

Gothaer



**Gothaer Allgemeine Versicherung AG
Annual Report 2009**

Five-Year Summary

€000					
	Business Year*				
	2009	2008	2007	2006	2005
Gross premiums written	1,400,400	1,414,553	1,396,780	1,371,113	1,394,545
Premiums net of reinsurance	1,161,474	1,168,623	1,146,386	1,089,437	1,048,367
Retention (in %)	82.9	82.6	82.1	79.5	75.2
Losses incurred net of reinsurance	800,694	777,853	755,020	694,682	686,648
In % of premiums earned	69.4	67.0	66.1	63.8	65.9
Underwriting expenses net of reinsurance	340,902	368,906	357,425	333,299	317,172
In % of premiums earned	29.4	31.6	31.2	30.6	30.3
Net income for the year¹⁾	85,392	72,167	85,783	82,500	67,000
Investments²⁾	2,861,216	2,698,606	2,675,335	2,623,922	2,344,425
Net return (%)	3.8	4.2	5.1	4.3	4.2
Gross underwriting reserves	2,826,823	2,826,318	2,771,899	2,668,894	2,578,466
In % of gross premiums	201.9	199.8	198.4	194.7	184.9
Equity capital³⁾	567,828	609,728	572,919	572,919	374,049
In % of premiums net of reinsurance	48.9	52.2	50.0	52.6	35.7
Policies in force (thousands)	5,111	5,137	5,240	5,403	5,553
Claims reported (thousands)	397	424	486	433	451
Employees	2,371	2,521	2,587	2,638	2,699

* The business years 2005 and 2006 refer to Gothaer Allgemeine Versicherung AG. The figures of Gothaer Creditversicherung AG and Gothaer Allgemeine Versicherung AG were accumulated for the financial year 2007.

1) Before transfer of profit and tax charged by the controlling company 2005 to 2007 and 2009

2) Exclusive of outstanding deposits

3) Including special dividend right certificates and subordinate liabilities

Gothaer Allgemeine Versicherung AG

Annual Report 2009

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

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Supervisory Board

Dr. Roland Schulz	Chairman Former Managing Partner, Düsseldorf
Peter-Josef Schützeichel *)	Vice Chairman Employee, Chairman of the Central Works Council of Gothaer Allgemeine Versicherung AG, Öhringen Up to 26 August 2009 Ordinary Member As of 26 August 2009 Vice Chairman
Dieter Bick	Diplom-Betriebswirt, Management Consultant, Cologne
Diethelm Garvelmann *)	Employee, Up to 26 August 2009 Vice Chairman As of 26 August 2009 Ordinary Member
Carl Graf von Hardenberg	Chairman of the Supervisory Board of Hardenberg-Wilthen AG, Nörten-Hardenberg
Judith Kerschbaumer *)	Trade Union Secretary of ver.di, Lawyer, Berlin
Dr. Dirk Niedermeyer	Director of Fürst zu Bentheimische Domänenkammer, Steinfurt
Jürgen Oberbusch *)	Employee, Köln
Harald Ommer *)	Head Staff Sales Center, Overath
Edgar Schoenen *)	Employee, Cologne
Dr. Gerd G. Weiland	Lawyer, Hamburg
Dr. Ulrike Wolff	Dr. Wolff Managementberatung, Berlin

*) Elected by employees.

Management

Thomas Leicht	Chairman Cologne
Dr. Werner Görg	Cologne
Dr. Helmut Hofmeier	Bergisch-Gladbach
Michael Kurtenbach	Director of Industrial Relations (As of 1 March 2010) Bornheim
Jürgen Meisch	Cologne
Dr. Hartmut Nickel-Waninger	Cologne
Dr. Herbert Schmitz	Director of Industrial Relations Cologne Up to 28 February 2010
Oliver Schoeller	Cologne As of 1 March 2010

Pursuant to section 285(10) of the German Commercial Code (HGB), the names of the members of the Supervisory Board and Management must also be disclosed in the Notes to the Financial Statements.

Advisory Board

Werner Dacol	Managing Director of Aachener Siedlungs- und Wohnungsgesellschaft mbH, Cologne
Prof. Dr. Klaus Goder	Specialist for General Medicine, Neuss As of 26 June 2009
Eckhard Netzmann	Diplom-Ingenieur, Unternehmensberater, Berlin
Uwe von Padberg	Diplom-Ingenieur, Corporate Consultant, Berlin
Jürgen Scheel	Chairman of the Management of Kieler Rückversicherungsverein a.G., Mühbrook As of 26 June 2009
Prof. Dr. jur. Jürgen Vocke	Judge (Retd), Member of the Landtag of Bavaria, President of Landesjagdverband Bayern e.V., Ebersberg
Axel F. Waschmann	Executive Officer of EWE Aktiengesellschaft (Retd), Oldenburg

Management Report

Overview of Business Developments

Gothaer Allgemeine Versicherung AG is able to report that the encouraging performance of previous years continued into the financial year 2009. Despite a difficult economic environment due to the financial market crisis, the Company further improved its earning capacity.

The underwriting account shows another increase in reinsurance business assumed set against a decrease in gross premium income from direct insurance business. Gross losses incurred decreased further in comparison to those of the prior year. The gross loss ratio, at 63.7%, remained constant at a good level. Underwriting expenses reflected the development of premium income.

Premium income net of reinsurance tracked gross premiums, showing a moderate downturn. Underwriting expenses net of reinsurance decreased accordingly, while losses incurred net of reinsurance increased. Overall, this resulted again in a positive underwriting result before adjustment of equalization reserves.

After adjustment of equalization reserves, the Income Statement shows an increased underwriting profit of € 25.7 million in comparison to the prior year.

2009 was marked by the financial market crisis and was a difficult year for investment. Nevertheless, a satisfactory investment result was achieved, contributing significantly to the overall performance of the Company.

After allowance for other income and expenses, income before taxes totalled € 85.8 million, exceeding the prior-year figure. After deduction of tax expenses, profit amounted to € 61.8 million, which was transferred to Gothaer Finanzholding AG under the new profit transfer agreement concluded in the financial year.

Premium Income

Gross premiums written decreased by 1.0 % (PY: +1.3 %) to € 1.40 billion (PY: € 1.41 billion) in the financial year 2009.

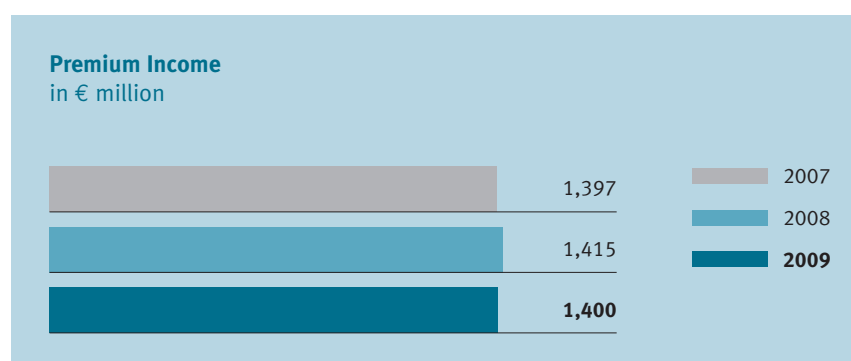
This development was the net result of a moderate downturn in direct insurance business and a moderate increase in reinsurance business assumed.

Direct premiums written decreased by 1.5 % to € 1.26 billion. This fall was essentially due to automotive insurance business.

The latter figure includes direct premiums written in other countries, which, at € 9.8 million, were significantly up on the prior-year volume (PY: € 8.5 million). Our resources in this area of business are concentrated on providing services to meet the needs of our domestic clients while in other European Union countries.

Reinsurance premiums assumed showed a further increase of € 5.7 million to € 136.2 million (PY: € 130.6 million). This rise resulted essentially from expansion of active reinsurance business assumed from Roland Rechtsschutz-Versicherungs-AG. The volume of premiums ceded to our reinsurance providers reflected the development of gross premium income, decreasing by 0.6 % to € 238.9 million (PY: € 245.9 million). This led to a moderately increased retention ratio of 82.9 % (PY: 82.6 %). As a result, net premium income retained amounted to € 1,161.5 million (PY: € 1,168.6 million).

At the end of the year, the insurance portfolio comprised 5,111,216 direct policies with a residual term of at least one year (PY: 5,137,412).



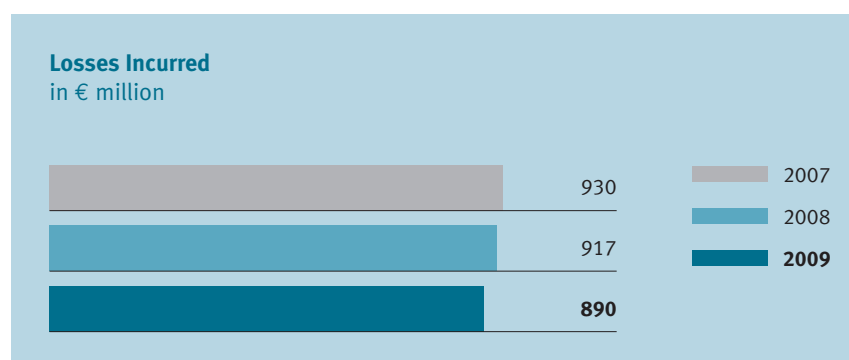
Claims

Losses reported in the financial year 2009 were again marked by a significant decrease in new claims compared to the prior year.

The number of new claims reported dropped by 26,980, or 6.4%, to 397,320 and was thus significantly lower than in 2008. Gross losses incurred mirrored this development, decreasing by € 53.0 million, or 6.4%, to € 781.4 million. Nearly all lines of insurance contributed to this positive development, especially accident, liability and automotive lines.

In reinsurance business assumed, gross losses incurred increased disproportionately to premium growth. Overall, the improvement in direct written business resulted in a gross loss ratio of 63.7%, which was again lower than in the prior year (PY: 65.1%). Still at a good level, the loss ratio confirms the effectiveness of the measures taken in past years to improve underwriting results.

After deduction of reinsurers' shares, losses incurred net of reinsurance totalled € 800.7 million (PY: € 777.9 million). The year-on-year increase was essentially due to the absence of major losses and the resulting lack of relief through reinsurance. The loss ratio net of reinsurance rose from 67.0% in the prior year to 69.4%. The loss reserve ratio net of reinsurance, at 145.0%, was higher than in the prior year.

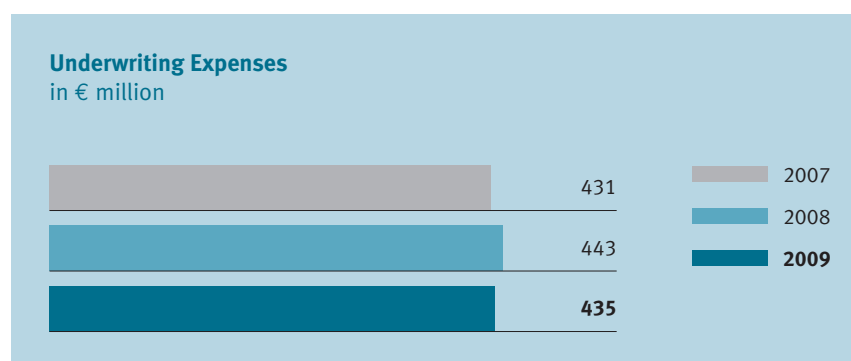


Underwriting Expenses

Gross underwriting expenses mirrored the development of premium income in the financial year 2009, decreasing by 1.8 % or € 7.8 million to € 434.9 million (PY: € 442.7 million). The gross underwriting expense ratio – defined here as the ratio of underwriting expenses to premiums written – improved from 31.3 % to 31.1 %.

Total underwriting expenses included € 65.0 million in commissions and € 369.9 million for management of policies. The ratios of commissions and administrative expenses to gross premiums written were 4.6 % and 26.4 % respectively.

Underwriting expenses net of insurance decreased by 7.6 % to € 340.9 million (PY: € 368.9 million). As a result of these developments, the underwriting expense ratio net of re-insurance improved to 29.4 % (PY: 31.6 %).



Underwriting Result

The underwriting result before adjustment of equalization reserves is dependent upon the development of three significant components, namely the decrease of premiums earned net of reinsurance, the concomitant improvement in underwriting expenses net of reinsurance and the moderate upturn in losses incurred net of reinsurance. Calculated on this basis, the underwriting result before adjustment of equalization reserves came to € 10.1 million, which was more than the € 5.0 million posted in the prior year. € 15.6 million, on balance, needed to be withdrawn from the equalization reserves (PY: € 3.5 million). After this withdrawal from the equalization reserves, the underwriting result amounted to a distinctly positive € 25.7 million (PY: € 1.5 million).

Investments

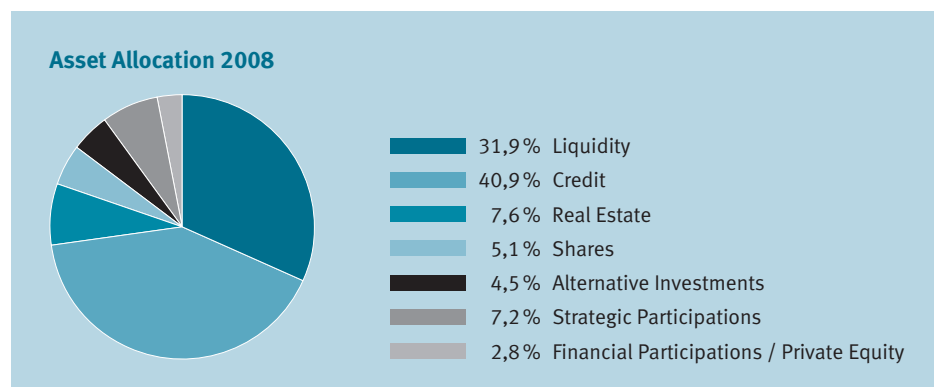
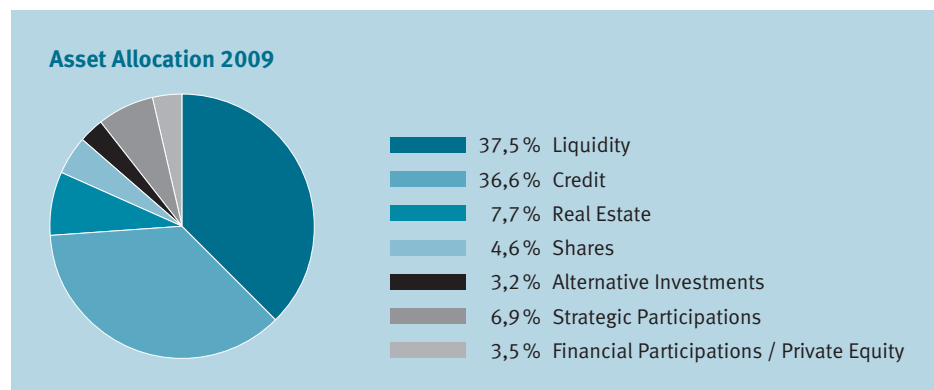
Gothaer Allgemeine Versicherung AG pursues an investment policy geared to the more stringent capitalization requirements that will be implemented in the future under Solvency II. The primary focus here is risk-adjusted performance management. To ensure the Company has the required risk-bearing capacity, investment strategy is embedded – as at all other Group companies – in a proficient asset/liability management system. In 2009, Gothaer Allgemeine Versicherung AG remained systematically committed to an investment policy geared to stable current income. One of the top priorities of this strategy is to ensure that risks are broadly spread over the different types of investment.

Apart from government bonds and mortgage bonds (Pfandbriefe), the investment portfolio also encompasses corporate bonds. The latter include both senior and subordinate bonds issued by financials (banks, insurance companies, financial service providers) or corporates. Owing to the long-term nature of our investment in bonds, the entire bond portfolio has been recognized for years under fixed assets; on-balance-sheet depreciation is performed only where permanent impairment occurs. Temporary fluctuations in value due to interest rate movements or credit risk and price changes are recorded by the application of section 341b II of the German Commercial Code (HGB). We refrained again from using this accounting option for any other investment category in 2009. Adverse changes in the value of investments classed as current assets at balance sheet date are taken into account by direct value adjustments.

The financial year 2009 was marked by the ongoing financial market crisis. The performance of investments was subject to dramatic fluctuations in markets, which became significantly gentler towards the end of the year. Despite a difficult environment, the carrying value of the Gothaer Allgemeine Versicherung AG investment portfolio increased by around 6% to around € 2.9 billion in 2009. Sustained losses in value due to the financial market crisis were written down. At the same time, the fixed-interest portfolio was adjusted – accepting one-off losses – by acceptance of exchange offers and restructuring of corporate bonds.

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

Asset Allocation



Due to the crisis, investment policy in 2009 focused on a reduction of risk capital. As a consequence of this, alternative investments and investment in shares hedged by long put options were reduced and reversed together with the hedging positions with no effect on the Income Statement. At the same time, heavy turbulence at the beginning of the year created bond market opportunities which led to a systematic expansion of the corporate bond portfolio and were exploited by the acquisition of senior corporate bonds.

Against the background of rallying capital markets, the reserve situation improved significantly during the course of the year by around € 35.6 million (net reserve € 62.9 million). This was helped, in particular, by the positive development of bond market prices in the second half of 2009, which much more than compensated for the delayed valuation effects in the real estate sector. Over the whole year, investments produced a result of € 107.1 million (PY: € 114.6 million). The main negative contributions to the extraordinary result were primarily due to the financial crisis and result from depreciation on real estate and bonds as well as losses on disposals in the course of restructuring. Owing to the sound average current return on investments, the overall net return was satisfactory in comparison to the prior year, at 3.8 % (PY: 4.2 %).

Income before Taxes/Shareholders' Equity

Overall, underwriting profit after adjustment of equalization reserves and the positive result in the non-underwriting account produced income before taxes totalling € 85.8 million, which was on a par with the prior-year figure of € 86.8 million. This income includes premium refunds of € 0.9 million (PY: € 1.3 million) to holders of accident insurance policies with premium return.

Shareholders' equity in the Company totalled € 317.8 million at year-end 2009. As a result, the equity ratio reached 27.6 % (PY: 31.0 %). The guarantee assets of the Company – which included subordinate liabilities of € 250 million – totalled € 567.8 million. This represented 49.2 % (PY: 52.5 %) of premium income net of reinsurance.

Shareholders' equity and the portion of subordinate liabilities classified under own funds thus significantly exceeded solvency requirements. Compliance was 150.2 %.

The subordinate liability resulted from successful issuance of a hybrid bond. The inflow of funds thus generated serves to reinforce further the financial strength of the Company and – through allocation within the Group – that of other Group companies against the backdrop of the impending introduction of new international capital requirements (Solvency II) and our rating vis-à-vis our competitors.

Comments on the Individual Lines of Direct Written Business

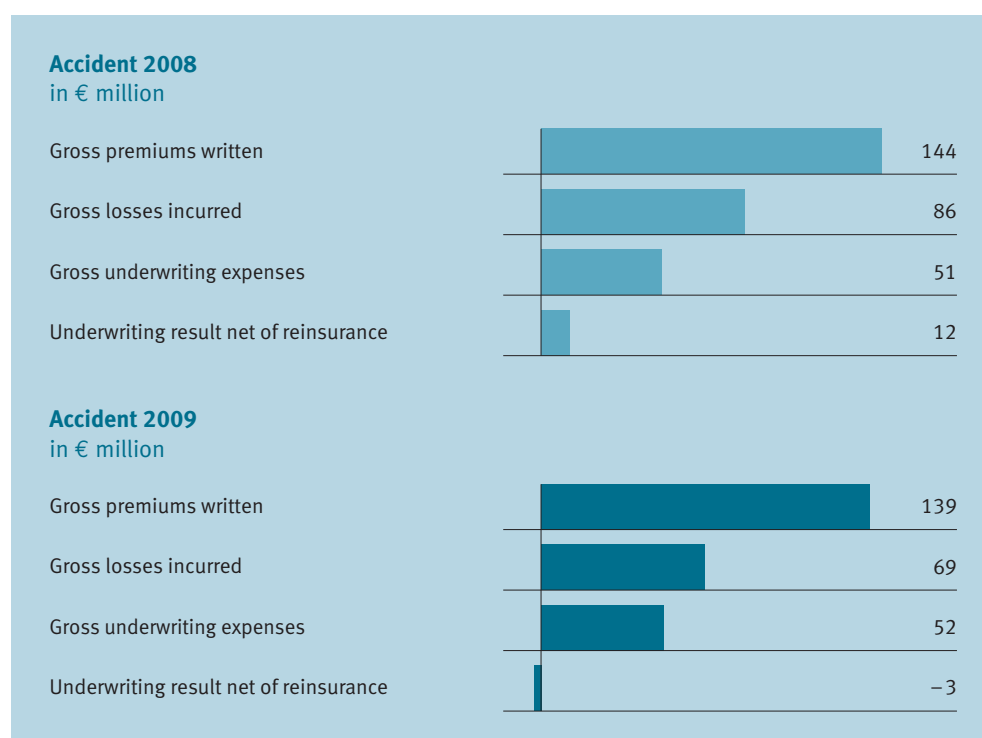
Accident

Gross premiums written in accident insurance were moderately recessive in 2009 at € 139.1 million (PY: € 143.7 million)

At € 7.8 million, gross premium income from accident insurance with premium return was on a par with the prior-year figure. This form of accident insurance represents a combination of insurance coverage and capital formation similar to endowment insurance. As of 31 December 2009, aggregate policy reserves for the savings component of policyholders' premiums totalled € 61.0 million (PY: € 61.2 million).

Premium refund expenses amounted to € 0.9 million (PY: € 1.4 million) in the year under review.

Gross losses incurred totalled € 68.6 million, sharply down from the € 85.5 million registered in the prior year. Owing to the termination of a reinsurance relationship, the underwriting result net of reinsurance after adjustment of equalization reserves was € 3.0 million (PY: € 11.9 million)

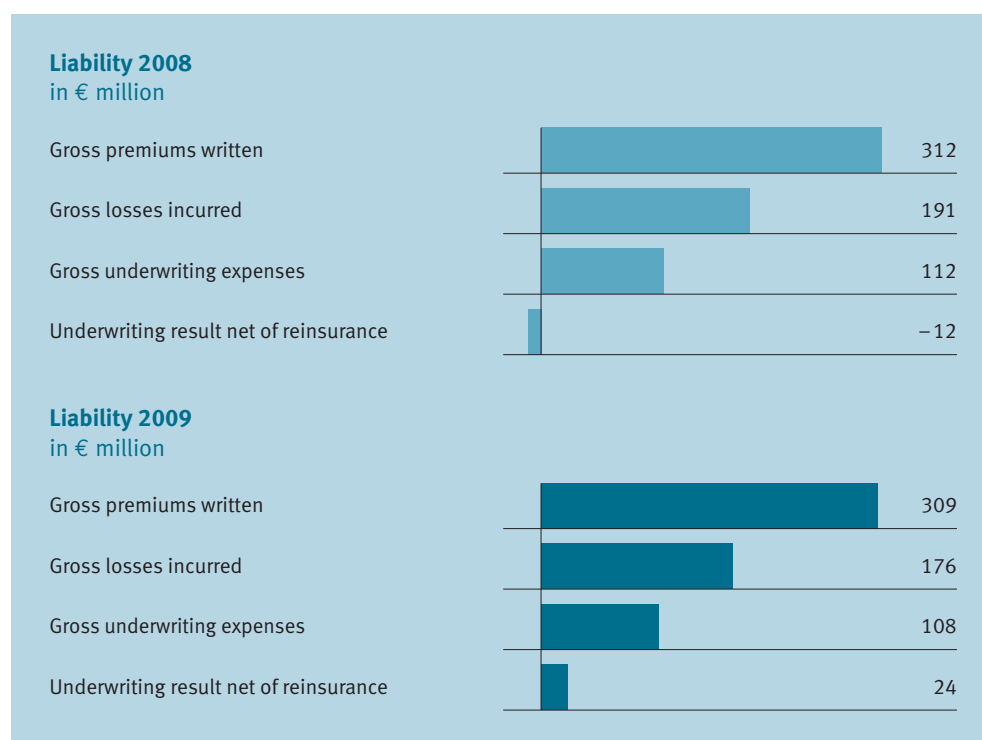


Liability

The premium income generated by general liability insurance was moderately recessive in comparison to the prior year. It decreased by 1.0 % or € 3.1 million to € 309.3 million.

Gross losses incurred took a gratifying downturn, falling by € 15.1 million or 7.9 % in comparison to the prior year. This led to a 4.4 percentage point improvement in the gross loss ratio, which moved down to 56.7 %.

Gross underwriting expenses (€ 108.1 million after € 112.4 million) decreased disproportionately to the changed volume of business. At € 27.1 million, the gross underwriting result before transfers to equalization reserves was significantly higher than in the prior year. After reinsurance and transfers to equalization reserves, this line of insurance generated a profit of € 24.1 million (PY: € –11.4 million).



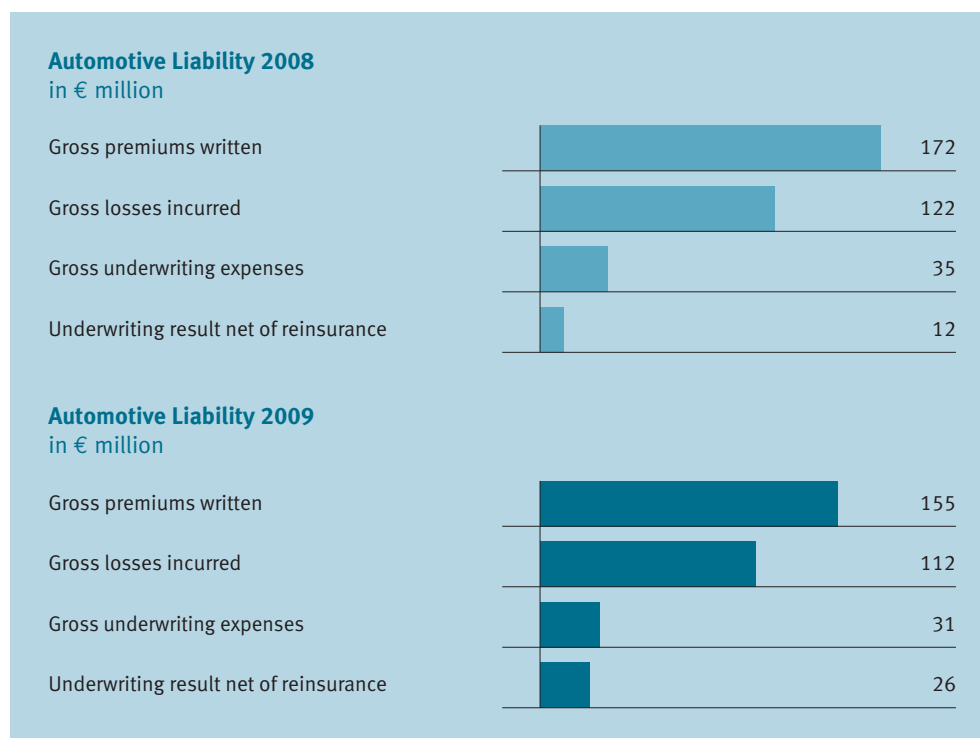
Automotive Liability

In automotive insurance, business continued as in the prior year.

Sustained systematic portfolio management aimed at improving risk structure resulted in further portfolio losses in this line of insurance. As a consequence, gross premiums written decreased by 10.0% from € 172.4 to € 155.2 million.

The encouraging trend in claims frequency in this line of insurance continued through 2009. This is reflected in a sharp fall in the number of new claims, which decreased by 4.0% to 45,506. Claims expenses for the financial year decreased accordingly. Overall, the loss ratio rose from 70.8% in the prior year to 72.4% in the year under review.

Underwriting expenses were also recessive. As a result, the net underwriting result before transfers to equalization reserves was once again positive, totalling € 24.2 million after € 7.8 million in the prior year. After transfers to equalization reserves, the underwriting account showed a profit of € 25.8 million after € 11.5 million in the prior year.



Other Automotive

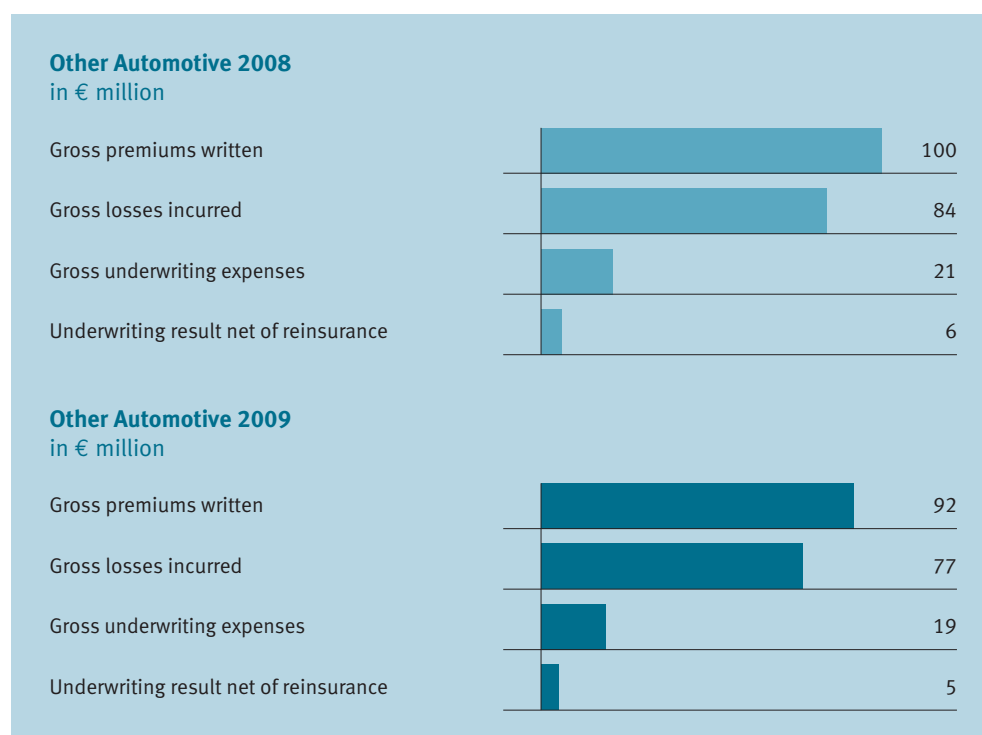
Performance in the other lines of automotive insurance, which include collision & comprehensive and partial own damage insurance, is essentially dependent upon the same factors that shape automotive liability business.

Portfolio losses led to a decline of 8.1% in gross premiums written to € 91.9 million. Collision and comprehensive policies accounted for € 75.3 million of this (PY: € 80.4 million). Partial own damage premiums written totalled € 16.6 million (PY: € 19.7 million).

The number of new claims reported in these lines of insurance was recessive compared with the prior year.

The gross loss ratio for other lines of automotive insurance was 83.9% in the year under review, virtually unchanged from 83.6% in the prior year. This was the result of a rise in the loss ratio for collision and comprehensive policies from 87.8% to 89.1% and a ratio of 60.2% for partial own damage policies, which had stood at 66.4% in the prior year.

In the light of claims experience, a sum of € 9.7 million was withdrawn from equalization reserves. The net underwriting result remained positive, totalling € 4.8 million after € 5.9 million in the prior year.



Fire

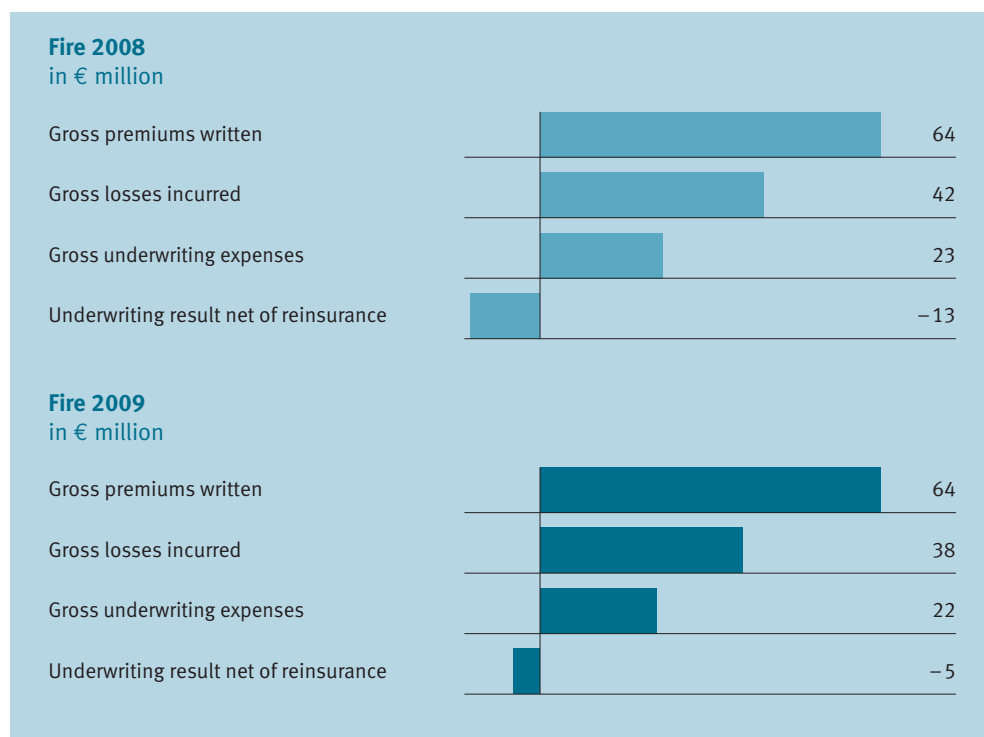
Gross premiums written in this line of insurance were moderately recessive at € 63.8 million, down from € 64.2 million in the prior year. The decrease was essentially due to other lines of fire business.

In other lines of fire insurance, which include contents and fire insurance for larger commercial buildings, premium income was € 23.6 million (PY: € 24.3 million).

Premiums written in industrial fire insurance and agricultural fire insurance were on a par with the prior year, at € 39.7 million and € 0.5 million respectively.

Gross losses incurred were recessive in comparison to the prior year. Owing to these developments in claims and premiums, the gross loss ratio improved to 60.0%, down from 65.3%.

Net of reinsurance, overall developments resulted in an underwriting loss of € –5.5 million (PY: € –13.3 million) after transfers to equalization reserves.

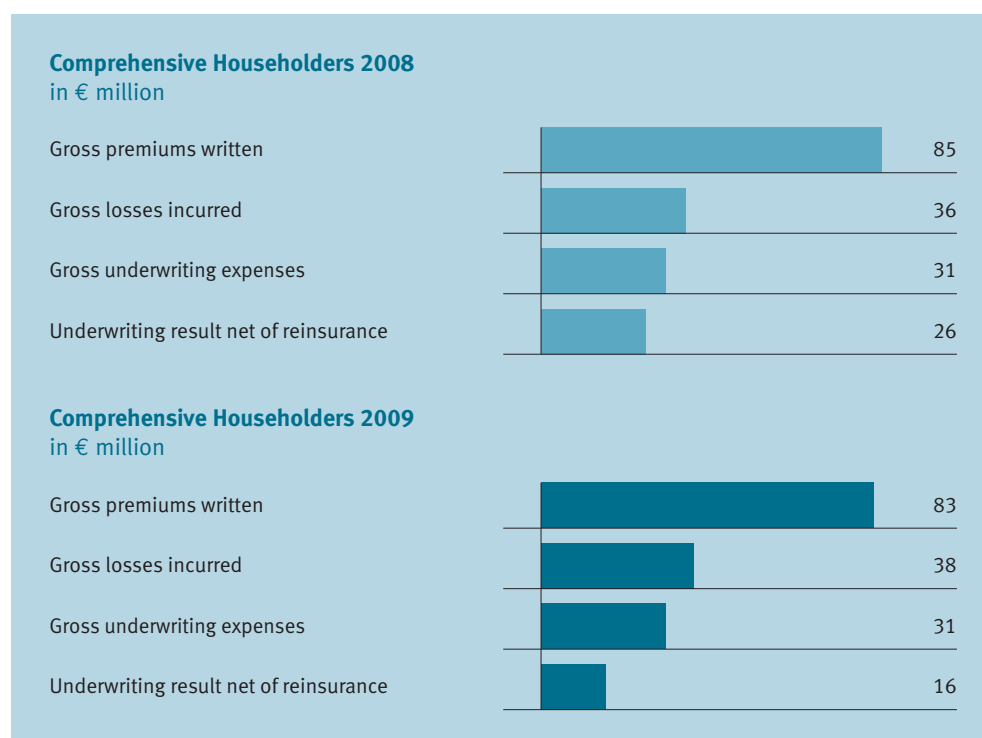


Comprehensive Householders

A decrease of 2.3% to € 83.3 million was registered for premiums written in this line of insurance. The number of policies in force reflected this development, declining to 732,936 in the financial year 2009 from 746,352 a year earlier.

The number of claims decreased yet again in comparison with the prior-year figure. A total of 40,836 new claims were reported in the year under review, after 43,425 in 2008. Overall, however, expenses increased, with the result that the gross loss ratio, at 45.1%, was higher than the prior-year ratio of 41.4% but still at a stable good level.

A total of € 3.3 million was withdrawn from equalization reserves in the year under review (PY: € 5.5 million). As a result, the net underwriting result from this line of insurance was again positive, at € 15.6 million (PY: € 25.6 million).

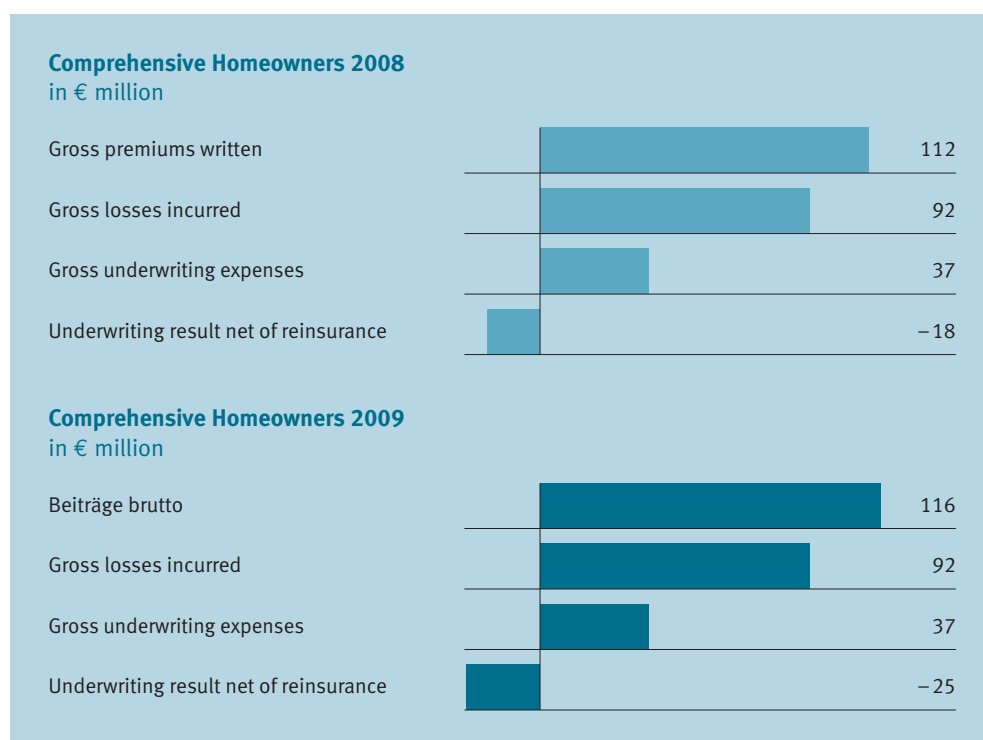


Comprehensive Homeowners

Gross premiums written in comprehensive homeowners insurance increased again, by 3.7% to € 115.7 million (PY: € 111.6 million).

The number of claims reported fell by 9,913 to 52,482. Gross losses incurred remained on a par with the prior year at € 92.4 million (PY: € 92.0 million). In conjunction with the development of premium income, this brought down the gross loss ratio to 79.3 % from 83.4 % in the prior year.

Overall, this made for a net underwriting result of € -25.0 million (PY: € -18.2 million).



Other Property

Other property insurance includes a large group of diverse lines of insurance. Lines that are important in terms of premium include burglary and theft, water, glass, storm and extended coverage as well as engineering insurance. These are flanked by eleven other lines and types of insurance with smaller premium volumes.

Premium income generated by the lines of insurance in this group increased to € 165.2 million (PY: € 160.0 million). The upturn was essentially due to engineering insurance.

Gross losses incurred for the entire group decreased from € 95.0 million in the prior year to € 92.4 million. The gross loss ratio improved accordingly from 59.2 % to 55.7 %.

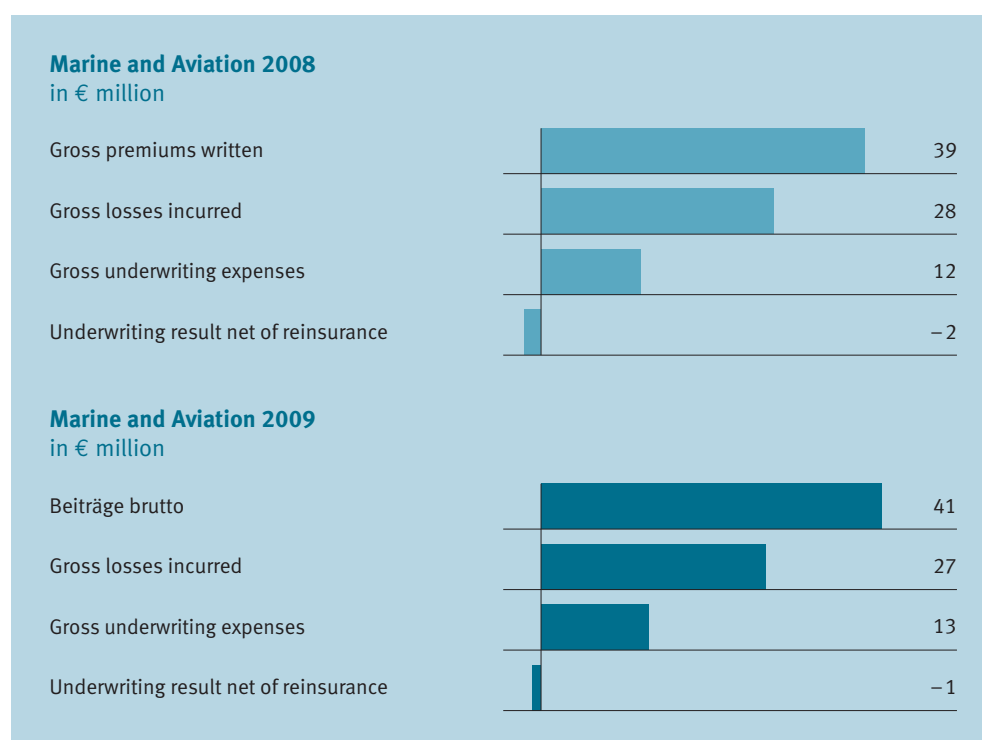
Overall, this group of insurance lines produced a positive underwriting result of € 0.1 million, after € 6.5 million in the prior year.

Marine and Aviation

Premium income from marine and aviation business increased by 5.6% to € 40.7 million, after totalling € 38.5 million in the prior year. Net of reinsurance, an underwriting result of € 0.9 million (PY: € 1.6 million) was recorded for these two lines. Revenues and earnings here were essentially shaped by marine insurance business.

The gross loss ratio improved to 65.7%, from 71.8% in the prior year.

In line with premium income, gross underwriting expenses in marine and aviation insurance rose above the prior-year figure, totalling € 12.9 million after € 12.0 million in 2008.



Other Insurance

Other insurance includes credit and surety insurance, motorist assistance insurance products and other lines and types of insurance. They are shown individually in the list of lines and types of insurance offered by the Company at the end of the Management Report.

Total gross premiums written in this group of insurance lines amounted to € 100.0 million (PY: € 95.9 million). The increase resulted essentially from all-risk business.

With a moderate increase in gross losses incurred to € 60.1 million (PY: € 59.2 million) and a rise in underwriting expenses, the underwriting result net of reinsurance was € 0.4 million (PY: € 1.6 million) for this entire group of lines and coverages.

Comments on Reinsurance Business Assumed

Premium income for the financial year increased by € 5.7 million to € 136.2 million. This upturn essentially resulted from the increased volume of active reinsurance business with Roland Rechtsschutz-Versicherungs-AG.

Due to increased losses incurred and after withdrawal from equalization reserves, the underwriting account showed a loss of € 10.1 million after € 16.7 million in the prior year.

Foreign Business

Gross direct premiums written in other countries totalled € 9.8 million (PY: € 8.5 million) in 2009. By partnering with Eureko and EurAPCo, Gothaer is able to market its products in collaboration with Achmea in the Netherlands, AVIVA Insurance in Great Britain, Topdanmark in Denmark, PZU in Poland, ICI-Imperio in Portugal, Länsförsäkringar in Sweden, Die Mobiliar in Switzerland and CASER in Spain.

Risks of Future Developments

Risk-Oriented Management Concept

The core business of Gothaer Allgemeine Versicherung AG involves assuming risk and making contractual commitments to pay claims or benefits. To be able to perform these tasks reliably, our corporate governance is geared to the “safety first” principle and value-based management. The framework of acceptable risks that can be consciously assumed is defined in our risk strategy. Risk tolerance, i. e. the limit of permissible risk exposure, is defined by taking account of three requirements:

- From a regulatory perspective, minimum standards have been defined stipulating that solvency capital requirements – including a security buffer against unplanned, additional risks – are fulfilled at all times and that quarterly evidence is presented to show that policy conditions can be met even in the event of adverse capital market developments such as those simulated in Federal Financial Supervisory Authority (BaFin) stress scenarios.
- From a rating perspective, 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 (financial strength rating).
- A minimum security level of 99.5 % (one-year value at risk based on our own risk model) is set for internal management purposes.

**Risk Management
Organization**

Risk management at Gothaer Allgemeine Versicherung AG is part of the risk management system of the Gothaer Group. Its functionality and efficacy is the responsibility of the entire Management. The tasks of risk identification, analysis, management and monitoring are for the most part performed close to risks in the operative units. Care is taken to ensure that conflicts of interest in the performance of these tasks are avoided. Outsourced functions are predominantly fulfilled by Group companies integrated in the Group-wide risk management system. Responsibility for independent risk controlling is assumed by the actuarial department, supported by the Middle/Back Office of Gothaer Asset Management AG and the central risk controlling unit at Gothaer Finanzholding AG. Gothaer Allgemeine Versicherung AG is also represented in the risk committee established at Group level. Its responsibilities include monitoring risks from a Group perspective by means of an indicator-based early warning system as well as further developing uniform cross-Group risk assessment and management methods and processes. Risk management principles, methods, processes and responsibilities are documented in a risk manual and an Intranet risk management application.

Attention in the risk management process is focused on investment risks, underwriting risks, loss of receivables risks in insurance operations, strategic and operational risks and reputation and concentration risks.

The risk management process implemented includes an annual systematic inventory of risks with half-yearly measures controlling, a qualitative and quantitative risk assessment, various risk management measures, risk monitoring by the operative units and risk controlling. The risk management system also includes an internal monitoring system (IMS). Its purpose is to prevent or reveal damage to assets and to ensure proper, reliable business activity and financial reporting. The IMS comprises both organizational security measures such as access authorizations, use of the four-eyes principle or proxy arrangements, for example, and process-integrated and cross-company controls. The compliance function is decentralized, performed by various operative and Group units. 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 is regularly 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.

Gothaer Allgemeine Versicherung AG worked continuously in the year under review to ensure that it meets the risk management requirements set out in section 64a of the German Insurance Supervision Act (VAG). In implementing the regulations, we take account of the stipulations of BaFin Circular 3/2009 (MaRisk VA) setting out the minimum requirements for risk management in insurance companies. At the same time, we monitored the development of the new Solvency II supervisory regime. While we basically welcome and approve of the targeted reform of the European supervisory system, we nevertheless judge the recently published CEIOPS recommendations for the implementing regulations on solvency and own funds requirements to be extremely problematical.

Both for property and casualty insurers, but especially for German life and health insurers, the solvency capital requirements proposed are excessive. Overall, we believe that these proposals present a danger both to the German insurance model in general and to the insurance groups operating on the principle of mutuality in particular. The Gothaer Group is thus working at both national and European level for a proper, competition-neutral set of new solvency rules.

General Risk Situation

Our operations are segmented by target group into private and corporate client business. The possible and actual impacts of the financial crisis are analyzed and assessed on a continuous basis. Where bank credit dries up, the implications for our corporate client target group are wide-ranging – from increased insolvency through reduced inclination to invest to generally cautious purchasing behaviour. Insolvency leads to loss of client accounts, a lack of willingness to invest and purchase and the absence or decline of demand for insurance cover and, as a consequence, a tendency towards diminishing premium revenues. The sharp drop in revenues registered by some of our industrial clients resulted in premium income down-turns even in 2009, especially in liability insurance. In 2010 at the latest, however, reduced revenue figures and lower payroll expenses will lead to diminishing premium income from lines of insurance where premiums are based on annual turnover. These lines include liability, marine and property insurance. Engineering insurance and property insurance will also be affected by the anticipated downturn in inclination to invest. In fleet insurance, investment in more economical vehicles or the absence of any new investment will impact on insurance cover and premium income. These negative impacts, which were still more than compensated by new business in 2009, will leave visible marks on premium income figures in 2010. This has been taken into account in planning for the current financial year. The poorer economic climate will also impact on private client business, although to a lesser extent.

Gothaer Allgemeine Versicherung AG was not affected by the recent court rulings on the validity of instalment surcharges. However, there is a risk that leading supreme court rulings will be delivered on this issue in the future.

Underwriting Risks

As a general rule, Gothaer Allgemeine Versicherung AG counters underwriting risks with rates 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 loss 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.

Private Client Business

Private client business continues to be marked by high price sensitivity and a pronounced readiness to change providers on the part of policyholders. Sustained extreme price pressure and a high degree of market saturation are also evident. Gothaer Allgemeine Versicherung AG offers comprehensive, high-value-for-money insurance solutions to counter this market trend.

In private automotive insurance, Gothaer Allgemeine again refrained from participating fully in the price competition that has become ruinous in some areas of business; it markets a product pitched at an adequate price, committing to profit even at the expense of market share. As in previous years, the quality of the portfolio continues to be improved by effective portfolio management. Private automotive insurance on the whole is thus well positioned to meet the upcoming developments in the market.

In property, liability, accident and multiple-risk insurance, predatory competition is also increasing. The portfolio loss due to a link with a broker severed by Gothaer cannot be made up in 2010. At the same time, growth prospects are depressed by price pressure and market saturation. Addressing this situation, our private client division continues to pursue a dual product and price strategy. In each insurance line, we offer a basic product that is well to very well positioned in popular rankings and test reports because of its price. We are also adding a new accident product to our range of premium products, which offer high-performance solutions for clients. In 2010, we will additionally conduct a realignment campaign with a view to securing portfolios. The natural catastrophes that have resulted from climate change in recent years will have a significant negative impact on future underwriting results. Our portfolio management activities, with which we systematically retain good policies and cut loose policies that are not priced at a level commensurate with risks, will thus become increasingly important and will be intensified.

Systematic use of ZÜRS, a zoning classification system for identifying exposure to flooding risks, ensures that underwriting conforms to risk management requirements.

**Corporate
Client Business**

The commercial and industrial business that makes up the corporate client segment is characterized at both national and international level by very intense competition with sustained high pressure on premiums and conditions, especially in industrial property insurance and fleet insurance for major risks. Even high-exposure risks in the areas of geothermal energy or wind power are coming increasingly under competitive pressure. We face this competition, having adjusted at an early stage with a profit-g geared cyclical management system and responsible underwriting. Various activities are conducted to increase market attractiveness. Examples include regular business and corporate presentations at sales partners and relevant gearing to their needs. Feedback from sales partners is very positive across the board and is reflected in very good sales performance. This is due to the fact that all the efforts made have helped generate growth that is above the market average and earnings that are on target.

The market environment for the largest single line of insurance – liability insurance – deteriorated as a result of falling sales revenues for our policyholders in the period under review. This led to marked down-turns in premium income across the portfolio. However, client bonding was strengthened further by an early response to major clients and flexible contracting. Positive marks in market rankings underline our very good positioning in liability. The policy of not insuring highly exposed risks – a policy that has been observed for many years – was systematically maintained. In addition to these profit-oriented measures, very good new business underwriting kept premium revenues almost at the prior year level, which was nevertheless less than projected.

Property insurance is an area that needs to be seen in a differentiated light. In the commercial sector, our solution-oriented approach produced an increased volume of new business in the face of intense competition, especially for multiple-risk products. In the industrial sector, the pressure on premiums increased even more. Even so, profit-oriented underwriting enabled us to generate substantial growth. Fire safety and security systems boost earnings in industry and commerce and offer the client genuine solution-oriented added value. Growing interest in target-group and multiple-risk products is noted on the part of clients and agents. While the SME campaign continues to provide positive stimuli in the area of multiple-risk products, growth has been achieved in corporate policies through master agreements.

Marine insurance is a regular source of growth for Gothaer Allgemeine Versicherung AG. Despite a difficult market environment, the underwriting results are very satisfactory. Art insurance and carriers liability insurance show a gratifying earnings trend.

In engineering insurance, vigorous growth was achieved in machinery and electronic lines. Renewable energy insurance also contributed to growth as anticipated, although not as vigorously as in previous years. Our position as market leader in windpower plant insurance was further consolidated and major acquisitions were noted in biogas facility and photovoltaic system insurance. Because renewable energies in Germany and Europe continue to be supported in the present economic environment, further growth can be anticipated. This is taken into account by HR and DP investment.

Automotive insurance faces a difficult environment market-wide. We are prepared for this but have left growth and earnings requirements unchanged. In commercial automotive insurance, portfolio consolidation measures resulted in a modest downturn in premiums. However, extensive insurance was provided for new risks, which will impact positively on income in 2010. The selective underwriting policy pursued is producing satisfactory underwriting results. In contrast to this, industrial fleet insurance saw a further intensification of competition. A combination of risk management by GRM (Gothaer Risk Management GmbH) and risk-oriented contracts could not always be achieved in new business. The consequence of this was an overall fall in premium income and deterioration of the underwriting result.

Gothaer Allgemeine caters for the needs of its German industrial clients abroad and makes adequate insurance protection available for property and liability risks through international insurance programmes. The range of services we offer is regularly presented to sales partners and clients and generates growing demand as a result. The international insurance programmes are generally made up of regional policies organized and managed by Gothaer and an extensive individual coverage concept in Germany. We made the structural, process and technical preparations for this at an early stage.

Reinsurance

In 2009, an extensive stochastic-based optimization analysis was conducted to appraise the structure of our reinsurance operation and at the same time review our exposure to natural catastrophes. The result was that the reinsurance structure in place on 1 January 2010 was largely retained. What should be noted is that additional reinsurance needed to be acquired for flood risk in order to ensure future cover capacity for even a 200-year event. The context for the renewal of reinsurance treaties was marked by capital developments at primary insurers and reinsurers. The capital lost in 2008 during the course of the financial market crisis, for example, was virtually made up in full in 2009 by investment gains and better underwriting results due to lower natural catastrophe losses. This resulted in higher reinsurance capacity, largely unchanged demand and stable prices for 2010.

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. 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.

Once again, Gothaer Allgemeine AG succeeded in placing all contracts for moderately higher prices overall and kept default risk within narrow limits through broad diversification in line with security requirements. Default risk was defined – as in the prior year – with the help of an external stochastic tool.

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

Claims

The following chart shows a ten-year summary of the changes in loss ratios and run-off results across all areas of direct domestic business net of reinsurance.

Claims		in %	
	Loss ratio after run-off	Run-off results of initial reserves	
2000	73.1	13.1	
2001	73.7	12.4	
2002	64.4	19.9	
2003	63.7	10.3	
2004	63.8	10.3	
2005	65.7	9.0	
2006	63.7	12.1	
2007	65.8	11.2	
2008	66.6	11.8	
2009	67.9	12.2	

Risks Arising from Reinsurance Assumed

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

Loss of Receivables Risks

Accounts receivable from policyholders and insurance agents in connection with direct written insurance business totalled € 108.9 million for Gothaer Allgemeine Versicherung AG at balance sheet date. This figure includes valuation allowances that take adequate account of the possible loss of receivables risk. € 66.6 million of the aggregate total of accounts receivable handled by our central collection systems has been due for more than 90 days. The average collection loss (unsuccessful court orders) in the last three years was € 4.3 million, which represented an average of 3.1‰ of gross premiums written.

We cede reinsurance only to first-class reinsurers. 52 % of our reinsurance premiums are ceded to reinsurers with a rating of AA- or better. Accounts receivable in connection with reinsurance business totalled € 48.0 million at balance sheet date. Accounts receivable in connection with reinsurance ceded amounted to € 45.9 million. The structure of receivables from reinsurers by rating class was as follows:

Rating class	€ million
AAA	0.0
AA	15.3
A	21.0
BBB	0.9

Companies with no rating accounted for € 8.7 million of accounts receivable from reinsurers. The significant increase in this figure in comparison to previous years is due to a major treaty with a reinsurer furnishing a loss reserve deposit. As a result of our security policy, loss of receivables in past years has been insignificant.

**Investment Risks
Investment Strategy**

In the context of investment strategy, the primary aim of Gothaer Allgemeine Versicherung AG is to guarantee that the Company can meet all current and future payment obligations from its current earnings. At the same time, it pursues a performance policy that takes account of potential earnings opportunities against the backdrop of any risks. This presupposes an effective risk management system employing modern controlling systems to meet the requirements introduced under regulatory legislation and ensure that risk limits set by the Company itself are also observed. In the context of diversification to improve the risk-earnings ratio, Gothaer Allgemeine Versicherung AG attaches a great deal of importance to the decorrelation of investments. Asset/liability management is and remains the Company's primary investment management instrument.

**Risk Situation
and Management**

Market Change Risk

Investments are exposed to the risk of possible losses in value due to changes in interest rates, share prices and exchange rates in the international financial markets. Management of market price risks is supported by regular stochastic and deterministic model calculations. The investment portfolio is subjected to stress scenarios at regular intervals in order to measure risk potential.

Simulating interest rate change risk in line with German Accounting Standard DRS 5-20 produced the following result for Gothaer Allgemeine Versicherung AG: a 1% increase in the interest curve with a modified duration of 3.7 reduced the market value of interest-bearing securities by € 79,0 million in comparison to the year-end value of the portfolio.

Owing to the sale of a large portion of the share position, there is actually only minor residual exposure for the Company in shares. After allowance for hedging, share stress (20% downturn in prices) led to a fall in market value of € 0.8 million. Because of the time lag of price effects in the property sector, moderate price risks still exist. A price fall of 10% results in a loss of market value of € 26.4 million. In the light of risk-bearing capacity, a successive increase in risk capital is planned for the coming financial year within the framework of the Gothaer Allgemeine Versicherung AG investment strategy. Exchange rate risk continues to be nearly fully hedged.

Credit/Solvency Risk

Credit/solvency risk is the risk of insolvency or late payment; it also includes the risk of a negative change in the creditworthiness of a debtor or issuer. In the interest of risk management, investment vehicles are acquired only when a qualified assessment of creditworthiness by external agencies such as Standard & Poor's, Moody's or Fitch or a qualified internal rating is available. Credit risks are broadly diversified to avoid concentration risks. Each individual position is monitored regularly during the course of the credit process.

In the wake of the financial market crisis, special impairment analyses were performed for critical investments. In the event of a negative assessment, systematic depreciation was effected. In addition, a review of activity in the markets for subordinated bank bonds resulted in the majority of such bonds being carried again at market prices. Mark-to-model valuation was retained to perform the required pricing of the illiquid bonds. Cash flow profiles based on internal credit analysis were created for each individual bond and adequately discounted by applying factors observed in the market.

At year-end, fixed-interest securities accounted for around 74 % of the book value of the investment portfolio (PY: 73 %). Without taking account of externally managed retail funds, subordinate bonds accounted for around 6 % of the entire investment portfolio. This includes all bearer bonds and registered bonds issued by financials (banks, insurance companies, financial service providers) as well as subordinate corporate bonds. Because of the marked reduction of credit spreads and illiquidity premiums, the reserve situation of the fixed-interest portfolio was significantly better than in the prior year (+ € 63 million). This was due partly to the recovery of the markets in the second half of the year and partly to restructuring measures in the structured credit sector. The hidden liabilities that still exist are primarily due to subordinate financial bonds. In view of the still smouldering economic crisis, we expect to see an increase in the volume of interest unpaid on subordinate bank bonds in the coming financial year; this is anticipated and included in the model price calculation. A heightened risk of loss of nominal value due to nationalization or insolvency, especially in the bank sector, is seen only in the case of one individual bond and has been taken into account by appropriate depreciation.

Despite the expansion of the fixed-interest security portfolio (Corporate Credit Strategy) and some sharp downgrades by external rating agencies, the percentage of fixed interest securities with an investment grade rating fell only marginally, from 94 % to around 93 %. This was due, amongst other things, to standardization of the rating system for split ratings in fund and direct portfolios undertaken to comply with BaFin requirements. Around 75 % of the fixed-interest portfolio consists of securities with an A rating or better; around 40 % of securities have an AAA rating. Investment in PIIGS government bonds (Portugal, Ireland, Italy, Greece, Spain) at balance sheet date was insignificant.

Liquidity Risk

Liquidity risk is the risk of a company being unable to fulfil its financial obligations because of a lack of adequate funds. Comprehensive Group-wide liquidity management ensures that the necessary liquidity is always available, even when liquidity requirements peak, and that timely adjustments can be made during the year through the disposal of marketable securities. There were no liquidity bottlenecks in 2009. At balance sheet date, around 8 % of the investment portfolio could be liquidized at short notice to address any liquidity bottlenecks.

Substantive payment obligations arising from real estate commitments were included in liquidity planning in the financial year 2010 (around € 45 million). In line with prior-year developments, a liquidity surplus is anticipated over the year as a whole.

Reinvestment risk is taken into account in the stochastic models in the course of ALM analysis. Any impacts can be seen in the attainment probabilities of the target variables (e. g. net yield, solvency). The results of last year's analyses show that, owing to uniform distribution of maturities, reinvestment risk does not reach problematical proportions in any of the projected years.

Stress Test

Gothaer Allgemeine Versicherung AG meets all four variants of the stress test prescribed by the Federal Financial Supervisory Authority (BaFin). Based on data from financial statements, these stress tests simulate very negative capital market changes – sometimes for both shares and fixed-interest securities or investment property – and examine the impact on the insurer's financial statements. The target horizon is the next reporting date. Surplus cover indicates the risk-bearing capacity and stability of a company.

Operational and Other Risks

Information and communication technology (ICT) is an indispensable tool for an insurance company and, due to the increasing importance of process support and automation, plays a central role in Gothaer Group risk management. Because of increasing dependence on ICT, security mechanisms have been systematically improved and stabilized in recent years. In addition, we guarantee compliance with the provisions of the German Federal Data Protection Act (Bundesdatenschutzgesetz) and protect business-critical applications by using a business continuity management process that not only ensures technological integrity but also safeguards critical business processes.

Foreseeable changes in population demographics and the current financial market crisis will produce significant human resource risks. Mention should be made here of the “war for talent” and the resultant risks in terms of scarcity, departure, motivation, adaptation and loyalty as well as market developments due to the financial market crisis that are not yet predictable. Coordinated HR information and management systems guarantee that quantitative and qualitative hazard potentials are promptly identified and countered with appropriate measures. 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.

To ensure the regulatory compliance of the financial statements, we have set up accounting controls and other organizational rules such as accounting principles, time scheduling and monitoring, and clear assignments of responsibility for accounting systems and data interfaces. The units involved in the reporting process continue to be integrated in the Gothaer Group risk management system. 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. Verification of these elements is performed by the Internal Auditing unit. Another example of an organizational arrangement is the separation of accounting and preparation of financial statements. Changes in accounting rules are met by constant further development and training of employees.

By keeping abreast of legislative activity and current case law, we are able to respond promptly to developments and implement change immediately according to the specific circumstances of the Company. We are currently voicing opposition, for example, to the proposal supported by some in the governing coalition that insurers should be involved in the financing of a new guarantee fund for banks. In this context, we favour early intervention by the German Insurance Association (GdV) to resist an unjustified financial burden on private insurers and their community of insureds.

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

Summary of the Risk Situation

The available own funds of € 318.3 million exceed the amount needed to meet regulatory solvency requirements by € 106.4 million.

In 2009, two independent rating agencies gave Gothaer Allgemeine Versicherung AG positive ratings for financial stability: Standard & Poor's (S&P) and Fitch awarded A- (very good) and A (strong) follow-up ratings respectively.

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 Gothaer Allgemeine Versicherung AG that might jeopardise the fulfilment of commitments assumed under insurance contracts.

Forecast

Transactions and Events of Special Significance No transactions or events of special significance occurred after the conclusion of the financial year 2009.

General Economic Outlook in 2010 The global economy will probably continue on its present growth path through 2010. However, economic recovery is not likely to be very dynamic. As a result of increased unemployment and greater inclination to save, the recovery process in 2010 is expected to be slowed down, in particular, by private household demand. Set against this are the government spending programmes in the United States and the eurozone, which should continue to provide economic support in 2010 and thus counteract subdued private demand.

Against this backdrop and in the light of sustained price erosion, the central banks are not expected to raise key lending rates until the second half of the year at the earliest. Having said that, the central banks are likely to make early moves to reduce the liquidity that has been pumped into national economies by unconventional measures.

The act of rolling back the most expansive monetary policy measures, on the one hand, and the continuing economic recovery, on the other, should put pressure on the bond markets during the course of the year and lead to higher interest rates. In view of the broadly cautious approach adopted by the central banks, the anticipated rise in interest rates will probably be smaller at the short end of the maturity spectrum than at the long end. On the stock markets, volatility is expected to stay relatively high until well into the second quarter of 2010 and not fall to a lower level until after an economic recovery starts gathering speed. All in all, however, the stock markets should profit in 2010 from an improving economic environment.

Limited Scope for Growth in Property and Casualty Insurance Despite the moderate economic growth anticipated and the resulting stabilization of the German economy, the sharp downturn in overall economic performance in 2009 is expected to impact on the development of premiums within the insurance industry in 2010. The scope for growth in non-life insurance is limited in equal measure by price competition – which has been at a ruinous pitch in some lines of insurance for years – and high market saturation.

Overall, premium revenues from property/casualty insurance are forecast to be 0.5 % lower in 2010 than in the prior year.

Once again, the downturn in automotive insurance – the largest line in the property/casualty segment – will be sharper than in the market as a whole. After a fall of 1.5 % in 2009, premium volume here is expected to contract by 1.0 %. This is due to waning demand and migration to more favourable no-claims categories coupled with prices that are tending to stagnate.

Outlook for Gothaer Allgemeine Versicherung AG

In the light of economic developments, premium revenues in industrial and commercial property and liability insurance are expected to decline. Policies with premiums based on turnover (liability, business interruption and marine policies) will particularly be affected here. Positive premium growth is anticipated in private property insurance and legal expenses insurance, making private households a major source of premium income for property and casualty insurers in 2010.

The consequences of the economic and financial crisis will have a dampening effect on the development of Gothaer Allgemeine premium income in 2010. For example, the larger number of insolvencies in Germany could increase client loss. Our clients' reduced inclination to invest will also present an obstacle to positive growth, as will the change in purchasing behaviour observed among our clients, especially in lines such as marine or engineering insurance.

In view of falling sales figures and reduced payroll expenses, we anticipate decreases in premium income (premium shortfall) in lines of insurance where premiums are based on turnover. These include liability, marine and, to a certain extent, property business interruption insurance. Because of reporting delays, the real impact of this development will not be felt until 2010. Investments may also be postponed, so impacts on turnovers are also anticipated here.

Premium income is therefore expected to fall in corporate client business, especially in the liability segment, which is our largest single line of insurance. We will counteract this development with various profit-oriented measures, such as more intensive client bonding and a policy of non-engagement in highly exposed risks.

The focus continues to be on medium-scale corporate client business. Market positioning – especially for renewable energy and multiple-risk product business – will be further enhanced in the medium term.

In the private client segment, we anticipate impacts due to persistent price competition and market saturation. As in 2009, this development will be boosted significantly again in 2010 by competition in private automotive business.

A strategy of “Growth with Safeguards for Required Earnings” is pursued in the private client segment by adhering to a systematic underwriting policy and ensuring constant portfolio management. At the same time, we continue vigorously to pursue a dual product and price strategy. In each line of insurance, we set out to offer a basic product that is priced to be well to very well positioned in ratings and test reports. We are also adding a new accident product to our range of premium products, which offer high performance solutions for the client.

The “Xynthia” storm toll will impact on the underwriting results of the industry in the financial year 2010. The earnings of the Company will not be significantly affected.

With underwriting results recessive and investment income largely constant, net income before transfer of profit to Gothaer Finanzholding AG in 2010 and 2011 is expected to reach a level that can be described as sound, especially against the backdrop of the economic and financial crisis.

Proviso

The business development forecasts made in this annual report are subject to the proviso that actual performance can deviate from anticipated results. Factors that may give rise to deviations include national economic performance, developments in capital markets, competition, unexpected major or accumulation losses and changes in national or international legislation.

Membership in Associations and Similar Organizations

Our Company is member of the following associations:

- Gesamtverband der Deutschen Versicherungswirtschaft e.V., Berlin
- Arbeitgeberverband der Versicherungsunternehmen, Munich
- Wiesbadener Vereinigung, Bonn
- Der Versicherungsombudsmann e.V., Berlin
- Verein Hanseatischer Transportversicherer e.V., Hamburg and Bremen
- Rothenburger Vereinigung, Cologne
- Verkehrsoferhilfe e.V., Hamburg
- Deutsches Büro Grüne Karte e.V., Hamburg.

We also belong to the Verbond van Verzekeraars in Nederland in the Netherlands, the Union syndicale des sociétés étrangères d'assurance, the Fédération française des sociétés d'assurances and the Association des assureurs mutuels et coopératifs en Europe in Paris, France, and the Motors Insurers Bureau, in London, Great Britain.

List of Insurance Lines and Coverages

Direct Written

Insurance Business

Accident Insurance

Personal accident, group accident, clinical trials, automotive accident, accident insurance with premium return

Liability Insurance

Personal, employers' and professional malpractice, environmental, property damage, carriers liability, radiation and nuclear plant, fire and other liability insurance

Automotive Insurance

Automotive liability, other automotive insurance (collision and comprehensive, and partial own damage coverage)

Aviation insurance

Aviation hull, spacecraft hull, other aviation insurance

Fire Insurance

Fire industrial, agricultural and other fire insurance

Comprehensive Householders Insurance**Comprehensive Homeowners Insurance****Marine Insurance**

Hull, goods in transit, valuables (commercial) and other marine insurance

Credit and Surety Insurance

Delcredere insurance

Motorist Assistance Insurance

Motor travel service

Aviation and Spacecraft Liability Insurance**Other Property Insurance**

Burglary and theft, water, glass, storm, engineering insurance (machinery, electronic, erection and contractor's all risks and other engineering insurance), stock in transit, insurance of extended coverage for fire and fire business interruption insurance (EC), business interruption insurance (fire business interruption, engineering and other business interruption insurance)

Other Non-Life Insurance

Other property insurance, other financial loss, other combined insurance, fidelity, other and non-specific combined non-life insurance

Reinsurance**Business Assumed****Life****Health****Accident****Liability****Automotive****Aviation****Legal Expenses****Fire****Comprehensive Householders****Comprehensive Homeowners****Marine****Aviation and Spacecraft Liability****Other Property****Other Non-Life**

Balance Sheet as at 31 December 2009

Assets

	€000	
	2009	2008
A. Subscribed capital unpaid	10,226	10,226
B. Intangible assets	42,296	41,581
C. Investments		
I. Investments in affiliated companies and associates		
1. Shares in affiliated companies	185,470	132,938
2. Loans to affiliated companies	201,700	201,700
3. Investments in associated companies	249,602	266,826
4. Loans to associated companies	<u>18,613</u>	<u>17,714</u>
	655,385	619,178
II. Other investments		
1. Stocks, investment fund certificates and other non-fixed-interest securities	984,258	936,927
2. Bearer bonds and other fixed-interest securities	577,431	452,171
3. Mortgages, liens on real property and annuities	4,811	5,315
4. Other loans		
a) Registered bonds	95,000	145,000
b) Promissory notes and loans	458,906	455,709
c) Loans and advance payments on insurance policies	119	121
d) Other loans	<u>4,204</u>	<u>18,683</u>
	558,229	619,513
5. Bank deposits	81,100	65,500
6. Miscellaneous investments	<u>2</u>	<u>2</u>
	2,205,831	2,079,428
III. Deposits made in connection with reinsurance business assumed	<u>26,497</u>	<u>23,150</u>
	2,887,713	2,721,756

Assets

	€000	
	2009	2008
D. Accounts receivable		
I. Accounts receivable in connection with direct insurance business from:		
1. Policyholders	37,033	42,981
2. Insurance agents	<u>71,884</u>	<u>64,089</u>
	108,917	107,070
II. Accounts receivable in connection with reinsurance business of which from affiliated companies: € 1,953 thousand (PY: € 2,017 thousand)	48,020	48,430
III. Other accounts receivable	<u>70,902</u>	<u>135,655</u>
	227,839	291,155
of which from affiliated companies: € 8,584 thousand (PY: € 18,681 thousand)		
of which from associated companies: € 28 thousand (PY: € 26 thousand)		
E. Other assets		
I. Tangible assets and inventories	4,505	5,024
II. Current credit balances with banks, checks and cash on hand	12,975	17,122
III. Miscellaneous assets	<u>477</u>	<u>431</u>
	17,957	22,577
F. Prepaid expenses		
I. Prepaid interest and rent	20,963	24,543
II. Other prepaid expenses	<u>2,861</u>	<u>425</u>
	23,824	24,968
Total Assets	3,209,855	3,112,263

Shareholders' Equity and Liabilities

	€000	
	2009	2008
A. Shareholders' equity		
I. Subscribed capital	153,388	153,388
II. Capital reserve	164,435	164,435
III. Revenue reserve		
Statutory reserve	5	5
IV. Net retained loss	<u>0</u>	<u>41,900</u>
	317,828	359,728
B. Subordinate liabilities	250,000	250,000
C. Underwriting reserves		
I. Unearned premiums		
1. Gross amount	210,503	206,674
2. less amounts ceded	<u>18,469</u>	<u>22,691</u>
	192,034	183,983
II. Aggregate policy reserve		
1. Gross amount	60,988	61,228
2. less amounts ceded	<u>0</u>	<u>0</u>
	60,988	61,228
III. Reserve for outstanding claims		
1. Gross amount	2,141,309	2,126,317
2. less amounts ceded	<u>468,895</u>	<u>534,521</u>
	1,672,414	1,591,796
IV. Reserve for experience-rated and non-experience-rated premium refunds		
1. Gross amount	12,122	12,316
2. less amounts ceded	<u>199</u>	<u>173</u>
	11,923	12,143
V. Equalization reserves and similar reserves	393,513	409,117
VI. Other underwriting reserves		
1. Gross amount	8,388	10,666
2. less amounts ceded	<u>-3,328</u>	<u>-3,324</u>
	<u>11,716</u>	<u>13,990</u>
	2,342,588	2,272,257

Shareholders'
Equity and Liabilities

	€000	
	2009	2008
D. Other accruals		
I. Accruals for taxes	6,209	6,862
II. Miscellaneous accruals	<u>57,384</u>	<u>62,302</u>
	63,593	69,164
E. Deposits held in connection with reinsurance business ceded	32,462	32,705
F. Other liabilities		
I. Accounts payable in connection with direct insurance business to		
1. Policyholders	58,303	51,251
2. Insurance agents	<u>18,423</u>	<u>16,590</u>
	76,726	67,841
II. Accounts payable in connection with reinsurance business	14,902	9,493
of which to affiliated companies:		
€ 2,731 thousand (PY: € 1,886 thousand)		
III. Miscellaneous liabilities	<u>111,741</u>	<u>51,058</u>
of which	203,369	<u>128,392</u>
for taxes: € 16,803 thousand (PY: € 17,640 thousand)		
for social security: € 0 thousand (PY: € 67 thousand)		
toward affiliated companies: € 73,368 thousand (PY: € 6,872 thousand)		
toward associated companies: € 627 thousand (PY: € 2,965 thousand)		
G. Deferred income	<u>15</u>	<u>17</u>
Total Shareholders' Equity and Liabilities	3,209,855	3,112,263

I hereby confirm that the aggregate policy reserve for accident insurance with premium return shown under item C II. No. 1 under Shareholders' Equity and Liabilities in the amount of € 60,987,994 and the annuity reserve for claims under item C III. No. 1 in the amount of € 54,454,253 on the face of the balance sheet were calculated in compliance with sections 341f and 341g of the German Commercial Code (HGB) and the statutory instrument issued pursuant to section 65(1) of the German Insurance Supervision Act (VAG); in the case of older accident insurance policies with premium return within the meaning of section 11c VAG, the aggregate policy reserve was calculated on the basis of the authorized current business plan.

Cologne, 26 January 2010

Dr. Hofmeier
Appointed Actuary

I hereby certify pursuant to section 73 VAG that the assets recorded in the list of assets have been invested in compliance with legal and regulatory requirements and are kept in proper custody.

Cologne, 18 March 2010

Bertrams
Trustee

Income Statement for the Year Ended 31 December 2009

	€000	
	2009	2008
I. Underwriting account		
1. Earned premiums net of reinsurance		
a) Gross premiums written	1,400,400	1,414,553
b) Reinsurance premiums ceded	<u>238,926</u>	<u>245,930</u>
	1,161,474	1,168,623
c) Change in gross unearned premiums	-3,830	-6,431
d) Change in gross unearned premiums ceded	<u>4,221</u>	<u>1,526</u>
	<u>-8,051</u>	<u>-7,957</u>
	1,153,423	1,160,666
2. Technical interest net of reinsurance		3,230
		3,489
3. Other underwriting income net of reinsurance		2,932
		2,981
4. Losses incurred net of reinsurance		
a) Claims paid		
aa) Gross amount	881,456	880,434
bb) Amount ceded	<u>155,898</u>	<u>150,947</u>
	725,558	729,487
b) Change in reserve for outstanding claims		
aa) Gross amount	8,482	36,560
bb) Amount ceded	<u>-66,654</u>	<u>-11,806</u>
	<u>75,136</u>	<u>48,366</u>
	800,694	777,853
5. Change in other net underwriting reserves		
a) Net aggregate policy reserve	240	-196
b) Other net underwriting reserves	<u>2,274</u>	<u>-2,872</u>
	2,514	-3,068
6. Expenses for experience-rated and non-experience-rated premium refunds net of reinsurance		3,478
		4,994
7. Underwriting expenses net of reinsurance		
a) Gross underwriting expenses	434,923	442,707
b) less		
commissions and profit sharing received on reinsurance business ceded	<u>94,021</u>	<u>73,801</u>
	340,902	368,906
8. Other underwriting expenses net of reinsurance		6,935
	<u>10,090</u>	<u>7,341</u>
9. Subtotal		4,974
10. Change in equalization reserves and similar reserves		15,604
	<u>25,694</u>	<u>-3,513</u>
11. Underwriting result net of reinsurance		1,461

	€000	
	2009	2008
II. Non-underwriting account		
1. Investment income		
a) Income from investments of which from affiliated companies € 3,892 thousand (PY: € 33,828 thousand)	17,160	55,888
b) Income from other investments of which from affiliated companies € 11,837 thousand (PY: € 11,164 thousand)	90,697	100,623
c) Income from write-ups	14,085	2,330
d) Proceeds from the disposal of investments	<u>35,902</u>	<u>6,841</u>
	157,844	165,682
2. Investment expenses		
a) Cost of portfolio management, interest expense and other expenses in connection with investments	5,994	4,300
b) Amortization of investments of which non-scheduled depreciation pursuant to the first sentence of section 277(3), 1 HGB € 14,703 thousand (PY: € 15,741 thousand)	25,470	46,328
c) Losses from the disposal of investments	<u>19,320</u>	<u>503</u>
	50,784	51,131
		114,551
3. Technical interest		-3,295
		107,060
		103,765
4. Other income	80,799	88,497
5. Other expenses	<u>124,470</u>	<u>114,093</u>
		-43,671
6. Income before taxes		85,788
7. Taxes on income and tax charged by the controlling company	212	86,830
	<u>23,600</u>	14,240
	23,812	0
8. Other taxes	<u>184</u>	14,240
		423
		23,996
9. Profit transferred on the basis of a profit-transfer or pooling agreement		61,792
10. Net income for the year		0
11. Loss carryover		72,167
		<u>0</u>
		-30,267
12. Net retained profit/loss		0
		41,900

Notes to the Financial Statements

Accounting and Valuation Policies

The annual report was prepared in compliance with the German Ordinance on the Accounting of Insurance Companies (RechVersV) of 8 November 1994.

Intangible assets

Intangible assets are recognized at cost and amortized using the straightline method.

Investments

Shares in affiliated and associated companies are recognized at cost unless a lower fair value was appropriate in the individual case. Impairment losses were reversed pursuant to section 280(1) of the German Commercial Code HGB.

In the wake of the financial market crisis, property markets are currently in an abnormal state in many international submarkets. Transaction volumes are only a fraction of what they were in past. As a result of the present weakness of the market, many sales do not take place voluntarily; in numerous cases, they are due to extraordinary constraints, such as breaches of covenants in loan agreements. To that extent, the markets are currently functioning under restrictions. The transaction prices for property achieved in the forced sale transactions observed at present – especially in international markets – are considerably lower than long-term average prices and thus cannot be used unreservedly for balance sheet reporting as reference values for establishing the fair values of long- and medium-term property investments.

Property participations held as long-term investments are valued on the basis of the relevant net asset values of the participations. The property valuations based on net asset values were established by the discounted cash flow method with fair values that are based on market parameters substantiated over the medium term and – on the assumption that markets will recover in the future – that tend to be above the property values established on the basis of current transaction prices.

Loans to affiliated and associated companies are recognized at nominal value, taking into account write-downs to fair value if applicable.

In 2009, too, a large volume of various investment fund certificates with a fixed income, bearer bonds and other fixed-interest securities was purchased and recognized as fixed assets. These securities are intended to be held as long-term investments. In order to avoid short-term fluctuations in results in this area, we decided to make consistent use of the option offered by section 341b(2) sent. 1 HGB, which allows temporary deviation from the principle of valuation at the lower of cost or market in the case of fixed-income securities carried as assets (investment fund certificates with a fixed income, bearer bonds and other fixed-interest investments). This does not, however, apply in the case of permanent impairment, e. g., deterioration in credit quality.

We have avoided application of section 341b(2) sent. 1 HGB in the case of all other investments.

Investment fund certificates with a fixed income that are carried as long-term assets are recognized at cost. In cases in which impairment is only temporary, assets were not written down to the market value or redemption price (modified lower of cost-or-market principle). Write-downs were taken in the case of permanent impairment. Impairment losses were reversed pursuant to section 280(1) HGB.

Shares, investment fund certificates and other non-fixed-interest securities carried under current assets were recognized at cost, taking into account write-downs to market value or the redemption price (strict application of lower of cost-or-market principle) where appropriate. Impairment losses were reversed pursuant to section 280(1) HGB.

Bearer bonds and other fixed-interest securities that are carried as long-term assets are recognized at cost. In accordance with section 341b(2) sent. 1 HGB write-downs were made in the case of permanent impairment (modified lower of cost-or-market principle). In the case of securities with a purchase price in excess of 100 %, the difference is prorated over the term and offset against current income.

Bearer bonds and other fixed-interest securities carried under current assets are recognized at cost, taking into account write-downs to market value (strict lower of cost-or-market principle) where appropriate.

Registered securities, receivables covered by promissory notes and loans as well as mortgages, liens on real property and annuities, loans and advance payments on policies were consistently recognized at nominal value less amortization and any write-downs. Impairment losses were reversed pursuant to section 280(1) HGB.

Discounts retained in the case of new issues are recognized as income on a proportionate basis or as deferred income to be released over the term of the loans.

The fair value of registered securities, receivables covered by promissory notes and loans as well as mortgages, liens on real property and annuities, loans and advance payments on policies were consistently determined by using the yield curve. The fair value of the structured registered securities and receivables covered by promissory notes was established by mark-to-model valuation.

Structured products that need to be broken down into their components and are coupled to hedge fund indices are written down at cost, taking into account write-downs to market value, provided that value is lower than the book value (strict lower-of-cost-or-market principle), where appropriate. Impairment losses were reversed pursuant to section 280(1) HGB.

The fair value of subordinate bearer bonds in the direct and fund portfolio (Tier I and Upper Tier II) was established partly on the basis of model prices, partly again on the basis of Bloomberg prices. The valuation procedure adopted here was as follows:

In the wake of the financial market crisis, special impairment analyses were performed for critical investments. In the event of a negative assessment, the investment in question was systematically written down. A review of market activity in subordinate bank bonds was also conducted, resulting in some bonds being valued again at market prices. To perform the required pricing of illiquid bonds, we continued to use mark-to-model valuation. Cash flow profiles based on internal credit analysis were created for each individual bond and adequately discounted by applying factors observed in the market.

In the case of subordinate bearer bonds in the direct and fund portfolio, current market prices established by market information systems were used for all except Tier I and Upper Tier II bonds.

The Company forms valuation units consisting of the bonds that it acquires that are denominated in foreign currencies (underlying transaction) and forward sales of the same currencies (hedging transaction). The valuation unit is maintained for the duration of the underlying transaction. Any gains and losses resulting in the meantime are deferred for the term of the underlying transaction.

We refer to section 285 No. 18 HGB (HGB o.v.) as regards derivative financial instruments.

Bank deposits are carried at nominal value.

Other loans and other investments are consistently recognized at cost, taking into account write-downs/write-ups to fair value; loans included in them are recognized at the value of repayments.

Other Assets

Deposits and receivables due in connection with reinsurance business assumed, receivables from direct insurance business as well as outstanding interest and rent and other receivables are recognized at nominal value, taking into account payments received; non-interest-bearing and low-interest receivables were discounted where appropriate. Current credit balances with banks, checks and cash on hand are also carried at nominal value.

In the case of receivables due from policyholders and insurance agents in connection with direct insurance business, a general allowance was calculated on the basis of collection losses due to insolvencies in the past and deducted directly. section 387 BGB was consistently applied as regards the offsetting of insurance agent receivables and liabilities. Tangible assets and inventories are recognized at cost less depreciation pursuant to section 253(2) HGB. Low-value assets acquired in the financial year were written off in their entirety in compliance with the provisions of section 6(2) and (2a) of the Income Tax Act (EStG).

Underwriting Reserves

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

For the most part, the 360/360-method is used to determine the volume of unearned premiums from direct insurance activities. Other methods are applied to a limited extent. In the engineering and marine insurance lines, the flat-rate method was used to quantify unearned premiums. In the case of foreign business, the flat-rate method was applied to establish the amount of unearned premium from assumed business.

The amount of unearned premiums from domestic business is essentially calculated on the basis of statistical premiums from policies in force. A smaller percentage of unearned premiums from domestic and foreign business was determined on the basis of premiums written. In the case of domestic reinsurance assumed, unearned premiums were established on the basis of information from cedants. In the absence of such information, the 1/8-method was used for purposes of calculation on the basis of premiums written.

Aggregate policy reserves for accident insurance with premium return and the annuity reserve were determined in compliance with the relevant legal provisions, in particular the German Ordinance on the Accounting of Insurance Companies (RechVersV). They were certified by the appointed actuary underneath the balance sheet. Aggregate policy reserves were determined on the basis of individual policies using the prospective method and taking into account future expenses. Reported losses incurred and losses incurred but not reported (IBNR) were identified and calculated individually.

The reserve for losses (with the exception of annuities) included in the reserves for outstanding claims in connection with direct insurance business was determined on the basis of the anticipated requirement and calculated individually. The reserve for losses incurred but not yet reported was determined on the basis of an estimate in compliance with section 341g(2) HGB.

The IBNR reserve for the current year was determined by using the so-called BaFin method of the Federal Insurance Supervisory Authority. This mathematical method of calculation is based on previous experience acquired over an observation period of 15 years as regards the number of losses incurred but only reported after the reporting date and associated expenses. The IBNR reserve for previous years was determined on the basis of the run-off structure of the IBNR reserve or payments made in the financial year in connection with losses incurred but only reported after the respective reporting date.

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

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

Accepted actuarial methods were used to determine the amount for terminal bonuses to be included in the reserve for premium refunds. The calculation rules are recorded in the authorized basic business plan for the payment of surplus bonuses (old policies within the meaning of section 11c of the Insurance Supervision Act (VAG)) or meet the requirements of section 28(7) RechVersV (new policies within the meaning of § 11c VAG).

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

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

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

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

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

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

The reserve for contractual premium adjustments is based on a general allowance pursuant to section 9 of the Fire Business Interruption Insurance Conditions (FBUB).

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

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

Other Liabilities

Accruals for obligations arising from pre-retirement employment agreements were determined by applying actuarial principles using the Mortality Tables 2005 G of Dr. Klaus Heubeck. Supplementary contributions and severance payments were discounted at a rate of 5.5%. Possible obligations in connection with future pre-retirement employment agreements were recognized in an amount equal to that which is likely to be required.

The reserve for obligations to make payments in connection with years of service awards was established on the basis of probable need.

Tax accruals and other accruals and provisions were established in the amounts of the anticipated expenses.

Deposits held in connection with reinsurance ceded, accounts payable in connection with reinsurance business, accounts payable in connection with direct insurance business and miscellaneous liabilities are recognized at repayable amounts.

Currency Translation

Items denominated in foreign currencies are translated at the exchange rate prevailing as of the reporting date.

Notes to the Financial Statements

Comments

Changes in Assets (Items B., C I. and C II.) in the Financial Year¹⁾

	Carrying amounts previous year
B. Intangible assets	
Other intangible assets	41,581
C I Investments in affiliated companies and associates	
1. Shares in affiliated companies	132,938
2. Loans to affiliated companies	201,700
3. Investments in associated companies	266,826
4. Loans to associated companies	17,714
5. Subtotal C I.	619,178
C II. Other investments	
1. Stocks, investment fund certificates and other non-fixed-interest securities	936,927
2. Bearer bonds and other fixed-interest securities	452,171
3. Mortgages, liens on real property and annuities	5,315
4. Other loans	
a) Registered bonds	145,000
b) Promissory notes and loans	455,708
c) Loans and advance payments on insurance policies	121
d) Other loans	18,683
5. Bank deposits	65,500
6. Miscellaneous investments	2
7. Subtotal C II.	2,079,428
Total	2,740,187

¹⁾ Exchange rate gains or losses arising from the translation of amounts brought forward as of 1 January are shown under additions and disposals respectively.

						€000
	Additions	Reclassifications	Disposals	Reversals	Amortization	Carrying amounts Financial year
	7,723	0	0	0	7,008	42,296
	55,258	0	3,327	601	0	185,470
	20,000	0	20,000	0	0	201,700
	16,575	0	27,655	49	6,193	249,602
	1,375	0	476	0	0	18,613
	93,208	0	51,458	650	6,193	655,385
	78,277	0	33,014	11,852	9,784	984,258
	226,567	0	91,864	0	9,444	577,431
	47	0	551	0	0	4,811
	10,000	0	60,000	0	0	95,000
	101,641	0	99,977	1,583	49	458,906
	47	0	49	0	0	119
	0	0	14,479	0	0	4,204
	15,600	0	0	0	0	81,100
	0	0	0	0	0	2
	432,179	0	299,934	13,435	19,277	2,205,831
	533,110	0	351,392	14,085	32,478	2,903,512

**Carrying Amounts
and Fair Value
of Investments**

			€000
Type of investment	Carrying amounts	Fair value	Valuation reserves
	2009	2009	2009
I. Investments in affiliated companies and associates			
1. Shares in affiliated companies	185,470	207,662	22,192
2. Loans to affiliated companies	201,700	201,700	0
3. Investments in associated companies	249,602	312,841	63,238
4. Loans to associated companies	18,613	18,613	0
II. Other investments			
1. Stocks, investment fund certificates and other non-fixed-interest securities	984,258	958,100	-26,158
2. Bearer bonds and other fixed-interest securities	577,431	581,356	3,925
3. Mortgages, liens on real property and annuities	4,811	5,097	287
4. Other loans			
Registered bonds	95,000	98,469	3,469
Promissory notes and loans	458,906	454,871	-4,035
Loans and advance payments on insurance policies	119	140	21
Other loans	4,204	4,204	0
5. Bank deposits	81,100	81,100	0
6. Miscellaneous investments	2	2	0
III. Deposits in connection with reinsurance business assumed	26,497	26,497	0
Total	2,887,713	2,950,652	62,939

II. 1. and 2. include investment fund certificates, bearer bonds and other fixed-interest securities with a carrying amount of € 1,092,222 thousand that are classified as long-term assets pursuant to section 341b(2) HGB. The fair value of these assets comes to a total € 1,060,359 thousand. Hidden losses amounted to € 44,799 thousand.

In those cases in which no quoted price was available, shares in affiliated companies and associates were recognized using the respective appropriate procedure in accordance with IDW HFA 10. Shares, investment fund certificates and other non-fixed-interest securities were recognized at market prices or redemption prices.

Bearer bonds and other fixed-interest securities shown under current assets and other loans and other investments that are carried at cost were consistently recognized on the basis of market prices or external valuation.

The fair value of the items included under II. 3. and 4. was determined on the basis of yield curves.

Investments Included for Purposes of Payment of Surplus Bonuses

In the case of accident insurance with premium refunds, investments carried at a cost of € 66,997 thousand with a fair value of € 68,381 thousand are included for purposes of payment of surplus bonuses. As of 31 December 2009, the difference between cost and fair value came to € 1,384 thousand.

Information on Derivative Financial Instruments Pursuant to Section 285 No. 18 HGB (HGB o.v.)

						€000
Balance sheet item	Type	Trading/ Nominal volume	Fair value ¹⁾	Carrying amount ²⁾	Valuation method	
C. I.	Future	74,975 USD	53,177	51,352	Interest rate differential	
C. I.	Future	2,568 GBP	1,910	1,858	Interest rate differential	
C. II. 2.	Future	36,480 USD	29,290	26,742	Interest rate differential	
C. II. 2.	Future	3,500 GBP	4,402	5,240	Interest rate differential	

The transactions constitute a valuation unit with the corresponding underlying.

1) Fair value of the valuation unit

2) Carrying amount of the valuation unit

Information on Financial Instruments Classified as Financial Assets Pursuant to Section 285 No. 19 HGB (HGB o.v.)

			€000
Balance sheet item	Carrying amount	Fair value	
C. I ¹⁾	49,913	47,705	
C. II.1. ²⁾	390,532	357,382	
C. II.2. ²⁾	100,607	88,959	

1) No depreciation was effected because the impairment is only temporary and exclusively due to normal exchange rate fluctuations.

2) No depreciation was effected because the fluctuations in value are only a temporary consequence of interest rate movements or changes in credit risk prices.

Receivables Due in Connection with Direct Insurance Business

			€000
	2009	2008	
1. From policyholders	37,033	42,981	
2. From insurance agents			
Of which			
Lead and co-insurance business	4,515	5,406	
Other	67,369	58,683	
Subtotal	71,884	64,089	
Total	108,917	107,070	

Write-downs in the amount of a total of € 8,193 thousand (PY: € 10,298 thousand) were taken on receivables due from policyholders and insurance agents.

Prepaid Expenses

	€000	
	2009	2008
I. Interest and rent	20,963	24,543
II. Other prepaid expenses	2,861	425
Total	23,824	24,968

Other prepaid expenses include premiums on registered bonds and promissory notes of € 2,050 thousand (PY: € 0 thousand).

Shareholders' Equity

	€000	
	2009	2008
I. Subscribed capital	153,388	153,388
II. Capital reserve Other capital reserve	164,435	164,435
III. Revenue reserve Statutory reserve	5	5
IV. Net retained profit/loss	0	41,900
Total shareholders' equity	317,828	359,728

The subscribed capital in the amount of € 153,387,564.36 consists of 300,000 registered shares of € 511.29 each.

Gothaer Finanzholding AG has informed our Company that it controls a majority of the voting rights pursuant to section 20(4) AktG.

Gross Underwriting Reserves

	€000	
	2009	2008
Accident Liability	337,892	339,457
Automotive liability	992,413	975,054
Other automotive	677,199	710,573
Other automotive	45,726	57,287
Fire and property:	396,651	383,030
Of which		
Fire	97,447	92,723
Comprehensive householders	49,293	51,093
Comprehensive homeowners	84,118	81,908
Other property	165,793	157,306
Marine and aviation	65,797	63,966
Other insurance	135,613	135,070
Direct insurance business	2,651,291	2,664,437
Reinsurance business assumed	175,532	161,881
Total	2,826,823	2,826,318

Of which Gross Reserves for Outstanding Claims

	€000	
	2009	2008
Accident Liability	247,227	247,788
Automotive liability	780,294	762,151
Other automotive	614,296	645,347
Other automotive	19,413	21,410
Fire and property:	234,287	219,357
Of which		
Fire	45,840	41,841
Comprehensive householders	17,313	15,130
Comprehensive homeowners	58,778	55,420
Other property	112,356	106,966
Marine and aviation	35,375	31,690
Other insurance	120,884	120,694
Direct insurance business	2,051,776	2,048,437
Reinsurance business assumed	89,533	77,880
Total	2,141,309	2,126,317

The evaluation of the figures of gross reserves for outstanding claims have taken into account salvage, subrogation and loss sharing agreements in the amount of € 8,051 thousand (PY: € 6,719 thousand).

Reserves for Experience-Related Refund of Premium

	€000	
	2009	2008
Opening balance	9,363	9,445
Withdrawals	1,182	1,420
Additions	909	1,338
Final balance	9,090	9,363

Surplus Bonuses in Accident Insurance with Premium Return

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

- € 1,926 thousand for current surplus bonuses that have already been fixed but not yet distributed
- € 550 thousand for terminal bonuses that have already been fixed but not yet distributed
- € 2 thousand for amounts that have already been fixed but not yet distributed for participation in valuation reserves.

The terminal bonus fund amounts to € 4,131 thousand.

The terminal bonus fund is calculated for each individual policy. The value of the terminal bonus fund per policy is the discounted final value of terminal bonuses, the final value being the sum of eligible return premiums multiplied by the terminal bonus rate declared. The discount rate is 4 % for existing policies and 0.5 % for new ones.

The following rates apply for surplus bonuses due in the calendar years 2010 and 2011 on the basis of contractual provisions:

Old policies

Interest on bonus	3 %	on the eligible aggregate policy reserve
Basic bonus	6 %	on the annual return premium
Terminal bonus	8 %	on total eligible return premiums

New policies

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

Interest on bonus	2 %	on the eligible aggregate policy reserve
Basic bonus	1 %	on the annual return premium
Terminal bonus	8 %	on total eligible return premiums

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

Interest on bonus	1%	on the eligible aggregate policy reserve of basic insurance
	2.75%	on the eligible aggregate policy reserve of bonus insurance
Basic bonus	1%	on the annual return premium
Terminal bonus	9%	on total eligible return premiums

Policies with rates BRE1, BRK1, BRS1, BRT1:

Interest on bonus	1%	on the eligible aggregate policy reserve of basic insurance
	3.25%	on eligible aggregate policy reserve of bonus insurance
Basic bonus	1%	on the annual return premium
Terminal bonus	9%	on total eligible return premiums

Policies with rates BRE2, BRK2, BRS2, BRT2:

Interest on bonus	2.5%	on the eligible aggregate policy reserve of basic insurance
	3.75%	on eligible aggregate policy reserve of bonus insurance
Basic bonus	1%	on the annual return premium
Terminal bonus	9%	on total eligible return premiums

Participation in Valuation Reserves

Since 1 January 2008, holders of accident insurance with premium return policies have participated in the valuation reserves of the guarantee assets for accident insurance with premium return. Guarantee assets for accident insurance with premium return represent part of the investment portfolio of Gothaer Allgemeine Versicherung AG that serves to secure the claims of holders of accident insurance with premium return policies. In the case of investments, application of valuation rules results in valuation reserves (non-realized profit) or, as the case may be, valuation deficits (non-realized losses). Pursuant to section 153 VVG, policyholders are entitled to receive a share of the balance of valuation reserves and deficits – if the balance is positive – on the basis of specific experience. The principles applied to determine participation, which are based on the proposal of the German Insurance Association (GDV), are presented below.

As used below, the term “valuation reserves” consistently means the net balance of valuation reserves and deficits, but to the exclusion of any negative balance.

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

Equalization Reserves and Similar Reserves

	€000	
	2009	2008
Accident Liability	0	224
Automotive liability	158,762	157,893
Other automotive	58,146	59,710
Fire and property:	24,068	33,798
Of which	74,754	73,300
Fire	45,192	44,259
Comprehensive householders	8,109	11,375
Comprehensive homeowners	0	0
Other property	21,453	17,666
Marine and aviation	24,360	26,376
Other insurance	130	0
Direct insurance business	340,220	351,301
Reinsurance business assumed	53,293	57,816
Total	393,513	409,117

Other Provisions and Accruals

	€000	
	2009	2008
I. Accruals for taxes	6,209	6,862
II. Other accruals for:		
Bonuses and sales contest premiums	3,927	3,173
Years of service awards	11,804	11,710
Social plan	2,606	7,902
Pre-retirement	25,942	23,885
Closing expenses	436	443
Holiday pay	1,002	948
Impending investment losses	415	332
Outstanding invoices	948	7,010
Pending litigation	1,600	585
Other expenses	1,484	823
Pending legal disputes	7,220	5,491
Subtotal	57,384	62,302
Total	63,593	69,164

**Liabilities
in Connection with Direct
Insurance Business**

	€000	
	2009	2008
1. Toward policyholders	58,303	51,251
2. Toward insurance agents		
Of which		
Lead and co-insurance business	4,389	5,810
Other	14,034	10,780
Subtotal	18,423	16,590
Total	76,726	67,841

Deferred Income

	€000	
	2009	2008
Discount on registered bonds and promissory notes	15	17

Gross Premiums Written

	€000	
	2009	2008
Accident	139,055	143,675
Liability	309,291	312,423
Automotive liability	155,208	172,388
Other automotive	91,935	100,087
Fire and property:	428,081	421,025
Of which		
Fire	63,820	64,185
Comprehensive householders	83,292	85,242
Comprehensive homeowners	115,732	111,556
Other property	165,237	160,042
Marine and aviation	40,654	38,515
Other insurance	99,953	95,872
Direct insurance business	1,264,177	1,283,985
Reinsurance business assumed	136,223	130,568
Total	1,400,400	1,414,553

Gross Premiums Earned

	€000	
	2009	2008
Accident	139,316	144,304
Liability	310,392	312,566
Automotive liability	154,879	172,409
Other automotive	91,695	100,098
Fire and property:	430,366	421,946
Of which		
Fire	64,054	64,792
Comprehensive householders	83,905	86,265
Comprehensive homeowners	116,515	110,387
Other property	165,892	160,502
Marine and aviation	40,451	38,451
Other insurance	99,745	94,818
Direct insurance business	1,266,844	1,284,592
Reinsurance business assumed	129,726	123,530
Total	1,396,570	1,408,122

Net Premiums Earned

	€000	
	2009	2008
Accident	120,535	124,995
Liability	272,922	269,728
Automotive liability	122,129	133,223
Other automotive	70,356	77,139
Fire and property:	325,485	321,483
Of which		
Fire	33,226	33,460
Comprehensive householders	83,514	85,847
Comprehensive homeowners	78,424	74,836
Other property	130,321	127,340
Marine and aviation	37,202	36,156
Other insurance	79,658	78,232
Direct insurance business	1,028,287	1,040,956
Reinsurance business assumed	125,136	119,710
Total	1,153,423	1,160,666

Gross Losses Incurred

	€000	
	2009	2008
Accident	68,566	85,541
Liability	176,104	191,157
Automotive liability	112,144	122,118
Other automotive	76,903	83,630
Fire and property:	260,974	265,078
Of which		
Fire	38,407	42,319
Comprehensive householders	37,805	35,692
Comprehensive homeowners	92,379	92,042
Other property	92,383	95,025
Marine and aviation	26,593	27,600
Other insurance	60,066	59,225
Direct insurance business	781,350	834,349
Reinsurance business assumed	108,588	82,645
Total	889,938	916,994

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

Technical Interest Net of Reinsurance

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

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

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

Expenses for Non-Experience-Rated and Experience-Rated Premium Refunds Net of Reinsurance

	€000	
	2009	2008
Experience rated	909	1,338
Non-experience rated	2,545	3,671
Direct insurance business	3,454	5,009
Reinsurance business assumed	24	-15
Total	3,478	4,994

Gross Underwriting Expenses

	€000	
	2009	2008
Accident Liability	51,643	51,413
Automotive liability	108,078	112,384
Other automotive	30,812	35,307
Fire and property:	18,781	21,276
Of which	146,402	144,441
Fire	21,854	23,469
Comprehensive householders	30,832	31,336
Comprehensive homeowners	37,411	37,141
Other property	56,305	52,495
Marine and aviation	12,901	11,966
Other insurance	31,790	30,356
Direct insurance business	400,407	407,143
Reinsurance business assumed	34,516	35,564
Total	434,923	442,707

Allocation of Gross Underwriting Expenses

Acquisition Costs

	€000	
	2009	2008
Accident Liability	11,769	9,847
Automotive liability	14,174	14,098
Other automotive	3,331	2,519
Fire and property:	2,173	1,660
Of which	24,833	21,320
Fire	3,884	4,008
Comprehensive householders	4,397	3,961
Comprehensive homeowners	5,711	5,585
Other property	10,841	7,766
Marine and aviation	2,330	1,645
Other insurance	6,367	5,962
Direct insurance business	64,977	57,051
Reinsurance business assumed	0	0
Total	64,977	57,051

Administrative Expenses

	€000	
	2009	2008
Accident Liability	39,873	41,566
Automotive liability	93,905	98,286
Other automotive	27,482	32,788
Fire and property:	16,608	19,616
Of which	121,568	123,121
Fire	17,969	19,461
Comprehensive householders	26,435	27,376
Comprehensive homeowners	31,700	31,555
Other property	45,464	44,729
Marine and aviation	10,571	10,321
Other insurance	25,423	24,394
Direct insurance business	335,430	350,092
Reinsurance business assumed	34,516	35,564
Total	369,946	385,656

Net for Reinsurance Business

(– = credited to reinsurers)

	€000	
	2009	2008
Accident Liability	–24,444	–200
Automotive liability	–2,165	–11,290
Other automotive	10,708	–7,834
Fire and property	–1,167	868
Marine and aviation	–31,724	–8,638
Other insurance	–2,756	–1,909
Direct insurance business	–7,189	629
Reinsurance business assumed	–58,737	–28,374
	–1,144	–6,139
Total	–59,881	–34,513

**Underwriting Income
from Direct Insurance
Business**

	€000	
	2009	2008
Accident	-2,995	11,857
Liability	24,177	-11,673
Automotive liability	25,752	11,511
Other automotive	4,833	5,915
Fire and property:	-14,725	577
Of which		
Fire	-5,492	-13,348
Comprehensive householders	15,633	25,609
Comprehensive homeowners	-24,972	-18,232
Other property	106	6,548
Marine and aviation	-880	-1,624
Other insurance	-417	1,580
Direct insurance business	35,745	18,143
Reinsurance business assumed	-10,051	-16,682
Total	25,694	1,461

**Number of Direct
Insurance Policies With
a Residual Term of at
Least One Year**

	PIF	
	2009	2008
Accident	704,768	709,569
Liability	1,328,936	1,339,687
Automotive liability	666,598	671,626
Other automotive	499,724	495,731
Fire and property:	1,497,817	1,521,612
Of which		
Fire	85,669	85,910
Comprehensive householders	732,936	746,352
Comprehensive homeowners	289,217	287,382
Other property	389,995	401,968
Marine and aviation	23,408	23,227
Other insurance	389,965	375,960
Total	5,111,216	5,137,412

Notes to the Financial Statements

Other Disclosures

Personnel Expenses

	€000	
	2009	2008
1. Commissions of insurance agents within the meaning of section 92 HGB in connection with direct insurance business	265,977	272,812
2. Other remuneration of insurance agents within the meaning of section 92 HGB	3,771	3,630
3. Wages and salaries	121,469	120,829
4. Social security contributions and employee benefits	21,428	21,987
5. Post-retirement benefits	6,672	5,723
6. Total Expenses	419,317	424,981

Members of the Supervisory Board and Management

The names of the members of the Supervisory Board and Management are provided on pages 2 and 3 of this report.

Remuneration of active members of Management came to € 514 thousand and that of former members to € 410 thousand. Retirement and survivors' benefits for former members of Management came to € 295 thousand. Gothaer Finanzholding AG has established accruals in the amount of € 3,581 thousand to cover current pension and earned post-retirement benefits for this group of individuals.

Remuneration paid to the Supervisory Board came to € 329 thousand. Remuneration in the amount of € 6 thousand was paid to the Advisory Board. No loans were granted to former members of the Supervisory Board and the Advisory Board or accrued.

No loans were granted to members of Management or the Supervisory Board in the financial year 2009.

Total Fee for the Statutory Auditor

In accordance with section 285 No. 17 HGB, the total fee charged by the statutory auditors for the financial year is reported in the consolidated financial statements of Gothaer Allgemeine Versicherung AG, Cologne, and Gothaer Versicherungsbank VVaG, Cologne, in which the financial statements of the Company are included.

Human Resources

Gothaer Allgemeine Versicherung AG had an average of 2,323 employees in the financial year. Of these, 1,815 were employed in the home offices and 508 in the field. In addition, the Company had an average 108 trainees in the course of the year.

Personnel Expenses for the Financial Year

We refer to the information on personnel expenses on this page.

**List of Holdings
Pursuant to
section 285 No. 11 HGB**

	€000		
Name, registered Office	Interest in %	Shareholders' equity	Previous year result
GG-Grundfonds Vermittlungs-GmbH, Cologne	100.00	– 15,196	– 679
Gothaer Systems GmbH, Cologne	74.90	3,872	89
Gotham City Residential Partners I GmbH & Co. KG, Frankfurt a. M.	49.99	20,603	– 298
Janitos Versicherung AG, Heidelberg	100.00	29,762	86
KILOS Beteiligungsgesellschaft mbH & Co. Vermietungs-KG, Pöcking	93.06	41,325	2,522
Munich Carlyle Produktions GmbH & Co KG, Grünewald	93.93	– 64,096	823
RE Brockton Capital Fund I Feeder GmbH & Co. KG, Cologne	24.94	25,521	– 47

We made use of the options contained in section 286(3) No. 1 HGB.

Liabilities

Total liabilities with a residual term of more than 5 years come to € 250.0 million (PY: € 250.0 million).

**Contingent Liabilities
and Other Financial
Commitments**

At year-end, contributions in the amount of € 149,622 thousand (€ 108,358 thousand of which due to affiliated companies) were outstanding for shares in affiliated companies and associates and other investments in our possession.

Guarantees of € 34,551 thousand were given under the bonds insurance operated in the framework of our business plan. In addition there were bank guarantees amounting to € 2,409 thousand.

There is a joint liability of € 31,692 thousand for post-retirement benefits of employees and executive officers and former employees and executive officers disclosed by Gothaer Finanzholding AG since 15 December 2003.

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

The actual assets of the relief fund of BERLIN-KÖLNISCHE Lebens- und Sachversicherung GmbH reflect an effective deficit in the amount of € 581 thousand incurred in net present value as defined by § 6a EStG due to the assumption of current pension obligations and earned benefits.

Forward purchases were only made in compliance with regulatory requirements.

**Consolidated
Financial Statements**

The financial statements of our Company are included in the consolidated financial statements of Gothaer Versicherungsbank VVaG, Cologne and of Gothaer Allgemeine Versicherung AG, Cologne.

Gothaer Versicherungsbank VVaG prepares the consolidated financial statements for the largest group of companies, and Gothaer Allgemeine Versicherung AG for the smallest group of companies.

Both consolidated financial statements appear in the electronic Federal Gazette.

Cologne, 26 March 2010

Board of Management

Leicht Dr. Görg Dr. Hofmeier Kurtenbach

Meisch Dr. Nickel-Waninger Schoeller

Auditors' Report

We have audited the annual financial statements – consisting of the balance sheet, income statement and notes to the financial statements – as well as related accounting and the report of management of Gothaer Allgemeine Versicherung AG, Cologne, for the year ended 31 December 2009. The responsibility for accounting records and preparation of the annual financial statements and the report of management in compliance with the provisions of German commercial law rests with the management of the Company. Our responsibility is to provide an opinion on the annual financial statements and the report of management on the basis of our audit and the accounting records and assertions of management.

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

Our audit resulted in no reservations.

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

Cologne, 31 March 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Dahl	Offizier
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

The Supervisory Board monitored the conduct of business by Management in the course of the financial year in fulfilment of its duties under the law and the bylaws of the Company. Management regularly submitted written reports on business developments and the situation of the Company to the Board and reported orally at four meetings. The 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. It was not necessary to convene the committee established pursuant to section 27(3) of the Co-Determination Act (MitbestG).

The issues addressed regularly included developments as regards the Company's premiums, losses incurred and underwriting costs as well as investment policy and the effect thereof on the financial statements. In addition, Management regularly reported to the Supervisory Board on the basic issues involved in corporate planning, the Company's risk strategy and exposure and the results of benchmarking comparisons with similarly structured companies. Management reported extensively to the Board on developments in the capital markets and the resulting impacts on investments and investment income and discussed the possible general economic consequences of the financial market crisis as well as the implications for the insurance industry and the Company. Against this backdrop, the Board resolved to set up an audit committee tasked pursuant to Sec. 107 Para. 3 of the latest version of the German Stock Corporation Act (AktG). Accordingly, the audit committee held indepth discussions with Management and auditors on matters including, in particular, the financial reporting process and the evaluation of the investments in the balance sheet presented.

Management submitted regular reports to the Supervisory Board on the status of all major strategic programmes and projects. Among other things, these included the planned continued development of a new multi-class management platform for business in force (GoBest) and the now completed implementation of the structural and organizational re-gearing of operations and claims activities for the Gothaer Offensive Mittelstand (GoMit) campaign targeting medium-sized companies. The Supervisory Board critically and closely observed the measures introduced to eliminate quantitative and qualitative processing problems that have arisen in the interim.

Both in the private and in the corporate client segment, Gothaer Allgemeine is strategically well prepared to operate in the changed market environment. In the corporate client segment in particular, services outside the realm of pure insurance have been further developed. The Supervisory Board also paid special attention to the goal of further increasing market shares and achieving market leadership in renewable energies insurance across Europe. A profit-oriented underwriting policy continues to be systematically pursued in all segments. This played a significant role in helping ensure that the Company lost none of its profitability and managed to retain its financial strength through earnings-oriented growth despite recessive investment income due to the financial market crisis. This is reflected in the 2009 rating results. The performance of Gothaer Allgemeine Versicherung AG was again confirmed by the ratings of Standard & Poor's (A-) and Fitch (A).

The Financial Statements for the financial year 2009 and the associated Management Report were audited by KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Cologne, the auditors appointed in compliance with section 341k of the German Commercial Code (HGB), including an assessment of the risk early-warning system.

The auditors fully certified the report presented.

The auditors and the appointed actuary attended the relevant Supervisory Board meeting and reported on the key results of the audit.

The Supervisory Board received the audit report presented and endorses the outcome of the audits.

After examining the submitted Financial Statements and Management Report for the financial year 2009 the Supervisory Board has no objections to raise.

The Board approves the Financial Statements for the financial year 2009 which are thus formally adopted pursuant to section 172 AktG.

The Supervisory Board thanks Management and all employees for their work in the course of the past year.

Cologne, 21 April 2010

The Supervisory Board

Dr. Roland Schulz
Chairman

Domestic and Foreign Locations

Headquarters Location

Gothaer Allee 1 Telephone 0221 308-00
50969 Cologne Facsimile 0221 308-103

Domestic Locations

Branch Locations

Katharinenstr. 23–25 Telephone 040 3704-00
20457 Hamburg

Gothaer Allee 1 Telephone 0221 308-00
50969 Cologne

Johannesstr. 39–45 Telephone 0711 6669-00
70176 Stuttgart

Foreign Locations

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F-67000 Strasbourg

Authorized representative and
Branch Manager:
Claude Ketterle

Spain

Gothaer Allgemeine Versicherung AG
Spanish Branch
Avda. de Burgos, 109
E-28050 Madrid

Authorized representative and
Branch Manager:
Michael Giesen

Gothaer

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