Gothaer

Gothaer Group
Annual Report 2018

Year-on-year comparison

	€ million	
	Financial Year	
	2018	2017
Gross premiums written	4,382.8	4,290.7
Earned premiums net of reinsurance	3,976.6	3,919.2
Retention ratio (as %)	91.1	91.7
Claims expenses net of reinsurance	3,251.5	3,093.5
Change in other net underwriting reserves	222.6	843.9
Underwriting expenses net of reinsurance	736.9	728.6
Net income for the year	118.7	211.5
Return on equity (as %)	10.8	22.7
Investments	28,745.8	28,264.4
Investment result	885.2	1,296.7
Net return (as %)	3.1	4.7
Underwriting reserves (net)	27,301.8	26,623.2
Equity	1,159.2	1,035.6
Subordinate liabilities	299.7	299.7
Employees (average number)	5.412	5.563

The Gothaer Group

With over 4.1 million members and premium income of € 4.38 billion, the Gothaer Group is one of Germany's major insurance groups and one of the country's largest mutual insurance associations. All lines of insurance are offered, whereby Gothaer focuses on providing high-quality personal advice to ensure that the result is perceptible added value for our customers and marketing partners. Gothaer customers essentially comprise private clients and small and medium-sized businesses. For both of these groups – as well as for freelance professionals and the self-employed – we offer a wide range of cover concepts.

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

The Business Units

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

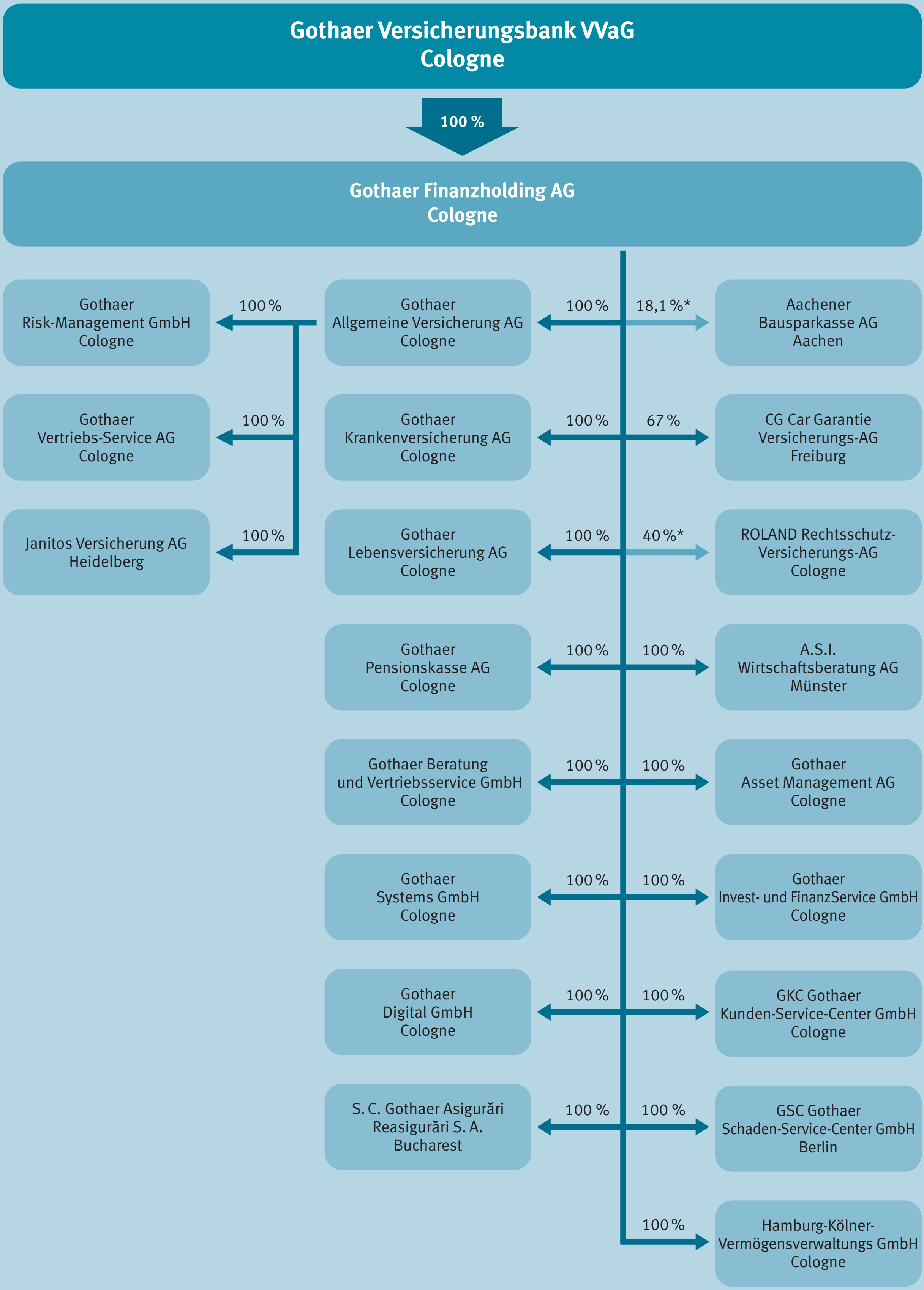
Gothaer **Allgemeine Versicherung AG** is the largest risk-bearing entity in property and casualty insurance within the Gothaer Group and regards itself a digital risk and service partner. This company has ranked among the largest German property insurance companies ever since its foundation in the year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

Gothaer Lebensversicherung AG has been a partner for insurance protection, financial planning strategies and investment advice for nearly 200 years. The company focuses systematically on biometrics and capital-efficient products, which are strategic business fields, as well as on company pension schemes. In recent years, the percentage of new business generated within these fields has steadily increased. This strategic gearing takes account of the current low-interest situation and addresses the requirements of Solvency II. Gothaer optimizes and upgrades its solutions portfolio on a continuous basis. In autumn 2018, the company successfully launched Gothaer *Fähigkeitenschutz* (capability cover) and thus expanded its product portfolio to include an alternative form of work-capacity protection, thereby strengthening the positioning of Gothaer Lebensversicherung AG as a provider of innovative risk products. In the company pension scheme sector, considerable growth stimuli are anticipated in the coming years. With the introduction of the Act Strengthening Occupational Pensions *(Betriebsrentenstärkungsgesetz),* the German legislature further improved the environment for employers and employees. In the direct policy *GarantieRente Performance,* Gothaer offers attractive pension solutions that are easy to implement for employers of all sizes.

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

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

The Gothaer Group



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

March 2019

Gothaer Versicherungsbank VVaG
Group Annual Report

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

Registered Office of the Company
Arnoldiplatz 1
50969 Cologne/Germany

Cologne Local Court, HRB 660

Table of Contents

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

Stable growth in a challenging year

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

The overall economic situation in 2018 was characterized by a constantly rising degree of uncertainty at almost all levels. Contrary to earlier commitments to the free movement of goods and services, which could be heard worldwide, the tendency to give priority to national interests continued unabated in 2018. The trade disputes between the US and China and Europe or the decision by the UK to leave the EU are only particularly striking examples of the primacy of individual national interests. Despite this clearly emerging tendency to form blocs, it is hardly possible within Europe to bring together the interests inside Europe. Here, too, in some countries pronounced individual national interests are placed before European unity.

From a financial point of view, Central Europe in 2018 was affected by an ongoing low-interest phase. This has hit and is hitting savers in particular, who hardly receive any interest on their fixed-term deposits and are struck by low, though existing inflation.

Gratifyingly, at least national legislators have recognized in some areas that the insurance industry makes an extraordinarily valuable contribution to old-age provision. The modification of the calculation methodology for the additional interest reserve has – justifiably – helped German life insurers to cushion the consequences of the artificially pursued low-interest policy.

The Gothaer Group performed well in 2018.

The solvency ratios of the individual Group companies and the Group remain at a good level. In particular, the solvency ratio of Gothaer Lebensversicherung AG again increased significantly from the end of 2017 to 2018. Here, the Group's investment policy stayed mostly unchanged. The quality of investments, measured according to the issuers' ratings, remains at a very high level; the duration is largely adjusted to the underwriting liabilities, while at the same time our improved solvency allows a higher exposure to real estate, renewable energies and alternative investments.

2018 was a year of product innovation for all risk carriers. This is likewise true of casualty and accident insurance and life cover as it is of health insurance. Examples include Cyber-Versicherung (cyber insurance), *Gothaer Fähigkeitenschutz zur Arbeitskraftabsicherung* (Gothaer's cover to underpin work capacity) and cross-line products from life and health insurance. These product innovations have made a significant contribution to our impressive growth in all segments in 2018. At the same time, acceptance of the newly developed products by all of the Group's sales channels was higher than expected. In particular, what's proving to be increasingly successful is the Gothaer Group's multi-channel strategy in exclusive distribution. In this context, the effective combination of personal advice by highly qualified experts with the technical possibilities of an online presence and online contracting have proved to be highly successful, as shown by the resulting sales figures that have once again increased significantly in 2018.

For the Gothaer Group, digitalization is a permanent organizational challenge. On the one hand, this applies to a continual improvement to our own cost position. At the same time, however, new business areas that could only be created thanks to the technical possibilities of digitalization were opened. An example of this is the offer of a telematics-based motor rate in cooperation with the start-up EMIL Deutschland AG in Berlin.

The essential strength of our joint success was and is the staff of Gothaer, of our multi-channel organization in sales and of our cooperation partners. Together with their invaluable contribution, the Group has mastered all the challenges of changing legislation and international politics, changing markets and the effects of technological changes for over a span of almost 200 years. On behalf of the entire Supervisory Board, I would like to express my sincere thanks for their commitment.

Yours,

Perspectives for the future thanks to Gothaer's 2020 strategy

Dr. Karsten Eichmann
Chief Executive Officer
of the Gothaer Group

With its good results, 2018 is another important milestone for the Gothaer Group on its way to its bicentennial jubilee in 2020. In a challenging environment with a further drop in interest rates on the capital markets and massive investment needs in the course of the digitalization of its business model, sustainable earnings and growth targets were achieved: gross premiums written at Group level grew by 2.1 percent to over € 4.38 billion. Strong growth driver here was property and casualty insurance with a plus of 1.8 percent in gross premiums written. Thanks to the successful realignment of Gothaer Lebensversicherung AG, new business increased by more than 20 percent in 2018. Following the consolidation phase and the restructuring of the life insurance product portfolio, the signs are now once again pointing to growth in all segments.

In 2018, the Group also further strengthened its financial clout and improved its solvency ratio in a demanding investment environment. The planned restructuring measures and the associated organizational changes have been successfully implemented and are making a sustained contribution to our stable earnings situation.

Taking stock at the half-way point of the Gothaer 2020 Group strategy that was introduced in 2016, we can say that the overall development is very positive. The strategy was implemented with a clear focus on preparing Gothaer for future challenges and systematically exploiting all market opportunities. Of course, digitalization is also a key topic here. Our objective is the successive digitalization along the value chain with a clear focus on customer benefit. As part of the digital integration, the service offering for customers and sales partners was expanded and our analysis methods significantly optimized. The response from our customers has been very positive: in 2018, 200,000 customers activated their personal customer portal "Meine Gothaer" (My Gothaer). In total, 300,000 Gothaer customers are already using the digital customer folder. The range of apps was also further expanded, and the number of users of health and casualty apps continues to rise. Digitalization thus supports personal contact at clearly defined interfaces and contact points preferred by customers. At the same time, the efficiency of claims processing for customers is enhanced and customer satisfaction values rise.

As a mutual insurance association, the Gothaer Group has a major advantage: we are committed to our community of insureds only – not to any shareholders. Thanks to this independence, we are in a position to act long-term and sustainably in the interest of our customers solely. It's what drives the people at Gothaer: making an important contribution to safeguarding our values, health and sustainable future of our policyholders, but also feeling committed to the community of our Company as a whole. We protect everything that is important to our customers – first and foremost their families, but also their assets, their homes, their health, their working power and all the other things that are near and dear to them.

In this way, the insured community backs each individual and makes an individual strong and provides support and security. And because the community is so important to us, we have made the idea of community perceptible to the outside world through brand positioning and our motto *"Mehr Wert durch Gemeinschaft"* (Added Value through Community). We use it to position the Gothaer brand with customers, partners and the public. Internally, we are driven by protecting values in the community.

In 2019, digitalization will continue to occupy us in depth and, in conjunction with growth through innovative products, will contribute to the business success of the Gothaer Group. But we have already achieved a great deal today of which we can be proud. These successes were only possible thanks to the commitment and high level of cooperation and flexibility of our employees and sales partners. I would like to thank them all – also on behalf of the entire Executive Board – for their great commitment and invaluable support. We look forward to celebrating our 200th anniversary with you in 2020!

Yours,

Representatives of Members

Wilm-Hendric Cronenberg Chairman as of 22 June 2018, up to 22 June 2018 Vice Chairman	Managing Partner of Julius Cronenberg o. H.
Dr. Martin Willich Chairman up to 22 June 2018	Media consultant and lawyer, up to 22 June 2018
Knut Kreuch Vice Chairman	Mayor of the City of Gotha
Jürgen Scheel Vice Chairman	Chairman of the Management (retd.) of Kieler Rückversicherungsverein a. G.
Quentin Carl Adrian	Tax accountant of dhpg Dr. Harzem & Partner mbB, as of 22 June 2018
Heiner Alck	Physical therapist
Peter Arndt	Diplom-Ingenieur
Christina Begale	Consultant
Georg Behre	Diplom-Ingenieur, up to 5 February 2018 †
Helmut Berg	Pensioner
Werner Dacol	Real Estate Valuer
Sabine Engler	Diplom-Kaufmann
Andreas Formen	Diplom-Betriebswirt
Dr. Jörg Friedmann	Lawyer, Law firm Dr. Friedmann & Partner mbB
Dr. Vera Nicola Geisel	Head of Executive Board Affairs & Executives Contracts, Corporate Function People Development & Executives Management of ThyssenKrupp AG
Dr. Benno Gelshorn	Specialist in General Medicine

Beate Gothe	Head of Finance and HR of Heinz Gothe GmbH & Co. KG
Birgit Heinzel	Master craftswoman in ophthalmic optics and auditory acoustics, Managing Director of HEINZEL Sehen + Hören
Norbert D. Hüsson	Betriebswirt, Master painter, Managing Partner of Hüsson FGB GmbH
Bernhard John	Diplom-Ingenieur, Consultant BJ consult + support, up to 22 June 2018
Bernd Kieser	Diplom-Kaufmann, Managing Director of BK Consulting GmbH
Dr.-Ing. Hans-Herbert Klein	Consulting engineer VBI, up to 22 June 2018
Wolfgang Klemm	Chamber musician (retd.)
Dr. Hans-Werner Lange	Chief Executive Officer of TUPAG-Holding-AG
Wolfgang Leibnitz	Notary (retd.), up to 22 June 2018
Prof. Dr. Claus Luttermann	Vice-Dean of the Economics Faculty of the Catholic University of Eichstätt-Ingolstadt
Hans Mauel	Chairman of the Board of Stiftung der Cellitinnen zur hl. Maria
Rudolf Nüllmeier	Diplom-Finanzwirt, Tax accountant (retd.)
Uwe von Padberg	Diplom-Kaufmann, Managing Director of Creditreform Köln v. Padberg KG
Ilse Peiffer	Secretary
Dr. Angelika Prehn	Specialist in General Medicine, up to 22 June 2018
Annegret Reinhardt-Lehmann	Managing Director of Wirtschaftsverband Wirtschaftsinitiative FrankfurtRheinMain e. V., as of 22 June 2018
Dr. Roland Reistenbach	Dentist

Peter Riegelein	Diplom-Kaufmann, Managing Director of Hans Riegelein+ Sohn GmbH & Co. KG
Prof. Dr. Torsten Rohlfs	TH Köln/University of Applied Sciences, Institute of Insurance Studies (ivw Cologne), as of 22 June 2018
Dr. h. c. Fritz Schramma	Former Lord Mayor of the City of Cologne
Birgit Schwarze	President of DSSV e. V. Arbeitgeberverband deutscher Fitness- und Gesundheits-Anlagen
Walter Stelzl	Pensioner
Dr. Katrin Vernau	Director of Administration of WDR Westdeutscher Rundfunk Köln
Sabine Walser	Head of Publishing of P. Keppler Verlag GmbH & Co. KG, as of 22 June 2018
Dr. Marie-Luise Wolff	Chief Executive Officer of ENTEGA AG

Honorary Chairman

Dr. Karlheinz Gierden	District Chief Administrative Officer and Bank Manager (retd.)

Supervisory Board

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

Honorary Chairmen

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

Management

Dr. Karsten Eichmann
Chairman

Oliver Brüß

Dr. Mathias Bühring-Uhle

Harald Epple

Michael Kurtenbach

Dr. Christopher Lohmann

Oliver Schoeller

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

Advisory Board Gothaer Versicherungsbank VvaG

Andreas Barth	Diplom-Ingenieur, Managing Director of OMEGA Blechbearbeitung GmbH
Klaus Michael Baur	Publisher and Editor in Chief of Badische Neueste Nachrichten Badendruck GmbH
Daniel Beck	Commercial Director of Hans Adler ohG
Prof. Dr. Dr. h. c. Axel Ekkernkamp	Medical Director / Managing Director of Unfallkrankenhaus Berlin
Daniel Friedrich	Managing Director of Friedrich & Sohn Transport / Spedition GmbH
Dr. Ulrich Gauß	Chairman of the Management of VPV Lebensversicherungs-AG
Lorenz Hanelt	Managing Director of Albatros Versicherungsdienste GmbH
Hans Jürgen Hesse	Managing Partner of Hesse GmbH & Co. KG
Willi Hullmann	Chairman of Kölner Wohnungsgenossenschaft eG
Thomas Kemp	Diplom-Kaufmann, Managing Director of Reinert Gruppe Ingredients GmbH
Hans-Dieter Kettwig	Managing Director of Enercon GmbH
Clemens Klinke	Executive Officer of DEKRA SE
Dr. Karsten Kölsch	Executive Officer of Ahlers AG
Rainer Lehmann	Executive Officer of Sartorius AG
Timo Freiherr von Lepel	Managing Director of NetCologne GmbH
Dr. Michael Maxelon	Chairman of the Management of Städtische Werke AG Kassel
Andreas Mosler	Diplom-Betriebswirt, Diplom-Wirtschaftsinformatiker, Spokesman of the Management of AEP AG
Tanja Müller-Ziegler	Executive Officer of Berliner Sparkasse, up to 31 December 2018
Goetz Neumann	Chairman of Pensionskasse der Wacker Chemie VVaG
Rüdiger Otto	Managing Director and Owner of A. Otto & Sohn GmbH & Co. KG, as of 1 January 2019
Wolfgang Öxler	Archabbot of the Benedictine Abbey St. Ottilien

Dr. Peter Ramsauer	Diplom-Kaufmann
Hermann Reichenecker	Managing Partner of Storopack Hans Reichenecker GmbH
Erich Staake	Diplom-Kaufmann, Chairman of the Management of Duisburger Hafen AG
Adi Frank Thurn	Managing Director of AT Abfüllbetriebe Greven GmbH, up to 31 December 2018
Thomas Wahl	Managing Partner of Alfred Wahl KG
Hans-Joachim Zinser	Managing Partner of Modehaus Zinser GmbH & Co. KG

Management Report

Group Management Report

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

Developments in the insurance industry

Trends in 2018

Insurance sector as a whole

Even though the dynamism of the economy slackened during the course of the year, GDP in Germany is expected to have grown by 1.5 % in 2018. This has a sustained positive impact on the economic situation of private households. With the labour market situation favourable, both disposable income and consumer spending have risen. Against this backdrop, figures produced by the German Insurance Association (Gesamtverband der deutschen Versicherungswirtschaft e. V. [GDV]) – on which the following statements are based – indicate that positive premium growth can be expected. In property and casualty insurance, private households account for around two-thirds of premium revenues. The good situation of private households is thus one of the factors pushing the anticipated premium growth rate to 3.3 %. Owing to the low overall return on investment, the competitive situation in life insurance remains challenging. However, liquidity in the market is high, i. e. investment interest is strong, so there are market opportunities for pension products. In line with the trend of recent years with regular premiums virtually unchanged and single premium business growing by 4.6 %, premium growth of 1.4 % is anticipated for the life insurance industry as a whole. Premiums from private health insurance increased by around 1.7 % in 2018. Growth stimuli for private health insurance were seen in supplemental products such as long-term care or supplemental dental policies as well as in company health insurance. Overall, premium growth is expected to remain stable for the insurance industry at 2.1 %. Without single premium business, the increase in premium volume for life insurers would be around 1.7 %.

Property and casualty

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

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

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

Life

2018 was another very challenging year for German life insurers. The ongoing low-interest phase and the resulting need to form additional interest reserves (Zinszusatzreserve – ZZR) continued to require a security-based business strategy and adjustment of the business model to the changed environment. Many life insurers in recent years have realigned their product portfolio, for instance, and increasingly placed their faith in products with modern, reduced guarantees to generate new business. Those new products are now well established.

The Act Strengthening Occupational Pensions (BRSG), which entered into force on 1 January 2018, gave new impetus to company pension provision in 2018 by improving the support environment. In addition to better support options within existing implementation channels, a new ‘Social Partner’ model was added to expand the scope of occupational pension provision. This new no-guarantee pension (the “Nahles pension”), recognized in collective bargaining agreements, will provide new stimuli for occupational pension plan business.

The life insurance industry in the narrower sense (excluding pension trusts and pension funds) registered solid premium growth in 2018 (+2.4 % against the prior year). Both new regular premium business (+2.1 %) and new single premium business (+7.0 %) were distinctly positive. The number of new policies across the industry was recessive, however, down by 5.2 % at around 4.7 million.

The situation in the capital markets was again influenced by the monetary policy of the European Central Bank during the course of 2018. The yield of 10-year German government bonds ended 2018 at 0.24 %, which marked a further weakening of rates in comparison with the year-end figure of 0.42 % in 2017. Returns on new investments and reinvestments remain very low, making it hard for life insurers to achieve a sufficiently high net return, which is particularly needed for the fulfilment of high guarantee commitments under existing policies.

Given the ongoing low-interest phase, life insurers are also under a statutory obligation to make large annual transfers to additional interest reserves (ZZR – Zinszusatzreserve). This is to ensure that high guarantee commitments under existing life policies can still be fulfilled in a low-interest environment. Allocations to these policy reserves depress gross margins industry-wide and impact on profitability and the financial basis of life insurers. Additional interest reserves need to be formed for all tariff generations with actuarial interest rates above a so-called reference rate. Thankfully, in autumn 2018, the legislature implemented the long-sought change in the way additional interest reserves are calculated. 2018 was the first year for which the new 'corridor method' could be used and its application significantly eased the pressure of ZZR transfers.

Health

Despite a strong economy, the market environment for private health insurance in Germany remained heterogeneous. Political and media discussion of the dual health system impacts particularly on health insurance. The resulting public uncertainty had a marked effect on the market, significantly undermining growth in the private health insurance sector for yet another year. At the same time, supplemental insurance again proved a stable growth market.

Health Minister Jens Spahn has been in office since March 2018. Right at the heart of the health policy debate during the year was the issue of care. The law to incentivize nursing staff (PpSG), which came into force on 1 January 2019, essentially creates more nursing jobs and improves pay and working conditions. The measures adopted resulted in premium adjustments for private health insurance in 2018, with effect from 1 January 2019. In addition, individual claimants questioned the independence of the actuarial trustee for private health insurance and thus the validity of premium adjustments in the past. The Federal Supreme Court ruled in December 2018 confirming the view of the private health insurers association PKV-Verband that the validity of a premium adjustment is not conditional upon the independence of the trustee.

Against the backdrop of the politicized market environment, comprehensive private health insurance in force probably experienced a further moderate contraction in 2018. However, the market has significantly improved against the low of 2013, when the number of comprehensively insured persons slumped by 66 thousand. In terms of premium revenues, initial estimates for the comprehensive insurance market point to growth.

In the supplemental segment, private health insurance continued to grow vigorously in 2018 according to the industry association's initial estimates The trend thus continues towards private provision to top up the benefits receivable under statutory health insurance. Company health insurance plans, in particular, enjoy growing popularity and still offer considerable potential in the collective policy segment both as employer-funded and as employee-funded schemes.

Outlook for 2019

Insurance industry as a whole

No major changes in the economic environment are anticipated in Germany. GDP growth, on a gentle downward curve, is expected to slow to 1.6 % in 2019. With company order books full and the labour market situation favourable, disposable incomes are likely to rise further. As a result, premium revenues for property/casualty insurers should grow by around 2.7 %. The upturn in premium volume for life insurers is expected to be more modest, at 0.8 %, because the anticipated – 0.1 % contraction of regular premium business is likely to be flanked by only 2.9 % growth in single premium business. In private health insurance, 2019 is expected to produce premium growth of 3.0 % as a result of premium adjustments. The reasons for the adjustments are sustained low interest rates and long-term care insurance reforms. Overall, premium growth of 1.9 % (excluding single premium business of 1.7 %) is anticipated for the insurance sector as a whole.

Property and casualty

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

Life

The difficult environment for life insurance will persist through 2019. The biggest challenge for the industry remains the very low interest-rate level, which will make it hard to achieve new investment earnings above guaranteed interest rates and will have a significantly negative impact on results.

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

On the legislative side, growth impulses will continue to be felt in 2019 from the Act Strengthening Occupational Pensions (BRSG), sustaining company pension schemes as one of the major growth markets for the life insurance industry. Furthermore, the industry continues to address the diverse requirements of the Solvency II regulatory regime – especially the tighter investment and reporting requirements and the shorter reporting deadlines.

In addition, life insurers are required to act on a large number of compliance issues as a result of heightened transparency requirements. IDD, PRIIP and MiFID are abbreviations for European directives that create a uniform framework for the brokerage of insurance on the one hand and investment funds on the other.

Targeted services for greater customer and agent satisfaction as well as systematic digitalization of both sales processes and customer communications are increasingly becoming a focus for life insurers seeking growth, earnings and efficiency.

Health

With the formation of the new government in March 2018, the private health insurance industry now has a clear basis for its development. The "citizens insurance" model will not form part of the system envisaged by the present government. Nevertheless, a whole range of reforms are being discussed with a view to addressing the high level of medical benefits, the challenges of an ageing society and the financing of the system. In 2019, parity-based financing (by employer and employee) will be re-established in the statutory health insurance system, which is not likely to be good for new comprehensive insurance business and will again weaken the industry's competitive position in the comprehensive insurance segment.

People in Germany will continue to be unsettled by the media debate on the alignment of private and statutory health insurance benefits. The opportunity for the private health insurance industry lies in implementing its own reform agenda. It will do so systematically and thus continue to demonstrate its efficiency and dependability.

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

Driven, in part, by long-term care insurance, supplemental insurance will continue to be a growth area for private health insurers. Occupational health insurance, in particular, is becoming increasingly established as an important pillar of occupational insurance concepts and a source of growth impetus. The appeal ruling of the Federal Fiscal Court (BFH) delivered on 7 June 2018, stating that employer-paid occupational health insurance contributions should, in certain circumstances, be classed as payment in kind, will give a further boost to occupational health insurance business. As payment in kind, occupational health insurance contributions would be exempt from tax and social security up to an amount of € 44 a month. It remains to be seen what position the Federal Finance Ministry takes on how the BFH ruling should be handled in the future.

Digitalization increasingly presents a major opportunity for the insurance industry. The pace of innovation is particularly fast in the health sector. Health policy landscapes are being enriched by the rapid development of e-health solutions in the German and international startup market. Private health insurers are increasingly incorporating medical-based digital care concepts into their service portfolios. For customers, this marks a shift away from dealing with administrators towards engaging with all-round health service providers.

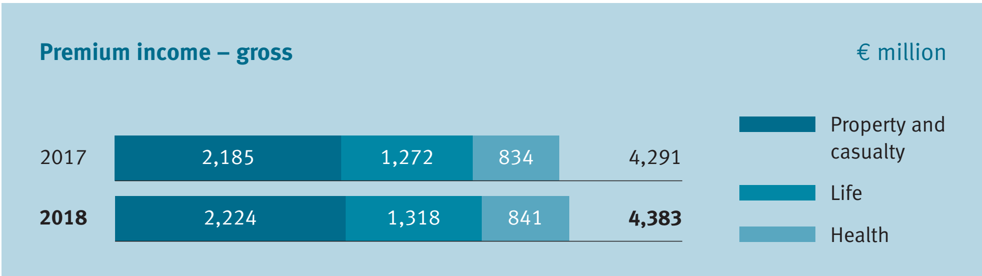
Overall, particularly in view of the impacts of demographic developments, the growing significance of the issue of public health and rising healthcare costs, the German health market remains an attractive market segment.

Development of business in 2018

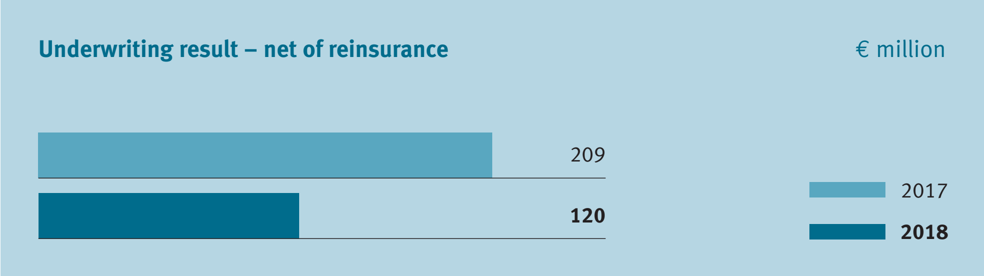
2018 was another successful year for the Gothaer Group. Premium income rose by 2.1 % in line with the market and produced a return on equity of 10.8 %

The gross premiums written by the Group totalled € 4.38 billion in the financial year (PY: € 4.29 billion). Premium growth was achieved across all sectors. Special mention should be made of the successful restructuring of our life product portfolio. After the revenue downturns of recent years, premium income from life insurance rose by 3.6 %.

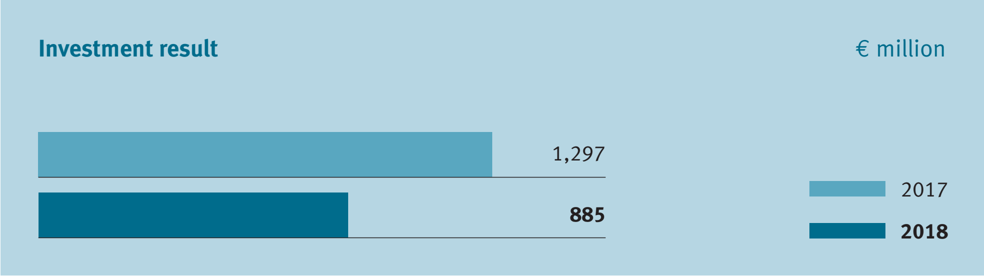
Primary insurance, which is our core business, accounted for € 4.31 billion (PY: € 4.19 billion) of gross written premiums. Premiums written in reinsurance assumed from extra-group insurers accounted for € 76.3 million (PY: € 96.8 million). This business relates entirely to property and casualty insurance and is of only minor significance for the Gothaer Group.



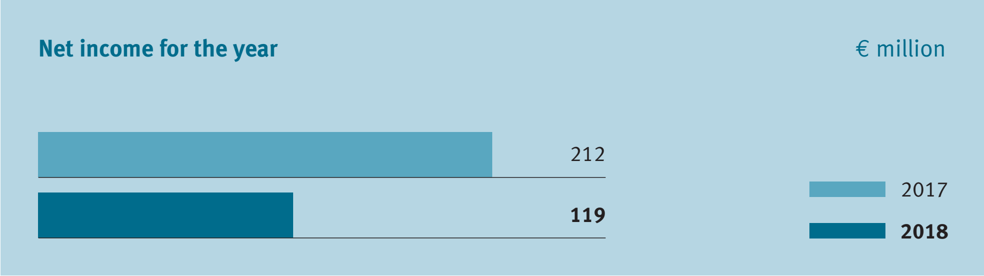
In the Property and Casualty segment, the underwriting result net of reinsurance was marked by diverse storm and heavy rain events in 2018. This depressed the result against the prior year to € 54.6 million (PY: € 81.4 million). The underwriting result from life and health insurance business net of reinsurance was € 65.2 million in the financial year (PY: € 150.2 million). The downturn is due to two factors. First, the results of our life and health insurance companies were moderately recessive. Secondly, there were positive special tax effects at Group level, in which policyholders participated. The expense of forming this provision for deferred premium refunds rose sharply in the financial year. As a result, the overall underwriting result net of reinsurance, at € 119.9 million, was significantly lower than in the prior year (PY: € 231.6 million).



The investment result, at € 885.2 million, was lower than in the prior year (PY: € 1,296.7 million). The fall was largely due to the switch to the corridor method of calculating additional interest reserves (ZZR). As a result, the financing requirements for the formation of ZZR decreased in comparison to the prior year. The net return on investments, at 3.1 % (PY: 4.7 %), was satisfactory, given the ongoing difficult capital market environment.



The lower underwriting result net of reinsurance and the recessive investment result also affected net profit for the year. This stood at € 118.7 million in the financial year 2018, after € 211.5 million in the prior year, and made for what we consider a good return on equity of 10.8 %.



Underwriting result

Property and casualty insurance

In property and casualty insurance, gross written premiums grew by € 39.4 million to € 2.22 billion. This was a good upturn but slightly below expectations. While premium income from direct written insurance business rose by 2.9 % to € 2.15 billion, premiums from reinsurance assumed fell by € 20.5 million to € 76.3 million. Our growth strategy continues to be based on a profit-oriented underwriting policy and thus selective underwriting of new business. At the Group's largest property insurer, Gothaer Allgemeine Versicherung AG, portfolio pruning efforts continued in architects liability and industrial property insurance. This year sees the launch of a new pet health policy for the private market. Another focus is on promising new areas such as cyber insurance. Total earned premiums from property and casualty insurance net of reinsurance increased by 0.8 % to € 1.87 billion.

Gross claims expenses in connection with direct written insurance business rose by € 93.8 million to € 1.41 billion, partly because of the winter storms "Burglind" and "Friederike". Cyclone Friederike (Storm David) alone produced gross claims expenses of € 35.6 million from around 24,000 claims. As a result of the year's storm and heavy rain events, the total number of claims reported in 2018 surpassed even the high level of prior-year claims. On the major loss front, both the number of reported claims and the volume of claims expenses in 2018 were below the prior-year level. The gross loss ratio, after allowance for increased premiums, climbed to 63.9 % in the financial year (PY: 60.5 %). After relief through reinsurance, claims expenses in connection with property and casualty business increased by 6.5 % to € 1.23 billion net of reinsurance. The net loss ratio rose by 3.5 percentage points to 65.9 %. Net loss reserves, at € 2.46 billion, were increased beyond the prior-year level of € 2.40 billion. Net loss reserves in the financial year 2018 amounted to 131.5 % (PY: 129.5 %) of net earned premiums.

Underwriting expenses net of reinsurance increased by 1.0 % to € 573.5 million. While administrative expenses were recessive at € 305.6 million (PY: € 310.4 million), acquisition expenses rose to € 352.5 million (PY: € 344.6 million). Reinsurance commissions were € 2.9 million lower than in the prior year at € 84.6 million. The gross cost ratio fell by 0.3 percentage points to 29.8 %. The net cost ratio, at 30.7 %, was at the prior-year level. Overall, this resulted in an increased net combined ratio of 96.6 % (PY: 93.0 %), which was nevertheless a very good result in the wake of the "Burglind" and "Friederike" storm events.

The underwriting result before adjustment of equalization reserves was essentially shaped by the increase in claims expenses in 2018. This made for a profit of € 41.8 million after € 117.1 million in the prior year. A sum of € 12.8 million needed to be withdrawn from equalization reserves in the year under review, as against an allocation of € 35.7 million in the financial year 2017. After allowance for this, the underwriting result net of reinsurance decreased to € 54.6 million (PY: € 81.4 million). This figure includes an underwriting result from reinsurance business assumed totalling € 14.2 million (PY: € 13.7 million).

Life insurance

After successive downturns in recent years, gross written premium income from life insurance business turned around in 2018. With a better-than-anticipated upturn of 3.6 %, it grew significantly faster than the market average to € 1.32 billion. The main driver of this growth was the new single premium product launched in 2017. However, the regular premium products also registered moderate growth.

It is pleasing to note that new business in biometric products and capital-efficient pension plans also increased in 2018. These two important segments for the future accounted for 80.5 % of total new business in the year under review.

Major growth impetus was delivered by the Act Strengthening Occupational Pensions (BRSG), which entered into force on 1 January 2018. Considerable advances were made here, especially in the direct insurance sales channel. Significant sales boosts were achieved with innovative solution modules and sales approaches based on the much extended framework for state support. Together with four other mutual insurance companies, Gothaer Lebensversicherung AG established a consortium – "Das Rentenwerk" – for the additional business connected with the new "social partner pension". The aim is to pool efforts and create a joint, competitive product range for the collective agreement market.

Under profit-sharing arrangements, the sum of € 26.8 million (PY: € 26.0 million) was withdrawn from reserves for premium refunds as "premiums from reserves for premium refunds" and used for additional insurance benefits.

Claims expenses net of reinsurance in the Life segment rose by 6.9 % to € 1.42 billion. This was particularly due to a sharp increase in claim payments, which surged by € 101.4 million to € 1.41 billion as a result of higher run-off in comparison to the prior year.

Policy reserves net of reinsurance increased by € 240.4 million to € 15.71 billion in the financial year, further boosting the policyholder balance. These reserves include additional interest reserves (Zinszusatzreserve – ZZR), which life insurers are required to form in a low-interest environment for tariffs with high guaranteed interest. The way additional interest reserves are calculated was changed to the "corridor method" in the financial year 2018. A sum of € 90.3 million (PY: € 253.5 million) was transferred to additional interest reserves. The switch to the corridor method reduced the expense for Gothaer Lebensversicherung AG in 2018 by around € 230 million.

Underwriting reserves for life insurance where investment risk is borne by the insurance companies decreased by € 229.9 million to € 2.02 billion as a result of price movements.

The reserves for premium refunds include the surpluses generated in the financial years before they are paid to the individual policyholders at the contractually agreed times during the term or upon expiry of policies. A sum of € 138.2 million (PY: € 125.5 million) was withdrawn from reserves for premium refunds for the surplus bonuses due to policyholders. We thus again placed substantial funds at our policyholders' disposal, either in the form of payments or as credits to policyholder balances. After an allocation of € 140.3 million (PY: € 100.6 million), reserves for premium refunds totalled € 638.3 million (PY: € 636.3 million). The increased allocation in the financial year was essentially due to special tax effects at Group level, in which policyholders participated. The expense of forming this provision for deferred premium refunds increased sharply in the financial year.

The allocated investment return from the non-technical account for life insurance was shown in the underwriting account as € 554.3 million (PY: € 747.8 million). This is the portion of the investment result attributable to life insurance from a Group perspective. The full investment result for the Group is shown in the non-technical account.

Underwriting expenses net of reinsurance in the Life segment increased by 1.1 % – and thus less than anticipated – to € 97.6 million. Acquisition costs rose by 3.0 % to € 92.5 million against the prior year. Production surged by a gratifying 5.2 %, generating new premium income of € 1.71 billion. The acquisition cost ratio – the ratio of acquisition costs to new business income – was 5.4 % (PY: 5.5 %). Administrative costs rose by 4.5 % to € 23.9 million. The administrative cost ratio, at 1.8 %, was at the prior-year level.

At year-end, due to special tax effects, life insurance operations thus produced an underwriting result net of reinsurance at Group level of € 32.3 million (PY: € 95.0 million).

Health insurance

Contrary to expectations, gross written premiums in the Health sector increased in 2018 by 0.8 % to € 840.5 million. New business grew significantly against the prior year, surging by 20.2 % to € 1.39 million. The number of comprehensively insured persons continued to be recessive, falling by 2.6 % to 138 thousand. The number of persons with supplemental insurance, however, rose by 2.1 % to 455 thousand. The total number of insureds thus grew by 1.0 % to 593 thousand.

A major part of the growth in supplemental insurance business was again achieved in 2018 – in line with our strategy – in collective business with corporate clients (occupational health insurance). Gratifyingly high growth was registered in our MediGroup collective tariffs. The aim is to strengthen our position among the leading occupational health insurance providers. To this end, we upgraded operations by establishing occupational healthcare management services that combine organised local medical services with innovative digital workforce health services. We are thus one of the few health insurers offering corporate clients systemized occupational health insurance and occupational healthcare management. The growth registered in this segment attests to our performance and innovative dynamism in this expanding market. Given the high volume of enquiries, especially in the fourth quarter of 2018, we are confident that the positive trend will continue through 2019.

In September 2018, a new dental plan was launched to expand the field of supplemental insurance business. MediZ Duo is a major driver of growth for supplemental insurance.

Building on our growth agenda adopted in 2017, we are progressively evolving into a modern healthcare service provider. In 2018, improvements were made to the health app that supports the outstanding work of our doctors with digital services ranging from digital health advice to e-health solutions. The app also permits the online submission of medical invoices and simplifies claims settlement monitoring.

In view of the challenges of an ageing society and the resulting increases in benefit expenditure, cooperation models that network major insurers to improve quality of care for the insured are a growing presence in the private health insurance sector. One of the foremost joint ventures of this kind is LM+ Leistungsmanagement GmbH, founded in 2016 with other health insurers. Greater networking in the health market (e. g. with service providers, pharmaceutical companies, etc.) and better services for the insured will raise the standard of healthcare for the customer. In 2018, the company took important steps towards crafting an integrated care concept for selected medical conditions and pharmaceutical product purchasing.

To limit the premium adjustments made and to reduce premiums for policyholders in later years, a sum of € 34.2 million was withdrawn from reserves for premium refunds (PY: € 73.4 million withdrawal) and recognized under the relevant premium item. In addition, premium adjustments were softened by the fact that € 32.0 million (PY: € 10 million) used for limiting purposes was directly written off against earnings in the financial year.

The allocated investment return from the non-technical account for health insurance business in the financial year was shown in the underwriting account as € 282.1 million (PY: € 261.3 million). This is the portion of the investment result attributable to health insurance from a Group perspective. The full investment result for the Group is shown in the non-technical account.

Claims expenses net of reinsurance decreased to € 600.4 million (PY: € 608.4 million). The claim payments contained in this sum, including claims adjustment expenses, rose less sharply than anticipated and totalled € 605.9 million in the year under review (PY: € 600.2 million). Reserves for outstanding claims decreased by € 5.5 million to € 168.5 million. A moderate upturn was seen in the loss ratio (after allowance for transfer values), which is a yardstick for assessing expenses for the insured. After standing at 77.5 % in the previous year, the loss ratio in the year under review was 77.6 %.

Policy reserves were again increased, to € 6.79 billion (PY: € 6.48 billion).

A sum of € 80.4 million (PY: € 114.2 million) was withdrawn from reserves for premium refunds to cover surplus bonuses for the insured. Substantial funds were thus placed once again at policyholders' disposal. After a transfer of € 143.3 million (PY: € 115.5 million) in the financial year, reserves for performance-related and non-performance-related premium refunds totalled € 362.2 million (PY: € 299.4 million). Reserves for performance-related premium refunds, including pool-relevant reserves for premium refunds from compulsory nursing care insurance, are considered in relation to gross earned premiums, producing the premium refund reserve ratio defined in the private health insurance key figure catalogue. A ratio of 34.8 % was achieved in the Health segment in the financial year, following a prior-year figure of 28.7 %.

Underwriting expenses net of reinsurance increased moderately in the financial year, rising to € 65.8 million (PY: € 64.5 million). At the same time, acquisition costs totalling € 43.8 million (PY: € 42.3 million) were incurred. The acquisition cost ratio – which is the ratio of acquisition expenses to earned premiums – was 5.2 % (PY: 5.1 %) as anticipated. Policy management expenses decreased in the financial year, from € 22.3 million to € 22.0 million. As a result, the administrative cost ratio – the ratio of administrative expenses to premiums – was lowered to 2.6 % (PY: 2.7 %).

At year-end, the underwriting result net of reinsurance stood at € 32.9 million (PY: € 55.3 million) for health insurance business. This downturn was due to the moderately lower underwriting result net of reinsurance of our health insurance company as well as special tax effects.

Investments

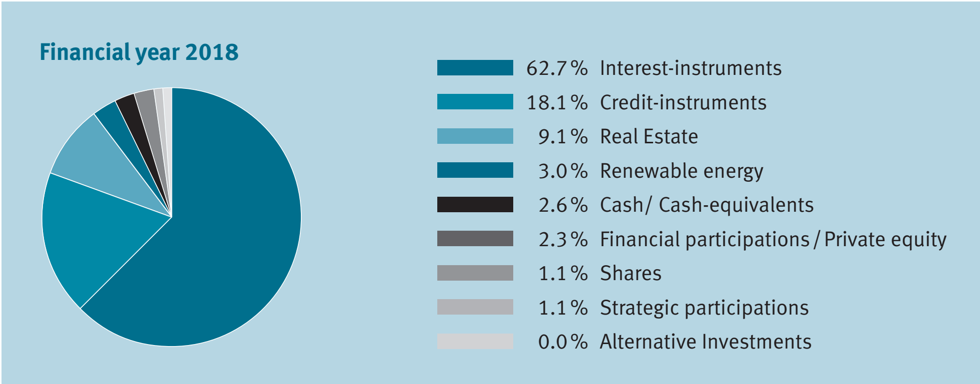
The investment strategy of the Gothaer Group is implicitly derived from the investment strategies of the relevant risk carriers in the Group. The latter, in turn, form part of the individual risk carriers' business strategies. At Group level, the primary goal of investment policy is to generate stable and sustainable income for the consolidated financial statements. At the same time, the relevant regulatory requirements relating to investment earnings, liquidity, security and quality need to be observed at risk carrier level and – depending on risk carrier – the solvency requirements of Solvency II need to be met. This is ensured by the systematic use of performance management that is adjusted for risk, tailored to risk-bearing capacity and aimed at optimizing the return/risk ratio of the investment portfolios. Current investment strategy and the resulting strategic asset allocation are therefore to be seen as the outcome of a continuous and comprehensive asset liability management process that particularly takes account of the relevant underwriting requirements. In 2018, the Gothaer Group again remained systematically committed to a long-standing investment policy that is largely geared to stable current income. The two priorities of this strategy are to generate attractive returns in the current low-interest market environment and to ensure that risks are reduced overall by being spread as broadly as possible over the different types of investment.

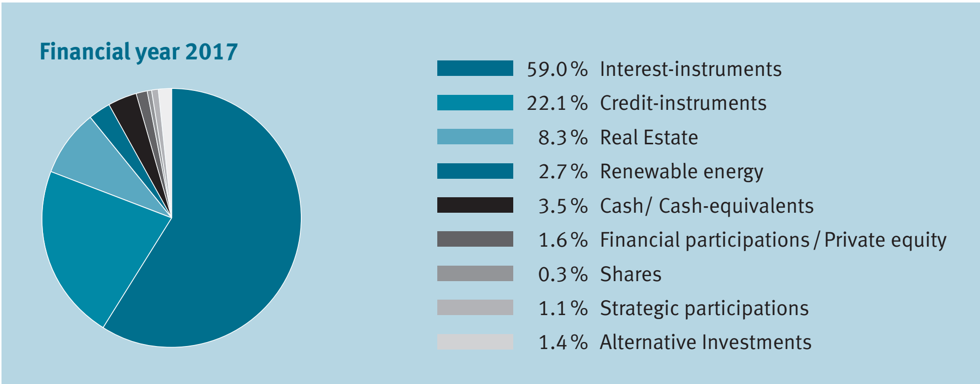
From a macroeconomic perspective, 2018 was a year of mixed signals. In the first few months of the period under review, the global economy initially looked in good shape. In the second half of the year, however, there were mounting signs of flagging economic dynamism, prompting a downward revision of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

The book value of the Gothaer Group investment portfolio increased by € 481.3 million to € 28.75 billion in the year under review.

Composition of the investment portfolio

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





The carrying value of investments for the account and risk of life insurance policyholders was € 2.02 billion (PY: € 2.25 billion) in the year under review.

Optimization of returns and risk in the investment portfolio continued to be a major focus of investment activity last year, with the result that a number of changes were made in the asset allocations of the relevant risk carriers and thus also those of the Group. The credit ratio fell sharply, mostly because of disposals but also because of market developments. Hedge funds were sold in their entirety. Durations continued to be very close to the strategic targets of the relevant risk carriers and showed no significant change in comparison to the prior year. Against the backdrop of Solvency II and the current financial market situation, equity investment in venture capital assets (private equity, real estate, renewable energy, infrastructure) continued to be limited while borrowed and hybrid capital investment in those asset classes, which requires little or no equity, will play a more prominent role in the future allocation of Gothaer risk carriers' resources. In the real estate sector, four funds were created in 2018 to bundle a large number of minor property investments in run-off. Because of the indirect real estate strategy pursued, investment in property (real estate asset class) within the investment structure is not reported under the balance sheet item "Land, land rights and buildings, including buildings on third-party land".

In addition to current income, extraordinary income also made a contribution to the overall result. Current income totalled € 869.8 million in 2018 (PY: € 948.8 million) while extraordinary income, at a total of € 93.7 million, was sharply down on the prior year (PY: € 408.5 million) This downturn was due to to the fact that the level of financing required to form additional interest reserves (Zinszusatzreserve – ZZR) at the Group's life insurers was significantly lower than in 2017. Write-downs on special bond funds were offset by considerably higher profits from the sale of bonds and the restructuring of the real estate portfolio. Over the year as a whole, investment income totalled € 885.2 million (PY: € 1.30 billion). This made for a net return on investments – which is the ratio of investment income to average investments excluding unit-linked life insurance – of 3.1% (PY: 4.7 %).

Net profit for the year

The result from Other Activities improved to € –16.8 million in the financial year (PY: € –138.9 million) as a result of a one-off effect. Set against this improved result, however, were lower underwriting and investment results. Net profit for the year before taxes thus totalled € 146.0 million after a prior-year profit of € 366.3 million. Profit in the financial year 2018 was also influenced by special tax effects, including effects in the wake the restructuring of the real estate portfolio. After deduction of the comparatively low tax expense of € 27.2 million (PY: € 154.8 million), the net profit for the year was € 118.7 million (PY: € 211.5 million).

The net profit for the year attributable to non-controlling interests amounted to € 1.6 million (PY: € 2.4 million). Consolidated profit for the year was thus € 117.2 million (PY: € 209.2 million).

Shareholders' equity

Including the net profit for the year and taking into account currency effects and other changes, shareholders' equity totalled € 1.16 billion (PY: € 1.04 billion). With average equity thus increased, the return on equity was good at 10.8 % (PY: 22.7 %). Together with subordinate liabilities of € 299.7 million, the guarantee assets of the Group totalled € 1.46 billion (PY: € 1.34 billion) at balance sheet date. Group equity includes non-controlling interests of € 30.5 million (PY: € 31.9 million).

Insurance lines and coverages

Property and casualty insurance

Direct written insurance business	• Accident insurance • Liability insurance • Motor insurance • Fire insurance • Aviation insurance • Comprehensive householders insurance • Comprehensive homeowners insurance • Marine insurance • Credit and surety insurance • Motorist assistance insurance • Aviation and spacecraft liability insurance • Other property insurance • Other non-life insurance
Reinsurance business assumed	• Health insurance • Accident insurance • Liability insurance • Motor insurance • Aviation insurance • Legal expenses insurance • Fire insurance • Comprehensive householders insurance • Comprehensive homeowners insurance • Marine insurance • Aviation and spacecraft liability insurance • Other property insurance • Other non-life insurance

Personal insurance

Direct individual and group insurance	• Life insurance • Health insurance

Employees

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

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

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

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

Brand

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

Code of conduct for sales and distribution

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

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

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

Tariff change guideline

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

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

The implemented compliance management system ensures observance of the guidelines for a transparent, customer-oriented tariff change and is certified by an independent auditor every two years. In January 2018, the auditor again confirmed that Gothaer Krankenversicherung AG ensures a high degree of tariff transparency and objective advice on changing tariffs.

Gender diversity

Five companies in the Gothaer Group are regulated by the German Codetermination Act or the One-Third Participation Act (DrittelbG) and are under a legal obligation to set target quotas for a pari passu participation of women and men in executive positions. These companies are periodically required to set quotas for the Supervisory Board and Management Board as well as for one to two tiers of management below the Management Board.

The following targets were approved by the companies’ Supervisory Boards in 2017:

Target value 30.06.2020					in %
	Gothaer Finanzholding AG	Gothaer Allgemeine Versicherung AG	Gothaer Krankenversicherung AG	Gothaer Lebensversicherung AG	Gothaer Systems GmbH
Supervisory board	33.3	33.3	33.3	33.3	33.3
– Shareholders’ side	16.7	16.7	16.7	16.7	16.7
– Employees’ side	16.7	16.7	16.7	16.7	16.7
Management board	0.0	0.0	0.0	0.0	0.0
Executives					
– Management level 1	15.4	10.0	20.0	20.0	16.7
– Management level 2	29.4	10.0	20.0	29.4	30.0

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

Outlook report

Outlook for 2019

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

This strengthening will also be reflected in our business figures. We expect premium income for the Gothaer Group to be moderately below the prior-year level in 2019. This is partly a result of the sale of the Polish insurance company Gothaer Towarzystwo Ubezpieczeń S.A. in 2019. The underwriting result net of reinsurance in 2018 was marked by an exceptionally large volume of property and casualty claims in connection with natural events as well as by special tax effects in life and health insurance. A significant return to normal level is anticipated in 2019.

Our forecasts similarly show a sharp increase in the investment result. Given these assumptions, we also anticipate that the net profit for the year will be significantly higher than in the prior year.

The details are explained below.

Marketing

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

A new sales and marketing structure was implemented on 1 January 2018 to facilitate positioning for future market challenges.

Underwriting result

Property and casualty insurance

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

Despite the sale of the Polish insurance company Gothaer Towarzystwo Ubezpieczeń S.A., we expect direct written premiums to be boosted by further appreciable market-level growth in our core business. In the private client segment, strong growth impetus is anticipated from comprehensive homeowners insurance. In the corporate client segment, the impetus will come particularly from industrial property, liability and motor insurance.

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

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

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

On the claims side, projections are based on the assumption that the burden of major and natural hazard claims will return to its normal higher level. We hedge against the growing risk from natural disasters through adequate reinsurance programmes. Based on our portfolio structure, we project a gross loss ratio for 2019 on a par with 2018.

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

Our underwriting result net of reinsurance will increase significantly, returning to a normal level after the special effects that marked the prior year. The gross combined ratio will remain below the 95 % mark.

Life insurance

Gothaer is addressing the challenges of the low-interest environment, for one thing by launching a comprehensive programme to realign the business model for the future. We are confident that we will continue to develop our risk-return-oriented strategy with success over the coming years. Focal areas include active product mix management, stringent cost management and professional underwriting.

In recent years, nearly all life insurers have responded to the ongoing low-interest phase by progressively and in some cases sharply reducing surplus bonuses. This trend came to a halt at the turn of the year 2018/19; like many other life insurers, Gothaer declared that surplus participation would remain stable through 2019. The product portfolio transition process initiated at the beginning of 2016 has been successfully completed and conventional "classical" tariffs have been largely terminated for new business and replaced by new capital-efficient products. We are soundly positioned in the market for new business, for example, with the capital-efficient "Gothaer Index Protect" product offering 2.9 % overall interest.

In the area of private and company pension schemes, a large number of products have been launched with reduced guarantees (capital-efficient products) and greater fund orientation. Many market players across the market – including our subsidiary Gothaer Lebensversicherung AG – are focusing on "biometric" lines as well as "capital-efficient pension" products.

Our activities thus remain crucially geared to positioning us as a service insurer. In the coming years, appropriately targeted changes are expected in the composition of new business (product mix). In particular, there will be a significant reduction in the amount of new business generated by conventional classical products. In this connection, we will endeavour to increase even more the percentage of production in the biometric and capital-efficient pension product segments. Our sights are set on generating more than 90 % of new business in these two segments by 2020.

Apart from ensuring a competitive product range, Gothaer also focuses on market-aligned processes and services designed to boost customer and agent satisfaction as well as digitalization initiatives for automating processes. With digital signatures for customers, foundations were laid in 2018 for "black box" application processing. In addition, a point-of-sale risk analysis tool – vers.diagnose – was introduced for broker sales operations. In 2019, the aim is now to establish the new technologies and raise usage rates. We will also pilot a point-of-sale risk analysis tool for our independent sales force to gather further experience in this area.

We expect to be able to maintain the upward trend in written premiums through the coming year and anticipate another moderate increase in new business and a further improvement in competitive strength.

Company pension scheme business will contribute substantially to the targeted growth. Business potential created by the Act Strengthening Occupational Pensions (BRSG), which came into force in Germany on 1 January 2018, is tapped by Gothaer both on its own and, in collective agreement business ("social partner model"), as a partner in a consortium of five mutual insurance companies ("Das Rentenwerk"). Work on establishing a joint range of products here and creating a digital administration system through an online portal is now well advanced. According to current forecasts, the social partner pension market is not expected to develop until 2020.

We anticipate a moderate fall in the ratio of administrative costs to premiums over the next calendar year.

Gothaer's capital base and earnings power have strengthened in recent years on the liability side. This will continue in 2019, contributing to a moderately slower year-on-year increase in the gross surplus in which policyholders participate.

Health insurance

Gothaer Krankenversicherung AG will continue to be a dependable partner for comprehensive health insurance in the future and will significantly upscale its capacity as a modern health service provider. True to our motto highlighting simplicity and health – **gothaer.einfach.gesund** – the people we insure have the option of using digital services. At the same time, as of the end of February 2019, we offer our customers access to the digital health record Vivy. We see this as another major advance in the process of repositioning ourselves as a digital health service provider. The health app "Gothaer Gesundheitsapp" gives customers telemedical access to specialists and a wide range of health programmes at any time. It is now complemented by the electronic health record Vivy, where customers can keep all their examination results and medical details and make them available to doctors. The system does not give Gothaer Krankenversicherung AG access to customers' personal or medical details.

These services aside, priority will continue to be given in 2019 to stabilizing portfolio and premium development. We anticipate a further moderate rise in premium income overall in 2019 and project another modest increase in new business from the 2018 level.

Growth ambitions are underpinned by plans for the launch of a new supplemental hospital product in autumn 2019 and a new comprehensive product in spring 2020. In the occupational health insurance segment, we again anticipate double-digit premium growth. Here, we will capitalize on Gothaer's excellent market positioning and will bring a whole string of more minor product innovations to market in the future. Digital solutions for employers, in particular, will strengthen Gothaer service and ease the administrative burden on customers.

Despite a somewhat sharper rise in benefit expenses and an only moderate upturn in premium income, we anticipate a moderately recessive loss ratio in 2019 significantly below 80 %.

On the basis of new business projections, underwriting expenses are expected to increase by a moderate amount in 2019. We anticipate a modest upturn in the acquisition cost ratio and a slight downturn in the administrative cost ratio as a result of the development of premiums.

The above developments will result in an underwriting profit ratio of around 15 % before consolidation in 2019. We anticipate transfers to reserves for premium refunds this year.

Investments

Economic growth is forecast to slow worldwide in 2019. However, the growth rates in the United States and eurozone will probably continue to be higher than their long-term potential, so slack production capacity in the two economic areas is likely to increase.

Conditions should thus be ripe in 2019 for the Federal Reserve and the European Central Bank to adopt a less expansive monetary policy. Nevertheless, both central banks will probably tread very carefully when reducing monetary stimulus in an environment of falling growth rates and broadly static inflation. Against this backdrop, the yields of US and German government bonds are expected to rise this year. The upturn will be limited, however, because of the high levels that were reached last year.

In the stock markets in 2019, performance will be determined particularly by the further growth in company profits and investors' appetite for risk as well as economic and geopolitical risks.

Our forecasts assume a continuing low-interest environment in the coming year and the challenges connected with it. The mainstay of the projected net results will again be stable regular income from well-selected bond portfolios. Owing to higher current investment results at affiliated companies and a deconsolidation effect due to the sale of the Polish insurance company Gothaer Towarzystwo Ubezpieczeń S.A. in 2019, however, we project an increased investment result. We thus also anticipate a moderately higher net return.

Net profit for the year

Based on our assumptions on the developments in underwriting as well as the investment result, we expect that the net profit for the year will be significantly higher than in the year under review.

Proviso

The forecasts and assessments of future business development contained in this Annual Report are provided on the basis of what is known at the present time. Economic developments, capital market developments, unanticipated major and accumulation losses, changes in the legal, tax and demographic environment as well as changes in the competitive situation of the Gothaer Group may cause the parameters underlying the forecasts to develop differently.

Opportunities and risks of future developments

Risk-oriented management concept

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

- From a regulatory perspective, minimum standards are in place to ensure that risk capital requirements are met at all times. This applies to both Pillar I (standard model) and Pillar II (company-specific total solvency capital requirement identified in the ORSA process) risk capital requirements.
- From a rating perspective (financial strength rating), we seek to maintain a capital adequacy ratio that, in conjunction with the other rating factors, is sufficient for at least an A-category rating.

Risk management organization

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

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

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

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

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

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

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

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

Opportunities and risks for the Group

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

The implications for the Group are as follows:

Property/casualty insurance

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

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

"Expedition GA 2022" was launched at Gothaer Allgemeine Versicherung AG to meet the challenges of the future. Comprising three pillars – Renewal, Transformation and Cultural Change – the project is intended, among other things, to address issues such as digitalization and process optimization and to harness the opportunities they offer.

Underwriting risks

Since we assume that natural events resulting from climate change will continue to influence underwriting risk in the future, we will continue to attach primary importance to increased reinsurance for natural events. We also counter the risk of natural hazards by making systematic use of ZÜRS, the zoning classification system developed by the GDV to identify exposure to natural hazards, as well as by arranging for underwriting risks to be separately assessed by 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 and both loss reserves and reserve run-off are reviewed annually. We are thus able to guarantee the long-term fulfilment of our obligations. We create equalization provisions in line with insurance law to offset fluctuations.

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

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

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

Reinsurance

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

The structure of the Gothaer reinsurance operation underwent very little change in comparison to 2018. On the one hand, the excess of loss programme covering natural hazard losses was extended to take account of the increased size of the portfolio. On the other, additional cover was secured for more effective reinsurance of possible accumulations within the commercial/industrial liability segment.

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

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

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

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

Claims

The following chart shows a ten-year summary of the changes in Gothaer Allgemeine Versicherung AG loss ratios and run-off results across all areas of direct domestic business net of reinsurance. The figures are based on HGB accounting rules.

Claims		in %
	Loss ratio after run-off	Run-off results of initial reserves
2009	67.9	12.2
2010	68.5	13.1
2011	66.5	12.6
2012	66.8	12.5
2013	70.0	11.3
2014	67.0	10.8
2015	69.1	10.4
2016	67.4	9.7
2017	62.9	12.3
2018	69.5	11.6

Risks arising from reinsurance assumed

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

Risks arising from fronting agreements

Gothaer acts as a fronting partner in Germany for selected foreign companies or captives, i. e. it writes risks and reinsures them to the fronting partner in their entirety. If a partner were unable or unwilling to meet its contractual obligations under the reinsurance contract, Gothaer would in some cases face high liabilities because such business is not ceded under obligatory reinsurance contracts. To avoid 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.

Life insurance

The general risk situation for life insurers in 2018 was characterized by the ongoing low level of interest rates. A protracted low-interest phase has major impacts on the income generated by interest-bearing assets and presents risks to growth as a result of the potential change in consumer demand. Furthermore, falling interest rates under Solvency II mean higher capital adequacy requirements and reduced capital resources for the life insurance industry and thus also for the Gothaer Group.

Significant relief is provided in this economic situation by the changes made to the rules for calculating the reference interest rate for additional interest reserves (“corridor method”).

Despite the challenging situation in the capital market, a new opportunity to generate sustainable earnings is presented by capital-efficient pension products with reduced guarantees – an addition to the range that successfully upgrades the Gothaer product portfolio. The new products are specifically designed to meet Solvency II requirements. Another focal area of product development is biometrics. The need for product adjustments is analyzed and acted upon in the light of market requirements.

The focus in 2019 is now on company pension schemes – an area of business that will be further strengthened during the year by product and process improvements aimed especially at enhancing market and consumer acceptance. Current trends in digitalization are another focus.

Further opportunities are created by orienting towards unit-linked products, which offer higher potential returns for the consumer and have a positive influence on our risk profile.

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

Underwriting risks

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

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

Biometric risks – Adequacy of biometric actuarial assumptions

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

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

At the end of 2008, the DAV published new bases for the calculation of reserves for the (supplemental) long-term care annuity policies of Gothaer Lebensversicherung AG. We have analyzed our portfolios accordingly and see no risks at present. However, we will monitor the portfolios continuously. If necessary, the policy reserves will be increased.

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

Cancellation risk – Adequacy of cancellation probability assumptions

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

Interest guarantee risk

Because of the low interest phase, the German life insurance industry – and thus also Gothaer – may be exposed to risks inherent in high interest rate guarantees, which generally extend over several decades. This exposure exists particularly if interest rates persist at historically low levels.

The maximum actuarial interest rate since 1 January 2017 has been 0.9 %. In new business, Gothaer applies actuarial interest rates lower than 0.9 %. However, the unchangeable nature of figures guaranteed in policies in force results in inertia in the reduction of this risk. The average actuarial interest rate across the portfolio is thus still significantly higher than the current maximum actuarial interest rate.

The current average yield of investments at the end of 2018 was 2.59 % for Gothaer Lebensversicherung AG and thus below the average actuarial interest rate of 3.08 %. It should be noted here, however, that because of the additional interest reserves (ZZR) formed in the past, the actual expected return on capital is lower. The current average yield of investments at Gothaer Pensionskasse AG on the same date was 3.5 % and thus above the average actuarial interest rate there of 2.9 %. We gear our investments to the maturity dates of our liabilities and take account of the risk-bearing capacity of the company. At the same time, the primary focus is on long-term generation of stable earnings.

The amendment of Germany's Policy Reserve Ordinance (DeckRV), which came into force on 23 October 2018, changed the method used to determine the reference interest rate for calculating ZZR, switching it to the "corridor method". The new process results in a lighter burden of expense for strengthening ZZR. In the year under review, a sum of € 65.8 million was transferred to ZZR for Gothaer Lebensversicherung AG, bringing the year-end total to € 1,169.9 million.

In some cases, cancellation and capital settlement probabilities with appropriate safety loading flow into the calculation of ZZR at Gothaer Lebensversicherung AG. There are uncertainties over the allocations anticipated in the next few years because even with the corridor method they are dependent on the development of average euro interest swap rates over the past ten years. If interest rates remain low, further expenses need to be anticipated in the coming years. Those expenses are already taken into account in projections.

Substantial ZZR expenses are also expected for Gothaer Pensionskasse AG in the current low interest environment. Based on the latest method of calculation approved by BaFin on 7 December 2018, an allocation to ZZR of € 24.5 million is required there for 2018. This increases the aggregate ZZR for Gothaer Pensionskasse AG at the end of the year to € 72.8 million. Various measures are under preparation or have already been implemented to address this. The measures are decided or upgraded on a yearly basis, depending on the level of interest rates. They include, for example, increasing the company's capital base, adjusting investment allocation to strengthen investment results, optimizing costs, reducing surplus bonuses or discontinuing certain product lines. In addition, the structure of the additional security required is regularly defined in consultation with the supervisory authority. If the relevant permission for subsequent years were not granted by BaFin, this would exceed the internal financing capability of Gothaer Pensionskasse AG, in which case additional financing measures would need to be taken.

Growth risk

Even though production volume in 2018 increased significantly against the prior year, there is a risk of demand for insurance products with conventional savings components waning as a result of the prolonged low-interest phase coupled with the current renewed rise in inflation.

Growth opportunities are presented by the Gothaer Group's innovative new insurance products, which are highly regarded in the market and receive top marks in comparative tests. Highlights include, for example, the successful market launch of a basic capacities policy.

Demographic change also continues to present opportunities. As the population ages, demand for pension provision rises at the same time. Against the backdrop of the Act Strengthening Occupational Pensions, Gothaer Lebensversicherung AG has responded to this trend by establishing “Das Rentenwerk”, a consortium of five mutual insurance companies focusing on solutions for the new “social partner pension” (Sozialpartnerrente).

Health insurance

The market and prospects of development for private health insurance are defined to a large extent by the political and legal regulatory environment. The growth prospects for supplemental insurance remain good. The challenge for companies is to adjust appropriately in terms of sales channels, cooperations and administrative processes. Gothaer is particularly successful in collective business. Customized contracts and intensive customer care are prioritized here to achieve further portfolio expansion. After the sharp increase noted in the number of new dental restoration policyholders in 2018, risk controlling is also advisable here.

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

Demographic change offers us an opportunity. The ageing population is creating new markets: not only is there growing demand for long-term care insurance but there are also signs of a tendency to privatize state provision.

Underwriting risks

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

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

High premium adjustments or political change cause an increased loss of good and mostly young risks as well as downturn in new business, with the result that the average age of insureds in portfolios rises. This can itself lead to high premium adjustments. Premium refund reserve policy is the key control measure here. With adequate financial resources, high premium adjustments can be prevented and an increase in cancellations thus avoided. For this reason, special attention is paid to the development of reserves for premium refunds. To ease the pressure on the reserves for premium refunds, the customary long-term premium capping arrangements in place are supplemented by the deployment of funds for payment of the tariff bonus, a premium limit that is re-set each year.

Because a protracted low level of new business negatively affects portfolio composition, developments are constantly monitored and measures are taken to strengthen new business. In 2018, new business was at a low level. At the same time, we see a fall in customer cancellations.

The actuarial interest rate, one of the most important bases for calculation in private health insurance, is dependent upon developments in the capital markets. This fact is taken into account through the use of professional tools for analyzing investments and harnessing the findings for a more focused investment strategy as well as by the regular performance of extrapolations. In view of developments in the capital markets, however, the probability that the net target yield will not be achieved still exists. Investment strategy is therefore focused on a reasonable risk-return ratio coupled with a high probability of guaranteed actuarial interest being achieved. To ease the pressure on investment and guarantee security, the actuarial interest rate was lowered for more tariffs in 2019. If the low level of interest rates persists, there is a possibility that further actuarial interest rate adjustments will need to be made in the future. It should be noted here that actuarial interest rate adjustments can only be made in tariffs that are affected by premium adjustments. At the same time, an insufficient actuarial interest rate does not trigger a review of actuarial assumptions. The actuarial interest rate is reviewed annually by a method used to calculate the actuarial corporate interest rate (AUZ).

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

Loss of receivables risk

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

Accounts receivable from policyholders and insurance agents in connection with direct written insurance business at Gothaer Allgemeine Versicherung AG, Gothaer Lebensversicherung AG and Gothaer Krankenversicherung AG totalled € 111.8 million at balance sheet date. This figure includes valuation allowances that take adequate account of the risk of possible loss of receivables. € 30.5 million of the receivables handled by our central collection systems is outstanding for more than 90 days. The average collection loss (unsuccessful court orders) in the last three years was € 6.7 million, which is an average of 1.8 ‰ of the gross premiums written.

Risks arising from ceded reinsurance business

Gothaer Allgemeine Versicherung AG cedes reinsurance only to high-class reinsurers. 69 % of reinsurance premiums are ceded to reinsurers with a rating of AA– or better. Accounts receivable in connection with assumed and ceded reinsurance business totalled € 85.0 million at balance sheet date. Accounts receivable in connection with reinsurance ceded before consolidation amounted to € 19.0 million. The structure of receivables from reinsurance partners by rating class was as follows:

Breakdown by rating category	€ million
AA	12.7
A	4.9
BBB	0.6
Not rated	0.7

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

Investment risks

Risk strategy

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

Risk situation and management

- **Market change risk**

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

Simulating interest rate change risk in line with German Accounting Standard DRS 20 A2.14 produced the following result: a 1 percentage point parallel increase in the interest curve with a modified duration of 8.8 reduced the market value of interest-bearing securities by € 2,256.9 million (PY: € 2,342.6 million) in comparison to the year-end value of the portfolio.

The market value of the equity portfolio is also expected to remain stable in the coming year. More capital calls were made on existing commitments in renewables and the hedge fund portfolio was sold in its entirety. There was no substantial share exposure at balance sheet date. Risk capital stress testing (20 % downturn in prices) at balance sheet date resulted in a fall in market value of around € 461.2 million (PY: € 436.5 million).

Real estate markets continued to develop well in 2018, most of them producing high transaction volumes. In view of the attractive long-term investment opportunities available, commitments were entered into in the real estate asset class in order to achieve closer proximity to the strategic target ratio. Because of consistent valuation at market prices and the broad spread of the portfolio, it is anticipated that there will be no significant need for extraordinary depreciation in the next few years. A price fall of 10 % results in a loss of market value of € 279.7 million (PY: € 258.5 million).

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

• **Credit/solvency risk**

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

Credit instruments accounted for around 18.1 % of the total market value of Group investments (PY: 22.1 %). At year-end, there was no significant credit risk discernible. The percentage of investments made up of subordinated financials fell to around 1.9 % by market value (PY: 2.2 %). In the coming financial year, too, further defaults on interest – perhaps even on principal – cannot be ruled out in the case of individual subordinated financials. A (partial) default on the principal of PIIS-government bonds (Portugal, Italy, Ireland, Spain) is still considered unlikely. Major investments in PIIS-government bonds accounted for around 10.5 % (PY: 10.2 %) of the market value of the investment portfolio. The breakdown by country was as follows: Portugal 0.5 % (PY: 0.5 %), Spain 4.4 % (PY: 4.0 %), Ireland 2.6 % (PY: 2.4 %) and Italy 3.0 % (PY: 3.2 %). At year-end, these investments produced an aggregate unrealized profit of around € 149.2 million (PY: € 206.9 million).

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

Breakdown by rating category		€ million
	2018	2017
AAA	22.4	20.5
AA+	14.4	12.2
AA	10.4	11.4
AA–	7.0	5.8
A+	8.7	8.2
A	6.7	5.5
A–	6.4	9.3
BBB+	7.3	7.7
BBB	6.9	10.0
BBB–	6.5	5.0
Speculative Grade (BB+ to D)	1.2	1.8
Not rated	2.1	2.6

• Liquidity risk

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

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

Operational and other risks

IT risks

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

Regulatory compliance of financial statements

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

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

Legal risks

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

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 companies, change processes within the Group and external factors such as market developments, digitalization and changes in population demographics.

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

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

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

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

In particular, Gothaer faces challenges such as the need to create a multi-channel sales system and to develop solutions against the backdrop of digitalization. This presents HR-related adaptation and scarcity risks at various levels. There is thus a need to develop or procure skills and qualifications for both general application and specific areas of activity. Scarcity risks in the acquisition of external know-how carriers are primarily addressed by appropriate HR marketing tools. At the same time, an attempt is made to counter the risks by means of internal development programmes. In managing and minimizing those risks, Gothaer focuses specifically on the strategy-relevant core competences of the Company as well as the positions relevant for strategy implementation.

Demographic change also presents major challenges for insurance companies in the acquisition and retention of employees and thus fundamentally increases scarcity and departure risks – even more so in the Cologne local market, with its dense cluster of insurance companies competing for human resources. Gothaer long ago identified these risks both internally (e. g. by calculating scenarios) and externally (e.g. by taking part in employer rankings) and thus possesses an extensive risk management 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.

Money laundering Internal guidelines and checks have been adopted to prevent life insurance, refund-of-premium accident insurance or insurance company loans being used to launder money or finance terrorism.

Summary of the risk situation

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

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

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

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

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

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

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

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

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

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

Non-Financial Statement

Fundamental principle

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

Environmental matters

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

As long ago as 2003, in line with this commitment, Gothaer introduced a system of environmental management focused on preparing an annual environmental assessment. That assessment presents a breakdown and year-on-year comparison of environmentally relevant consumption indicators (e. g. electricity and water consumption, waste generation and carbon dioxide emissions) for the building space at Gothaer Group headquarters, i. e. the Zollstock campus in Cologne. Since the introduction of environmental management, electricity consumption has been reduced by 43 % to 7 million kWh and water consumption by 22 % to 38 thousand cubic metres. In 2017, as part of our constant effort to ensure sustainable business operations, more areas of corridor lighting were switched to LED spots. New workplaces were equipped with standalone LED luminaires or LED ceiling lighting.

In addition, we support the future-proofing, climate-friendly solutions offered by renewable energies. More than 20 years ago, for instance, we developed special insurance concepts in collaboration with manufacturers and operators of wind turbines. Today we have insured more than 17,000 wind turbines and 12,000 photovoltaic systems worldwide. As an investor, we have also invested more than € 850 million in renewable energy projects, i. e. indirectly in wind farms, solar parks and hydropower plants.

Environmental assessment

Environmental assessment 2017*	Unit	2017	2016	Change 2017/2016
Building space	m^2	100,783	100,783	0.0 %
Employees	Anzahl	2,983	3,017	− 1.1 %
Thermal energy consumption	kWh	25,610,288	30,218,588	− 15.2 %
Electricity consumption	kWh	7,478,655	6,956,081	7.5 %
Water consumption	m^3	37,950	38,001	− 0.1 %
Total Waste disposal	kg	513,707	610,702	− 15.9 %
of which,				
Residual waste	kg	102,260	141,100	− 27.5 %
Paper	kg	254,485	304,016	− 16.3 %
Wet waste – company restaurant	kg	156,962	165,586	− 5.2 %
Copier and printer paper	kg	290,320	263,361	10.2 %
Net carbon dioxide emissions	kg	9,448,377	10,195,691	− 7.3 %

* latest available environmental assessment

Sustainable investment

As a mutual insurance company, we have always designed our investment operations for economic sustainability so that we can meet our benefit commitments to insurance customers. In the future, the Gothaer Group will also take greater account of environmental and social aspects as well as corporate governance criteria in the context of investment. Hence the development in 2018 of a sustainability concept for investment, which comes on stream in 2019. The Gothaer sustainability concept is based on a holistic approach that focuses equally on environmental, social and governance factors and is designed to reduce investment risk and thus strengthen our service promise to customers.

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

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

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

Existing portfolios affected by these exclusion criteria will be successively wound down within a three year phase-out period. Observance of the exclusion criteria in the special funds is verified by the capital management company and in the direct portfolio by the Middle/Back Office of Gothaer Asset Management AG.

Because sustainability concepts cannot be equally well implemented across all asset classes without severely restricting the investment universe, certain categories of investment can be exempted from their scope of application. Once initial experience has been gained, the Gothaer sustainability concept will be progressively developed and upgraded to include new sustainability strategies.

Employee matters

Company health management

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

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

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

We have repeatedly won awards for our company health management services. Most recently, in 2018, Gothaer received its fifth Corporate Health Award as the strongest contender in the insurance industry. In addition, the sick rate of the Gothaer core companies – Gothaer Allgemeine Versicherung AG, Gothaer Krankenversicherung AG, Gothaer Lebensversicherung AG and Gothaer Finanzholding AG – at 5.9 %, is significantly lower than the insurance industry average of 6.4 %.

Gender balance

The gender ratio of the Gothaer core company workforce is fairly balanced at 51.7 % female to 48.3 % male (as of 31 December 2017). At management level, women hold only one in five (19.7 %) managerial positions. In 2009, we introduced a mentoring programme designed specifically to promote career advancement for women. That programme entered its fourth cycle in 2016. Mentoring is designed to give mentees the opportunity to develop an individual career plan and network within the Gothaer management. This is done within the framework of a trusting, tailored mentoring relationship with experienced first- and second-tier managerial staff.

Mobile and flexible working

The teleworking option introduced in 2016 to help reconcile work and family life has now been taken up by 408 employees, which is 17.1 % of the target group. In the middle of 2017, a company agreement was concluded on mobile device management. It gives inhouse staff with high mobility requirements the opportunity, with the agreement of their line manager, to use smartphones or tablets for work. The decision to furnish employees with mobile devices in such cases is taken by the line manager on a non-discriminatory basis. There is a right to be unreachable outside work hours. Employees decide on an ad hoc voluntary basis how the mobile devices can be reasonably and efficiently used.

Work safety

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

Social matters

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

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

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

Respect for human rights

Respect for human dignity, prohibition of discrimination and a commitment to equal opportunity are mandatory tenets of our code of conduct. To underline the importance of upholding these values even more, a training measure (e-learning module) on the code of conduct was developed and has been compulsory for all employees since 2017.

Anti-corruption and anti-bribery matters

Neither active (bribe-giving) nor passive (bribe-taking) corruption are tolerated by Gothaer. No one at Gothaer may offer or grant inadmissible advantages to business partners, their employees, other third parties or themselves. This is also a mandatory tenet of our code of conduct. To underline the importance of upholding these values even more, a training measure (e-learning module) on the prevention of corruption was developed and has been compulsory for all employees since 2017.

Trust

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

We are entrusted with highly sensitive personal information by our customers. Ensuring that data protection is guaranteed is therefore a primary and fundamental obligation. The insurance industry was the first to develop rules of conduct in this regard. Generated by the German Insurance Association (Gesamtverband der Deutschen Versicherungswirtschaft e. V. [GDV]) in consultation with the data protection authorities, those rules were formally accepted by the latter in November 2012. The Gothaer insurance companies acceded to the rules of conduct – known as the “Code of Conduct for Data Processing in the Insurance Industry” – with effect from 1 January 2014. A training measure (e-learning module) on data protection and IT security has also been developed and has been compulsory for all employees since 2015.

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

Consolidated Financial Statements

Consolidated Statement of Financial Position as of 31 December 2018

Assets

					€ million
				2018	2017
A. Intangible assets					
I. Acquired concessions, industrial property rights, similar rights and assets as well as licences for such rights and assets			230.5		236.8
II. Payments in advance			58.3		39.0
				288.8	275.8
B. Investments					
I. Real estate, real estate rights, and buildings, including buildings on third-party land			17.6		10.4
II. Investments in affiliated companies and participations					
1. Shares in affiliated companies		73.7			87.1
2. Loans to affiliated companies		3.0			3.8
3. Shares in joint ventures and associated companies		290.6			291.2
4. Participations		972.8			1,058.1
5. Loans to participations		22.2			54.0
			1,362.3		1,494.2
III. Other investments					
1. Shares, investments in unit trusts and funds and other non-fixed-interest securities		16,197.6			15,344.2
2. Bearer bonds and other fixed-interest securities		5,748.4			6,025.5
3. Mortgages, liens on real property and annuities		110.0			133.4
4. Other loans					
a) Registered bonds	1,931.7				2,070.5
b) Promissory notes and loans	2,446.0				1,978.5
c) Loans and advance payments on insurance policies	31.3				34.2
d) Other miscellaneous loans	448.7				429.3
		4,857.6			4,512.7
5. Bank deposits		450.2			727.1
			27,363.8		26,742.9
IV. Deposits made in connection with reinsurance business assumed			2.0		16.9
				28,745.8	28,264.4

Assets

				€ million
			2018	**2017**
C. Investments held for unit-linked life insurance policies			2,018.1	2,248.0
D. Accounts receivable				
I. Accounts receivable in connection with direct insurance business from:				
1. Policyholders	164.6			167.4
2. Insurance agents	57.2			61.9
		221.8		229.3
II. Accounts receivable in connection with reinsurance business		28.6		65.6
of which from associated companies: € 2.2 million (PY.: € 5.0 million)				
III. Other accounts receivable		341.8		208.3
of which from affiliated companies: € 12.9 million (PY.: € 8.1 million)				
of which from associated companies: € 0.4 million (PY.: € 0.2 million)				
of which from participations: € 0.4 million (PY.: € 2.3 million)			592.2	503.2
E. Other assets				
I. Tangible assets and inventories		26.7		27.9
II. Current credit balances with banks, checks and cash on hand		160.3		162.2
III. Miscellaneous assets		54.9		67.9
			241.9	258.0
F. Prepaid expenses				
I. Prepaid interest and rent		149.6		163.7
II. Other prepaid expenses		12.5		14.2
			162.1	177.9
G. Deferred tax assets			349.6	303.6
H. Excess of plan assets over pension liability			0.0	0.1
Total assets			**32,398.5**	**32,030.9**

Equity and liabilities

				€ million
			2018	2017
A. Equity				
I. Revenue reserve				
1. Loss reserve in accordance with section 193 VAG	66.4			66.4
2. Other revenue reserves	945.4			732.3
		1,011.9		798.7
II. Consolidated net income for the year		117.2		209.2
III. Equity difference from currency translation		−0.4		−4.3
IV. Minority interests		30.5		31.9
			1,159.2	1,035.6
B. Subordinate liabilities			299.7	299.7
C. Underwriting reserves				
I. Unearned premiums				
1. Gross amount	633.3			620.0
2. less: amounts ceded	85.8			85.4
		547.5		534.6
II. Aggregate policy reserves				
1. Gross amount	22,636.4			22,195.6
2. less: amounts ceded	92.5			198.5
		22,543.9		21,997.1
III. Reserve for outstanding claims				
1. Gross amount	3,187.0			3,154.3
2. less: amounts ceded	447.3			476.6
		2,739.7		2,677.7
IV. Reserve for performance-related and non-performance-related premium refunds				
1. Gross amount	1,004.3			940.1
2. less: amounts ceded	0.1			0.1
		1,004.2		940.0
V. Equalization reserves and similar reserves		431.3		444.1
VI. Other underwriting reserves				
1. Gross amount	35.0			29.0
2. less: amounts ceded	−0.1			−0.7
		35.1		29.7
			27,301.8	26,623.2

Equity and liabilities

				€ million
			2018	2017
D. Underwriting reserves for unit-linked life insurance policies				
I. Aggregate policy reserves				
1. Gross amount	1,965.7			2,187.0
2. less: amounts ceded	0.0			0.0
		1,965.6		2,187.0
II. Miscellaneous underwriting reserves				
1. Gross amount	52.5			61.0
2. less: amounts ceded	0.0			0.0
		52.5		61.0
			2,018.1	2,248.0
E. Other accruals				
I. Accruals for pensions and similar obligations		370.2		340.4
II. Accruals for taxes		189.2		180.6
III. Miscellaneous accruals		175.0		168.3
			734.4	689.4
F. Deposits held in connection with reinsurance business ceded			151.2	267.1
G. Other liabilities				
I. Accounts payable in connection with direct insurance business to				
1. Policyholders	430.1			486.1
2. Insurance agents	32.6			29.3
		462.7		515.4
II. Accounts payable in connection with reinsurance business		60.3		75.3
III. Liabilities to banks		73.5		138.6
IV. Miscellaneous liabilities		136.3		138.3
of which: for taxes: € 51 million (PY.: € 33 million) for social security: € 1 million (PY.: € 1 million) toward affiliated companies: € 5.2 million (PY.: € 1.6 million) toward associated companies: € 0.3 million (PY.: € 0.1 million) towards paricipations: € 2.5 million (PY.: € 21.3 million)			732.9	867.6
H. Deferred income			1.2	0.4
Total equity and liabilities			**32,398.5**	**32,030.9**

Consolidated Income Statement for the period from 1 January to 31 December 2018

				€ million
			2018	2017
I. Underwriting account for property and casualty insurance business				
1. Earned premiums net of reinsurance				
a) Gross premiums written	2,224.3			2,184.9
b) Reinsurance premiums ceded	338.9			312.9
		1,885.4		1,872.0
c) Change in gross unearned premiums	−18.3			−8.9
d) Change in gross unearned premiums ceded	−2.4			8.0
		−15.9		−16.9
			1,869.4	1,855.1
2. Technical interest net of reinsurance			2.8	3.0
3. Other underwriting income net of reinsurance			6.3	6.6
4. Claims expenses net of reinsurance				
a) Claims paid				
aa) Gross amount	1,390.0			1,361.1
bb) Amount ceded	209.7			178.8
		1,180.3		1,182.3
b) Change in reserve for outstanding claims				
aa) Gross amount	19.8			−45.1
bb) Amount ceded	−32.2			−20.4
		52.0		−24.7
			1,232.3	1,157.6
5. Change in other net underwriting reserves				
a) Net policy reserve		−3.3		−2.1
b) Other net underwriting reserves		10.5		4.8
			7.2	2.6
6. Expenses for performance-related and non-performance-related premium refunds net of reinsurance			3.0	3.1
7. Underwriting expenses net of reinsurance				
a) Gross underwriting expenses		658.1		655.1
b) less: commissions and profit sharing received on reinsurance business ceded		84.6		87.4
			573.5	567.6

			2018	2017
				€ million
8. Other underwriting expenses net of reinsurance			20.7	16.7
9. Subtotal			41.8	117.1
10. Change in equalization reserves and similar reserves			12.8	−35.7
11. Underwriting result net of reinsurance in property and casualty insurance business			54.6	81.4
II. Underwriting account for life and health insurance business				
1. Earned premiums net of reinsurance				
a) Gross premiums written	2,158.5			2,105.8
b) Reinsurance premiums ceded	52.4			45.1
		2,106.1		2,060.8
c) Change in net unearned premiums		1.0		3.4
			2,107.1	2,064.1
2. Premiums from the gross provision for premium refunds			61.0	99.4
3. Allocated interest transferred from the non-underwriting account			836.4	1,009.1
4. Unrealized gains on investments			101.9	177.1
5. Other underwriting income net of reinsurance			22.1	17.3
6. Claims expenses net of reinsurance				
a) Claims paid				
aa) Gross amount	2,039.1			1,933.4
bb) Amount ceded	26.1			27.5
		2,013.0		1,905.9
b) Change in reserve for outstanding claims				
aa) Gross amount	7.0			29.1
bb) Amount ceded	0.8			−0.8
		6.2		29.9
			2,019.2	1,935.9
7. Change in other net underwriting reserves				
a) Policy reserves				
aa) Gross amount	223.9			842.4
bb) Amount ceded	8.3			3.6
		215.6		838.8
b) Other net underwriting reserves		−0.2		2.5
			215.4	841.3

				€ million
			2018	2017
8. Expenses for performance-related and non-performance-related premium refunds net of reinsurance			283.4	216.1
9. Underwriting expenses net of reinsurance				
a) Acquisition expenses	136.3			132.2
b) Administrative expenses	45.9			45.1
		182.2		177.3
c) less: commissions and profit sharing received on reinsurance business ceded		18.9		16.3
			163.3	161.0
10. Unrealized losses on investments			358.5	29.5
11. Other underwriting expenses net of reinsurance			23.4	33.2
12. Underwriting result net of reinsurance in life and health insurance business			65.2	150.2
III. Non-underwriting account				
1. Underwriting result net of reinsurance				
a) in property and casualty insurance business		54.6		81.4
b) in life and health insurance business		65.2		150.2
			119.9	231.6
2. Investment income				
a) Income from joint ventures and associated companies	28.1			36.5
b) Income from participations of which from affiliated companies: € 2 million (PY.: € 7 million)	101.5			163.4
c) Income from other investments of which from affiliated companies: € 0.1 million (PY.: € 0.2 million)				
aa) Income from real estate, real estate rights, and buildings, including buildings on third-party land	0.5			0.6
bb) Income from other investments	739.5			748.2
	740.1			748.8
d) Income from write-ups	11.7			23.5
e) Proceeds from the disposal of investments	260.7			501.9
f) Income from profit transfer agreements	0.1			0.1
		1,142.2		1,474.2

€ million				
			2018	2017
3. Investment expenses				
a) Cost of portfolio management interest expense and other expenses in connection with investments	78.4			60.7
b) Amortization of investments	114.0			96.5
c) Losses from the disposal of investments	64.6			20.3
		257.0		177.5
			885.2	1,296.7
4. Allocated interest transferred to the underwriting account for property and casualty insurance business		3.2		10.9
4a. Allocated interest transferred to the underwriting account for life and health insurance business		836.4		1,009.1
			839.6	1,020.1
			45.6	276.6
5. Other income		244.5		131.3
6. Other expenses		261.4		270.2
			−16.8	−138.9
7. Operating income			148.6	369.3
8. Extraordinary expenses = extraordinary result			2.7	3.0
9. Income before taxes			146.0	366.3
10. Taxes on income of which from deferred taxes € −47 million (PY: € 46 million)		26.5		154.3
11. Other taxes		0.7		0.5
			27.2	154.8
12. Net income for the year			118.7	211.5
13. Net income attributable to minority interests			1.6	2.4
14. Consolidated net income for the year			**117.2**	**209.2**

Statement of Changes in Equity

	Group equity				Minority interests	Equity
	Revenue reserve		Consolidated net income for the year	Equity difference from currency translation		
€ million	Loss reserve in accordance with section 193 VAG	Other revenue reserves				
Balance as of 1 January 2017	**66.4**	**725.2**	**0.0**	**1.5**	**33.2**	**826.3**
Transfers to/withdrawals from reserves	0.0	0.0	0.0	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	−3.6	−3.6
Currency translation	0.0	0.0	0.0	−5.8	0.0	−5.7
Other changes	0.0	7.1	0.0	0.0	0.0	7.1
Changes in the basis of consolidation	0.0	0.0	0.0	0.0	0.0	0.0
Net income for the year	0.0	0.0	209.2	0.0	2.3	211.5
Balance as of 31 December 2017	**66.4**	**732.3**	**209.2**	**−4.3**	**31.9**	**1,035.6**
Transfers to/withdrawals from reserves	0.0	209.2	−209.2	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	−3.0	−3.0
Currency translation	0.0	0.0	0.0	2.0	0.0	2.0
Other changes	0.0	3.0	0.0	0.0	0.0	3.0
Changes in the basis of consolidation	0.0	1.1	0.0	1.8	0.0	2.9
Net income for the year	0.0	0.0	117.2	0.0	1.6	118.8
Balance as of 31 December 2018	**66.4**	**945.4**	**117.2**	**−0.4**	**30.5**	**1,159.2**

Group accounting switched from International Financial Reporting Standards (IFRS) to German Commercial Code (HGB) rules in the year under review. The effects of this are presented for comparison separately in an equity reconciliation statement in the Notes to the Consolidated Financial Statements for equity as of 1 January 2017 (date of the consolidated HGB opening balance sheet). The prior-year values are determined in accordance with the provisions of German commercial law.

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

Statement of Cash Flows

€ million	2018	2017
Profit for the period *	118.7	211.5
Increase/decrease in underwriting reserves net	450.9	889.6
Increase/decrease in deposits with ceding undertakings and receivables from reinsurance business	51.7	−5.7
Increase/decrease in deposits received from reinsurers and liabilities from reinsurance business	−129.0	3.8
Increase/decrease in other receivables	−57.6	334.3
Increase/decrease in other liabilities	−65.3	−26.7
Changes in other balance sheet items not attributable to investing or financing activities	−336.4	−814.6
Other non-cash expenses/income and adjustments to profit or loss for the period	314.7	−98.7
Gain/loss on disposal of investments, tangible fixed assets and intangible fixed assets	−198.9	−481.6
Expenses for/income from extraordinary items	0.0	−0.4
Income tax expense/income	26.5	154.3
Income taxes paid	−111.9	−111.2
Cash flows from operating activities	**63.4**	**54.6**
Proceeds from disposal of entities included in the basis of consolidation	179.1	131.7
Proceeds from disposal of tangible assets	0.4	1.6
Proceeds from disposal of intangible assets	1.0	0.2
Payments to acquire tangible assets	−7.2	−10.2
Payments to acquire intangible assets	−56.6	−64.6
Proceeds from disposal of investments relating to unit-linked life insurance policies	2.7	3.1
Payments to acquire investments relating to unit-linked life insurance	−9.0	−2.9
Cash flows from investing activities	**110.4**	**58.9**
Dividends paid to minority interests	−3.0	−3.6
Proceeds from/payments for other financing activities	−84.0	−76.3
Cash flows from financing activities	**−87.0**	**−79.9**
Net change in cash funds	**86.8**	**33.7**
Effect on cash funds of exchange rate movements and remeasurements	1.9	−1.6
Effect on cash funds of changes in the basis of consolidation	−90.6	0.0
Cash funds at beginning of period	162.2	130.2
Cash funds at the end of period	**160.3**	**162.3**

* Including minority interests

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

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

Notes to the Consolidated Financial Statements

Group Accounting Policies

Gothaer Versicherungsbank VVaG is the parent of the Gothaer Group and prepares consolidated financial statements and a Group management report pursuant to sections 341 i ff. and 290 ff. of the German Commercial Code (HGB), sections 58 ff. of the German Ordinance Governing the Accounting Practices of Insurance Companies (RechVersG) and the German Accounting Standards (DRS) that are relevant for the Gothaer Group. The new standards DRS 25 "Foreign Currency Translation in Consolidated Financial Statements", DRS 26 "Associates" and DRS 27 "Proportionate Consolidation" have been applied in advance.

Starting in the financial year 2018, the Gothaer Group will revert to preparing and publishing consolidated financial statements in accordance with the rules of the German Commercial Code (HBG) and not in accordance with International Financial Reporting Standards (IFRS). The switch in consolidated accounting is based on a consolidated HGB opening balance sheet as of 1 January 2017.

The reconciliation of equity from IFRS to HGB is shown below. The prior-year values are calculated in accordance with German commercial law.

Reconciliation Statement of Equity	€ million
Equity according to IFRS as of 31.12.2016	**2.051,8**
Intangible assets	– 92,9
Investments	– 230,7
Underwriting reserves	– 1.026,8
Accruals for pensions and similar obligations	198,9
Other changes	31,0
Changes in the basis of consolidation	– 105,0
Equity according to HGB as of 01.01.2017	**826,3**

The differences indicated are essentially due to the different accounting and valuation policies described below.

Under HGB, intangible assets – especially goodwill – are amortized on a scheduled basis and, where impairment is permanent, on a non-scheduled basis. Under IFRS, they are subject only to non-scheduled amortization. This effect reduces the equity on the balance sheet by € 92.9 million.

Investments are valued at cost under HGB. In line with IAS 39 "Financial instruments", investments under IFRS are mostly recognized at fair value. This results in € 230.7 million less equity.

Underwriting reserves are valued under HGB in accordance with the principle of prudence, including the creation of equalization reserves pursuant to section 341 h HGB and additional interest reserves (Zinszusatzreserve – ZZR). Under IFRS, underwriting reserves are valued on a best estimate basis. In addition, no ZZR are created under IFRS and, in accordance with IFRS 4.14 (a), no equalization reserves are formed. These differences reduce equity by € 1,026.8 million.

Valuation of accruals for pensions and similar obligations is subject to different rates of actuarial interest under HGB and IFRS. In IFRS accounting, the current market interest rate is applied; under HGB, the average interest rate in accordance with the German Ordinance on Discounting Provisions is used. This results in an increase in equity of € 198.9 million.

The changes in the scope of consolidation are due particularly to special investment funds, which are required to be consolidated under IFRS 10 but not under section 290 (2) no. 4 sentence 2 HGB. This reduces the equity on the balance sheet by € 105.0 million.

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

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

Principles of Consolidation

All companies whose accounts are included in the consolidated financial statements have compiled financial statements as of 31 December 2018 consistently applying Group accounting policies. As a general rule, the financial year is the calendar year. Individual special purpose entities, associated companies and property holding companies with cut-off date 30 September 2018 have been included. Pursuant to section 299 (3) HGB, transactions with a material impact on assets, finances and earnings between 30 September 2018 and 31 December 2018 are taken into account separately.

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

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

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

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

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

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

Scope of Consolidation

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

Full consolidation

Accordingly, 34 subsidiaries (PY: 52) were included in the consolidated financial statements as a result of the controlling influence of the parent company pursuant to section 290 (2) HGB. They comprised eight insurance companies (PY: eight), one pension trust and 24 other companies (PY: 39). One special purpose entity (PY: four) was also consolidated under section 290 (2) no. 4 HGB.
One subsidiary, Munich Carlyle Productions GmbH & Co. KG, was wound up and deconsolidated in 2018.

Furthermore, real estate operations underwent restructuring in 2018. The following companies were sold or largely redeemed in fund structures:

- RE Apollo Value Enhancement Fund VII Feeder GmbH & Co. KG
- RE Brazil Real Estate Opportunities Fund I Feeder GmbH & Co. KG
- RE BREP Real Estate Partner VI Feeder GmbH & Co. KG
- RE Brockton Capital Fund I Feeder GmbH & Co. KG
- RE Brockton Capital Fund II Feeder GmbH & Co. KG
- RE Carlyle Infrastructure Feeder GmbH & Co. KG
- RE Carlyle Realty Partners V Feeder GmbH & Co. KG
- RE Colony Realty Partners II Feeder GmbH & Co. KG
- RE Gothaer PLA Residential Fund III Green Feeder GmbH & Co. KG
- RE LaSalle Asia Opportunity Fund III Feeder GmbH & Co. KG
- RE O'Conner Capital Partners II Feeder GmbH & Co. KG
- RE Red Fort India Real Estate Fund I Feeder GmbH & Co. KG
- City Asia Feeder GmbH & Co. KG
- Gotham City Residential Partners I GmbH & Co. KG
- Median Trust SA acting on behalf and for the account of Compartment 2014/470
- GAM US Fund VIII Blocker Investor LLC

CAERUS Securitization S.à r.l., acting for the account of its Compartment D (Fund III) – which simultaneously acted as an intermediate holding company – was dissolved and no longer included in the scope of consolidation in 2018.

At equity consolidation

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

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

Accounting and Valuation Policies

Introduction

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

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

Currency translation

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

Intangible assets

Internally generated intangible assets recognized as fixed assets have not been capitalized. Acquired intangible assets are recognized at cost less straight-line depreciation based on an anticipated economic life of 2 to 20 years for the relevant asset.

Investments

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

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

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

Loans to affiliated and associated companies are recognized at cost, unless permanent impairment is anticipated, in which case they are recognized at the lower fair value. If the reason for impairment no longer exists, write-ups are performed up to at most the amortized cost.

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

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

Investment fund certificates 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 ex-change value or redemption price pursuant to section 253 (4) HGB. Where values recover, write-ups are performed in accordance with section 253 (5) HGB.

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

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

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

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

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

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

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

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

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

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

Bank deposits are carried at nominal value.

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

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

Deposits with ceding companies are recognized at nominal value.

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

Receivables

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

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

Other assets

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

Deferred tax assets

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

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

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

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

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

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.

Equity

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

Underwriting reserves

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

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

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

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

Underwriting reserves in property and casualty insurance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Underwriting reserves in life insurance

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

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

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

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

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

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

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

The increase in additional interest reserves presented an expense of € 90.3 million in 2018. Owing to the switch to the corridor method, the expense for Gothaer Lebensversicherung AG in 2018 was reduced by around € 230 million.

Additional interest reserves account for 8.3 % of policy reserves at Gothaer Lebensversicherung AG and 5.0 % at Gothaer Pensionskasse AG.

Reserves for outstanding claims and redemptions are estimated for each individual claim or redemption incurred by balance sheet date and reported by the date on which reserves are established but not settled or redeemed within the financial year. For each claim incurred by balance sheet date but not reported until after the date on which reserves are established, reserves for losses incurred but not reported are formed to the value of the risked capital. Flat-rate reserves are formed for unresolved claims under occupational disability or supplemental occupational disability policies as well as for unreported fatalities. The gross amounts recognized include reserves for anticipated loss adjustment expenses at a level permissible under tax law.

The reserves for premium refunds include funds (terminal bonus funds) for future terminal bonuses and minimum participation in valuation reserves. Terminal bonus funds are calculated by recognized actuarial methods. The calculation rules are set out in the approved principle business plan for surplus participation (old policies as defined by section 336 VAG, possibly in conjunction with section 233 (3) sentence 2 VAG) or comply with the requirements of section 28 (7) RechVersV (new contracts as defined by section 336 VAG). A basic amount, which depends on the actuarial interest rate of the tariff and is capped at 2 x (4.5 % less actuarial interest) the tariff reserves at the regular due date, is deducted from the calculated reserves.

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

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

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

The interest rate is currently 4 % at Gothaer Pensionskasse AG and 5 % at Gothaer Lebensversicherung AG, except for capitalization business, where a rate of 3.5 % is applied. This takes account of terminal bonuses and minimum participation that are not or only partially payable for lapsed policies.

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

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

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

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

Underwriting reserves in health insurance

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

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

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

Because tariff generations and premium adjustment periods differ, there are also different actuarial interest rates for different tariffs/groups of persons. The average actuarial interest rate in the financial year was 2.995 % (PY: 3.121 %).

Reserves for outstanding claims in direct written business were calculated using a statistical approximation method in line with section 341g (3) HGB in conjunction with section 26 (1) RechVersV. The basis is formed by payments made in the first month of 2019 and the period under review for claims incurred up to balance sheet date as well as the ratio of the average payment made in the years 2016 to 2018 to the total payments made for prior-year claims. Arrears were taken into account. Separate estimates are made for prior-year claims and claims in the year before the prior year.

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

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

Other underwriting reserves also include cancellation reserves, which are formed for the risk of recognized negative policy reserves being cancelled and for parts of the portable amounts that policyholders take with them when they switch between private health insurers.

Other accruals

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

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

• Actuarial interest	3.21 %	/ 3.34 % (30.09.)
• Wage and salary trend	2.20 %	
• Pension progression trend	1,60 %	
• Fluctuation up to age 35	6,00 %	
up to age 45	3,00 %	
up to age 60	1,00 %	

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

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

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

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

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

Other liabilities

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

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

Notes to the Consolidated Statement of Financial Position

Assets

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

€ million

	Carrying amount previous year	Additions	Reclassifications	Disposals	Reversals	Amortization	Carrying amount financial year
A. Intangible assets							
1. Acquired concessions, industrial property rights, similar rights and assets as well as licences for such rights and assets	236.8	10.2	26.8	0.7	0.0	42.6	230.5
2. Payments in advance	39.0	46.4	−26.8	0.3	0.0	0.0	58.3
3. Subtotal A.	**275.8**	**56.6**	**0.0**	**1.0**	**0.0**	**42.6**	**288.8**
B I. Real estate, real estate rights, and buildings, including buildings on third-party land	**10.4**	**7.4**	**0.0**	**0.0**	**0.0**	**0.3**	**17.6**
B II. Investments in affiliated companies and participations							
1. Shares in affiliated companies	87.1	36.7	−13.7	36.3	0.0	0.1	73.7
2. Loans to affiliated companies	3.8	0.0	0.0	0.8	0.0	0.0	3.0
3. Shares in joint ventures and associated companies	291.2	15.9	0.0	27.3	28.7	17.8	290.6
4. Participations	1,058.1	168.6	114.3	339.8	6.3	34.8	972.8
5. Loans to participations	54.0	0.5	0.0	32.3	0.0	0.0	22.2
6. Subtotal B II.	**1,494.2**	**221.8**	**100.6**	**436.5**	**35.0**	**52.8**	**1,362.3**
Total	**1,780.5**	**285.9**	**100.6**	**437.5**	**35.0**	**95.7**	**1,668.7**

Intangible assets

Non-scheduled depreciation of € 0.3 million (PY: € 0.8 million) was recognized for intangible assets.

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

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

Investment fund certificates and bearer bonds

B. III. 1. and 2. include investment fund certificates, bearer bonds and other fixed-interest securities with a book value of € 20,075.4 million that are classified as long-term assets pursuant to section 341b (2) HGB. The fair value of these assets comes to € 21,172.3 million. Hidden liabilities totalled € 71.8 million.

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

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

			€ million
		Carrying amount	Fair value
B. II. 2.	Loans to affiliated companies	0.0	-0.3
B. II. 3.	Shares in joint ventures and associated companies	57.7	53.4
B. III. 1.	Investment fund certificates with a fixed income	2,735.3	2,725.6
B. III. 1.	Mixed investment fund certificates	46.0	45.3
B. III. 1.	Investment fund certificates with equity characteristics	150.7	132.8
B. III. 2.	Bearer bonds and other fixed-interest securities	1,103.8	1,060.4
B. III. 3.	Mortgages, liens on real property and annuities	7.4	6.8
B. III. 4. a)	Registered bonds	77.2	71.0
B. III. 4. b)	Promissory notes and loans	350.7	330.2
B. III. 4. c)	Loans and advance payments on insurance policies	0.3	0.3

In the case of loans to affiliated companies, investment was reduced to memo value. After currency hedging, this resulted in a negative fair value, which was recognized in full as a liability.

In the case of shares in joint ventures and associated companies, depreciation was waived because impairment was temporary. In the wake of the progressive restructuring of the entity affected, there are already signs of a near-term value recovery.

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

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

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

Information on valuation units

€ million

		Trading-/ Nominal volume	Carrying amount	Fair value
B. II. 2.	Loans to affiliated companies		0.0	1.1
	Forward currency sales	99.9 MUSD		−0.5
	Forward currency purchases	98.7 MUSD		−1.0
	Portfolio valuation unit	**1.2 MUSD**	**0.0**	**−0.3**
B. II. 4.	Participations		220.9	258.1
	Forward currency sales	306.9 MUSD		−1.4
	Forward currency purchases	10.1 MUSD		0.0
	Portfolio valuation unit	**296.8 MUSD**	**220.9**	**256.7**
B. II. 4.	Participations		12.9	12.6
	Forward currency sales	9.9 MGBP		0.3
	Micro valuation unit		**12.9**	**12.9**
B. II. 4.	Participations		72.7	72.5
	Forward currency sales	43.4 MGBP		1.3
	Forward currency purchases	1.7 MGBP		0.0
	Portfolio valuation unit	**41.7 MGBP**	**72.7**	**73.8**
B. II. 4.	Participations		96.5	102.4
	Forward currency sales	27.5 MUSD		−0.2
	Forward currency sales	10.5 MGBP		0.2
	Forward currency purchases	1.3 MGBP		0.0
	Forward currency sales	158.7 MSEK		−0.5
	Forward currency sales	15.0 MDKK		0.0
	Forward currency sales	41.1 MNOK		0.2
	Forward currency sales	11.0 MCAD		0.3
	Portfolio valuation unit		**96.5**	**102.4**
B. III. 1.	Investments in funds		117.2	117.8
	Forward currency sales	134.8 MUSD		0.0
	Forward currency purchases	0.6 MUSD		0.0
	Portfolio valuation unit	**134.2 MUSD**	**117.2**	**117.8**
B. III. 1.	Investments in funds		28.2	28.1
	Forward currency sales	11.7 MGBP		0.2
	Portfolio valuation unit		**28.2**	**28.3**
B. III. 2.	Bearer bonds		79.4	69.1
	Forward currency sales	92.0 MUSD		−0.5
	Portfolio valuation unit		**79.4**	**68.7**
B. III. 2.	Bearer bonds		50.1	43.2
	Forward currency sales	58.0 MUSD		−0.3
	Micro valuation unit		**50.1**	**42.9**
B. III. 4. a)	Registered bonds		12.9	12.7
	Forward currency sales	18.0 MGBP		0.2
	Forward currency purchases	3.4 MGBP		0.0
	Portfolio valuation unit	**14.6 MGBP**	**12.9**	**12.9**
B. III. 4. d)	Other miscellaneous loans		33.9	33.9
	Forward currency sales	39.7 MUSD		0.0
	Forward currency purchases	0.9 MUSD		0.0
	Portfolio valuation unit	**38.8 MUSD**	**33.9**	**34.0**

Information on valuation units

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

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

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

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

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

					€ million
Type of fund/ investment objective	Carrying amount	Fair value	Difference	Payout	Redemption option
Equity fund	150.7	132.8	-17.9	4.9	daily
Pension fund	14,327.6	15,103.3	775.7	300.7	daily or within one month
Property fund	1,338.7	1,425.1	86.3	53.3	daily or within max. six months
Other	145.9	147.0	1.1	0.7	daily

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

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

Shares in joint ventures and associated companies

Shares in joint ventures and associated companies include goodwill of € 74.7 thousand (PY: € 1.2 million) relating to associated companies.

Deferred tax assets

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

Equity and Liabilities

Offsetting of assets and liabilities

Pursuant to section 246 (2) sentence 2 HGB, plan assets of € 0.6 million (PY: € 0.5 million) have been offset against corresponding pension obligations of € 0.6 million (PY: € 0.4 million). The fair value of the plan assets offset is equal to value at cost.

Other accruals

The difference resulting from the valuation of accruals for pensions and similar obligations was € 50.3 million.

Miscellaneous liabilities

Miscellaneous liabilities include advance payments on future income from shareholdings in commercial partnerships totalling € 0.0 million (PY: € 14.1 million).

Notes to the Consolidated Income Statement

Gross written premiums by type of insurance business

		€ million
	2018	2017
Life insurance business	1,318.0	1,272.1
Health insurance business	850.2	842.8
Property and casualty insurance business	2,138.4	2,079.1
Of which		
Germany	4,000.0	3,923.0
Other EEA States	301.1	265.8
Third countries	5.5	5.1
Direct insurance business	4,306.6	4,193.9
Reinsurance business assumed	76.3	96.8
Total	**4,382.8**	**4,290.7**

Investment expenses

Amortization of investments includes non-scheduled depreciation of € 103.3 million (PY: € 66.2 million).

Other income

Income from currency translation totals € 3.1 million (PY: € 1.8 million).

Other income includes € 0.1 million (PY: € 0.1 million) from the discounting of reserves.

Other expenses

Currency translation expenses total € 3.0 million (PY: € 6.1 million).

Other expenses include € 32.2 million (PY: € 24.4 million) from the discounting of reserves.

Offsetting of income and expenses

As in the case of retirement pension commitments and the corresponding plan assets, related expenses and income were netted in accordance with section 246 (2) sentence 2 HGB, which resulted in a carrying value of € 0.1 million (PY: € 0.0 million).

Other disclosures

List of holdings

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

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

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

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

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

Name	City of domicile	Country of domicile	Ownership interest* as %
A.S.I. Wirtschaftsberatung AG	Münster	DE	100.0
Annex-Produkte Vertriebs GmbH	Cologne	DE	100.0
capiton MT Beteiligungsgesellschaft mbH	Berlin	DE	65.4
CarGarantie (Beijing) Consulting Services Co., Ltd.	Beijing	CN	67.0
CarGarantie Consulting Services (Thailand) Co., Ltd.	Bangkok	TH	67.0
Car-Garantie GmbH	Freiburg i. Brsg.	DE	67.0
Classen Finanz GmbH & Co. KG	Kaisersesch	DE	71.4
GBG-Consulting für betriebliche Altersversorgung GmbH	Hamburg	DE	100.0
GKC Gothaer Kunden-Service-Center GmbH	Cologne	DE	100.0
Gothaer Digital GmbH	Cologne	DE	100.0
Gothaer Kapitalverwaltungs-GmbH	Cologne	DE	100.0
Gothaer Risk-Management GmbH	Cologne	DE	100.0
Gothaer Vertriebs-Service AG	Cologne	DE	100.0
GSC Gothaer Schaden-Service-Center GmbH	Berlin	DE	100.0
Medico GmbH & Co. KG	Frankfurt a. M.	DE	99.9
Munich Carlyle Beteiligungs GmbH	Grünwald	DE	100.0
Pensus Pensionsmanagement GmbH	Göttingen	DE	100.0
RE Feeder GmbH	Cologne	DE	100.0
ZIPPEL NetMarket GmbH	Elsdorf-Heppendorf	DE	55.0

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

3. Joint ventures and associated companies included in the consolidated financial statements (section 313 (2) No. 2 HGB in connection with DRS 27) – consolidated at equity pursuant section 312 HGB			
Name	**City of domicile**	**Country of do-micile**	**Owner-ship interest* as %**
Aachener Bausparkasse AG	Aachen	DE	18.1
KILOS Beteiligungs GmbH & Co. Vermietungs-KG	Pöcking	DE	93.1
OPCI French Wholesale Properties – FWP, SPPPICAV	Paris	FR	43.1
OWP Nordergründe GmbH & Co. KG	Bremen	DE	40.0
ROLAND Rechtsschutz-Versicherungs-AG**	Cologne	DE	40.0
Skogberget Vind AB	Malmö	SE	45.0
TRIFORUM Verwaltung GmbH & Co. Objekt Neu-Isenburg III KG	Pullach i. Isartal	DE	94.0
W. Classen GmbH & Co. KG	Kaisersesch	DE	20.0

* In the case of ownership interests that are partially held indirectly, economic interests are calculated.
** ROLAND Rechtsschutz Beteiligung GmbH was merged with ROLAND Rechtsschutz-Versicherungs-AG with retroactive effect from 1 October 2018.

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

4. Joint ventures and associated companies not included in the consolidated financial statements (section 313 (2) No. 2 sentence 2 HGB in connection with DRS 27)			
Name	**City of domicile**	**Country of do-micile**	**Owner-ship interest* as %**
Advanced Laser Separation International N. V. (i. L.)	Beuningen	NL	28.2
Derya Elektrik Üretimi Ve Ticaret A.S.	Ankara	TUR	26.0
Dr. Hannig GmbH	Kaisersesch	DE	20.0
GSG Garantie-Service GmbH	Freiburg i. Brsg.	DE	33.5
Ideal Enerjo Üretimi Sanayi Ve Ticaret A.S.	Erzurum	TUR	26.0
IWS International Warranty Solutions GmbH	Cologne	DE	33.5
LM+ Leistungsmanagement GmbH	Hamburg	DE	25.0
RCP Deutscher Solarfonds II GmbH & Co. KG	Frankfurt a. M.	DE	24.0
ZIPPEL COMMUNICATIONS GmbH	Elsdorf-Heppendorf	DE	45.0

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

5. Participations not included in consolidated financial statements (section 313 (2) No. 4 HGB)					€ thousand
Name	City of domicile	Country of domicile	Ownership interest* as %	Equity	Net result for the year
100% RE IPP GmbH & Co. KG	Wörrstadt	DE	0.5	-34,473	-7,628
Aberdeen Asia Pacific II, L. P.	George Town	KY	13.2	152,122	18,536
Accession Mezzanine Capital III L. P.	St. Helier	JE	16.9	122,417	11,547
Achmea B. V.	Zeist	NL	1.1	9,941,000	215,000
AMP Capital Infrastructure Debt Fund II (EUR), LP	Luxemburg	LU	60.8	117,742	-10,451
Beechbrook Mezzanine II L. P.	Edinburgh	GB	16.6	113,514	13,445
Beechbrook Private Debt III L. P.	London	GB	15.5	66,909	5,781
Behrman Capital PEP L. P.	Wilmington	US	2.5	622,438	169,667
Behrman Capital IV, L. P.	Wilmington	US	12.3	194,106	47,145
Curzon Capital Partners IV L. P.	London	GB	8.6	548,820	106,373
EMF NEIF I (A) L. P.	London	GB	42.1	37,066	410
EPISO III, L. P.	London	GB	2.6	767,194	106,519
EPISO IV, L. P.	London	GB	2.7	698,591	32,243
European Alliance Partners Company AG	Zurich	CH	12.5	8,197	223
European Property Investors Special Opportunities, L. P.	Edinburgh	GB	19.0	212,566	732
EXTREMUS Versicherungs-Aktien-gesellschaft	Cologne	DE	5.0	63,940	200
Falcon Strategic Partners IV, L. P.	Wilmington	US	2.8	787,234	48,016
Falcon Strategic Partners V (Cayman), L. P.	George Town	KY	31.1	78,323	11,051
FirstMark Capital III L. P.	Wilmington	US	13.5	216,877	42,660
FirstMark Capital OF I, L. P.	Wilmington	US	16.7	150,772	24,187
FirstMark Capital II, L. P.	Wilmington	US	13.3	296,110	18,904
GDV Dienstleistungs-GmbH	Hamburg	DE	1.1	26,529	-515
GoldPoint Partners Co-Investment V, L. P.	Wilmington	US	11.1	663,696	114,757
GoldPoint Mezzanine Partners IV, L. P.	Wilmington	US	7.7	510,936	43,467
Nuveen Immobilien GmbH & Co. GB I KG	Frankfurt a. M.	DE	16.7	20,888	2,759
NYLCAP 2010 Co-Invest L. P.	New York	US	99.0	12,330	4,801
NYLCAP Mezzanine Partners III 2012 Co-Invest, L.P.	Wilmington	US	95.0	33,938	3,804
PineBridge Secondary Partners III L. P.	Wilmington	US	11.4	153,667	22,299
PineBridge Secondary Partners IV Feeder, SLP	Luxemburg	LU	10.5	30,707	3,861
Praesidian Capital Bridge Fund, L. P.	Wilmington	US	19.9	49,264	5,659
Praesidian Capital Opportunity Fund III-A, L. P.	Wilmington	US	32.7	44,243	1,165
PROTEKTOR Lebensversicherungs-AG	Berlin	DE	2.3	105,796	384
ROLAND Rechtsschutz Beteiligung GmbH**	Cologne	DE	44.9	20,281	1,002
RREEF Pan-European Infrastructure Feeder GmbH & Co. KG	Eschborn	DE	26.6	364,623	-146
Sana Kliniken AG	Munich	DE	2.4	444,725	59,032
SilkRoad Asia Value Parallel Fund, SICAV-SIF	Luxemburg	LU	15.7	298,021	56,187
Surface Technologies GmbH & Co. KG	Potsdam	DE	13.4	15,700	707
WAI S.C.A., SICAV- FIS / Private Equity Secondary 2008	Luxemburg	LU	22.1	48,816	-4,686

* In the case of ownership interests that are partially held indirectly, economic interests are calculated.
** ROLAND Rechtsschutz Beteiligung GmbH was merged with ROLAND Rechtsschutz-Versicherungs-AG with retroactive effect from 1 October 2018.

Pursuant to section 313 (3) sentence 4 HGB, participations that are of only minor significance for the net assets, financial position and earnings of the Group are not shown in the table referred to above.

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

Subordinate liabilities

Gothaer Versicherungsbank VVaG has issued a premium bond with an entitlement to a non-performance-related basic rate of interest as well as an additional yield component dependent on consolidated profit. The premium bond is in 2,797 portfolio deposits, with take-up totalling € 49.7 million.

Liabilities

Liabilities with a residual term of more than five years totalled € 250.1 million (PY: € 250.0 million).

Board membership and remuneration

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

Management of the parent company received remuneration totalling € 6.3 million (PY: € 5.8 million) in the year under review. Advances of € 0.1 million were also granted. No advance payments were made in the prior year. Retirement and survivors' benefits for former members of Management came to € 1.9 million (PY: € 2.0 million). Further accruals totalling € 16.0 million (PY: € 15.6 million) exist for current pensions and pension entitlements for this group of individuals.

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

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

Directorships of Members of the Supervisory Board and Management

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

Supervisory Board	Membership of other statutory supervisory boards	Comparable domestic and foreign directorships and officerships
Gabriele Eick	Gothaer Finanzholding AG, Die Mobiliar AG, as of 25. May 2018	Goethe-Universität Frankfurt am Main (Foundation), Landesstiftung Miteinander in Hessen, Aramark GmbH Chair
Prof. Dr. Johanna Hey	Gothaer Finanzholding AG, ADVA Optical Networking SE Vice Chair, Flossbach von Storch AG, as of 25. May 2018	Cologne Business School GmbH
Jürgen Wolfgang Kirchhoff	Gothaer Finanzholding AG, Märkische Bank eG Chair	

Supervisory Board	Membership of other statutory supervisory boards	Comparable domestic and foreign directorships and officerships
Dr. Karsten Eichmann Chair	Gothaer Pensionskasse AG Chair, Gothaer Asset Management AG Chair, ROLAND Rechtsschutz-Versicherungs-AG	
Oliver Brüß	Janitos Versicherung AG, Gothaer Pensionskasse AG Vice Chair, A.S.I. Wirtschaftsberatung AG Chair, Gothaer Vertriebs-Service AG Chair	
Dr. Mathias Bühring-Uhle	Janitos Versicherung AG Chair, A.S.I. Wirtschaftsberatung AG, Gothaer Systems GmbH Chair, CG Car-Garantie Versicherungs-AG Chair	
Harald Epple	Gothaer Pensionskasse AG, Aachener Bausparkasse AG, Gothaer Asset Management AG, ROLAND Rechtsschutz-Versicherungs-AG, As of 19. November 2018	

Supervisory Board	Membership of other statutory supervisory boards	Comparable domestic and foreign directorships and officerships
Michael Kurtenbach	A.S.I. Wirtschaftsberatung AG Vice Chair, Gothaer Vertriebs-Service AG Vice Chair, Pensionskasse der BERLIN-KÖLNISCHE Versicherungen Chair, Versorgungskasse Gothaer Versicherungsbank VVaG Chair, GDV Dienstleistungs-GmbH	
Dr. Christopher Lohmann	Janitos Versicherung AG Vice Chair, Gothaer Towarzystwo Ubezpieczeń S. A. President, Gothaer Asigurări Reasigurări S. A. Chair	
Oliver Schoeller	Gothaer Systems GmbH Vice Chair, ROLAND Rechtsschutz-Versicherungs-AG Vice Chair as of 19. November 2018, Chair up to 19. November 2018	

Total fee for the statutory auditor

		€ million
	2018	2017
Auditing of financial statements	1.8	1.6
Attestation services	0.0	0.1
Tax advisory services	0.2	0.1
Other services	0.1	0.1
Total	**2.1**	**1.9**

Personnel expenses

		€ million
	2018	2017
Wages and salaries	325.9	346.6
Social security contributions and employee benefits	49.1	50.9
Expenses for employees' pensions	23.3	14.9
Total	**398.3**	**412.4**

Human resources on average

	2018	2017
In house	4,697	4,799
In the field	513	553
	5,210	5,352
Apprentices	202	211
Total	**5,412**	**5,563**

Contingent liabilities and other financial commitments

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

Pension accruals of € 27.0 million were not recognized on the balance sheet because the apportionment option under section 67 (1) EGHGB was exercised.

At year-end, contributions totalling € 831.3 million (none of which was due to affiliated companies and € 200.6 million of which was due to associated companies) were outstanding for shares held in affiliated companies and associates as well as for other investments.

Other financial commitments arising from long-term leasing and rental agreements totalled € 53.0 million at balance sheet date.

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

In accordance with sections 221 ff. VAG, the life insurers of the Group are members of the guarantee fund for life insurers (Sicherungsfonds für die Lebensversicherer). In addition to the obligatory current contributions, the fund can levy special contributions up to 1 ‰ of the sum of net underwriting reserves on the basis of the Guarantee Fund Financing Ordinance (Life). Furthermore, in the event of the fund not having the resources needed to handle a rescue case, the companies have committed to make financial resources available to the guarantee fund – or alternatively to Protektor Lebensversicherungs-AG – in an amount equal to 1 % of the sum of net underwriting reserves, taking account of the contributions already made to the guarantee fund. The total commitment to the guarantee fund at balance sheet date was € 205.7 million.

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

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

Gothaer Finanzholding AG is a member of the German Nuclear Reactor Insurance Pool. If one of the other members drops out, the relevant Group company is obliged to take over a share of the ex-member’s obligations proportionate to its own stake in the pool.

Events of special significance

In the financial year 2018, a sale agreement was concluded for the Polish insurance company Gothaer Towarzystwo Ubezpieczeń S. A. with effect from 31 December 2018, subject to a condition precedent relating to key closing conditions. Those conditions were met in February 2019. We anticipate a gain on disposal in the lower double-digit million range.

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

Proposal for the appropriation of profit

The consolidated profit for the year registered by our parent company Gothaer Versicherungsbank VVaG was € 11,765,476.42. Including the profit of € 31,080.63 brought forward from 2017, the retained profit available to the General Members Meeting for appropriation is € 11,796,557.05.

We propose to the General Members Meeting that the sum of € 11,790,000.00 should be transferred to other revenue reserves and € 6,557.05 should be carried forward.

Cologne, 10 April 2019

Management

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

Independent Auditors’ Report

GOTHAER Versicherungsbank VVaG, Cologne

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

Audit opinions

We have audited the consolidated financial statements of GOTHAER Versicherungsbank VVaG, Cologne, and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the statement of changes in equity and the cash flow statement for the financial year 1 January to 31 December 2018 as well as the notes to the consolidated financial statements, including the presentation of accounting and valuation policies. We have also audited the Group management report of GOTHAER Versicherungsbank VVaG, Cologne, for the financial year from 1 January to 31 December 2018. In line with the requirements of German law, we have not audited the non-financial statement or the corporate governance statement (proportion of women) contained in the Group management report.

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

– the accompanying consolidated financial statements comply in all material respects with the rules of German commercial law applicable to insurance companies and, in accordance with German general accounting principles, present a true and fair picture of the net assets and financial position of the Group as at 31 December 2018 as well as the results of its operations from 1 January to 31 December 2018 and

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

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

Basis for the audit opinions

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

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were considered in the context of our audit of the consolidated financial statements as a whole and in the process of forming our audit opinion on them; we do not provide a separate audit opinion on these matters.

Valuation of gross policy reserves

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

THE FINANCIAL STATEMENT RISK

GOTHAER Versicherungsbank VVaG recognizes gross policy reserves totalling € 22,636.4 million in its consolidated financial statements. This was 69.9 % of the balance sheet total.

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

Regulatory and commercial law rules need to be observed here. They particularly include rules on biometric variables, cost assumptions and interest rate assumptions, including the rules on strengthening interest rates (additional interest reserves and interest-driven reserve strengthening). The rules on reserve strengthening, in particular, were changed in the financial year 2018 and the so-called corridor method introduced. Use of these assumptions is partly discretionary.

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

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

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

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

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

OUR AUDIT APPROACH

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

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

- To ensure the accuracy of the policy reserves at individual policy level, we used our own DP systems to calculate the policy reserves for the main parts of the direct written portfolios (around 70 % of policy reserves for the total volume of direct written insurance business) and compared the results with those of GOTHAER Versicherungsbank VVaG.

- With regard to the additional interest reserves (Zinszusatzreserve – ZZR) formed as part of policy reserves for new policies, we conducted an adequacy test on the assumptions that GOTHAER Versicherungsbank VVaG made on the reference interest rate and on the respective lapse and capital settlement probabilities estimated. We also assessed the method by which the reference interest rate was determined for calculating ZZR and the transition to the so-called corridor method.

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

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

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

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

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

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

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

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

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

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

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

OUR CONCLUSIONS

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

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

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

THE FINANCIAL STATEMENT RISK

Gross reserves for outstanding claims in direct insurance business totalled € 3,040.9 million at balance sheet date. This was 9.4 % of the balance sheet total.

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

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

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

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

OUR AUDIT APPROACH

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

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

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

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

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

- We performed our own actuarial reserve calculations for selected segments, which were chosen on the basis of risk considerations. In each case, a point estimate was determined using statistical probabilities and compared with the Company's calculations.

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

OUR CONCLUSIONS

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

Other information

The legal representatives are responsible for the other information. The other information comprises:

– the non-financial statement and the corporate governance statement and

– the remaining parts of the annual report, with the exception of the audited consolidated financial statements, the audited Group management report and our auditor's report.

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

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

– whether it is materially inconsistent with the financial statements, the management report or the knowledge we obtained in the audit, or

– whether it otherwise appears to be materially misstated.

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

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

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for making disclosures, as appropriate, in relation to going concern. In addition, they have a responsibility to draw up consolidated financial statements based on the going concern assumption unless there are actual or legal circumstances that preclude this.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement in the consolidated financial statements and Group management report, whether deliberate or unintentional, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. There is a higher risk of a material misstatement resulting from fraud going undetected than one resulting from error because fraud may involve collusion, forgery, deliberate omissions, misrepresentations or the overriding of internal control mechanisms.

- Obtain an understanding of the internal controls relevant to the audit of the consolidated financial statements and the arrangements and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of those systems.

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

- Conclude on the appropriateness of the legal representatives' use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the relevant disclosures in the consolidated financial statements and Group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

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

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

- Perform audit procedures on the prospective information presented by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information or the assumptions. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

- Perform audit procedures on the prospective information presented by the legal representatives in the Group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information or the assumptions. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor at the Supervisory Board meeting on 9 May 2018. We were appointed by the Supervisory Board on 11 October 2018. We have been the auditor of GOTHAER Versicherungsbank VVaG without interruption since the financial year 2002.

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

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

For GOTHAER Versicherungsbank VVaG, we audited the solo solvency overview and the group solvency overview and performed a limited assurance engagement.

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

Responsible Auditor

The auditor responsible for the audit is Roland Hansen.

Cologne, 30 April 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Hansen	Stümper
Wirtschaftsprüfer	Wirtschaftsprüferin

Report of the Supervisory Board

The Supervisory Board continuously monitored the conduct of business by Management in the course of the reporting period in fulfilment of its duties under the law and the bylaws of the Company. Management regularly submitted written reports on business developments and the situation of the Company and reported orally to the Board at three meetings. In addition, the Board received detailed information at a special meeting about the digitalization strategy and its implementation status in the Group. The Board was involved in all decisions of fundamental importance for the Association. The committees of the Board were also involved in informational and oversight activities. The Investment Committee, the Audit Committee and the Executive Committee each met three times. The progress and outcomes of the committee meetings were reported and discussed at the meetings of the Supervisory Board.

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

Furthermore, the Board monitored the development of membership figures and received detailed reports on the measures taken to raise the standard of service and advice for the exclusive organization. The Board also regularly met with Management to discuss basic strategic issues for the future gearing of the Group and its national and international subsidiaries. A major focus here was on the Polish and Romanian property insurance subsidiaries Gothaer Towarzystwo Ubezpieczeń S.A. and S.C. Gothaer Asigurări Reasigurări S.A. as well as on Janitos Versicherung AG. In the course of implementing the “Gothaer 2020” strategy, the Group will focus more strongly on core business in Germany.

Special attention was also paid by the Board to the impacts of the low-interest environment on the personal insurance companies in the Group. The Board continued to receive regular reports on the programme for realigning Gothaer Lebensversicherung AG and Gothaer Pensionskasse AG in 2018 – a programme designed to ensure that appropriate account is taken of the challenges presented by the low-interest phase, the need to form additional interest reserves (Zinszusatzreserve) and Solvency II. Attention focused on the solvency margin required and the resulting consequences for product and pricing strategy in new business as well as the different interest rate scenarios and their implications for Gothaer Lebensversicherung AG and Gothaer Pensionskasse AG. The Board received detailed updates on the repositioning measures taken and the measures designed to allow the financial requirements of additional interest reserving to be met primarily from internal funding resources.

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. Key performance indicators in the separate and consolidated financial statements were discussed in detail with Management and the auditors of the financial statements, taking comparable company benchmarks into account. There were no objections. The Audit Committee therefore proposed to the Supervisory Board that the financial statements for the financial year 2018 should be formally adopted in accordance with section 172 AktG.

Management's investment planning and policy were regularly a subject of Investment Committee meetings. Management reported extensively to the Board on developments in the capital markets and the resulting impacts on Group companies' investments, development of hidden reserves/hidden charges and investment income, and discussed the possible implications of general economic developments, especially the development of interest rates, for the insurance industry and the Company.

The insurance industry again faced major challenges this year. Digitalization, the ongoing low-interest phase, sweeping regulatory reforms, changes in the risk landscape and, last but not least, demographic change are radically transforming the economic and regulatory environment for the insurance market. In mid-2015, Management started to implement Strategy 2020. Based on the five strategic cornerstones identified, it will gear future action to 12 core objectives in the areas of finance, market and customer, products, organization and processes. The concretization, communication and implementation of those objectives thus again figured prominently in Management reporting to the Supervisory Board in 2018.

The financial strength rating carried out for the Group companies in 2018 also resulted in positive findings, documenting the continued security and financial strength of the Group despite the more difficult market environment. Gothaer Allgemeine Versicherung AG, Gothaer Lebensversicherung AG and Gothaer Krankenversicherung AG yet again retained their A- rating from Standard & Poor's.

The Supervisory Board performed its statutory duty to examine Management personnel matters. The Management Board appointments of Dr. Karsten Eichmann and Mr. Harald Epple were extended.

The company financial statements for the 2018 financial year and the accompanying management report as well as the consolidated financial statements and the accompanying Group management report were audited by the auditor appointed pursuant to section 341k HGB, KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne. In each case, the audit included an assessment of the early risk warning system.

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

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

After examination of the presented financial statements and management report for the 2018 financial year and the consolidated financial statements and Group management report for the 2018 financial year, the Supervisory Board raised no objections. The Supervisory Board approved the financial statements and the consolidated financial statements for the year 2018. The financial statements are therefore adopted pursuant to section 172 of the German Stock Corporation Act (AktG).

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

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

Cologne, 15 May 2019

The Supervisory Board

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

Adresses of major Group companies

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Gothaer Allgemeine Versicherung AG		
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Gothaer Lebensversicherung AG		
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Gothaer Krankenversicherung AG		
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