.96	n/a	n/a
Praesidian Capital Opportunity Fund III-A, L.P.	Wilmington, US	13.06	73,825	9,394
RE Brockton Capital Fund II Feeder GmbH & Co. KG	Cologne	24.94	30,211	3,126
RE Carlyle Infrastructure Feeder GmbH & Co. KG	Cologne	13.99	41,654	– 1,272
RE Gothaer PLA Residential Fund III Green Feeder GmbH & Co. KG	Cologne	19.96	10,220	– 8,411
RE Red Fort India Real Estate Fund I Feeder GmbH & Co. KG	Cologne	19.97	40,045	3,447
Red Fort India Real Estate Fund I, LP	St Peter Port, GG	3.99	– 130,655	71,653
Rocket Internet Capital Partners SCS	Luxemburg, LU	2.95	n/a	n/a
ROLAND Rechtsschutz Beteiligung GmbH	Cologne	10.00	20,294	– 12
RREEF European Feeder GmbH & Co. Value Added Fund I KG	Eschborn	6.45	27,155	4,208
SIGNA Real Estate Capital Partners Development I Beteiligungs GmbH & Co. KG	Munich	4.84	150,236	4,376
SilkRoad Asia Value Parallel Fund, SICAV-SIF	Luxemburg, LU	6.29	28,766	– 3,897
Surface Technologies GmbH & Co. KG	Potsdam	6.69	14,583	680
Tishman Speyer China Feeder (Scots/C), L.P.	Edinburgh, GB	15.15	45,294	– 1,728
Tishman Speyer China Fund L.P.	George Town, KY	1.13	658,523	– 25,008
Trimaran Fund II (Cayman) Limited	Wilmington, US	19.93	32,559	– 2,674
Tristan Capital Partners Holdings Ltd.	London, GB	15.00	18,360	7,225
W. Classen GmbH & Co. KG	Kaisersesch	10.00	80,641	16,507
WAI S.C.A., SICAV-FIS	Luxemburg, LU	4.48	76,597	8,605
Zippel Communications GmbH	Elsdorf-Heppendorf	9.14	– 30,216	– 148
Zippel Netmarket GmbH	Elsdorf-Heppendorf	25.86	–7,162	993

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 mean rate of exchange 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

	2016	2015
	€ thousand	
1. Commissions of insurance agents within the meaning of section 92 HGB in connection with direct insurance business	321,113	305,066
2. Other remuneration of insurance agents within the meaning of section 92 HGB	665	699
3. Wages and salaries	121,967	107,841
4. Social security contributions and employee benefits	19,546	19,388
5. Post retirement benefits	4,958	5,293
6. Total expenses	**468,250**	**438,288**

Liabilities

Total liabilities with a residual term of more than 5 years come to € 250 million (PY: € 500.0 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 € 385 thousand. Provisions for pension benefits for this group of individuals total € 7,375 thousand.

Remuneration paid to the Supervisory Board came to € 556 thousand; remuneration for the Advisory Board totalled € 9 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 1,930 employees in the financial year. Of these, 1,356 were employed in-house and 433 in the field. In addition, the Company had an average of 141 trainees in the course of the year.

Contingent liabilities and other financial commitments

In compliance with section 28 (1) EGHGB, accruals of € 1,065 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 € 56,094 thousand for post-retirement benefits of employees and executive officers and former employees and executive officers disclosed by Gothaer Finanzholding AG. From the present vantage there is no perceived risk 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 € 2,143 thousand.

At year-end, contributions totalling € 184,706 thousand (€ 51,265 thousand of which due to affiliated companies, € 1,480 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.

Contingent liabilities not shown in the balance sheet exist for one subsidiary and total € 61,425 thousand.

Guarantees of € 9,667 thousand were given under the bonds insurance operated in the framework of our business plan.

Our membership of "Verkehrsopferhilfe 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 2016.

Cologne, 27 March 2017

Board of Management

Thomas Leicht	Oliver Brüß	Dr. Mathias Bühring-Uhle
Dr. Karsten Eichmann	Harald Epple	Michael Kurtenbach
Oliver Schoeller		

Auditors' Report

We have audited the annual financial statements – consisting of the balance sheet, income statement and notes to the financial statements – as well as related accounting and the report of management of Gothaer Allgemeine Versicherung AG, Cologne, for the year ended 31 December 2016. The responsibility for accounting records and preparation of the annual financial statements and the report of management in compliance with the provisions of German commercial law rests with the management of the Company. Our responsibility is to express an opinion on the annual financial statements, including accounting records, and on the report of management, based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB and the generally accepted standards for the audit of annual financial statements issued by the Institut der Wirtschaftsprüfer (IDW). Accordingly, an audit is to be planned and performed to obtain reasonable assurance of detecting material misstatements or non-compliance with laws and regulations in the presentation of the net assets, financial position and results of operations in the financial statements in accordance with German accounting principles. Auditing procedures are determined to take into account knowledge of the business activities as well as of the economic and legal environment of the Company and an evaluation of possible misstatements. The audit includes assessment of the efficacy of the internal system of control procedures and, primarily on a test basis, examination of evidence of supporting amounts and disclosures in the Company's accounting records, annual financial statements and the report of management. The audit also includes assessment of the principles of accounting applied and significant estimates made by management as well as overall evaluation of the annual financial statements and the report of management. We believe that our audit provides a sufficiently reasonable basis for our opinion.

Our audit resulted in no reservations.

In our opinion, on the basis of the knowledge acquired in the course of our audit, the annual financial statements are in compliance with statutory provisions and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German generally accepted accounting principles. The report of management is consistent with the financial statements, complies with the legal requirements, conveys on the whole an accurate portrayal of the situation of the Company and accurately presents the opportunities and risks of future developments.

Cologne, 2 May 2017

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 four meetings. The Board was involved in all decisions of fundamental importance for the Company. The committees of the Board were also involved in informational and oversight activities. The Investment Committee, 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. Solvency II requirements were successfully integrated in reporting. Management submitted regular reports to the Supervisory Board on the development of reinsurance cessions and on the status of all major strategic programmes and projects.

The Audit Committee established by the Supervisory Board in line with section 107 (3) AktG monitored the accounting process and verified the effectiveness of the internal control system, risk management system, compliance organization and internal auditing system The key performance indicators in the separate and consolidated financial statements were discussed in detail with Management and auditors, taking the relevant benchmarks into account. There were no objections. The Audit Committee therefore proposed to the Supervisory Board that the financial statements for the financial year 2016 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 extensively to the Board 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 general economic consequences of the development of interest rates as well as the implications for the insurance industry.

The Company consistently demonstrated its earning capacity and maintained its financial strength. This is reflected in sustained good rating results. The performance of Gothaer Allgemeine Versicherung AG was again confirmed by the ratings of Standard & Poor's (A-) and Fitch (A).

The Supervisory Board discharged its statutory duty to examine HR issues relating to Management. In the financial year 2016, Dr. Christopher Lohmann was appointed to Management with effect from 1 April 2017 in preparation for the departure of Mr. Leicht, who chose not to renew his contract for personal reasons and leaves the Management with effect from 31 May 2017. Dr. Lohmann becomes chairman of the Management Board on 1 May 2017. The Management appointment of Dr. Mathias Bühring-Uhle was extended for five years.

The Supervisory Board monitored the development of male and female membership of Management and the Supervisory Board in the light of the targets set in 2015 to promote equal participation of men and women in leadership positions.

Management also informed the Supervisory Board about the remuneration systems in place within the Gothaer Group.

The auditors fully certified the reports presented in accordance with section 322 of the German Commercial Code (HGB).

After examining the Management Report and Financial Statements, the Supervisory Board has no objections to raise.

The Supervisory Board has no particular comments to make about the report prepared by KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne, on 2 May 2017. The auditors and the appointed actuary attended the Supervisory Board meeting on the Financial Statements and reported on the key results of the audits.

The Board endorses the Management Report and approves the Financial Statements for 2016. 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, 23 May 2017

The Supervisory Board

Prof. Dr. Werner Görg
Chairman

Company Locations

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