Gothaer

Gothaer Group
Extract from the Annual Report 2016

Key Figures
(consolidated in accordance with IFRS)

Five-Year Summary					€ million
	Financial Year				
	2016	2015	2014	2013	2012
Gross premiums written	4,410.9	4,516.5	4,510.7	4,301.2	4,180.8
Net premiums earned	3,708.9	3,749.6	3,687.4	3,575.1	3,483.9
Policyholder benefits (net)	4,198.1	3,910.2	3,905.0	3,835.5	3,668.5
Underwriting expenses (net)	759.4	772.8	761.5	751.9	695.5
Consolidated profit for the year	162.0	137.6	117.0	107.5	107.6
Investments	28,917.1	28,127.8	27,847.3	25,638.6	24,840.0
Investment result	1,612.3	1,214.0	1,106.4	1,163.4	1,160.6
Underwriting reserves (net)	26,937.9	25,194.8	25,139.5	23,363.6	22,590.2
Group equity	2,003.7	1,842.3	1,780.9	1,520.0	1,452.5
Employees (average number)	5,704	5,815	5,910	5,979	6,042

The Gothaer Group

With over 4.2 million members and premium income of 4.41 billion euros, the Gothaer Group is one of Germany's major insurance groups and one of the country's largest mutual insurance associations.

Thanks to first-class risk and financial concepts, our customers receive comprehensive solutions that go beyond straight insurance and financial planning. We make the handling of insurance and asset questions as agreeable and easy as possible for our customers. Our staff are committed to relieving them of hassle and finding best-fit solutions. This and our qualified advice set us apart from the competition. 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.

The Business Units

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

Gothaer Allgemeine Versicherung AG is the largest risk-bearing entity in property and casualty insurance within the Gothaer Group. This company has ranked among the largest German property insurance companies ever since its foundation in the year 1820. Classical single-line products aside, its focus is primarily on combined insurance concepts and multiple-risk products. Custom solutions that take into account the specific requirements of different branches of business and industry make Gothaer a reliable partner not only for private clients, but also for commercial customers from mid-sized companies and industry. 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 on-site specialists ensure the necessary professional competence for customized solutions.

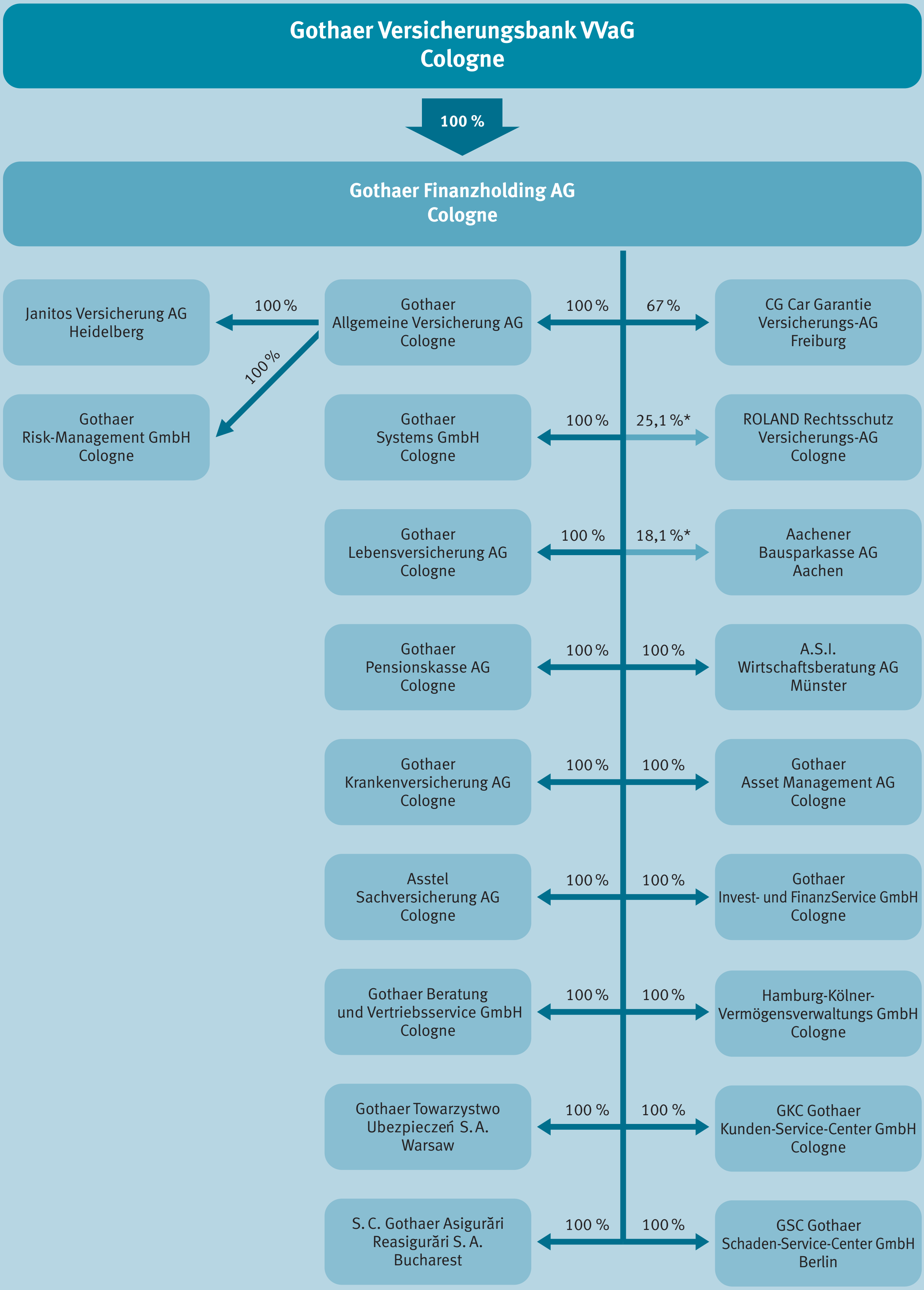
Gothaer Lebensversicherung AG has been a partner for insurance protection, financial planning strategies and investment advice for nearly 200 years. A special focus is on biometrics and capital-efficient products for the private client and corporate client business segments. Gothaer strengthens these strategic business fields year after year. Its strategic gearing also addresses the requirements of Solvency II. Gothaer optimizes and upgrades its product range on a continuous basis. In summer 2016, it launched GarantieRente Performance on the market, a capital-efficient product with high customer appeal distinguished by an index-based security as investment vehicle. Participation in the prestigious MSCI World and/or StoxxEurope 600 share indexes means that the product offers attractive earnings potential.

As the healthcare provider of the Gothaer Group, **Gothaer Krankenversicherung AG** provides policyholders not only with customized insurance coverage and reimbursement of medical expenses, but also with comprehensive support in the event of illness. Health awareness and a sense of personal responsibility for dealing with illness are strengthened. Gothaer Krankenversicherung is a dependable comprehensive health insurance partner. As a modern health insurer, it supports customers with digital health services, practical health guides and competent health advice. Furthermore, Gothaer is a particularly fast-growing player in the supplemental insurance market and is regarded as a leading provider of occupational health insurance. A special focus here is on modern, flexible, high-quality product solutions such as the long-term care allowance product MediPG or the MediZ dental tariff family. Other focal areas are collective insurance for company personnel and top-class company health management. In 2017, a top-rated new product line with "Basis", "Plus" and "Premium" tariffs will be launched for the hospital supplemental insurance market.

Janitos Versicherung AG has been the broker insurer for the private client business in the Gothaer Group since 2005. Janitos stands for the best-possible coverage of health and assets. Its products, processes and services are systematically geared toward the primary customer 'broker' and his target market. The Janitos product portfolio is geared mainly to the Property / Casualty lines householders comprehensive, private liability and accident. With its Multi-Rente, Janitos has, since 2008, been successful in covering biometric risks. Since 2010, Janitos has also operated successfully in supplementary health 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 focus of the Gothaer Group's business activity is on the German insurance market. Through foreign subsidiaries in Poland – **Gothaer Towarzystwo Ubezpieczeń S. A.** – and Romania – **S. C. Gothaer Asigurări Reasigurări S. A.** – the Group also shares in the considerable growth potential of the Eastern European property and casualty insurance market. In addition, drawing on international networks and its own branch operation in France, Gothaer supports German corporate customers in this area of business in their international activities worldwide.

The Gothaer Group



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

January 2017

Gothaer Versicherungsbank VVaG
Extract from:
Group Annual Report for 2016 in accordance with International Financial Reporting Standards (IFRS)

Report for the Financial Year as of 1 January to 31 December 2016

Registered Office of the Company
Arnoldiplatz 1
50969 Cologne/Germany

Cologne Local Court, HRB 660

Table of Contents

Value-oriented Group management

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

For years now, the Gothaer Group has been focusing on value-geared corporate governance, both as regards its capital requirements and as regards the profitability of its product portfolio. In this context, Solvency II is an important component in our overall corporate planning, so that the Group is performing uniform profit tests on its products, the aim being to obtain comparability between various investments. Being successful in this field is the cornerstone of satisfactory profitability and the key to maintaining long-term competitiveness.

As for the challenges posed by the present low-interest phase – owing to the ongoing policy of low interest rates pursued by the European Central Bank (ECB) – the insurance sector will have to live with this scenario for some years to come. The ECB's policy is being criticized by all executive boards across the insurance sector, since the effect of the policy is to dispossess Germany's savers, while causing huge damage to the country's economy. If this policy severely impacts insurers, the economic loss will be greater than any short-term boost that might be given to business in southern Europe by such a period of low interest rates. It is for this reason that the Gothaer Group's Supervisory Board, too, views this artificially enforced low interest-rate policy as wrong-headed. As far as the Gothaer Group is concerned, priority must be given to strengthening our resources and, hence, our equity. Here, the Gothaer Group is on the right road. Systematic cost management, along with a continuous rise in underwriting profitability, will form the basis for a further reinforcement of our equity.

The additional policy reserves (Zinszusatzreserve) introduced to the accounting form pursuant to Germany's Commercial Code (HGB) in 2011 due to the low-interest phase are posing a special challenge: Generally speaking, it is legitimate to do more to underpin the long-term ability to fulfil interest commitments given in the past by topping up reserves. However, the present arrangements for the provision of greater reserves may create problems for insurance companies. Gothaer Lebensversicherung AG has in recent years provided additional policy reserves totalling € 861 million in its HGB balance sheet. In the years to come, the reserves – assuming no change in the arrangements by lawmakers – will increase by more than € 300 million annually. Against the backdrop of the low-interest phase, policymakers would be well advised to create a balance between reserve top-up and defensible burdens for insurance companies.

Jointly with Gothaer staff, with the multi-channel organization of our distribution and marketing, and along with cooperation partners, the Group will robustly tackle and cope with these challenges. The knowledge and commitment of Gothaer's workforce in 2016 again made a crucial contribution toward enabling the Gothaer Group to submit good business figures for the 2016 financial year in a tough market environment. For this, I wish to express my sincere thanks in the name of the entire Supervisory Board.

Yours,

Gothaer strengthens resources and retains good ratings

Dr. Karsten Eichmann
Chief Executive Officer of the Gothaer Group

The Gothaer Group is posting good figures for the year 2016 despite the unrelenting challenges of a market environment with an ongoing period of low interest rates: Consolidated profit for the year rose by 17.7 % to € 162 million. This enables the Group to further strengthen its resources: Group equity rose 8.8 % to € 2.0 billion. The consolidated return on equity pursuant to IFRS stood at 8.4 %. Gross premiums written at Group level fell – after consolidation of its business model in life insurance in line with the market – 2.3 % to € 4.41 billion. The Property/Casualty segment, at € 2.15 billion, remained at the previous year's level, while the Health Insurance segment was down 2.9 %, although business with supplementary insurance was on the rise. Life Insurance posted a 5.5 % decline.

In an environment of historically low interest rates, the Gothaer Group is showing sustained good investment results, being up 32.9 % to € 1.6 billion. Investments in renewable energies were expanded, so that, on the German insurance market, the Gothaer Group occupies a leading position in investments in renewables – relative to the available investment volume. Altogether, nearly one billion euros are invested in renewable energies.

The international rating agencies S&P Global Ratings and Fitch Ratings again in 2016 confirmed their good rating results for Gothaer's core companies. The companies are still rated 'A–' and 'A' resp. and the outlook of the ratings remains "stable". The confirmation of the results reflects strong and resilient capitalization as well as the Gothaer Group's good market position. This means that the successful work of all our employees is paying off. At the same time, the Group is able to build on the value-oriented corporate governance that has been systematically pursued for years now. This financial clout is of special significance since, in the current environment, regulatory demands, like the provision of higher additional policy reserves or the introduction of Solvency II, are placing extremely heavy burdens on many market actors.

In the 2017 financial year, we will be concentrating on the further implementation of the Gothaer 2020 strategy, with a clear focus on equipping Gothaer to face all future challenges and on systematically exploiting all opportunities. Here, too, digitalization remains a key theme – not only as regards a continuous optimization of processes but, above all, as regards changes in customer behaviour. For there are changes under way in how customers organize, how they obtain information and how they shape their lives. The result is a substantial stepping up of expectations when it comes to availability, speed and usability in the private-client area. At the same time, clients are demanding an ever-greater degree of individuality and flexibility. So both our digitalization and our multi-channel strategy in distribution and marketing will go on being systematically aligned to address these changes in customer behaviour.

This transformation toward a digitalized business model is bound to keep us busy for some years to come. But we have already achieved much that we can be proud of. This progress has only been possible thanks to the efforts and the great willingness to adapt shown by our workforce and marketing staff. I wish to wholeheartedly thank all of you – also in the name of the entire Executive Board – for your commitment and invaluable support.

Yours,

Management Report

General Economic Situation

General economic developments in 2016

The growth forecast for the global economy over the period under review is 2.5 %, which marks a further slowdown after the moderate rate of expansion registered in the prior year. Slower than anticipated growth in the US as well as in a number of emerging economies made for generally weaker global economic dynamism.

In terms of real gross domestic product, however, the eurozone economy grew as anticipated by 1.6 % in the financial year, further closing the gap between potential and actual output. An unexpectedly low economic growth rate in Italy was offset by the more dynamic performance of the Spanish economy.

The moderate growth of the global economy and an ongoing abundant supply of crude oil prevented a rise in oil prices until well into the second half of the year. As a result, upward pressure on the general level of prices remained limited. The price of oil rallied only when OPEC and major non-OPEC producers agreed to throttle oil production, pushing up inflation rates towards the end of the year.

Capital market developments in 2016

The generally positive development of the global economy as a whole had little or no impact on capital markets, however. On the contrary, developments in stock and bond markets worldwide were shaped by currency turbulence in China at the beginning of the year and by political events (Brexit vote, US elections, Italian constitutional referendum) in subsequent months.

Against this backdrop, demand spiked for a while for relatively safe forms of investment such as German and US government bonds. Their yields subsequently fell sharply. At the beginning of July, after the British electorate voted to leave the European Union, the yield of German federal bonds (Bunds) with a remaining period to maturity of 10 years stood at –0.19 %, thus marking a new historical low. US government bonds with a comparable period to maturity yielded just 1.36 % at that time.

The yields of 10-year Bunds and 10-year US Treasuries recovered in the second half of the year, rallying particularly sharply in the wake of Donald Trump's election as the 45th President of the United States. Fuelled by expectations of lower taxes and higher spending under the future Trump Administration and the consequent boost for the US economy, the upturn in yields was probably also due to significantly increased expectations of inflation as a result of higher oil prices and the greater protectionism anticipated during the Trump presidency.

Stock market prices were very volatile in 2016. The year began with sharp losses, particularly due to concerns over the state of the Chinese economy, which subsequently proved unfounded. From mid-February onwards the stock markets rallied and by April had made up some of the losses previously sustained. The surprise Brexit outcome in the middle of the year gave rise to more short-term price fluctuations but ultimately led to rising share prices. In the fourth quarter of the year, the outcome of the US presidential election and monetary policy measures taken by the European Central Bank (ECB) boosted share prices, producing a vigorous year-end rally. While the performance of European shares reached +3.7 % in 2016, that of their Japanese counterparts remained virtually unchanged at +0.3 %. American equities increased in value by +12.0 %. Emerging market stocks also made considerable gains with a performance of +11.2 % over the year.

Situation in the Insurance Industry

Developments in the insurance industry

After a surprisingly energetic start in the first half of the year, the German economy weakened. Private and public consumption remained the driver of economic growth. The impacts of the Brexit referendum and the new political situation in the United States will not be seen until 2017. Possible effects include a reduction of German GDP growth from 1.9 % in the current year to nearly 1.1 % in the coming year. Because real disposable incomes continue to rise, the economic situation of private households still remains favourable. However, a moderate downswing will be seen as a result of rising inflation and more restrained pay agreements. Owing to low interest rates, private households' propensity to save is relatively low.

Against this backdrop, figures published by the German Insurance Association (Gesamtverband der deutschen Versicherungswirtschaft e. V. [GDV]) – on which the following statements are based – indicate that premium income from Property/Casualty insurance is likely to grow by 2.9 % in 2016. Due to single premium business, life insurance got off to a weak start in 2016 but subsequently recovered during the course of the year. Low demand for products such as classical and unit-linked annuity policies played a major role in the downturn. Overall, premium revenues for life insurers fell by 2.2 %. In private health insurance, growth was more dynamic, resulting in a 1.8 % increase in premium income. However, premium revenue growth is inhibited by factors such as the rising income ceiling for compulsory insurance, which denies some employees access to private health insurance.

Premium revenue growth for the industry as a whole is put at a moderate 0.3 %. Excluding single premiums in life insurance, the overall upturn is 1.3 %.

Property/Casualty

Owing to developments in the economic situation of private households as well as the economic climate, the environment for property and casualty insurance business is favourable. The German Insurance Association anticipates further satisfactory premium growth of 2.9 % in 2016, which is 0.2 % more than in the prior year. An upturn is also noted in claims. However, at 3.7 %, it is lower than in 2015 due to the absence of major storm and hail events in 2016. The combined ratio of Property/Casualty business as a whole is expected to be 96 %, which means another year of underwriting profits. Nevertheless, the anticipated loss and cost ratios for some lines of insurance are likely to be above 100 %.

From the outset, premium revenues in motor insurance were marked by flagging dynamism in 2016. Over the year as a whole, growth is expected to be 2.5 %. At the same time, an upturn of 3.9 % is noted in current year claims. The combined ratio will rise to 99 % overall but the year will still produce an underwriting profit.

In the property insurance lines, premium revenues are expected to grow by 3.7 %. The upturn is largely due to greater sums insured and extensions of cover. There were no major or frequent storm/hail events in 2016 but the year did produce a number of extreme fire events. As a result, claims expenses rose sharply by 6.8 %, making for a combined ratio of 101 %.

In general liability insurance, premium revenues are expected to increase by a moderate 2.5 %, partly due to premium adjustments in the first half of 2016. With claims expenses up by 1.5 %, the combined ratio will be on a par with the prior year at 93 %. General liability business will thus produce another underwriting profit.

The numbers of policies in force in personal accident insurance remain recessive. Premium revenues from accident insurance with premium refund are also expected to decrease. However, this trend will be compensated by indexed accident policies, so premium revenues are expected to rise moderately by 1.0 % to € 6.4 billion. With current year claims expenses also increased, the combined ratio, at 78 %, is expected to remain at more or less the same level as in the prior year.

A moderate increase to € 1.9 billion is anticipated for premium revenues from marine insurance business. With current year claims expenses expected to fall sharply by 17.0 %, the combined ratio will improve accordingly. At 99 %, it will be in line with the long-term average.

In credit, surety and fidelity insurance, premium revenues grew by 2.0 % to € 1.7 billion. With claims expenses up by 5.0 %, a combined ratio of 68 % and thus a significant underwriting profit are anticipated.

Life

2016 was a year of extreme challenges for German life insurers. The further intensified low-interest environment, high transfers to additional policy reserves (Zinszusatzreserve) and the Solvency II regime in place since the beginning of 2016 require massive efforts by life insurers to strengthen their resistance. In response to this, many companies strengthened their equity base and again reduced surplus bonuses on a broad front at the beginning of the year (the average current interest return across the industry fell by 30 base points from 2015 to 2016). Furthermore, a growing number of life insurers are replacing classical guarantee products with products offering modern, reduced guarantees.

2016 was also a year of intense debate over pensions. Policymakers were preoccupied by diverse reports and plans for reforming retirement pension provision. Particularly relevant in this connection was the publication of a draft bill for legislation strengthening occupational pensions (“Nahles pension”). Its main proposals aim at extending the scope for company pension schemes.

The life insurance industry in the narrower sense (excluding pension trusts and pension funds) registered a further fall in premium revenues in 2016 (–1.5 % against the prior year) because new single premium business contracted for the second year in succession (–4.1 % against 2015). New regular premium business was satisfactory, however, producing a 2.8 % increase in premium receipts in comparison to the prior year. The number of new policies across the industry remained constant at 5.1 million.

There were marked changes in the structure of new business. The amount of new business accounted for by “old” classical policies decreased by nearly 10 percentage points in 2016 while the share of policies with modern guarantees increased significantly across the industry.

In the capital markets, the situation deteriorated further during the course of 2016. While the yield of 10-year federal bonds stood at 0.64 % at the end of 2015, it sank for many weeks below the 0 % mark in 2016 and ended the year at just 0.21 %, which is a historical low. The resulting fall in reinvestment returns makes it hard for life insurers to achieve an adequately high net return on investments, which is needed, in particular, to meet high guarantee commitments under existing policies. Even though the life insurance sector’s long-term investment strategy meant that the industry again secured a net return higher than guaranteed interest in 2016, consumer confidence in funded provision systems continued to wane sharply in the eighth year of financial and economic crisis. The future of the life insurance industry is discussed almost daily in the media, leading to considerable uncertainty and loss of public confidence.

As a result of the intensified low-interest environment, the German Federal Ministry of Finance (BMF) decided in the first half of 2016 to lower the maximum actuarial interest rate from 1.25 % to 0.90 % as of 1 January 2017. The shortness of the implementation period presented major operational challenges for life insurers. Firstly, the customary adjustments needed to be made to IT systems and in product costing. Secondly, the lowering of the actuarial interest rate raises the question of future premium guarantees, which will be increasingly difficult for life insurers to offer and increasingly expensive for the customer. Ultimately, the lowering of the maximum actuarial interest rate will further accelerate the paradigm shift in the life insurance sector.

Many life insurers continue to work on adjusting their business model and preparing for the possibility of a longer low-interest phase. The important thing is to find the right balance between corporate security and competitive capacity. In 2016, more market participants responded with severe cuts and in some cases withdrew from classical life insurance business altogether. Many market participants launched new pension plan products with reduced guarantees, clearly signalling a gradual realignment of their product range.

Health

The market environment for comprehensive private insurance remained difficult in 2016. Diminished market potential, reports of higher premium adjustments as of 1 January 2017 and media discussion of the implications of the low-interest phase for the private health insurance costing model – pointing to further premium increases due to the gradual lowering of actuarial interest rates – were ranged against an upswing in growth in comprehensive insurance.

Private health insurers were particularly affected in 2016 by legislation introduced by the Grand Coalition relating to long-term care insurance. The Second Law for Strengthening Long-term Care Provision (Zweites Pflegestärkungsgesetz – PSG II) redefined need for care with effect from 1 January 2017. This resulted in benefit changes in both compulsory private long-term care insurance and supplemental long-term care insurance. The three care levels that were formerly recognized have now been replaced by five degrees of care. People with cognitive disabilities (e. g. due to dementia) will be classified more appropriately under the new definition of care. As a result, many dementia patients will be better looked after and ambulatory care services will be strengthened. In summary, the industry has thus had to adjust both standard policy conditions and premium costing.

Apart from fulfilling statutory requirements, the private health insurance industry also implemented and further developed an ambitious reform agenda of its own last year. The beginning of 2016 saw the entry into force of the Tariff Change Guideline, with which the majority of private health insurers made a voluntary undertaking to adopt a customer-friendly approach to requests for tariff changes. Another step in the further development of the private health insurance sector in 2016 was made with the preparation of an amendment to the Schedule of Medical Fees in Germany (GOÄ), although after long negotiations with the German Medical Association it was provisionally declared to have failed.

Against the backdrop of the difficult market environment, comprehensive private health insurance in force continued to decline in 2016, albeit by only a moderate 0.2 %. The number of persons comprehensively insured fell by 17,300 to a total of 8.77 million. On the new business front, a steady year-by-year improvement has been seen since the low of 2013 (minus 66,200).

In supplemental insurance, the private health insurance industry passed the 25 million mark in 2016. The number of policies in force rose by 1.3 % to a total of 25.1 million. 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 both as employer-funded and employee-funded schemes.

According to the association of private health insurers PKV, premium revenues from health and long-term care insurance increased by 1.1 % to € 37.2 billion in 2016. Health insurance accounted for € 35.0 billion of the total while long-term care insurance contributed € 2.2 billion. Benefit expenses rose by 1.5 % to € 26.3 billion in 2016. Health insurance accounted for € 25.3 billion of the total, long-term care insurance for the remaining € 1.0 billion.

Group Management Report

Business developments and position of the Group

Premium income totalled € 4.41 billion in 2016, which – after consolidation of the life insurance business model in line with market requirements – is 2.3 % less than in prior years.

Despite the downturn in premiums, consolidated profit for the year increased by more than 17 % to € 162.0 million. The main driver of that growth in earnings was investment income, which increased significantly. While current income was steady, some extraordinary capital gains were realized during the course of the financial year. Reclassifications were made in portfolios for tactical purposes and in the light of Solvency II, with the result that investment income increased by € 0.40 billion to € 1.61 billion. Our customers will profit from this good result due to the increase in reserves for premium refunds.

Premiums

As anticipated, the premiums written by our insurance companies fell to € 4.41 billion (PY: € 4.52 billion) in the financial year. Primary insurance, which is our core business, accounted for € 4.33 billion (PY: € 4.44 billion) of the total, premiums written in reinsurance assumed from extra-group insurers – which is of minor significance for the Gothaer Group – accounted for € 83.3 million (PY: € 80.6 million).

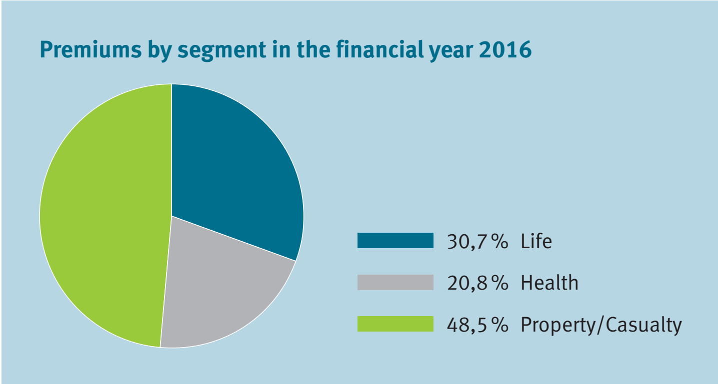
In the Property / Casualty segment, premiums remained on a par with the prior year at € 2.15 billion. Contrary to our expectations, the fall in premium income from warranty and repair insurance was thus compensated by the other insurance lines, including liability insurance. In life insurance, a further significant downturn was registered in 2016, reducing premium income by –5.5 % or € –79.1 million. This decrease reflects general market conditions but is also due to a deliberately restrictive underwriting policy in single premium business. It is pleasing to note that we further increased new business in biometric products and capital-efficient pension plans, which are both strategically important segments. However, the total volume of new business acquired in 2016 was lower than in the prior year. In biometric product business, the sales network's focus was on Gothaer occupational disability insurance with its excellent product quality, not only for individual business but also for collective business with corporate customers, where contracts were concluded with a large number of prominent companies. Premium income in the Health segment decreased by 2.9 % or € 26.8 million, as projected. Although new business developed satisfactorily in both supplemental and comprehensive insurance with net production of € 1.3 million (PY: € 1.2 million), the number of persons holding comprehensive insurance was again recessive in 2016. As a result, gross premiums written fell by 0.6 %. The absolute decline of 2.9 % is due to the fact that the sums that needed to be withdrawn from reserves for premium refunds for compulsory long-term care insurance were significantly smaller than in the prior year.

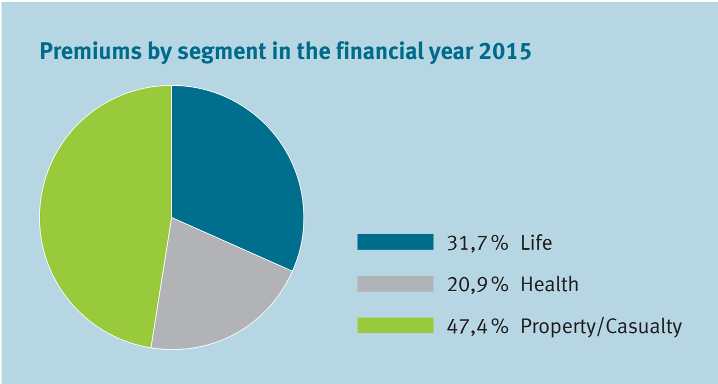
To determine the volume of net earned premiums, the reinsurance premiums ceded and the savings components of unit-linked life insurance are deducted from the gross premiums written. The change in net unearned premiums is also taken into account. At € 3.71 billion, net earned premiums were also below the prior-year figure of € 3.75 billion.

Gross premiums written

Breakdown by line of insurance		€ million
	2016	**2015**
Automotive Liability	309.7	305.9
Comprehensive Homeowners	161.2	153.7
Comprehensive Householders	107.3	105.1
Fire	90.9	88.3
General Liability	379.9	368.2
Life	1,352.3	1,431.4
Health	915.8	942.7
of which modelled on property/casualty insurancy by Janitos AG	*8.3*	*8.5*
Marine	53.3	52.8
Other Automotive	193.4	198.2
Other Lines of Insurance	334.7	365.5
Other Lines of Property Insurance	243.7	242.7
Personal Accident	185.4	181.2
Gross premiums written in primary business	**4,327.5**	**4,435.8**
Gross premiums written in assumed business	83.3	80.6
Total	**4,410.9**	**4,516.5**

Gross premiums written





Breakdown by region		€ million
	2016	2015
Domestic	4,065.8	4,205.0
Foreign	261.7	230.9
Gross premiums written in primary business	**4,327.5**	**4,435.8**

Our business has traditionally been concentrated in Germany. 94 % of premium income from primary insurance business is generated in the domestic market. The Group's foreign business is confined largely to countries within the European Union.

Investments

The primary goal of the Gothaer Group investment policy is to generate a robust and sustainable return in a competitive environment while taking account of the risk-bearing capacity that needs to be guaranteed. This is ensured by the systematic use of risk-adjusted performance management aimed at optimizing the return/risk ratio of the investment portfolio. Investment strategy is embedded in an asset liability management system and takes account of the underwriting and supervisory requirements that need to be met by investment income, liquidity and security. In 2016, the Gothaer Group remained systematically committed to a long-standing investment policy that is largely geared to stable current income. The two priorities of this strategy are to generate attractive returns in the current low-interest market environment and to ensure that risks are reduced overall by being spread as broadly as possible over the different types of investment.

For details of the economic environment for investment, please refer to the summary of capital market developments in 2016 at the beginning of this report.

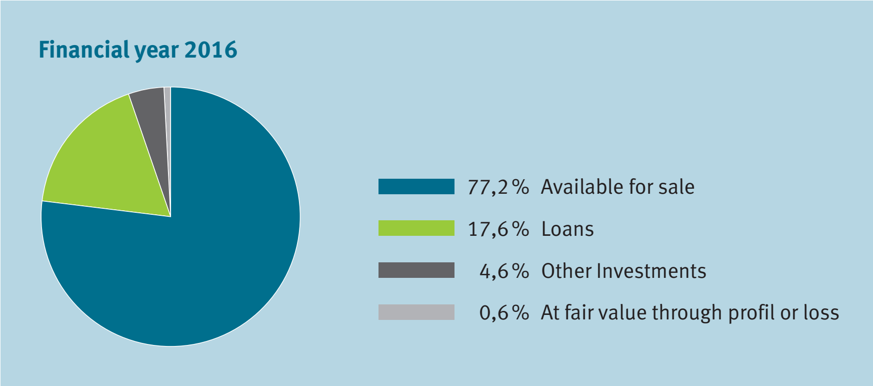
The investment volume of the Gothaer Group grew by € 0.79 billion to € 28.92 billion in the financial year. Available-for-sale financial instruments, at € 22.31 billion (PY: € 20.97 billion) accounted for more than three-quarters of total investment. After allowance for maturities and sales of around € 0.99 billion, they also made up a large percentage of new investment. The fair value reserve increased by € 0.16 billion as a result of the movement of interest rates.

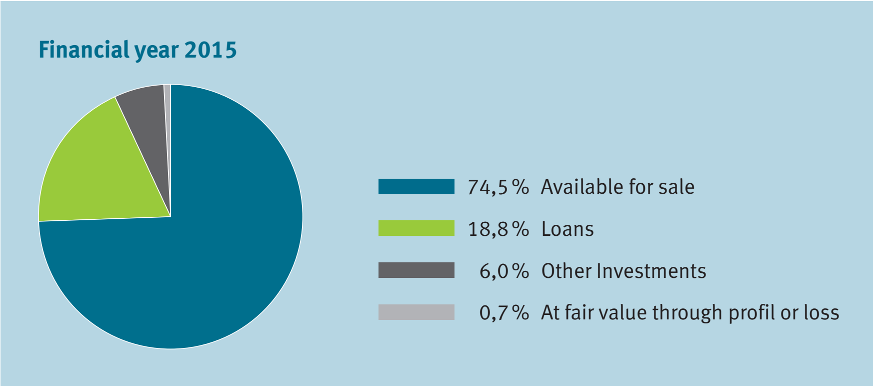
The carrying value of loans was moderately recessive at € 5.10 billion (PY: € 5.28 billion). For the purposes of tactical portfolio management and against the backdrop of Solvency II, part of a major shareholding was sold to eliminate its dominant presence in the equity portfolio. One of the effects of this sale was to decrease the carrying value of joint ventures and associated companies to € 301.9 million (PY: € 658.1 million). Other investments ended the year significantly lower than in the prior year, at € 401.7 million (PY: € 648.6 million). They essentially comprise money at call, which decreased by € 240.6 million at balance sheet date. Investments carried at fair value through profit or loss, which were again held to only a limited extent, included derivative financial instruments of € 49.5 million (PY: € 105.3 million) and structured securities of € 128.2 million (PY: € 83.3 million) that were mostly not separated into host contract and derivative.

Optimization of returns and – in the light of Solvency II – particularly optimization of risk in the investment portfolio continued to be a major focus of investment activity last year. Investment income as a whole was only minimally affected by markets whose volatility at times reached historical extremes. Current income totalled € 0.98 billion (PY: € 1.12 billion) in 2016. This made for a steady current interest return of 3.4 % (PY: 4.0 %) on the average volume of investment. Apart from the sale of part of a major shareholding, tactical portfolio management also involved reclassifications in the bond portfolio. This resulted in extraordinarily high gains on disposals.

Owing to the continued systematic observance of a restrictive depreciation policy, the overall investment result was thus – contrary to expectations – a significantly increased € 1.61 billion (PY: € 1.21 billion). The net return on the moderately increased average volume of investment was 5.7 %, after 4.3 % in the prior year.

Composition of the investment portfolio





The carrying value of investments held to cover unit- or index-linked life insurance policies was € 2.02 billion in the financial year (PY: € 1.94 billion). The change in value of these investments – € 71.2 million (PY: € 92.8 million) – is recognized in the statement of income. Accordingly, the total investment result – including the result from investments for the account and risk of life insurance policyholders – totalled € 1.68 billion (PY: € 1.31 billion).

Policyholder benefits

Policyholder benefits include all expenses incurred for insureds and other claimants by the insurance companies of the Gothaer Group. In addition to claims paid, this includes changes in all underwriting reserves that the Group has formed to meet actual and potential customer claims. These changes involve, in particular, changes in the policy reserves and reserves for premium refunds of the life and health insurance carriers as well as changes in the loss reserves of the Property / Casualty and Health insurers.

Gross benefits paid to customers by the insurance companies of the Group rose by € 279.4 million to € 4.47 billion. The relief afforded by reinsurance, at € 270.5 million, was € 8.5 million lower than in the prior year. Net benefits paid did not fall as projected but increased by 7.4 % to € 4.20 billion. Developments differed widely here from one value driver and segment to another.

Net claims paid increased by € 131.5 million to € 3.28 billion. A large part of this – € 111.8 million – was attributable to increased maturities in the Life segment. In the Property/Casualty and Health segments, only a minimal rise or fall was noted in net claims paid.

In the Life and Health segments, allocations to reserves for premium refunds amounted to € 935.5 million in the financial year, after totalling € 618.7 million in the prior year. In both segments, significant sums needed to be allocated to the reserves for premium refunds under national law and the deferred premium refund reserve. They amounted to € 333.3 million (PY: € 242.4 million) and € 602.2 million (PY: € 376.3 million) respectively. Our customers benefit from the very high investment income in the form of premium refunds.

In the Life segment, the sum of € 249.3 million (PY: € 161.9 million) needed to be withdrawn from policy reserves in the financial year. The withdrawal was also due to the change in unit-linked life insurance. Set against the expense of the transfer to policy reserves for unit-linked life insurance reportable here, however, was income due to a change in the value of investments for the account and risk of life insurance policyholders. In the Health segment the sum of € 139.7 million (PY: € 209.6 million) needed to be transferred to policy reserves.

Total net loss reserves increased by € 33.8 million to € 2.15 billion. This was essentially due to reserves for Property / Casualty insurance. Net policy reserves rose from € 18.59 billion to € 19.56 billion at year-end following the termination of a life reinsurance treaty, while reserves for premium refunds increased to € 4.67 billion (PY: € 3.93 billion). The net underwriting reserves of the Gothaer Group, at a total of € 26.94 billion (PY: € 25.19 billion), amounted to more than 6.5 times net earned premiums.

Underwriting expenses

Gross underwriting expenses include all HR and material expenses incurred for the acquisition and management of insurance policies. Apart from acquisition costs paid, which edged up by € 2.8 million to € 483.5 million, acquisition expenses also include the change in deferred acquisition costs. The change in deferred acquisition costs resulted in an expense of € 8.9 million, after € 27.4 million in the prior year. Accordingly, the total carrying value of acquisition costs fell by € 15.7 million to € 492.3 million. Administrative expenses showed a moderate increase, from € 345.5 million to € 352.4 million. We continue to pursue the goal of cutting costs by raising productivity. At the same time, however, we wish to strengthen the service mentality of our office and field force staff to meet rising customer expectations.

Reinsurers' share of underwriting expenses totalled € 85.3 million, after € 80.8 million in the prior year. Net underwriting expenses were thus somewhat lower than anticipated at € 759.4 million (PY: € 772.8 million).

Consolidated profit

The positive development of Group earnings continued through 2016. Net profit for the year before taxes amounted to € 272.0 million, up from € 253.6 million in the prior year. This was due not only to stable underwriting results but also, in particular, to high investment income. After deduction of taxes of € 107.8 million (PY: € 113.0 million), the income statement showed a significantly improved consolidated profit for the year of € 162.0 million (PY: € 137.6 million), which exceeded our expectations.

The net profit for the year attributable to minority interests amounted to € 2.2 million (PY: € 3.0 million).

Return on equity is the ratio of consolidated profit for the year to average equity excluding minority interests. Although average equity increased due to the undiminished high unrealized gains of our investments, the return on equity improved to 8.4 % in the year under review (PY: 7.6 %) as a result of the high net profit for the year. We are highly satisfied with the performance of the Group.

Capital management

For insurance groups, capitalization is a key parameter for the assessment of risk-bearing capacity and thus an important performance indicator. Capital management enables us to ensure that adequate capital is always available to meet the operational needs of our companies and achieve optimal deployment and use of funds within the Group. This allows us to comply with legal provisions as well as with the requirements of regulatory authorities, rating agencies, analysts and clients, all of which have become significantly more exigent in recent years. Major constituents of capital management within the Gothaer Group are risk-oriented controls, asset liability management (ALM) and the treasury concept.

Capitalization

The equity of the Gothaer Group totalled € 2.00 billion (PY: € 1.84 billion) at the end of the financial year. As a mutual insurance association, the Gothaer Group has no subscribed capital. We generate equity exclusively by retention of earnings. In addition to the revenue reserves of the Group parent, Gothaer Versicherungsbank VVaG, the equity shown in the consolidated financial statements also includes the earnings of Group companies generated after initial consolidation as well as the actuarial profits and losses from defined benefit pension plans. Also taken into account in the equity of the Gothaer Group are unrealized gains and losses on investments available for sale. Changes in equity are shown on the page after the Consolidated Statement of Financial Position and the Consolidated Statement of Comprehensive Income.

As well as Group equity, Gothaer capital management also covers so-called equity surrogates. Equity surrogates include participation certificates issued by Gothaer as well as subordinate liabilities. In the year under review, equity surrogates totalled € 334.3 million (PY: € 524.8 million). In 2016, we took the first opportunity to call in the bond issued in 2006, which was redeemed in full.

Management of debt financing in the form of bonds and loans also forms part of capital management. The carrying value of Gothaer Group bonds and loans was € 155.7 million, as in the prior year.

The Group debt ratio is the ratio of debt capital, i.e. bonds and loans including non-eligible hybrid capital, to Group equity including eligible hybrid capital. The eligibility of hybrid capital conforms to the directive for eligibility under Solvency II. The debt ratio, at 6.8 %, was marginally higher than the prior-year ratio of 6.6 %.

Capitalization

Breakdown by type of capital	2016	2015*
€ million		
Equity	2,060.5	1,889.2
Equity surrogates		
Participation certificates	20.0	20.0
Subordinate liabilities	314.3	504.8
Bonds and loans	155.7	155.7
Total	**2,550.6**	**2,569.8**

* Comparatives after restatement

Solvency

As the parent company of a German insurance group, Gothaer Versicherungsbank VVaG is required to demonstrate to the Federal Financial Supervisory Authority (BaFin) that its group solvency is sufficient to meet the requirements of Solvency II. Solvency is calculated by comparing own funds with the solvency capital requirement based on a Solvency II formula for the relevant business volume.

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

Rating

Rating agencies use insurer financial strength ratings to rate an insurer's capacity to meet its obligations in connection with policies. The aim of our capital management is to ensure that we are judged at all times to be a financially strong insurer. That goal has so far been successfully achieved. The international rating agency Standard & Poor's gives the Gothaer Group and its core companies Gothaer Allgemeine Versicherung AG, Gothaer Lebensversicherung AG and Gothaer Krankenversicherung AG an A– rating. The companies' financial stability is rated "good". Gothaer Allgemeine Versicherung AG and Gothaer Lebensversicherung AG have also been given an A rating by FitchRatings, which is a "strong" rating for financial strength.

Risk-oriented control

The Gothaer Group strives for profitable growth. It thus takes a two-pronged approach to risk management. On the one hand, we set out to optimize our risk capital requirements through highly advanced and integrated risk management. On the other hand, we focus on continually improving our capital base in order to increase our risk-bearing capacity. Attaining these goals secures both the continued existence and the sustainability of the Group.

The entire Gothaer Group is managed on the basis of value-oriented management principles. Value-oriented management is a methodical approach in which emphasis is placed on efficient use of available capital from a risk/return perspective. Taking simultaneous account of risk and return makes it possible for Management to identify value-enhancing and value-eroding areas of business.

Asset Liability Management

Asset liability management (ALM) is another core constituent of corporate management. The principal ALM activity is the annual derivation of a strategic asset allocation plan for all insurance companies.

Strategic asset allocation is underpinned by various ALM techniques (multi-year stochastic ALM projections, scenario analysis, portfolio optimization, risk budgeting) and alternative courses of action are considered. The deductive basis for strategic asset allocation is formed by company-specific target figures and performance indicators as well as the insurance companies' individual underwriting liabilities. It is developed by ALM committees at company level and approved by the relevant bodies (Management, Supervisory Board). Strategic asset allocation includes setting targets and limits for strategic asset class quotas and for the duration of the investment portfolio.

Asset allocation is verified on the basis of both market values and book values, naturally taking account of all applicable restrictions on investments (section 124ff of the German Insurance Supervision Act (VAG), Investment Ordinance (AnlV), BaFin circulars, Solvency II Guidelines).

Segmental Performance

Gothaer Group activities are divided into segments reflecting Group and reporting structure: Property / Casualty, Life, Health and Other Activities. Developments in these segments are described below.

Property/Casualty segment

The Property/Casualty segment spans the Group parent Gothaer Versicherungsbank VVaG, Gothaer Allgemeine Versicherung AG, Janitos Versicherung AG, Asstel Sachversicherung AG and CG Car-Garantie Versicherungs-AG. Also included are the companies Gothaer Towarzystwo Ubezpieczeń S.A. and S.C. Gothaer Asigurări Reasigurări S.A., acquired as part of our strategy for growth in Eastern Europe. As the largest property insurer in the Gothaer Group, Gothaer Allgemeine Versicherung AG is responsible for all significant lines and coverages in the area of property insurance, catering to the needs of both private and commercial clients. CG Car-Garantie Versicherungs-AG operates as a provider of motor repair and warranty insurance. Janitos Versicherung AG specializes in broker business and addresses the core target group of high-end private clients in property insurance. Asstel Sachversicherung AG complements these operations with simple property insurance products for price-sensitive clients, mostly offered through direct marketing. Under the multi-channel strategy of the Gothaer Group, the direct marketing operation of Asstel Sachversicherung AG and the independent Gothaer field force have been more closely integrated since 2016. The intention is to merge Asstel Sachversicherung AG in 2017 with Gothaer Allgemeine Versicherung AG.

Performance in the Property/Casualty segment

In the Property/Casualty segment, which continues to be marked by intense price competition as well as high market saturation in many lines, premium income, at € 2.15 billion, remained stable at the prior-year level. Contrary to expectations, the downturn in premiums from warranty and repair insurance was compensated by other insurance lines, including liability insurance. While moderate falls were registered in primary insurance, positive premium growth was achieved in indirect business. With retention moderately higher than in the prior year, earned net premiums in the segment rose by 1.0 % to € 1.80 billion.

The volume of investments for the Property / Casualty segment totalled € 5.04 billion at year-end, against € 5.14 billion in the prior year. As in previous years, the lion's share of investment was in available-for-sale financial instruments, which had a carrying value of € 2.76 billion (PY; € 2.68 billion). Investment income was € 208.2 million in 2016. The comparatively high investment income of € 277.3 million registered in the prior year was particularly due to profit realized as the result of a real estate sale-and-lease-back deal.

Net policyholder benefits, at € 1.20 billion, remained on a par with the prior year, although both gross benefits and benefits attributable to reinsurers decreased. Net benefits paid were unchanged in 2016 at € 1.13 billion.

The financial year was again marked by higher expenses for major losses. Apart from the major rain damage caused by low-pressure areas “Elvira” and “Friederike”, there were no appreciable accumulation losses in 2016. Net loss reserves were further strengthened, increasing from € 1.67 billion to € 1.73 billion. After allowance for the higher net premium income generated, the net loss ratio of the Property / Casualty segment, at 65.5 %, remained at a very good level (PY: 65.4 %).

Net underwriting expenses decreased from € 548.6 million in the prior year to € 541.7 million. This positive development was essentially due to increased income from the capitalization of acquisition costs. Administrative expenses increased by 1.5 % to € 303.9 million. With net premiums at the prior-year level, the net cost ratio improved against the prior year, sinking lower than projected to 30.1 % (PY: 30.8 %). As a result, the net combined ratio for the segment improved by 0.6 percentage points overall, ending again at a satisfying 95.6 %.

The developments described above resulted in a pre-tax net profit for the year of € 162.5 million in the Property / Casualty segment, which was less than in 2015 (PY: € 221.8 million). With tax expenses lower at € 66.4 million (PY: € 79.0 million), the resulting net profit for the year after taxes was a reduced € 96.1 million (PY: € 142.8 million).

Life segment

The Life segment includes the activities of Gothaer Lebensversicherung AG and Gothaer Pensionskasse AG. At the core of the business activities of Gothaer Lebensversicherung AG is the direct and indirect provision of all forms of life and annuity insurance as well as related supplemental insurance. The latter also includes insurance investment products as well as occupational disability and invalidity insurance. High-performance, easily communicable life and annuity insurance products are also marketed direct. Gothaer Pensionskasse AG operates as an intercompany pension scheme. It caters for companies that wish to operate a promissory pension scheme for their employees through a pension trust.

Performance in the Life segment

Owing in particular to the intended downturn in single premium business and general market conditions, gross premium income in the Life segment decreased sharply by 5.5 % or € 79.1 million. Despite the fact that new business acquired in 2016, at € 367.8 million, was significantly down on the prior year, new business continued to grow satisfactorily in the areas of biometric products and capital-efficient pension plans, which are important segments for the future. In biometric product business, the focus was on Gothaer occupational disability insurance in 2016. A large number of new customers were acquired, including prominent companies, in individual business and collective business with corporate customers. After deduction of reinsurance premiums ceded and savings components, net earned premiums were moderately lower than in the prior year, as anticipated, at € 0.99 billion (PY: € 1.04 billion).

The carrying value of the Life segment investment portfolio moderately increased in the financial year, growing by € 0.16 billion to € 17.50 billion. Available-for-sale financial instruments, at € 13.5 billion, continued to account for nearly three-quarters of all investment. The fair value reserve increased by € 37.0 million, as a result of interest rate movements. Despite difficult market conditions and contrary to our expectations, investment income improved significantly to € 1.03 billion (PY: € 808.5 million). Current income, at € 578.8 million, was lower than in the prior year (PY: € 663.6 million). In addition, € 350.6 million more income was produced in the financial year by significantly higher disposal results due to the sale of part of a major shareholding and reclassifications in the bond portfolio. Investments held to cover unit- or index-linked life insurance policies generated income of € 71.2 million in the financial year, down from the prior-year total of € 92.8 million because of changes in the value of the investments.

Net policyholder benefits, which include both benefits paid and changes in underwriting reserves, rose from € 1.67 billion in the prior year to € 1.80 billion in the year under review. Net benefits paid increased significantly against the prior year, boosted from € 1.42 billion to € 1.53 billion by maturities. While a sum of € 482.7 million (PY: € 360.4 million) was transferred to reserves for premium refunds in the financial year, a total of € 263.3 million (PY: € 161.9 million) was withdrawn from net policy reserves. Our customers benefit from the very high investment income in the Life segment in the form of premium refunds. This item also includes the change in the carrying value of unit-linked life insurance policies. Set against the expense of the transfer to policy reserves for unit-linked life policies recognized here, however, was income from the performance of investments for the account and risk of life insurance policyholders. The carrying value of net underwriting reserves as a whole rose to € 17.09 billion Euro (PY: € 16.13 billion).

In line with the development of premiums, net acquisition expenses decreased by € 6.6 million. Administrative expenses, at € 24.5 million, were moderately lower than in the prior year. We continue to pursue the goal of reducing costs by raising productivity. Overall, net underwriting expenses amounted to € 148.0 million (PY: € 157.7 million).

Owing to the developments described above, the Life segment registered an improved pre-tax net profit for the year of € 106.7 million (PY: € 92.6 million). This resulted in a tax expense of € 50.4 million (PY: € 41.1 million). The statement of income for 2016 showed a moderately increased net profit for the year of € 56.3 million (PY: € 51.5 million).

Health segment

The Gothaer Group is represented in the Health segment exclusively by Gothaer Krankenversicherung AG. The supplemental health insurance offered by Janitos Versicherung AG is recognized in the Property / Casualty segment. As a health service provider, Gothaer Krankenversicherung AG offers insurance cover tailored to requirements, reimbursement of costs and comprehensive support in the event of illness. Aside from engaging in the classical business of comprehensive health insurance, we are also well positioned in the field of supplemental insurance. Gothaer Krankenversicherung AG markets its products primarily through the Gothaer field force. It also operates increasingly in the direct insurance market. Our focus in the Health segment is on the steady implementation of a strategy to offer high-performance, reasonably priced collective rates together with company healthcare management and numerous services to companies and their employees.

Performance in the Health segment

Gross premiums written decreased by –2.9 % in 2016, as projected, falling to € 907.4 million. The downturn in premium income was due to the fact that the volume of premiums that needed to be withdrawn from the premium refund reserve for long-term care insurance was lower than in the prior year. With net production totalling € 1.3 million (PY: € 1.2 million), new business developed satisfactorily in comparison to the prior year. This positive development is reflected in both supplemental and comprehensive insurance business. However, new business failed to compensate for policy terminations in comprehensive insurance, so the number of comprehensively insured persons in the Health segment was recessive in the year under review. In supplemental insurance business, the number of policies in force grew by a further 1.7 %. The total number of persons insured reached 587,060 (PY: 583,360), which is again a new record.

Premiums ceded to reinsurers totalled € 1.6 million in the financial year, after € 2.5 million in the prior year. Net earned premiums amounted to € 905.9 million (PY: € 931.7 million).

The carrying value of the Health segment investment portfolio grew from € 6.80 billion to € 7.26 billion in 2016. The fair value reserve increased by € 48.1 million, essentially as a result of interest rate movements. We systematically adhered to our existing investment policy, which is geared to achieving a robust and sustainable yield in a competitive environment. Current income fell to € 238.1 million against € 276.6 million in the prior year. This was compensated by a high disposal result of € 181.9 million (PY: € 24.7 million), which was due to the sale of part of a major shareholding and reclassifications in the bond portfolio. Investment income thus reached a high level, at € 370.2 million (PY: € 262.8 million).

Net policyholder benefits were moderately higher than in the prior year at € 1.1 billion (PY: € 1.05 billion). While claims paid and changes in underwriting reserves increased by a total of € 7.6 million, transfers to policy reserves fell to € 69.9 million. Reserves for premium refunds rose by € 114.6 million. Our customers benefit from the very good investment result in the Health segment in the form of premium refunds.

Net claims expenses decreased further from € 71.0 million to € 68.3 million in the financial year. The moderate downturn was due to lower acquisition expenses of € 45.5 million (PY: € 48.1 million).

The positive developments on the investment front resulted in a higher pre-tax net profit for the year of € 96.9 million, as compared with € 55.6 million in the prior year. After deduction of the tax expense of € 35.0 million (PY: € 22.7 million), the net profit for the year in the Health segment thus improved significantly to € 61.9 million (PY: € 32.9 million).

Other Activities segment

Companies operating in the Other Activities segment include Gothaer Finanzholding AG and the Group's service providers. Gothaer Finanzholding AG, as the holding company of the Gothaer Group, holds all the shares in the main insurance companies and many other Group companies. As of the financial year 2004, the portfolio run-off of the former Gothaer Rückversicherung AG is handled by Gothaer Finanzholding AG. Gothaer Finanzholding AG is included in the Other Activities segment and not the Property/Casualty segment because its primary function is as a holding company.

Among the main service providers is Gothaer Asset Management AG, which invests and manages financial assets for Group companies and third parties.

Gothaer Systems GmbH is the Gothaer Group's data centre and network operator and a provider of other services in the area of information technology and software programming, including applications development.

Other important services that are needed to maintain Group companies' operations are provided by Hamburg-Kölner-Vermögensverwaltung GmbH. The company purchases office furnishings and supplies for Group companies, rents office space and performs other services in the areas of facility management, company catering services, printing and advertising.

Performance in the Other Activities segment

The operations of Gothaer Finanzholding AG in the Other Activities segment consist of handling the residual insurance run-off of the former Gothaer Rückversicherung AG. In 2016, Gothaer Finanzholding AG also wrote life reinsurance business for the first time within the Gothaer Group. Net earned premiums, at € 19.0 million, were thus significantly higher in 2016 than the € 26 thousand registered in the prior year.

Run-off of the former Gothaer Re reinsurance portfolio – guaranteeing that obligations and liabilities under reinsurance contracts are duly met – continues to proceed on target. To speed up the process, loss reserve commutations at national and international level were specifically and actively effected as planned. As a result, net loss reserves decreased to € 171.3 million in the financial year, down from € 193.5 million in the prior year. The assumption of life reinsurance business resulted in the recognition of net policy reserves totalling € 239.5 million. Overall, these developments produced net policyholder benefit expenses of € 16.2 million after the € 3.1 million income registered in the prior year. The underwriting result for the segment, at € 1.4 million (PY: €1.8 million), was again positive. The insurance business transacted in the segment is nevertheless of minor significance.

Investments in the Other Activities segment – which include, in particular, the shares held by Gothaer Finanzholding AG in the insurance companies of the Group as well as other participations – had a carrying value of € 3.30 billion, which was moderately higher than the prior-year figure of € 2.92 billion. In line with the structure of the investment portfolio, the investment result was also shaped by income from holdings – either in the form of dividend payouts or under profit transfer agreements. With regard to the insurance company holdings, that income also indirectly reflects the companies' underwriting results, which may naturally be subject to fluctuation. Income received under profit transfer agreements decreased to € 89.9 million (PY: € 119.6 million). Our systematic depreciation policy resulted in increased write-downs on shareholdings totalling € 78.4 million (PY: € 31.3 million) in 2016. Total investment income in the segment thus decreased to € 144.8 million (PY: € 209.7 million).

The result from Other Activities – which is the balance of all other income and other expenses of the service providers in the Gothaer Group – was € –21.1 million in the financial year (PY: € –11.6 million).

Financing expenses, at € 18.4 million, remained at the prior-year level in the Other Activities segment. This made for a recessive net profit for the year of € 106.7 million (PY: € 181.6 million) before taxes. Including tax income of € 4.6 million (PY: € 13.4 million tax expense), the net profit for the year after taxes was a positive € 111.3 million (PY: € 168.2 million).

Non-Financial Performance Indicators

Employees

Qualified, motivated employees are crucially important for corporate success at Gothaer. That success is ensured by employees with high competence, intense motivation and exceptional commitment.

The Gothaer 2020 Strategy clearly defines cornerstones and core objectives for the years ahead, establishing a basic reference framework for HR action within the Group. The goal of "Increasing Agility and Strengthening Identification Among Employees" is a particular focus.

The Gothaer Group adopted a new HR strategy in 2016 based on the Gothaer 2020 Strategy. Aimed at laying HR foundations for the implementation of corporate strategy, it sets out the guidelines for HR work at Gothaer The focus is on helping 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". The new HR strategy thus has a direct influence on the present and future working environment of our employees.

At the same time, absolute priority is assigned in our HR operations to personnel recruitment, development and retention aimed at furthering corporate strategy. In addition to offering commercially viable financial performance incentives, we rely here on targeted development and further training programmes as well as career models. Demographic management, company healthcare management and affirmative action for the advancement of women are also naturally elements of our multi-award winning human resource management.

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

In the coming years, our employees will play an increasingly important role in helping Gothaer steadily strengthen its competitive capacity, especially in the light of the changes taking place in business processes and the working world as a result of digitalization.

Gender quota

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

In the Gothaer Group five companies are required, under codetermination law or the One-Third Participation Act (DrittelbG), to set out target quotas for their supervisory board, management board and/or management as well as for the one to two levels of management below them.

The supervisory boards of those companies resolved that women should make up 33.3 % of the supervisory board by 30 June 2017. Half of the mandates reserved for women will be on the employees' side and half on the employer's side. In view of the shortness of the target period, the targets for management board and management were set at 0 %.

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

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

Brand

A strong brand is a critical success factor, especially for an insurance company. The decision to buy an intangible asset such as insurance cover is based on the trust associated with the brand. Brands are orientation aids; they create customer relationships and customer loyalty. A strong brand is particularly important in the context of digitalization and hybrid consumer behaviour. In communication, Gothaer thus focuses particularly on positioning its brand in the digital environment and strengthening brand awareness among younger target groups. Our "brand rejuvenation" strategy is implemented by appropriate integrated campaigns.

Code of conduct for sales and distribution

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

Since becoming part of the two insurance industry initiatives “GDV-Verhaltenskodex für den Vertrieb von Versicherungsprodukten” and “gut beraten” in 2013, Gothaer has consistently implemented the relevant requirements within the framework of a Compliance Management System. All employees and agents have been informed of the fact. Observance of the stipulations set out in the GDV Code of Conduct was again certified by independent auditors as of 31 December 2016.

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

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

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 currently contained in section 204 of the German Insurance Contracts Act (VVG). It thus creates greater transparency and improves service for policyholder.

Gothaer Krankenversicherung AG has declared its commitment to the PKV guideline and implemented all the requirements that go beyond the statutory stipulations as of 1 January 2016.

The appropriate implementation of a compliance management system by Gothaer Krankenversicherung AG for the observance of the guidelines for a transparent, customer-oriented tariff change was duly certified by an independent auditor on 31 December 2015. The audit will be performed every two years. It is thus confirmed that Gothaer Krankenversicherung AG ensures a high degree of tariff transparency and objective advice on changing tariffs.

Opportunity and Risk Report

Risk management principles

Risk-oriented management concept

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

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

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

Risk management organization

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

For this purpose, risk officers have been designated at the operative units to define duties, responsibilities, deputization arrangements and authority for dealing with risks while ensuring separation of functions. The risk management function (second line of defence) is performed by the central risk controlling unit at Gothaer Finanzholding AG, which is supported in its work by the actuarial departments the other Group companies of Gothaer Allgemeine Versicherung AG and the Middle/Back Office of Gothaer Asset Management AG.

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. 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 been created. Regular risk reporting and ad hoc reports on specific developments make for a transparent risk situation and provide pointers for targeted risk management.

The efficacy of the risk management system, the checks and balances and the management and monitoring processes was improved even more on the introduction of Solvency II. During the preparatory phase, the organization and procedures at Gothaer were adapted to ensure that the requirements of the three Solvency II pillars are met in full. Compliance with those requirements is regularly monitored and assessed by the Group internal auditing unit. A review of the risk early-warning system is also part of the audit of the annual financial statements performed by our auditors.

Underwriting opportunities and risks

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

As a general rule, the Gothaer Group companies counter underwriting risks with rates and reserves based on actuarial principles and with 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.

For the individual Group segments, this means:

Property/Casualty segment

General opportunities and risks

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

Underwriting risks

Since we assume that natural events resulting from climate change will continue to influence underwriting risk in the future, we will continue to place greater emphasis on reinsurance for natural events. We also counter the risk of natural hazards by making systematic use of ZÜRS, the zoning classification system developed by the GDV to identify exposure to natural hazards, as well as by arranging for each individual underwriting risk to be separately assessed by Gothaer Risk-Management GmbH.

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

Our tariffs and provisions are calculated on the basis of actuarial models and both loss reserves and reserve run-off are reviewed on a yearly basis. We are thus able to guarantee the long-term fulfilment of our obligations.

In new business, underwriting practice is based on the underwriting guidelines in which our clearly structured, profit-oriented underwriting policy is documented. Furthermore, where claims experience is very poor, existing policies are either not renewed or renewed only subject to an increased deductible or premium. Compliance with underwriting guidelines is monitored by the use of special controlling instruments. A comprehensive controlling system that identifies negative developments and deviations from projected figures also enables us to counteract undesirable developments promptly. In addition, active claims management and reinsurance are used as instruments of insurance risk management. To guard against major and accumulation losses as well as fluctuations in earnings, we pursue an active reinsurance policy. A good credit or company rating is an essential requirement for any reinsurer selected. In addition, in order to identify hazards and risks to earning capacity, we model the impacts of different loss scenarios on our portfolio within the framework of our internal risk model.

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

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

Reinsurance

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

The consolidation process observed in the reinsurance sector since the end of 2014 continued through 2016. Reinsurance treaties were renewed on 1 January 2016 without problems. Owing to the ongoing high supply of reinsurance capacity, Gothaer cessions were again placed well before 31 December 2016 on terms that were regarded as satisfactory by Gothaer. At the same time, the structure of the Gothaer reinsurance operation in 2016 remained virtually unchanged in comparison to 2015. Once again, an external stochastic tool was used to monitor default risk.

Gothaer has closely examined the opportunities and options offered by alternative risk transfer for a number of years. At present, the price of conventional reinsurance is still lower than that of an alternative risk transfer. If that should change, Gothaer will quickly be in a position to restructure its reinsurance accordingly. This will be facilitated by the exchange of expertise with Eurapco partners that already practise alternative risk transfer. Eurapco is an alliance of eight European mutual insurance companies operating in 18 countries across Europe.

Overall, we see a possible but very unlikely risk of a temporal mismatch between primary insurance and reinsurance protection. This stems from the fact that negotiation of a reinsurance treaty does not normally begin until the primary insurer has already confirmed cover to policyholders for the coming year. In the historically unprecedented event of a total collapse of reinsurance capacities, e. g. in the case of a global financial crisis coinciding with the occurrence of an extreme incidence of natural catastrophes, our risk exposure would significantly increase. Owing to aforementioned developments in the reinsurance market, this scenario has become even more unlikely in recent years.

As regards the concentration of insurance risks, Gothaer makes a distinction between different scenarios:

- **Low frequency loss events involving major losses**

This loss category reports major losses in the area of motor liability insurance because a percentage of the policies in force were written on the basis of unlimited coverage or, in the case of policies written after April 2005, with a limited but very high cover sum of € 100 million. This potential liability is taken into account in our reinsurance treaties.

Major losses could also conceivably result from a terrorist attack. In the case of high-coverage policies (insured sums in excess of € 25 million), terrorism is originally excluded and the risk assumed by EXTREMUS Versicherungs-AG if the customer requires insurance against terrorism. For risks where coverage is below the critical limit, our reinsurance treaties provide limited but adequate reinsurance protection. Together with the operative units, an annual review is carried out to establish whether this reinsurance cover is adequate.

• Cross-segment loss events

This loss category primarily relates to natural hazard events that would cut across Gothaer segments. These include, in descending order, flood, storm, earthquake and – of significantly less importance (mostly motor own damage) – hail risks. Decisions on the scope of reinsurance protection acquired are based on extensive analyses of our entire portfolio. Those analyses are conducted by leading international reinsurance brokers and carriers and are performed on the basis of renowned methods of modelling exposure to natural catastrophes. The models in question include estimates of probability of occurrence and assessments of recurrence intervals. The combined use of RMS, EQECAT and AIR tools as well as reinsurers' internal models provides us with a secure basis for findings.

• Geographic or line-based concentration risks

Owing to the good geographic distribution of the Gothaer portfolio, geographic concentration risk is negligible. Line-based concentration is perceptible only in engineering insurance for wind power facilities. Here too, precautions have been taken against both accumulation and major losses through a combination of proportional and non-proportional reinsurance protection.

• Risk dependency

Major loss events, in particular those which have a massive financial impact on the reinsurance market, can lead to insolvencies on the part of reinsurers and thus result in default. We seek to minimize the possible impacts on the Gothaer net account by selecting our reinsurers with care (see loss of receivables risks) and spreading our placements. In the case of natural hazard events in particular, it has been observed that high losses translate into high claim payments fairly rapidly and therefore result in an outflow of funds. By keeping the cash loss limits for our proportional treaties relatively low and agreeing adequate reinstatements for non-proportional cessions, we have made sure that Gothaer is not affected in such events by liquidity or reinsurance capacity shortages.

Claims

The following table shows the changes in Gothaer Allgemeine Versicherung AG loss ratios and run-off results over the past 10 years across all fields of business and net of reinsurance on the basis of IFRS.

Claims

Development		as %
	Loss ratio after run-off	Run-off results of initial reserves
2007	66.9	0.9
2008	59.5	10.0
2009	65.6	3.3
2010	66.8	6.4
2011	68.4	1.8
2012	66.7	4.1
2013	68.7	4.6
2014	68.0	1.7
2015	65.7	4.2
2016	66.6	2.5

A detailed year-by-year review of the run-off of our gross primary business by year of occurrence, without allowance for annuity reserves, is provided in the notes to the consolidated financial statements.

Risks arising from reinsurance assumed

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

Risks arising from fronting agreements

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

Risk management methods in the Property/Casualty segment

- **Forecast and change risk in the estimation of reserves**

Wherever a model is used, there is a risk that actual results will deviate from projections. In the case of reserves, however, underestimation needs to be avoided. To enable the appropriateness of the IFRS reserve to be assessed, the variability of the estimate is established by bootstrapping. This provides a basis for quantifying the certainty of the IFRS reserve being enough to cover possible losses, expenses and annuity payments. Any payments that are lower than estimated generate run-off gains that help improve the earnings forecast.

Factors that cannot be adequately assessed by the models used to calculate reserves are taken into account separately as follows:

- individual major loss analysis: where necessary, individual major loss reserves are included in the reserve calculation results
- detailed analysis of accumulation loss events, taking account of time of occurrence and previous run-off and comparing them with such events in the past
- detailed analysis of sub-lines in areas where portfolio shifts have occurred.

• Natural catastrophe, accumulation loss and major loss risk
The effects of natural disasters, accumulation losses and major losses are largely mitigated by the structure of Gothaer reinsurance. Apart from this, other 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, sublimit and coverage limitation agreements.

• Reinsurance risk
Even a balanced reinsurance structure designed to mitigate the effects of extreme events entails risk – the risk of possible default by reinsurers. At Gothaer, this risk is taken into account in the selection of reinsurers (A rating) and is quantified by DFA modelling.

• Discounted reserve risk
If reserves are discounted, the choice of discount rate and the underlying payment schedule are critical parameters. As loss reserves are not currently discounted – with the exception of annuity reserves, which are of minor importance – this risk is irrelevant in the Property / Casualty segment.

Against this backdrop, reserving policy can be described as adequate and appropriate.

Life segment

General opportunities and risks

The general risk situation for life insurers in 2016 was again characterized by sustained low interest rates. The yield of 10-year federal bonds remained below one percent and was even negative for a while. A protracted low-interest phase has major impacts on the income generated by interest-bearing assets.

Despite the challenging situation in the capital market, a new opportunity to generate sustainable earnings was created by the launch of capital-efficient reduced-guarantee products on 1 July 2016 in the fields of both conventional and unit-linked life insurance. This capital-efficient product line will be joined in 2017 by a new single premium product. The new product line is also specifically designed to meet Solvency II requirements. To permit continued success in the company pension scheme segment, its development also takes account of market and customer perspectives.

Apart from new reduced-guarantee products, another focus of product development is on biometrics. This includes the triple-option term life insurance policy launched on 1 January 2016 addressing a broad customer segment through multiple channels. The need for product adjustments will be analyzed and acted upon in the light of market requirements.

Against this backdrop, further opportunities are presented by gearing to unit-linked products, which offer higher potential returns for the consumer.

Attention continues to focus on the implications of the European Court of Justice ruling prohibiting gender-based differentiation. All tariffs marketed since 21 December 2012 (with only a few exceptions in the area of company pension schemes) are calculated on a unisex basis. There is a risk that the gender breakdown of new business anticipated by insurers will differ from the actual breakdown. If that were the case, additional reserves would need to be formed. Policies where pricing is still gender-based are not affected by this risk.

The new Solvency II supervisory regime came into force on 1 January 2016. One consequence of the new legislation is a more market-based, stochastic view of liabilities and risks. For the insurance industry as a whole – and therefore also for Gothaer – a sustained low-interest environment means higher capital requirements and lower capital resources, especially under Solvency II. The switch to the new Solvency regime is facilitated by taking advantage of the transitional rules.

Under the Act to Modernize Financial Supervision of Insurance Undertakings (VAMoG), free reserves for premium refunds count as other restricted assets and are thus subject to special investment rules. Reclassifications may be necessary here.

Legal risks may arise in future as a result of changes in case law, tighter regulation and differing case law in Austria. With effect from 1 January 2017, the maximum permissible actuarial interest rate for new business was lowered to 0.9 % in accordance with the German Actuarial Reserve Ordinance (DeckRV). Such a change in reserving has product design implications, e.g. regarding the formulation of guarantees. Given the focus on capital-efficient products, however, product design has not been affected as much as on previous occasions when the actuarial interest rate was lowered.

Mortality tables (biometric risks)

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). It was found that moderate replenishment was required and policy reserves were increased by the relevant amount.

New bases for the calculation of reserves for (supplemental) long-term care annuity policies were published by the DAV at the end of 2008. 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.

Assumptions of cancellation probability (cancellation risk)

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. Cancellation figures continue to be critically 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 rate 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 in the case of life insurance products. 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 %. Despite this lowered ceiling, 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. We make a point of ensuring that investments are aligned with liability deadlines and thus tailored to the risk-bearing capacity of the companies. Top priority is assigned here to generating a stable long-term flow of income.

Risks arising from the reduction of production volume

In terms of aggregate premium, production volume was more or less maintained at the prior-year level in 2016. There is a risk of demand for (classical) life insurance products waning as a result of the prolonged low-interest phase coupled with the current renewed rise in inflation.

Demographic change presents an opportunity. The ageing population is creating additional markets: demand for provision for old age is rising. Furthermore, the Act Strengthening Occupational Pensions (Betriebsrentenstärkungsgesetz) could create additional growth stimuli for company pension schemes. Market opportunities are presented here as a result of the Gothaer Group’s focus on both private and occupational pension plans.

Risk management methods in the Life segment

Risks associated with life insurance policies stem mainly from the guarantee of the basic data used to calculate premiums (for interest, biometrics and costs) and the surrender values over the whole term of the policy. Since it is generally not possible to adjust life insurance premiums at a later date, these risks are lessened by appropriate safety margins in the bases for calculations.

Gothaer employs a variety of instruments to establish the nature and extent of risks arising from life insurance policies. The main risk connected with a life insurance policy is interest rate guarantee risk, which increases in low interest rate phases in particular. The acceptability and financeability of Gothaer's interest rate guarantees are verified by application of the two DAV models "Verification of Actuarial Interest for Life Insurance Portfolios" and "Risk Assessment of Long-term Guarantees", the GDV model used to determine the viability of future actuarial interest rates, our own model for determining the maximum actuarial interest rate that can be financed as well as stochastic performance analyses. Furthermore, even before the introduction of Solvency II on 1 January 2016, the risk situation was reviewed on an annual basis under the Solvency II conditions known at the time in addition to the official studies. It should be noted that the interest rate guarantee risk is normally lower for unit-linked life policies.

Other risks associated with life insurance policies result from adverse changes in mortality, longevity, invalidity and expenses as well as from a change in cancellation behaviour. These risks are reduced, amongst other things, by appropriate reinsurance treaties and maximized reserving at the level of guaranteed surrender values. The risks associated with life insurance policies are identified at least once a year in the risk inventory. The extent of Gothaer's exposure to these risks is established using traditional embedded value sensitivity analyses and Solvency II stress scenarios for calculating capital requirements. As far as underwriting risks are concerned, lower portfolio mortality rates have the greatest impact here. The adequacy of cost and biometric assumptions is also regularly verified in the course of profit source analysis.

Gothaer life insurance policies are mostly long-term contracts with discretionary surplus bonuses. Owing to the conservative selection of the bases of calculation, surpluses are generated which are shared with members. Surplus bonuses can be adjusted, subject to the minimum bonus for members required under supervisory regulations. Because of this adjustment option, the impact of a change in the risk, cost or interest situation on life insurers' income is reduced.

On the whole, the aforesaid analyses confirm the financeability and acceptability of the risks identified here for Gothaer.

However, the strategy of sharpening the focus on biometric products in life insurance presents more than just the adverse change risk described above; it also presents special opportunities. Focusing on biometrics leads to a partial decoupling of results from the capital market, which could make for stable surpluses because risk results are generally less volatile than investment results.

With the introduction of new capital-efficient reduced-guarantee products (“Garantie-Rente”) in the area of conventional and redesigned capital-efficient unit-linked life insurance products in the past financial year, interest rate risks were also reduced. Despite the challenging situation in the capital market, new opportunities are presented here to generate sustainable earnings.

Health segment

General opportunities and risks

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.

With interest rates for safe investments still at a very low level, the 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 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 the actuarial interest rate and cancellation risk. These risks have a major bearing on the ability to allocate adequate reserves for premium refunds and thus have the funds available to lessen the impact of the development of premiums for those we insure. A particularly important role is played here 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 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 were supplemented by the deployment of funds for payment of the tariff bonus, a premium limit that is re-set each year.

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 stress tests and 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.

Financial risks in health insurance can result from the occurrence of major and accumulation losses. These risks are taken into account by a comprehensive reinsurance policy.

Risk management methods in the Health segment

• Portfolio composition, premiums not commensurate with risks, allocations to reserves for premium refunds, recurrent financing of premium limits granted annually
We address this area of risk with professional underwriting, professional benefit and healthcare management and other controlling instruments that make trends and negative developments visible in good time. Incongruities can be promptly evened out by annual comparison of the insurance benefits calculated and actually required, which triggers an adjustment of premiums in the event of significant variance (premium adjustment clause).

Within the framework of planning projections and the premium adjustment process, sensitivity analyses are carried out to examine the impact on the reserve for premium refunds and the financing of annual premium capping. These sensitivity analyses make it possible to portray possible ramifications for the Company and take early action to counter undesirable developments.

In the Health segment, reserving also needs to conform to the principle of prospective unlocking. Where premium adjustments are triggered as a result of changes in the bases of calculation, the assumptions made calculating underwriting reserves are also adjusted. A loss recognition test (LRT) was also performed and passed. Against this backdrop and given the controlling instruments described, reserving policy is adequate and appropriate.

• Cancellation probability
The aforementioned sensitivity analyses are also used to evaluate exposure to cancellation probability risk. They can be used to examine the impact of a reduction in cancellations, for example, or to study the pro rata portability of ageing reserves anticipated on termination. In the event of identifiable endangerment of key financial ratios, countermeasures are taken, such as lowering the cancellation probability used in the calculations.

• Mortality rates
Sensitivity analyses based on various mortality tables as well as on the Company's latest actual mortality figures are performed to evaluate the mortality rate risk. The mortality figures used to calculate premiums are chosen so that a sufficient safety margin is ensured even after allowance for mortality trends.

As in the case of insurance benefits, changes in mortality can trigger premium adjustments and thus promptly eliminate any imbalance between actual and calculated figures.

• Actuarial interest
Actuarial interest rate risk is addressed at the investment level with professional analytical tools and the results obtained are systematically harnessed to optimize investment strategy. The focus of investment activities is on achieving a secure current average yield. This also applies to the "actuarial company yield" (Aktuarieller Unternehmenszins, AUZ), an actuarial interest verification procedure developed by the DAV that is carried out annually by Gothaer. The yield of investments is also regularly subjected to stress tests and extrapolations as well as stochastic sensitivity analyses. Apart from gearing investment strategy, the purpose of the analyses is to verify the actuarial interest used for costing and to lower it – promptly – if necessary.

• Major and accumulation losses
Exposure to major and accumulation loss risk in the area of health insurance is managed by a comprehensive reinsurance strategy tailored to the specific requirements of the Company. The adequacy of insurance protection is reviewed quarterly on the basis of detailed reinsurance accounts, after which appropriate adjustments are made as required.

Loss of receivables risk

Outstanding receivables

Loss of receivables risk has a major significance for the Gothaer Group because of the issue of non-payers, which affects the entire private health insurance sector. Insurers cannot terminate a comprehensive insurance policy on grounds of non-payment of premium. They are required to switch policyholders defaulting on premiums to the emergency tariff. 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 € 124.7 million at balance sheet date. This figure includes valuation allowances that take adequate account of the risk of possible loss of receivables. € 22.2 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 € 7.3 million, which is an average of 1.9‰ of the gross premiums written.

Receivables on ceded reinsurance business

We cede reinsurance only to high-class reinsurers. 59 % of our reinsurance premiums are ceded to reinsurers with a rating of AA– or better. Accounts receivable in connection with assumed and ceded reinsurance business totalled € 69.5 million at balance sheet date. Accounts receivable in connection with reinsurance ceded amounted to € 31.0 million. The structure of receivables from reinsurance partners by rating class was as follows:

Breakdown by rating cetegory	€ million
AA	12.4
A	17.7
BBB	0.6
Non-rated	0.3

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

Investment risks

The investment portfolio is designed to meet all of the Gothaer Group's current and future payment obligations. The risks associated with it are limited by effective risk management, using modern controlling systems to ensure, on the one hand, compliance with regulatory requirements and, on the other, observance of additional – and in some cases restrictive – self-imposed risk limits. To improve its risk/earnings ratio, the Gothaer Group continues to attach great importance to the decorrelation of investments in terms of mix and spread. For this reason, the goal of investment activity is to achieve broad diversification within and across the different asset classes and at the same time avoid excessive risk concentration.

The prime focus of this investment management is risk-bearing capacity, which is established on the basis of internal models and asset liability management (ALM). The wide range of ALM concepts employed at Gothaer includes stochastic risk models such as ALM projections, asset-only analyses as a module of the early-warning system within the Group as well as stochastic support for net target yield and surplus statement planning. These analyses from different perspectives form the basis for the regular verification and adjustment of strategic asset allocation.

In addition, key business ratios are analyzed with the help of empirical distributions and shortfall probabilities. These ratios show, among other things, net and market value yield, hidden asset-side net reserves, uncommitted reserves for premium refunds and the own funds ratio. Regularly defined individual scenarios are also examined. The basis is formed by a scenario that is deemed highly likely to occur. Furthermore, analysis is extended to critical scenarios that are identified in the course of the stochastic evaluation of results.

Stochastic indicator-based risk measurements are also used to establish probabilities of failure to achieve investment result targets at the end of the year (shortfall probability). The probabilities are the result of a simulation of market value development and earnings generated by the major investment classes based on the Group's own performance expectations for the year ahead. Other models such as our internal capital requirement model are also used.

Systematic further development of the risk models used also promotes a sustainable increase in risk-bearing capacity. In addition to risk restrictions required by the supervisory authority, the Gothaer Group investment framework guideline limit system is used to monitor internal risk limits.

The following three types of risk are monitored and managed within the investment management system described.

Market change risks

Market change risk is the risk of financial loss due to changes in market prices. Market change risk can be influenced, for example, by changes in prices, spreads, volatilities, correlations or even illiquidity in the market. Market change risk management is supported by regular computations based on the use of stochastic and deterministic models. Sensitivity analyses are developed to measure risk potential. The investment portfolio, which is particularly susceptible to market change risk, is also subjected to stress scenarios. The results of the individual sensitivity analyses are shown in the Stress Scenario Impacts on Equity table.

• Interest change risk

Interest change risk is the risk of a change in the risk-free interest rate and any consequent negative impacts on the market value of interest-bearing instruments. As a result of systematic gearing to Asset Liability Management, market value is ensured by the fact that interest change risks for the Gothaer Group are primarily viewed against the backdrop of the life of liability-side obligations. The internal (target) limits for asset-side duration are established on the basis of this. Another tool used is tactical duration management, which allows portfolio management – within a defined context – to exploit short-term opportunities arising from changes in interest rates.

Interest change risk is measured and reported by Investment Controlling in the form of modified duration calculations performed on portfolios and individual securities within the framework of internal duration reporting.

• Reinvestment risk

When interest rates fall, there is a risk that funds can only be reinvested at a lower rate of interest. At Gothaer, this reinvestment risk is monitored by the use of ALM and duration analyses. In ALM analyses, reinvestment risk is taken into account in the stochastic models. Possible impacts can be identified in the attainment probabilities of the target variables (e. g. net yield, solvency). Gothaer counters reinvestment risk by active portfolio management. The primary focus here is on careful selection of the maturity structure of the bond portfolio, which is managed by taking into account derivatives, interest structures and quantitative approaches (e. g. trend-following models).

• Price risk

Price risk is the risk of market value being lost as a result of adverse changes in share, stake, alternative investment, property and renewable energy prices (separate new asset class since 2016). Price risk management involves, amongst other things, continuous intensive observation of concentrations at industry, regional and issuer level. It also involves limiting and monitoring exposure in the individual asset classes on the basis of internal (target) limits which reflect the results of the annual ALM analyses for the personal insurance companies in the Group and the DFA analyses for the Property/Casualty insurers and which, when observed, guarantee the risk-bearing capacity of the companies. Asset classes exposed to a heightened price risk are not only subjected to sensitivity analysis; they are also monitored in stress tests.

For unexpected developments, individual company hedging concepts (e. g. share options) can be implemented to ensure a risk-adequate response to short-term fluctuations and, in extreme cases, limitation of the losses that occur. These hedging concepts are constantly reviewed in the light of market developments and adjusted as required.

Because of limited portfolio volume, share price risk was minimal in the Gothaer Group at balance sheet date. The market value of the equity portfolio is expected to remain stable in the coming year. Against the backdrop of attractive long-term investment opportunities, commitments were entered into in the real estate and renewable energies asset classes in order to advance towards strategic targets. The hedge fund portfolio was also downscaled further.

Real estate markets developed well in 2016, largely producing high transaction volumes. Because of the stable market situation, it was decided to abandon the practice of discounted cashflow valuation and to assess the entire real estate portfolio on the basis of net asset values. Owing to consistent valuation on the basis of market prices and the broad spread of the portfolio, we anticipate no need for non-scheduled depreciation of the real estate asset class.

• Exchange rate risk

Exchange rate risk is the risk presented by adverse changes in currency exchange rates. The existing exchange rate risk is almost entirely hedged at company level by foreign exchange forward contracts. Hedging is performed in a rolling programme for each currency. The following chart shows exposure per currency in euros and the relevant market value in foreign currency at the end of the year. Set against the latter but not shown in the table are more or less equal volumes of foreign exchange forward contracts concluded as hedges.

Breakdown by foreign currency				€ million
	Market values in €		Market values in nominal currency	
	2016	2015	2016	2015
US dollar	1,614.2	1,524.7	1,702.5	1,656.7
Pound sterling	124.0	164.4	106.0	121.2
Danish kroner	1,024.9	815.3	7,620.1	6,084.5
Polish zloty	93.8	101.6	413.2	433.4
Swiss franc	13.6	13.4	14.6	14.6
Other currencies	83.3	60.4	various	various

Considering the hedges in place, a change of 1 % in the individual exchange rates would thus result in only insignificant changes in the market values of the aggregate foreign currency positions. For further information about derivative financial instruments, see also number 8 in the Notes to the Consolidated Statement of Financial Position.

Credit/solvency risks

Credit/solvency risk covers the risk of insolvency and default as well as the risk of a negative change in a debtor's or issuer's creditworthiness.

For risk management purposes, the acquisition of investment vehicles is permissible only if a qualified and cross-checked assessment of creditworthiness by an external agency such as Standard & Poor's, Moody's or Fitch Ratings or a qualified internal rating is available. Credit risks are also broadly spread to avoid concentration risks. In addition to supervisory requirements, more restrictive internal limits are in place to keep credit and concentration risk within reasonable bounds at individual loan, issuer and portfolio level.

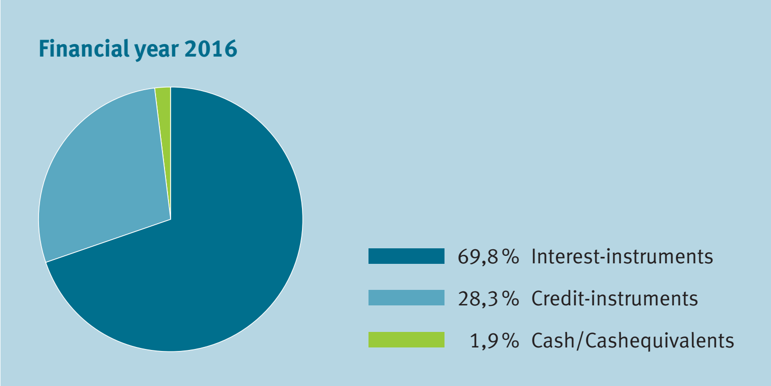
The interest-bearing financial instruments held by the insurance carriers in the Gothaer Group are divided into three categories for risk management purposes: "interest rate instruments", "credit instruments" and "cash/cash equivalents". The distinction here is whether an instrument presents only an interest risk or whether an additional credit risk exists because of the solvency of the issuer. So where a financial instrument entails no or only a minimal credit/solvency risk, it is assigned to the "interest rate instrument" category. This is the case, for example, with German government bonds (Bunds) and senior secured covered bonds (Pfandbriefe). The table below shows the market value of interest-bearing financial instruments assigned to the interest rate instrument, credit instrument and cash/cash equivalent categories by rating class, as managed and monitored in the Gothaer Group. Retail funds are not included.

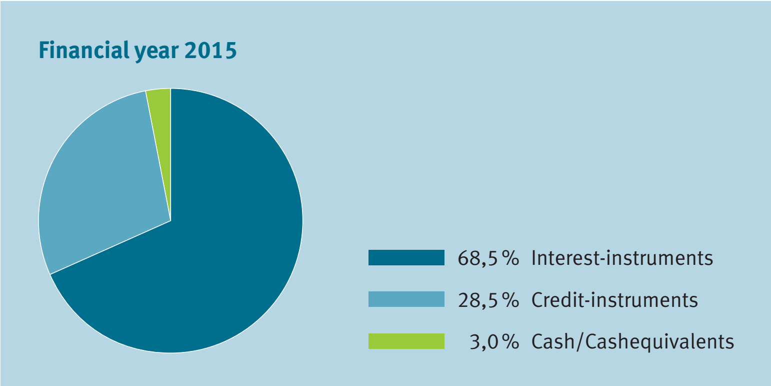
Interest-bearing financial instruments

Breakdown by rating category		Share in %
	2016	2015
AAA	20.1	20.1
AA+	9.6	7.0
AA	9.4	11.1
AA–	5.3	5.1
A+	4.9	5.9
A	6.2	4.7
A–	9.2	9.9
BBB+	10.8	11.9
BBB	13.2	12.4
BBB–	6.0	6.3
Speculative Grade (BB+ to D)	2.9	4.1
Non-rated	2.4	1.5

The diagram below shows the market value of the financial instruments assigned to the interest rate instrument, credit instrument and cash/cash equivalent categories.

Breakdown of interest-bearing financial instruments





Fixed-interest securities accounted for around 81.4 % of the market value of the investment portfolio at the end of the year. In the area of bearer bonds, financials (unsecured/subordinated bonds issued by banks, insurers or financial service providers) accounted for around 7.9 % of total investment and corporates (unsecured/subordinated bonds issued by companies) for around 15.0 %.

At year-end, an impairment loss was recognized in the course of risk provisioning for a subordinated security issued by a German bank. There was otherwise no significant credit risk discernible. As a result of active portfolio reduction, in particular, the percentage of investments made up of subordinated financial bonds fell to around € 0.7 billion (PY: € 0.9 billion). In the coming financial year, too, further defaults on interest – perhaps even on principal – cannot be ruled out in the case of individual subordinated financial bonds. A (partial) default on principal in the case of PIIS government bonds (Portugal, Italy, Ireland, Spain) is considered unlikely. The total market value of investment in PIIS government bonds was around € 2.8 billion (PY: € 2.3 billion). The breakdown by country was as follows: Portugal 4.1 % (PY: 5.8 %), Spain 28.8 % (PY: 34.0 %), Ireland 19.6 % (PY: 14.9 %) and Italy 47.5 % (PY: 45.3 %). Credit risks also existed in the case of externally managed high-yield and emerging market clients.

During the lending process, 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 at individual bond level.

• Risk concentrations

The Gothaer Group manages concentration risks in line with BaFin Circular 4/2011 by ensuring a broad mix and spread of investment. It also monitors concentrations of risk in accordance with Sec. 104i of the new version of the German Insurance Supervision Act (VAG). Alongside supervisory regulation, concentration risk is additionally contained by our internal limit system, which ensures that concentrations at issuer level cannot occur on a significant scale. The tables below show the financial risk concentrations in the form in which they are monitored and managed in the Gothaer Group. Distinctions are made between rating class (see table under Counterparty default risk), sector, country and issuer concentrations. In aggregating risk concentrations, we adopt the same segmentation practices as independent data providers such as iBoxx.

Shares

Breakdown by sector	Share in %	
	2016	2015
Automobiles & Parts	5.9	5.5
Banks	9.8	13.4
Chemicals	3.8	4.0
Clothing & Accessories	2.4	1.2
Commodities	3.3	1.8
Communications	6.8	5.9
Construction & Materials	2.5	1.8
Financial Services	1.3	2.7
Food Products	5.3	5.0
Industrial Goods & Services	8.3	7.0
Industrial Machinery	0.3	0.1
Insurance	3.2	2.8
Media	0.2	0.7
Oil & Gas	6.3	4.2
Personal & Household Goods	6.0	4.6
Pharmaceuticals	4.9	3.9
Retail	0.4	0.6
Software	3.2	1.8
Technology	1.2	1.6
Travel & Leisure	0.2	0.2
Utilities	5.3	4.4
Other	1.2	0.7
No sectoral assignment	18.2	26.1

Shares

Breakdown by country	Share in %	
	2016	2015
Belgium	3.6	3.4
Denmark	0.3	0.6
Finland	0.9	1.0
France	26.2	21.8
Germany	43.3	38.6
Great Britain	3.2	3.6
Ireland	0.7	0.9
Italy	5.0	4.2
Japan	0.3	6.8
Luxembourg	2.8	1.3
Netherlands	4.2	4.1
Norway	0.0	0.2
Portugal	0.0	5.2
Spain	8.1	6.8
Sweden	0.3	0.5
Switzerland	1.1	1.0

Liquidity risk

Liquidity risk is the risk of being unable to fulfil its financial obligations entirely or on time because of a lack of adequate funds. A viable liquidity planning and management system is a prime requirement for effective investment management. Comprehensive liquidity planning at risk carrier level, encompassing both investment and underwriting, ensures precise day-by-day projection of cash balances. When liquidity requirements peak, the necessary liquidity can thus be made available by the disposal of marketable securities. Apart from the liquid securities in the direct portfolio, special funds are also available to meet liquidity peaks by payment of dividends or disposal of certificates. Moreover, capital available for investment can be promptly identified. In the year under review, approval was given to a liquidity risk management concept for implementation in 2017 that provides for regular analysis of liquidity sources and coverage ratios and, in particular, the performance of liquidity stress tests. With the treasury concept being developed, another management tool will also be available after the launch of a Group-wide cash pool.

There were no liquidity bottlenecks in 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.

The residual terms of liabilities are shown at number 23 in the Notes to the Consolidated Financial Statements.

Scenario analysis and stress scenarios

• Stress scenarios

All Gothaer Group companies continue to apply the BaFin stress test that is no longer mandatory for most companies and satisfy all four variants of the test. Based on data from financial statements, these stress tests simulate very negative capital market changes – sometimes for both shares and fixed-income securities or investment property – and examine the impact on the insurer's financial statements. The target horizon is the next reporting date. Surplus cover confirms the risk-bearing capacity and stability of the Gothaer Group insurance companies.

• Scenario analysis

In scenario analysis, the risks defined above are quantified and aggregated on the basis of the year-end value of the portfolio. Sensitivity analysis pursuant to the German accounting standard DRS 20 A2.14 produced the following figures for the Gothaer Group: An increase of 100 basis points in the interest curve and a modified duration of 8.48 reduced the market value of fixed-income securities by € 2,184.5 million in comparison to the year-end value of the portfolio. An isolated parallel 100-basis-point rise in the spread curve reduced the market value of the bond portfolio susceptible to credit risk by € 480.8 million. Taking into account hedging measures, a decrease of 20 % in trading prices resulted in a fall in market value of € 378.5 million in the case of shares and other non-fixed-income financial instruments. A decrease of 10 % in the market value of the property investments of the Gothaer Group represents € 225.5 million. The following table shows the possible change in equity assuming the above sensitivities. It is also assumed that the appropriated reserve for premium refunds is the minimum required. For an assessment of the impact on equity, please refer to the section on accounting policies, especially the rules on impairment testing.

Scenario analysis

Impact on equity						€ million
	Decrease in market value		Change in equity not recognized in statement of income		Change in equity recognized in statement of income	
	2016	2015	2016	2015	2016	2015
Fixed-income securities (interest change risk)	2,184.5	1,993.7	273.5	240.7	0.0	0.0
Fixed-income securities susceptible to credit risk (credit/solvency risk)	480.8	468.6	76.1	65.1	0.0	0.0
Shares and other non-fixed-income financial instruments (price risk)	378.5	371.0	0.0	0.0	164.3	187.3
Property (price risk)	225.5	216.2	33.1	30.3	0.0	0.0
Total	**3,269.3**	**3,049.5**	**382.7**	**336.1**	**164.3**	**187.3**

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. Owing to growing dependence on ICT, security mechanisms have been systematically improved and stabilized in recent years. We also guarantee compliance with the provisions of the German Federal Data Protection Act (Bundesdatenschutzgesetz) and the code of conduct (“Verhaltensregeln für den Umgang mit personenbezogenen Daten durch die deutsche Versicherungswirtschaft”) agreed by representatives of data protection agencies, consumer watchdog Verbraucherzentrale Bundesverband e. V. and the insurance industry to raise data protection standards. We protect business-critical applications by using a business continuity management process that not only ensures technological integrity but also safeguards critical business processes. Targeted checks in Data Loss Prevention systems are used to counter the risk of unintentional data loss. To achieve consistent information security and above all to maintain and, where appropriate, improve the level of security reached, we have created an Information Security Management System (ISMS) certified by DEKRA to the international standard ISO 27001:2013.

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

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

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

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

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

Money laundering

Internal guidelines and checks have been adopted to prevent refund-of-premium accident insurance being used to launder money or finance terrorism.

Summary of the risk situation

In the Property/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 will help reduce dependence on investment income.

Private health insurance – and thus also the business conducted by the Gothaer Group in this field – are very dependent on the political environment. Accordingly, Gothaer will mainly focus on growing its supplemental health insurance business.

The main risk perceived in the area of health insurance is 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, which creates a stable risk profile with an appropriate time horizon. This assessment is supported, amongst other things, by the following factors:

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

In 2016, Standard and Poor's confirmed its A– financial strength ratings for Gothaer Allgemeine Versicherung AG, Gothaer Krankenversicherung AG and Gothaer Lebensversicherung AG and FitchRatings gave follow-up A ratings (strong) for Gothaer Allgemeine Versicherung AG and Gothaer Lebensversicherung AG.

The control mechanisms, instruments and analytical processes described above ensure effective risk management. At the present time, we see nothing in the risk situation of the individual Group companies that might jeopardize the fulfilment of commitments assumed under insurance contracts.

Outlook

General economic outlook for 2017

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

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

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

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

Developments in the insurance industry

The development of the insurance industry continues to be shaped by a challenging environment. Across all classes, German insurers anticipate generally stable premium revenues with a moderate premium upturn of 0.3 %. Excluding single premium income in life insurance, premium receipts are expected to grow by 1.3 %. In 2017, the insurance industry anticipates a moderate rise in premium volume of around 1.0 %. As regards business prospects, the clear majority of companies expect a continuation of the development seen in 2016, although assessments differ from one sector to another. While expectations remain pessimistic in the life insurance sector, perceptions of the business climate in the Property / Casualty and Health insurance sectors are positive.

(Note: Market statements are based on the appraisal published by the Gesamtverband der Deutschen Versicherungswirtschaft e. V. in “GDV Volkswirtschaft, Geschäftsaussichten in der Versicherungswirtschaft 2017” 11/2016, “Konjunktur und Märkte” 12/2016, “Beitragsentwicklung in der deutschen Versicherungswirtschaft” 11/2016 and 01/2017, “ifo Geschäftsklima Versicherungswirtschaft” 11/2016, “Makro und Märkte Kompakt” No. 7 12/2016)

Outlook for the Gothaer Group

The future development of the Gothaer Group will be largely defined by its core fields of business, i. e. the Property/Casualty, Life and Health segments. Because these segments have both shared and separate environments, the prognosis of future development is made on the basis of these segments.

Property/Casualty segment

Environment

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

Outlook

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

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

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

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

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

On the claims side, projections are based on the assumption that the burden of major and natural hazard claims will return to its normal higher level. The growing risk presented by natural disasters is hedged by purpose-designed reinsurance programmes. On the basis of our portfolio structure, we anticipate a net loss ratio in 2017 that is slightly lower than in 2016.

We continue to work relentlessly on the implementation of our efficiency programmes as well as on quality improvements in our processes. We therefore anticipate an overall cost ratio on a par with the prior year as a result of premium growth. The net combined ratio will thus also improve moderately to around 95 %.

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

Life segment

Environment

Business in the Life segment in 2017 is again essentially defined by the macroeconomic environment, the prospects for funded provision for old age and its ability to compete with other forms of investment in the light of recessive capital market interest rates. The economic situation of private households is still moving in a positive direction but propensity to save is expected to be low in the sustained low-interest environment. With capital market interest rates low, there are signs of a deterioration in the competitive position of life insurance against other savings products. The GDV thus expects new regular premium business to grow by a slow 1.0 %. With disposals constant, this will result in a marginal 0.1 % downturn in regular premium income. Taking into account a further contraction of single premium business, premium revenues are expected to decrease in 2017 by around 0.5 %.

Outlook

Facing the challenges of the market environment, the Gothaer Group initiated a comprehensive programme in 2015 designed to realign the life insurance business model for the future. In the generally difficult environment of the life insurance market, 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.

We took appropriate account of the sustained low-interest phase by further reducing surplus bonuses for 2017. Nevertheless, Gothaer remains well positioned by market standards with an overall yield of 2.9 % on new policies (deferred annuity insurance including terminal bonus and minimum share of valuation reserves) and 3.1 % on the new capital-efficient “GarantieRente”.

Our activities remain crucially geared to positioning us as a service insurer, especially in the field of biometrics and capital-efficient pension products. In the coming years, changes are expected in the composition of new business (product mix). In particular, there will be a further reduction in the amount of new business generated by conventional classical products. In this connection, we will endeavour to increase further the percentage of production in the biometric products segment. Growth will be driven here especially by standalone occupational disability insurance products (in both individual and collective business) as well as by the new term life policy that was successfully launched at the beginning of 2016.

The lowering of the actuarial interest rate on 1 January 2017 will bring more change for insurers, agents and customers this year than just the customary adjustments in product costing. In particular, it will challenge the viability of the 100 % premium guarantee on maturity that has become established in the market and is popular with agents and end consumers alike. With actuarial interest at the new rate, insurers will only be able to offer such a guarantee for policies with very long terms.

Nevertheless, pension provision remains a growth market – one that we will continue to address successfully in the future, especially with our new capital-efficient pension products “GarantieRente” and “GarantieRente Performance” with a reduced 90 % guarantee as standard. As a flanking measure for stabilizing sale volume, we also plan to launch a capital-efficient, competitive product for the single premium market in the second half of 2017.

Operative services specifically designed to boost customer and agent satisfaction as well as digitalization for standardizing and automating processes are increasingly a focus for life insurers seeking to generate growth, improve earnings and enhance efficiency. In 2016, numerous measures were initiated at the Gothaer operative units to improve customer and agent satisfaction. In the coming years, products, corporate portal/online services, digital efficiency and real time services as well as infrastructure/architecture will be addressed as cornerstones of the digitalization strategy developed for Gothaer. On the private client business front, attention will be paid, inter alia, to new solutions permitting real-time online transactions and to the development of self-services. Sights are also set on the prompt implementation of risk analysis at the point of sale.

With regard to new business, we expect production in the coming year to adjust downwards to market conditions. We thus anticipate a downturn in new business volume, which will undermine its ability to stabilize the premium income of the Life segment.

We expect that underwriting expenses will moderately increase in the present calendar year. The sustained low level of interest rates will impact negatively on our investment results in the Life segment. Before allowance for countermeasures, we anticipate significantly lower income here.

The increased intrinsic value and earnings power on the liability side of the segment in recent years will continue to ensure that we meet the requirements of supervisory regulations in full.

Health segment

Environment

The development of private health insurance business is essentially dependent on the environment provided by healthcare policy. Prompted by higher premium adjustments and sharpened by campaigning for the Bundestag elections in 2017, the media climate has become harsher for the private health insurance sector. Private health insurers also continue to be adversely affected by the sustained low-interest environment. With premium adjustments made regularly in response to developments in benefits, the lowering of actuarial interest rates could lead to higher increases. Other inhibiting factors are seen in demographic developments. The dynamic growth of supplemental insurance business is also expected to continue unchanged through 2017. As a result, total premium income from private health insurance is expected to rise by 2.5% over the course of the year.

Outlook

The stabilization of portfolio and premium growth will continue to be a major focus of the Health segment in 2017. Overall, we again anticipate a moderate rise in premium revenues this year. In the light of the higher level of premiums in 2016, our projections show a further increase in new business.

At the end of 2016, we adjusted our marketing strategy to address four defined submarkets (market segments) and will implement the changes systematically in the future. The first market segment encompasses the classical comprehensive and supplemental private health insurance market, where it has become extremely difficult to realize further growth in comprehensive insurance. Supplemental insurance business will be further upscaled in the second (insurance supplemental to statutory health insurance) and fourth (collective business with corporate clients) market segments. In the market segment for insurance supplemental to statutory health insurance, the focus is on introducing benchmarkable stationary tariffs and developing a digital product concept, whereas in the fourth segment the aim is to raise professional standards further in the area of occupational health insurance. The third market segment is the private/statutory insurance convergence market. Our strategy for cooperation with statutory health insurance schemes will continue on the basis of the cooperation model practised at present. On 1 January 2016, we launched a new cooperation with a statutory health insurer.

With benefit expenses moderately increased and premium income somewhat higher, the loss ratio is expected to remain relatively constant in 2017 at a level well below 80%. Without allowance for countermeasures, we anticipate an extraordinary write-down on deferred acquisition costs in 2017, as a result of which underwriting expenses could significantly exceed the figure registered in 2016.

Earnings depend not only on the underwriting result but also appreciably on investment income. Owing to the sustained low level of interest rates, we also anticipate significantly recessive results here.

Distribution

A new Group strategy has been initiated to enable us effectively to meet environmental challenges such as low interest rates, slow market growth, increasing customer and agent service requirements and rapid developments in digitalization, regulation and demographics. It is a logical development of plans based on present objectives and carries the traditional insurance business model forward into the future. 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.

The first stage of the integration of direct insurer Asstel was completed with the merger of Asstel Lebensversicherung AG and Gothaer Lebensversicherung AG. In 2017 it is intended that Asstel Sachversicherung AG should be merged with Gothaer Allgemeine Versicherung AG. The portfolios of the exclusive organization and Asstel will in future be serviced both by the independent field force of Gothaer Versicherungsbank VVaG and by central activities under the Gothaer brand.

Changes in customer behaviour as a result of digitalization are catered for by the Gothaer multi-channel management project at the marketing interface with agents and customers. This is facilitated by closely integrating direct marketing with the independent Gothaer 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.

General

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.

Consolidated Financial Statements

Consolidated Statement of Financial Position

Assets

€ million

	Notes	2016	2015*	Opening balance sheet 2015
A. Intangible assets				
I. Goodwill	[1]	96.6	94.0	94.2
II. Other intangible assets	[2]	253.0	231.6	222.2
Total A.		**349.5**	**325.6**	**316.4**
B. Self-occupied property and tangible assets	[3]	**33.9**	**36.7**	**219.3**
of which in disposal groups		*0.0*	*0.0*	*63.0*
C. Investments				
I. Investment property	[4]	628.6	387.1	153.0
of which in disposal groups		*0.0*	*0.0*	*12.3*
II. Shares in joint ventures and associated companies – consolidated at equitiy	[5]	301.9	658.1	466.8
of which in disposal groups		*16.3*	*0.0*	*0.0*
III. Loans	[6]	5,097.3	5,276.4	5,248.1
of which companies over which a significant influence is exercised as a result of profit-sharing rights		*78.4*	*0.0*	*0.0*
IV. Investments available for sale	[7]	22,309.8	20,969.2	21,423.2
of which companies over which a significant influence is exercised as a result of profit-sharing rights		*469.0*	*0.0*	*0.0*
V. Investments measured at fair value through profit or loss	[8]			
1. Held for trading		49.5	105.3	111.7
2. By designation		128.2	83.3	72.1
of which companies over which a significant influence is exercised as a result of profit-sharing rights		*48.3*	*0.0*	*0.0*
Total V.		**177.7**	**188.6**	**183.9**
VI. Other investments	[9]	401.7	648.6	372.4
Total C.		**28,917.1**	**28,127.8**	**27,847.3**
D. Investments held for unit-linked life insurance policies		**2,023.5**	**1,935.4**	**1,802.0**
E. Receivables				
I. Receivables from primary insurance business				
1. from policyholders		108.3	127.6	130.2
2. from intermediaries		69.7	62.8	113.7
Total I.		**178.0**	**190.4**	**243.9**
II. Other receivables		925.5	851.0	773.3
Total E.	[10]	**1,103.5**	**1,041.4**	**1,017.2**
F. Cash and cash equivalents		**327.6**	**296.3**	**237.8**
G. Reinsurers' share of underwriting reserves				
I. Unearned premiums		115.7	123.0	111.5
II. Policy reserves		189.0	1,067.3	1,094.1
III. Reserves for unpaid claims		424.3	439.7	462.1
IV. Other underwriting reserves		−5.7	−4.6	−10.9
Total G.		**723.4**	**1,625.3**	**1,656.7**
H. Reinsurers' share of underwriting reserves for unit-linked life insurance policies		**0.0**	**0.0**	**0.0**
I. Deferred acquisition costs				
I. Gross		914.0	923.2	950.4
II. Reinsurers' share		25.6	26.7	25.1
Total I.	[11]	**888.3**	**896.5**	**925.4**
J. Tax assets				
I. from current taxation		87.1	106.8	112.3
II. from deferred taxes		654.4	595.3	598.5
of which in disposal groups		*0.0*	*0.0*	*1.2*
Total J.	[12]	**741.5**	**702.1**	**710.8**
K. Other assets	[13]	**4.2**	**6.1**	**10.6**
Total assets		**35,112.5**	**34,993.4**	**34,743.7**

* Comparatives after restatement

Equity and liabilities

€ million

	Notes	2016	2015*	Opening balance sheet 2015
A. Equity				
I. Revenue reserves		1,468.1	1,385.7	1,224.2
II. Other reserves	[14]			
1. Unrealized gains and losses		376.9	323.7	444.7
2. Currency translation reserve		−3.4	−4.6	−4.9
Total II.		**373.6**	**319.0**	**439.7**
III. Consolidated net profit for the year attributable to shareholders of the parent company		162.0	137.6	117.0
Total I.–III. (Group equity)		**2,003.7**	**1,842.3**	**1,780.9**
IV. Minority interests	[15]	56.8	46.9	32.7
Total A.		**2,060.5**	**1,889.2**	**1,813.7**
B. Gross underwriting reserves	[16]			
I. Unearned premiums	[17]	656.0	658.6	624.2
II. Policy reserves	[18]	19,742.1	19,656.6	19,459.6
III. Reserves for unpaid claims	[19]	2,569.5	2,551.0	2,534.5
IV. Other underwriting reserves	[20]	4,693.7	3,953.8	4,178.0
of which deferred reserves for premium refunds in disposal groups		*0.0*	*0.0*	*−18.1*
Total B.		**27,661.3**	**26,820.1**	**26,796.3**
C. Gross underwriting reserves for unit-linked life insurance policies		**2,023.5**	**1,935.4**	**1,802.0**
D. Other accruals				
I. Provisions for pension benefits and similar obligations	[21]	660.4	579.0	645.4
II. Other accruals	[22]	69.0	67.7	64.6
Total D.		**729.4**	**646.7**	**710.0**
E. Liabilities				
I. Participation certificates		20.0	20.0	20.0
II. Subordinate liabilities		314.3	504.8	286.9
III. Bonds and loans		155.7	155.7	199.9
IV. Liabilities from primary insurance business				
1. towards policyholders		535.2	580.5	616.9
2. towards intermediaries		32.8	37.0	40.8
Total IV.		**568.0**	**617.5**	**657.7**
V. Other liabilities		609.3	1,552.1	1,575.9
Total E.	[23]	**1,667.4**	**2,850.2**	**2,740.4**
F. Tax debts				
I. for current taxation		239.0	158.3	167.2
II. for deferred taxes		731.4	693.4	714.2
of which in disposal groups		*0.8*	*0.0*	*0.0*
Total F.	[24]	**970.4**	**851.7**	**881.4**
Total equity and liabilities		**35,112.5**	**34,993.4**	**34,743.7**

* Comparatives after restatement

Consolidated Statement of Comprehensive Income

			€ million
	Notes	2016	2015*
I. Statement of income (recognized through profit or loss)			
1. Premiums written			
a) Gross		4,410.9	4,516.5
b) Reinsurers' share		383.8	442.0
	[25]	**4,027.0**	**4,074.4**
2. Change in unearned premiums			
a) Gross		0.3	–35.0
b) Reinsurers' share		19.9	–13.4
	[25]	**–19.5**	**–21.6**
3. Savings components			
a) Gross		298.6	303.3
b) Reinsurers' share		0.0	0.1
	[25]	**298.6**	**303.2**
4. Net premiums earned (1+2–3)	[25]	**3,708.9**	**3,749.6**
5. Investment result	[26]	**1,612.3**	**1,214.0**
of which income from joint ventures and associated companies – consolidated at equitiy		*165.9*	*95.8*
6. Income from investments held for unit-linked life insurance policies	[26]	**71.2**	**92.8**
7. Other income	[27]	**142.1**	**187.2**
Total income		**5,534.5**	**5,243.6**
8. Policyholder benefits			
a) Gross		4,468.6	4,189.2
b) Reinsurers' share		270.5	279.1
	[28]	**4,198.1**	**3,910.2**
9. Underwriting expenses			
a) Gross		844.7	853.6
b) Reinsurers' share		85.3	80.8
	[29]	**759.4**	**772.8**
10. Other expenses	[30]	**273.1**	**281.4**
Total expenses		**5,230.6**	**4,964.4**
11. Operating result		**303.9**	**279.1**
12. Financing expenses		**31.9**	**25.5**
13. Net profit for the year before taxes		**272.0**	**253.6**
14. Taxes on income	[31]	**107.8**	**113.0**
15. Net profit for the year		**164.2**	**140.6**
of which attributable to shareholders of the parent company		*162.0*	*137.6*
of which attributable to minority interests		*2.2*	*3.0*
II. Other comprehensive income (recognized directly in equity)			
16. Unrealized gains and losses	[32]	**61.6**	**–121.4**
17. Actuarial gains and losses relating to defined benefit pension plans		**–50.4**	**44.5**
18. Change in valuation at equity		**–0.9**	**0.9**
19. Currency translation		**1.3**	**0.3**
20. Other comprehensive income (total)		**11.6**	**–75.6**
of which attributable to shareholders of the parent company		*3.6*	*–76.1*
of which attributable to minority interests		*7.9*	*0.5*
III. Comprehensive income		**175.8**	**64.9**
of which attributable to shareholders of the parent company		*165.7*	*61.5*
of which attributable to minority interests		*10.1*	*3.4*

* Comparatives after restatement

Statement of Changes in Equity

€ million

	Group equity				Minority interests	Total**
	Revenue reserves**	Other reserves*		Net profit for the year**		
		Unrealized gains and losses**	Currency translation reserve			
Balance as of 1 January 2015	**1,224.2**	**444.7**	**–4.9**	**117.0**	**32.7**	**1,813.7**
Change in consolidated group	–0.1	0.0	0.0	0.0	18.5	18.3
Allocation to revenue reserves	117.0	0.0	0.0	–117.0	0.0	0.0
Comprehensive income	44.6	–121.0	0.3	137.6	3.4	64.9
Net profit for the year	0.0	0.0	0.0	137.6	3.0	140.6
Other comprehensive income	44.6	–121.0	0.3	0.0	0.5	–75.6
Unrealized gains and losses	0.0	–121.8	0.0	0.0	0.4	–121.4
Actuarial gains and losses relating to defined benefit pension plans	44.5	0.0	0.0	0.0	0.0	44.5
Change in valuation at equity	0.1	0.8	0.0	0.0	0.0	0.9
Currency translation	0.0	0.0	0.3	0.0	0.0	0.3
Dividend	0.0	0.0	0.0	0.0	–5.9	–5.9
Other	0.0	0.0	0.0	0.0	–1.8	–1.8
Balance as of 31 December 2015	**1,385.7**	**323.7**	**–4.6**	**137.6**	**46.9**	**1,889.2**
Change in consolidated group	–4.3	0.0	0.0	0.0	5.7	1.5
Allocation to revenue reserves	137.6	0.0	0.0	–137.6	0.0	0.0
Comprehensive income	–50.9	53.2	1.3	162.0	10.1	175.8
Net profit for the year	0.0	0.0	0.0	162.0	2.2	164.2
Other comprehensive income	–50.9	53.2	1.3	0.0	7.9	11.6
Unrealized gains and losses	0.0	53.5	0.0	0.0	8.0	61.6
Actuarial gains and losses relating to defined benefit pension plans	–50.3	0.0	0.0	0.0	–0.1	–50.4
Change in valuation at equity	–0.6	–0.3	0.0	0.0	0.0	–0.9
Currency translation	0.0	0.0	1.3	0.0	0.0	1.3
Dividend	0.0	0.0	0.0	0.0	–4.6	–4.6
Other	0.0	0.0	0.0	0.0	–1.4	–1.4
Balance as of 31 December 2016	**1,468.1**	**376.9**	**–3.4**	**162.0**	**56.8**	**2,060.5**

* See also table 14 Other reserves
** Comparatives after restatement

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

Statement of Cash Flows

€ million	2016	2015**
Net profit for the year*	164.2	140.6
Change in underwriting reserves	1,670.6	616.6
Change in underwriting reserves for unit-linked life insurance policies	87.9	133.1
Change in deferred acquisition costs	8.0	28.9
Change in deposits retained on assumed business/received from reinsurers and receivables/liabilities in connection with reinsurance business	–893.5	25.1
Change in investments measured at fair value through profit or loss	51.8	–322.8
Change in other receivables and liabilities	40.6	–58.8
Change in deferred tax assets and deferred tax liabilities	–21.1	17.8
Change in other balance sheet items	114.4	49.1
Gains and losses on disposal of tangible assets and investments	–880.1	–267.5
Correction for investment income and expenses without cash inflows/outflows	90.8	16.7
Correction for other income and expenses without cash inflows/outflows and other correction of net profit for the year	86.0	80.3
Cash flow from operating activities	**519.8**	**459.1**
Cash outflows for the acquisition of consolidated companies	–108.4	–73.5
Cash inflows from the disposal of consolidated companies	35.0	84.0
Cash outflows for the acquisition of other investments	–8,763.3	–8,082.6
Cash inflows from the disposal of other investments	8,636.8	7,440.8
Change in investments for unit-linked life insurance policies	8.9	10.8
Other cash inflows	1.9	108.5
Other cash outflows	–74.9	–61.2
Cash flow from investing activities	**–264.0**	**–573.1**
Cash inflows from increase of capital	–0.3	0.0
Cash outflows from decrease of capital	–1.7	–1.8
Dividend	–4.6	–5.9
Change in participation certificates and subordinate liabilities	–190.5	222.9
Change from other financing activities	–29.3	–27.1
Cash flow from financing activities	**–226.4**	**188.1**
Change in cash and cash equivalents with cash inflows/outflows	**29.3**	**74.1**
Cash and cash equivalents at the beginning of financial year	296.3	237.8
Change in cash and cash equivalents due to change of currency exchange rates	0.9	0.4
Change in cash and cash equivalents due to change in consolidated group	1.1	–16.1
Cash and cash equivalents at the end of financial year	**327.6**	**296.3**

* Including minority interests
** Comparatives after restatement

Other information on statement of cash flows

€ million	2016	2015*
Operating activities		
Taxes on income paid (net)	– 227.1	– 97.9
Interest paid	– 71.7	– 80.4
Interest received	750.0	762.4
Dividend received	195.1	224.5
Financing activities		
Interest paid	– 29.2	– 20.3

* Comparatives after restatement

Sales and acquisitions of subsidiaries

Gothaer Fünfte Kapitalbeteiligungsgesellschaft mbH & Co. KG was sold in the year under review, including its shares in DKV Mobility Services Holding GmbH & Co. KG. The special-purpose entity Median Trust SA Compartment 2012/620 was also sold. Four new special-purpose entities – HC Property Heureka I Alpha S. à. r. l., HC Property Heureka II Beta S. à. r. l., HC Property Heureka III Gamma S. à. r. l. and HC Property Heureka IV Delta S. à. r. l. – were acquired.

For more information about this, please refer to the chapter on Scope of Consolidation.

For the impacts of these sales and acquisitions on cash flows, please see the table below.

Effects on the cash flow statement € million	2016	2015
Cash outflow for the acquisition of companies	– 106.4	– 73.5
Cash inflow from the disposal of companies	34.1	67.9
Total acquisition price	– 108.4	– 73.5
of which paid in cash and cash equivalents	– 108.4	– 73.5
Total disposal price	294.0	84.0
of which received in cash and cash equivalents	35.0	84.0
Cash and cash equivalents acquired through acquisition	2.0	0.0
Cash and cash equivalents transferred through disposal	– 0.9	– 16.1

Segmental Report

The Segmental Report is part of the notes to the consolidated financial statements and is prepared in line with IFRS 8 "Operating Segments".

Segment assets

	Property/Casualty		Life	
	2016	2015	2016	2015
A. Other intangible assets	**134.7**	**118.3**	**30.3**	**20.1**
B. Self-occupied property and tangible assets	**16.3**	**17.2**	**3.4**	**2.6**
of which in disposal groups	*0.0*	*0.0*	*0.0*	*0.0*
C. Investments				
I. Investment property	0.0	0.0	0.0	0.0
II. Shares in subsidiaries, joint ventures and associated companies				
– consolidated at equitiy	0.0	0.0	0.0	0.0
of which in disposal groups	*0.0*	*0.0*	*0.0*	*0.0*
– not consolidated	1,197.3	1,190.8	398.6	532.7
III. Loans	860.2	1,035.6	3,530.4	3,765.6
of which companies over which a significant influence is exercised as a result of profit-sharing rights	*0.0*	*0.0*	*47.7*	*0.0*
IV. Investments available for sale	2,765.0	2,678.4	13,472.5	12,719.1
of which companies over which a significant influence is exercised as a result of profit-sharing rights	*11.5*	*0.0*	*409.9*	*0.0*
V. Investments measured at fair value through profit or loss				
1. Held for trading	1.2	9.7	28.1	70.2
2. By designation	20.0	18.1	39.0	0.0
of which companies over which a significant influence is exercised as a result of profit-sharing rights	*0.0*	*0.0*	*37.1*	*0.0*
Total V.	**21.2**	**27.8**	**67.1**	**70.2**
VI. Other investments	201.1	205.6	32.6	250.4
Total C.	**5,044.8**	**5,138.2**	**17,501.3**	**17,338.1**
D. Investments held for unit-linked life insurance policies	**0.0**	**0.0**	**2,023.5**	**1,935.4**
E. Reinsurers' share of underwriting reserves	**584.1**	**602.1**	**415.8**	**1,060.5**
F. Reinsurers' share of underwriting reserves for unit-linked life insurance policies	**0.0**	**0.0**	**5.6**	**0.0**
G. Deferred acquisition costs	**102.5**	**86.8**	**630.2**	**651.1**
H. Other segment assets	**992.7**	**919.2**	**935.6**	**772.3**
Total segment assets	**6,875.2**	**6,881.8**	**21,545.8**	**21,780.0**

* Comparatives after restatement

							€ million
Health		Other Activities		Consolidation		Total	
2016	2015	2016	2015	2016	2015*	2016	2015*
43.1	**47.7**	**44.9**	**45.5**	**0.0**	**0.0**	**253.0**	**231.6**
2.1	**1.7**	**12.4**	**15.3**	**−0.3**	**0.0**	**33.9**	**36.7**
0.0	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
0.0	0.0	656.3	415.3	−27.7	−28.2	628.6	387.1
0.0	0.0	234.4	386.5	67.5	271.5	301.9	658.1
0.0	*0.0*	*60.1*	*0.0*	*−43.8*	*0.0*	*16.3*	*0.0*
230.6	212.3	1,147.1	1,178.0	−2,973.6	−3,113.8	0.0	0.0
1,470.6	1,435.5	232.4	227.9	−996.4	−1,188.2	5,097.3	5,276.4
30.6	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*78.4*	*0.0*
5,460.9	5,042.7	623.2	539.0	−11.8	−10.1	22,309.8	20,969.2
48.5	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*469.9*	*0.0*
20.0	23.8	0.1	1.6	0.0	0.0	49.5	105.3
29.9	18.7	39.4	46.5	0.0	0.0	128.2	83.3
11.3	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*48.3*	*0.0*
49.9	**42.5**	**39.5**	**48.1**	**0.0**	**0.0**	**177.7**	**188.6**
46.9	63.7	368.2	128.8	−247.1	0.0	401.7	648.6
7,258.9	**6,796.8**	**3,301.1**	**2,923.6**	**−4,189.0**	**−4,068.8**	**28,917.1**	**28,127.8**
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2,023.5**	**1,935.4**
0.0	**0.7**	**0.2**	**5.5**	**−276.7**	**−43.5**	**723.4**	**1,625.3**
0.0	**0.0**	**0.0**	**0.0**	**−5.6**	**0.0**	**0.0**	**0.0**
155.6	**158.6**	**0.0**	**0.0**	**0.0**	**0.0**	**888.3**	**896.5**
442.8	**369.8**	**304.0**	**385.3**	**−498.5**	**−400.7**	**2,176.7**	**2,045.9**
7,902.5	**7,375.3**	**3,662.6**	**3,375.2**	**−4,970.1**	**−4,513.0**	**35,016.0**	**34,899.4**

Segment liabilities

	Property/Casualty		Life	
	2016	2015	2016	2015
A. Gross underwriting reserves				
I. Unearned premiums	656.0	658.3	0.0	0.0
II. Policy reserves	47.3	49.5	14,783.1	14,839.9
III. Reserves for unpaid claims	2,191.9	2,147.3	80.5	71.0
IV. Other gross underwriting reserves	26.3	26.7	2,641.7	2,278.0
Total A.	**2,921.5**	**2,881.8**	**17,505.3**	**17,189.0**
B. Gross underwriting reserves for unit-linked life insurance policies	**0.0**	**0.0**	**2,023.5**	**1,935.4**
C. Other accruals	**391.7**	**341.0**	**92.5**	**89.7**
D. Other segment liabilities	**1,219.3**	**1,397.2**	**1,265.8**	**1,986.9**
of which deferred taxes in disposal groups	*0.0*	*0.0*	*0.0*	*0.0*
Total segment liabilities	**4,532.5**	**4,620.1**	**20,887.1**	**21,201.0**

* Comparatives after restatement

€ million

Health		Other Activities		Consolidation		Total	
2016	2015	2016	2015*	2016	2015*	2016	2015*
0.0	0.0	0.0	0.0	0.0	0.3	656.0	658.6
4,934.8	4,795.0	233.9	0.0	−256.9	−27.8	19,742.1	19,656.6
168.5	177.5	171.5	199.0	−42.9	−43.9	2,569.5	2,551.0
2,070.1	1,792.3	0.1	0.1	−44.5	−143.3	4,693.7	3,953.8
7,173.3	**6,764.9**	**405.5**	**199.1**	**−344.3**	**−214.7**	**27,661.3**	**26,820.1**
0.0	**0.0**	**5.6**	**0.0**	**−5.6**	**0.0**	**2,023.5**	**1,935.4**
62.7	**53.0**	**182.4**	**163.1**	**0.0**	**0.0**	**729.4**	**646.7**
285.9	**238.1**	**1,416.6**	**1,289.0**	**−1,549.8**	**−1,209.3**	**2,637.8**	**3,701.9**
0.0	*0.0*	*0.8*	*0.0*	*0.0*	*0.0*	*0.8*	*0.0*
7,522.0	**7,056.0**	**2,010.1**	**1,651.1**	**−1,899.7**	**−1,423.9**	**33,052.0**	**33,104.2**

Segment statement of income

	Property/Casualty		Life	
	2016	2015*	2016	2015
1. Gross premiums written from insurance business with other segments	0.0	0.0	0.0	0.0
from insurance business with non-related third parties	2,151.1	2,150.8	1,352.3	1,431.4
	2,151.1	**2,150.8**	**1,352.3**	**1,431.4**
2. Net premiums earned	**1,798.6**	**1,780.8**	**985.5**	**1,037.1**
3. Investment result	**208.2**	**277.3**	**1,034.2**	**808.5**
of which income from joint ventures and associated companies – consolidated at equitiy	*0.0*	*0.0*	*0.0*	*0.0*
4. Income from investments held for unit-linked life insurance policies	**0.0**	**0.0**	**71.2**	**92.8**
5. Other income	**119.3**	**114.0**	**30.2**	**42.2**
Total income	**2,126.1**	**2,172.1**	**2,121.1**	**1,980.7**
6. Policyholder benefits (net)	**1,201.8**	**1,192.7**	**1,801.0**	**1,668.4**
7. Underwriting expenses (net)	**541.7**	**548.6**	**148.0**	**157.7**
8. Other expenses	**195.2**	**190.5**	**62.3**	**59.1**
Total expenses	**1,938.6**	**1,931.8**	**2,011.3**	**1,885.1**
9. Operating result	**187.5**	**240.3**	**109.8**	**95.6**
10. Financing expenses	**25.0**	**18.5**	**3.1**	**3.0**
11. Net profit for the year before taxes	**162.5**	**221.8**	**106.7**	**92.6**
12. Taxes on income	**66.4**	**79.0**	**50.4**	**41.1**
13. Net profit for the year	**96.1**	**142.8**	**56.3**	**51.5**
14. Minority interests in net profit for the year				
15. Consolidated profit for the year attributable to shareholders of the parent company**				

* Comparatives after restatement
** The consolidated profit for the year is shown only for the Group as a whole.
Segmentation would result in an inaccurate presentation due to interlocking intersegmental arrangements.

€ million

Health		Other Activities		Consolidation		Total	
2016	2015	2016	2015*	2016	2015*	2016	2015*
0.0	0.0	18.9	0.0	−18.9	0.0	0.0	0.0
907.4	934.2	0.1	0.0	0.0	0.0	4,410.9	4,516.5
907.4	**934.2**	**19.0**	**0.0**	**−18.9**	**0.0**	**4,410.9**	**4,516.5**
905.9	**931.7**	**19.0**	**0.0**	**0.0**	**0.0**	**3,708.9**	**3,749.6**
370.2	**262.8**	**144.8**	**209.7**	**−145.1**	**−344.4**	**1,612.3**	**1,214.0**
0.0	*0.0*	*22.1*	*35.6*	*143.8*	*60.2*	*165.9*	*95.8*
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**71.2**	**92.8**
8.2	**6.0**	**316.0**	**341.7**	**−331.8**	**−316.8**	**142.1**	**187.2**
1,284.3	**1,200.5**	**479.8**	**551.5**	**−476.9**	**−661.2**	**5,534.5**	**5,243.6**
1,096.6	**1,049.4**	**16.2**	**−3.1**	**82.7**	**2.7**	**4,198.1**	**3,910.2**
68.3	**71.0**	**1.4**	**1.3**	**0.0**	**−5.7**	**759.4**	**772.8**
22.5	**24.5**	**337.1**	**353.4**	**−344.0**	**−346.0**	**273.1**	**281.4**
1,187.4	**1,144.8**	**354.7**	**351.6**	**−261.4**	**−348.9**	**5,230.6**	**4,964.4**
96.9	**55.6**	**125.1**	**199.9**	**−215.5**	**−312.3**	**303.9**	**279.1**
0.0	**0.0**	**18.4**	**18.3**	**−14.6**	**−14.3**	**31.9**	**25.5**
96.9	**55.6**	**106.7**	**181.6**	**−200.9**	**−298.0**	**272.0**	**253.6**
35.0	**22.7**	**−4.6**	**13.4**	**−39.5**	**−43.2**	**107.8**	**113.0**
61.9	**32.9**	**111.3**	**168.2**	**−161.4**	**−254.8**	**164.2**	**140.6**
						2.2	**3.0**
						162.0	**137.6**

Other information on the segmental reports

€ million

	Property/ Casualty		Life		Health		Other Activities	
	2016	2015*	2016	2015*	2016	2015*	2016	2015*
Interest income	85.5	97.4	427.6	500.5	179.0	203.4	23.5	17.8
Interest expense	43.8	42.0	50.3	44.6	2.1	3.0	48.5	45.4
Scheduled depreciation and amortization	19.7	27.1	4.2	3.1	7.8	7.5	31.2	22.0
Substantive income (+) and expenses (–) without cash inflows/ outflows**	−90.7	−132.1	−1,069.6	−289.8	−435.7	−375.5	−250.3	19.6

* Comparatives after restatement
**Excluding scheduled depreciation and amortization

In the Property/Casualty, Life and Health segments, the figures stated for scheduled depreciation and amortization as well as substantive income and expenses without cash inflows/outflows do not include depreciation or write-ups on intangible assets or fixed assets. In the case of insurance companies, these expenses and income are spread over investment expenses, policyholder benefits and underwriting expenses within the framework of cost unit accounting.

Post-balance sheet events

No events occurred that would require separate disclosure.

The Management of Gothaer Versicherungsbank VVaG approved the consolidated financial statements for submission to the Supervisory Board on 20 April 2017. The Supervisory Board is responsible for examining the consolidated financial statements and issuing a statement as to whether or not it approves the consolidated financial statements.

Cologne, 20 April 2017

Management

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

Auditor's Report

We audited the consolidated financial statements prepared by GOTHAER Versicherungsbank VVaG, Cologne – consisting of the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the consolidated financial statements – and the Group management report for the financial year from 1 January to 31 December 2016. In accordance with the International Financial Reporting Standards (IFRS) as applied in the EU and the complementary provisions of commercial law pursuant to Section 315a(1) of the German Commercial Code (HGB), Management of the parent company is responsible for the preparation of the consolidated financial statements and the Group management report. Our responsibility is to provide an opinion on the consolidated financial statements and the Group management report on the basis of our audit.

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

Our audit resulted in no reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as applied in the EU, and the complementary provisions of commercial law pursuant to section 315a(1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, conforms to statutory requirements, conveys a true and fair view of the situation of the Group and accurately presents the opportunities and risks of future developments.

Cologne, 24 May 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

(Hansen)	(Stümper)
Wirtschaftsprüfer	Wirtschaftsprüferin

Report of the Supervisory Board

The Supervisory Board continuously monitored the conduct of business by Management in the course of the 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 six meetings. The Board was involved in all decisions of fundamental importance for the Company. Solvency II requirements were successfully integrated in reporting. 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. The Board also monitored the development of membership figures and the measures taken to raise the standard of service and advice for the exclusive organization. The Board 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. With regard to the personal insurance companies in the equity investment portfolio, the Board made a point of keeping abreast of developments in investment book values because the companies are under intense long-term pressure due to the low-interest environment and the need to form additional policy reserves.

The market environment has changed fundamentally for insurers in many respects. After analyzing the mega-issues facing the insurance industry, Management started in mid-2015 to develop Strategy 2020. Based on the five strategic cornerstones identified, future action will be geared to 12 core objectives in the areas of market and customer, products, organization and processes. The concretization, communication and implementation of those objectives figured prominently in Management reporting to the Supervisory Board in 2016. Special attention was paid by the Board to the impacts of the low-interest environment on the personal insurance companies in the Group. The Board received regular reports on the programme for realigning Gothaer Lebensversicherung AG and Gothaer Pensionskasse AG – a multi-annual programme which will ensure that appropriate account is taken of the challenges presented by the low-interest phase, the need to form additional policy reserves (Zinszusatzreserven) and Solvency II. This includes defining the required solvency margin and the resulting consequences for product and pricing strategy in new business. Reporting also focused on different interest rate scenarios and their implications for the Company. The Board received detailed updates on the repositioning measures taken and the measures designed to allow the financial requirements of additional policy reserving to be met primarily from internal funding resources. The Board approved a capital injection by the holding company. The Company uses the Solvency II transitional for technical provisions and the volatility adjustment.

Management regularly informed the Supervisory Board of its mid-term corporate planning, the solvency developments, the risk strategy and the risk situation of Group companies. The Audit Committee established by the Supervisory Board in line with section 107(3) AktG also 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 benchmarks into account. There were no objections. The Audit Committee therefore proposed to the Supervisory Board that the financial statements for the financial year 2016 should be formally adopted in accordance with section 172 of the German Stock Corporation Act (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 Supervisory Board performed its statutory duty to examine Management personnel matters. In the financial year 2016, Dr. Christopher Lohmann was appointed to Management with effect from 1 April 2017 in preparation for the departure of Mr. Leicht, who chose not to renew his contract for personal reasons and leaves the Management with effect from 28 February 2017. The Management appointment of Dr. Mathias Bühring-Uhle was extended for five years. The Board also needed to address the preliminary findings of the investigation of a whistleblower complaint.

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

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

The financial strength ratings carried out for Group companies in 2016 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 and Gothaer Lebensversicherung AG again confirmed the ratings received in the past from Standard & Poor's (A–) and FitchRatings (A). Gothaer Krankenversicherung also retained its prior-year rating (A–) from Standard & Poor's. The financial statements for the 2016 financial year with the management report and the consolidated financial statements for 2016 prepared in accordance with IFRS and the Group management report were audited, including in each case assessment of the early risk warning system, by the auditor appointed pursuant to section 341k HGB, KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne.

Both sets of financial statements received an unqualified audit opinion from the audit firm. The auditors attended the relevant Supervisory Board meeting 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 2016 financial year and the consolidated financial statements and Group management report for the 2016 financial year, the Supervisory Board raised no objections. The Supervisory Board approved the financial statements and the consolidated financial statements for the year 2016. 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 their work last year.

Köln, 24 May 2017

The Supervisory Board

Prof. Dr. Werner Görg
Chairman

Gothaer
Versicherungsbank VVaG
Arnoldiplatz 1
50969 Cologne

Tel. 0221 308-00
Fax 0221 308-103
www.gothaer.de