



Gothaer Allgemeine Versicherung AG
Annual Report 2008

Five-Year Summary

Business Year*	2008 €000	2007 €000	2006 €000	2005 €000	2004 €000
Gross premiums written	1,414,553	1,396,780	1,371,113	1,394,545	1,375,075
Premiums net of reinsurance	1,168,623	1,146,386	1,089,437	1,048,367	1,014,613
Retention (in %)	82.6	82.1	79.5	75.2	73.8
Losses incurred, net of reinsurance	777,853	755,020	694,682	686,648	638,798
In % of premiums earned	67.0	66.1	63.8	65.9	63.6
Underwriting expenses, net of reinsurance	368,906	357,425	333,299	317,172	312,957
In % of premiums earned	31.6	31.2	30.6	30.3	30.8
Income for the year¹⁾	72,167	85,783	82,500	67,000	56,356
Investments²⁾	2,698,606	2,675,335	2,623,922	2,344,425	2,219,287
Net return (%)	4.2	5.1	4.3	4.2	4.9
Gross underwriting reserves	2,826,318	2,771,899	2,668,894	2,578,466	2,478,134
In % of gross premiums	199.8	198.4	194.7	184.9	180.2
Equity capital³⁾	609,728	572,919	572,919	374,049	374,049
In % of premiums, net of reinsurance	52.2	50.0	52.6	35.7	36.9
Policies in force (thousands)	5,137	5,240	5,403	5,553	5,664
Claims reported (thousands)	424	486	433	451	487
Employees	2,521	2,587	2,638	2,699	3,085

*) The business years 2004 to 2006 refer to Gothaer Allgemeine Versicherung AG.

The figures of Gothaer Credit Versicherung AG and Gothaer Allgemeine Versicherung AG were accumulated for the financial year 2007.

1) Before transfer of profit (2004–2007)

2) Exclusive of outstanding deposits

3) Including special dividend right certificates and subordinate liabilities

Gothaer Allgemeine Versicherung AG

Annual Report 2008

Registered Office
Gothaer Allee 1
50969 Cologne
Germany

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Supervisory Board

Dr. Roland Schulz, Chairman
Former Managing Partner,
Düsseldorf
As of 27 August 2008

Diethelm Garvelmann)*, Vice Chairman
Employee,
Chairman of the Central Works Council of
Gothaer Allgemeine Versicherung AG,
Gleichen
As of 14 October 2008

Dieter Bick
Diplom-Betriebswirt,
Management Consultant,
Cologne
As of 27 August 2008

Dr. Werner Görg
Chief Executive Officer of
Gothaer Versicherungsbank VVaG and of
Gothaer Finanzholding AG
Member of the Management of
ASSTEL Lebensversicherung AG, of
Gothaer Krankenversicherung AG and of
Gothaer Lebensversicherung AG,
Cologne
Chairman up to 27 August 2008

Carl Graf von Hardenberg
Chairman of the Supervisory Board of
Hardenberg-Wilthen AG,
Nörten-Hardenberg
As of 27 August 2008

Judith Kerschbaumer)*
Trade Union Secretary of ver.di,
Lawyer,
Berlin
As of 14 October 2008

Jürgen Meisch
Member of the Management of
Gothaer Versicherungsbank VVaG, of
Gothaer Finanzholding AG, of
ASSTEL Lebensversicherungs AG, of
Gothaer Krankenversicherung AG and of
Gothaer Lebensversicherung AG,
Cologne,
Up to 27 August 2008

Dr. Dirk Niedermeyer
Director of
Fürst zu Bentheimische Domänenkammer,
Steinfurt
As of 27 August 2008

Jürgen Oberbusch)*
Employee,
Cologne
As of 14 October 2008

Harald Ommer)*
Head Staff Sales Center,
Overath
As of 14 October 2008

Edgar Schoenen)*
Employee,
Cologne
As of 14 October 2008

Peter-Josef Schützeichel)*
Employee,
Öhringen
As of 14 October 2008

Dr. Gerd G. Weiland
Lawyer,
Hamburg
Vice Chairman up to 27 August 2008
Executive Officer as of 27 August 2008

Dr. Ulrike Wolff
Dr. Wolff Managementberatung,
Berlin
As of 27 August 2008

*) Elected by employees.

Management

Thomas Leicht, Chief Executive Officer
Cologne
Executive Officer up to 27 August 2008,
Chief Executive Officer as of 27 August 2008

Wolfgang Bach
Cologne
Up to 15 September 2008

Dr. Werner Görg
Cologne
As of 1 September 2008

Dr. Helmut Hofmeier
Bergisch Gladbach
As of 1 September 2008

Michael Kurtenbach
Bornheim
As of 1 September 2008

Jürgen Meisch
Cologne
As of 1 September 2008

Dr. Hartmut Nickel-Waninger
Cologne
As of 1 September 2008

Dr. Herbert Schmitz, Personnel Director
Cologne
As of 1 September 2008

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

Eckhard Netzmann

Diplom-Ingenieur,
Corporate Consultant,
Berlin

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

Preliminary remarks

In the financial year 2008, Gothaer Allgemeine Versicherung AG was combined with Gothaer Credit Versicherung AG in a merger through absorption with retroactive effect from 1 January 2008. When the merger took effect, Gothaer Allgemeine Versicherung AG became defunct. Gothaer Credit Versicherung AG, as universal successor, then assumed all the rights and responsibilities of Gothaer Allgemeine Versicherung AG. It trades under the name of the extinct Gothaer Allgemeine Versicherung AG.

For the sake of comparison, the prior-year figures shown in this report are the aggregate figures of the former Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG.

Overview of Business Developments

Gothaer Allgemeine Versicherung AG is able to report that the encouraging performance of previous years continued into the financial year 2008. Despite a difficult economic environment, the Company improved its earning capacity. Systematic pursuit of our strategy of earnings-driven growth resulted in an increase of premium income in the financial year.

The underwriting account shows an increase in reinsurance business assumed set against a decrease in gross premium income from direct insurance business. Despite an expanded volume of business, gross losses incurred decreased in comparison with those of the prior year, which had been shaped by losses due to the Kyrill windstorm. The gross loss ratio, at 65.1 %, remained at a good level. Underwriting expenses reflected the increase in premium income.

Further improvement in retention led to significantly increased premium income net of reinsurance. Underwriting expenses net of reinsurance increased accordingly, while losses incurred net of reinsurance decreased. Overall, this resulted again in a positive underwriting result before adjustment of equalization reserves.

After an allocation to equalization reserves, the Income Statement shows a moderate underwriting profit.

2008 was marked by the financial market crisis and was a difficult year for investment. Nevertheless, satisfactory investment income was achieved, contributing significantly to the overall performance of the Company.

After allowance for other income and expenses, income before taxes exceeded the prior-year figure. Taking into account the loss carryforward of the former Gothaer Credit Versicherung AG, the balance sheet profit was €41.9 million.

Premium income

Gross premiums written increased by 1.3 % (PY: 1.9 %) to €1.41 billion (PY: €1.40 billion) in the financial year 2008.

The premium growth was the net result of a slight erosion of direct insurance business and a marked increase in reinsurance business assumed.

Direct premiums written decreased by 0.3 % to €1.28 billion. This downturn was essentially due to automotive insurance business.

The latter figure includes direct premiums written in other countries, which were slightly down on the prior-year volume at €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 €21.5 million to €130.6 million (PY: €109.1 million). This improvement resulted essentially from expansion of existing reinsurance business assumed from Janitos Versicherung AG and CG Car-Garantie Versicherungs-AG.

The volume of premiums ceded to our reinsurance providers decreased by 1.8 % to €245.9 million (PY: €250.4 million) due to an expanded volume of reinsurance business assumed with higher retention rates. This pushed up the retention ratio to 82.6 % (PY: 82.1 %). As a result, net premium income retained amounted to €1,168.6 million (PY: €1,146.4 million).

At the end of the year, the insurance portfolio comprised 5,137,412 direct policies with a residual term of at least one year (PY: 5,240,037).

Premium income in € million

2006	1,371
2007	1,397
2008	1,415

Claims

Losses reported fell in the financial year 2008 as the result of a significant decrease in new claims compared to the prior year, which had been marked by the Kyrill catastrophe.

The number of new claims reported dropped by 63,815, or 13.1 %, to 424,300 and was thus lower than in 2006. Gross losses incurred mirrored this development, decreasing by €23.2 million, or 2.7 %, to €834.3 million. Improvements in automotive, fire and property lines were offset by increases in gross losses incurred in accident and liability business. This resulted in a gross loss ratio of 65.1 %, which was lower than the 66.7 % registered in the prior year. Still at a good level, the loss ratio confirms the effectiveness of the measures taken in past years to improve underwriting results.

Gross losses incurred in connection with reinsurance business assumed reflected the increase in premiums.

After deduction of reinsurers' shares, losses incurred net of reinsurance totalled €777.9 million (PY: €755.0 million). The year-on-year increase was essentially due to the fact that losses in 2007 were inflated by the Kyrill catastrophe. The loss ratio net of reinsurance rose from 66.1 % in the prior year to 67.0 %. The loss reserve ratio net of reinsurance, at 136.2 %, was higher than in the prior year.

Losses incurred in € million

2006	852
2007	930
2008	917

Underwriting expenses

Gross underwriting expenses increased by 2.8 % or €12.1 million to €442.7 million (PY: €430.6 million) in line with the development of premium income. The gross underwriting expense ratio – defined here as the ratio of underwriting expenses to premiums written – rose from 30.8 % to 31.3 %.

Total underwriting expenses included €57.0 million in commissions and €385.7 million for management of policies. The ratios of commissions and administrative expenses to gross premiums written were 4.0 % and 27.3 % respectively.

Underwriting expenses net of insurance increased by 3.2 % to €368.9 million (PY: €357.4 million). Owing to a virtually unchanged volume of reinsurance commissions and moderately recessive reinsurance premiums, the underwriting expense ratio net of reinsurance rose to 31.6 %, as compared with 31.2 % in the prior year.

Underwriting expenses in € million

2006	419
2007	431
2008	443

Underwriting result

The underwriting result before adjustment of equalization reserves is dependent upon the development of three significant components net of reinsurance, namely the increase in premiums earned, the concomitant increase in underwriting expenses and losses incurred. Calculated on this basis, the underwriting result before adjustment of equalization reserves came to €5.0 million, which was less than the €24.1 million posted in the prior year but still on the positive side. €3.5 million, on balance, needed to be transferred to the equalization reserves (PY: €30.5 million). Following this allocation, the underwriting result after adjustment of equalization reserves amounted to a positive €1.5 million (PY: €–6.5 million).

Investments

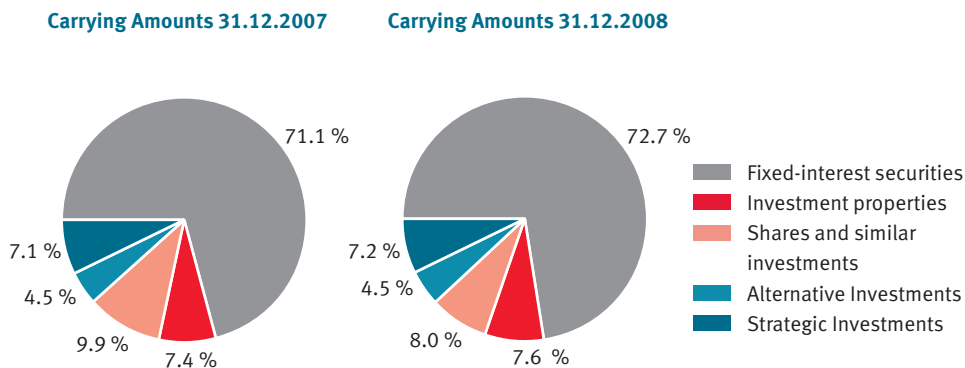
2008 was marked by the financial market crisis and was a difficult year for investment. Against this backdrop, the carrying value of the Gothaer Allgemeine Versicherung AG investment portfolio increased from €2.69 billion in the prior year to €2.72 billion in 2008.

The Company remained systematically committed to an investment policy geared to stable current income in 2008. Apart from government bonds and mortgage bonds (*Pfandbriefe*), the investment portfolio also includes corporate bonds. The latter have 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 smoothed out by the application of section 341 b of the German Commercial Code (HGB).

We refrained again from using this accounting option for any other investment category in 2008. All losses in value due to the financial market crisis were systematically recognized in income. We profited here from the fact that the bulk of our share portfolio has been hedged by multi-year option contracts secured through the stock exchange since the beginning of 2007.

The investment policy of Gothaer Allgemeine Versicherung AG takes full account of the more stringent capitalization requirements that will be implemented in the future under Solvency II. At the same time, the various investment strategies in place are based on a proficient approach to asset/liability management that permits assessment of the risk-bearing capacity of the individual Group companies.

The composition of the investment portfolio of Gothaer Allgemeine Versicherung AG, which reflects this strategic orientation, is shown below.



During the financial year 2008, we particularly reduced our engagement in hedge funds. Accruing liquidity was successively reinvested in senior bonds. Regardless of the financial crisis, all promised cash flows (interest payments and redemptions) were received for all forms of bonds by balance-sheet date and by the copy deadline for this report. Cautious expansion of the investment property portfolio continued.

Despite the adverse macroeconomic environment, the investment income achieved, at €114.6 million (PY: €135.5 million), was again good. Buoyancy was provided here by the positive development of government bond rates in the second half of 2008, as a result of which negative earnings contributions from the other asset classes were partially compensated. Thanks to significant one-off earnings from private equity investment, depreciation in the share and hedge fund portfolio was offset, making for a net return on investments of 4.2 % (PY: 5.1 %).

Net income for the Year/Shareholders' Equity

Overall, underwriting profit after adjustment of equalization reserves and the positive result in the non-underwriting account produced income before taxes totalling €86.8 million, which was more than the prior year figure of €78.7 million. This income includes premium refunds of €1.3 million (PY: €0,3 million) to holders of accident insurance policies with premium return. After taxes and after recognition of the loss carryforward of the former Gothaer Credit Versicherung AG, the Company reported a balance sheet profit of €41.9 million.

Shareholders' equity in the Company totalled €359.7 million at year-end 2008. As a result, the equity ratio moved up to 31.0 % (PY: 25.6 %). The guarantee assets of the Company – which included subordinate liabilities of €250 million – totalled €609.7 million. This represented 52.5 % (PY: 50.2 %) 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 153.4 %.

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 Insurance

Accident





Gross premiums written in accident insurance showed a moderate increase to €143.7 million in the financial year 2008, rising from €143.5 million in the prior year. In automotive insurance, premium volume was again recessive.

At €8.7 million, gross premium income from accident insurance with premium return was down on the prior year. This form of accident insurance represents a combination of insurance coverage and capital formation similar to endowment insurance. As of 31 December 2008, aggregate policy reserves for the savings component of policyholders' premiums totalled €61.2 million (PY: €61.0 million).





Premium refund expenses in the year under review amounted to €1.4 million (PY: €0.3 million).

Gross losses incurred totalled €85.5 million, up from €69.2 million in the prior year. As a result, the underwriting result net of reinsurance remained positive at €8.5 million (PY: €25.8 million). After withdrawal from equalization reserves, income amounted to €11.9 million (PY: €22.3 million).

Accident 2007 (in € million)

Gross premiums written		143
Gross losses incurred		69
Gross underwriting expenses		49
Underwriting result net of reinsurance		22

Accident 2008 (in € million)

Gross premiums written		144
Gross losses incurred		86
Gross underwriting expenses		51
Underwriting result net of reinsurance		12




Liability

The premium income generated by general liability insurance was encouraging in the year under review. As a result of upturns in commercial and industrial business, premiums written increased by 1.3 % or €4.1 million to €312.4 million.




Gross losses incurred rose in comparison to the prior year. The gross loss ratio, at 61.1 %, was higher than in the financial year 2007 but still at a good level.

Despite an increase in business volume, gross underwriting expenses (€112.4 million after €112.5 million) were marginally recessive. The gross underwriting result before transfers to equalization reserves was again positive, at €9.2 million. Due to ongoing favourable business conditions and the increase in premium income net of reinsurance, a total of €9.2 million (PY: €24.8 million) was transferred to equalization reserves. This resulted in an underwriting loss of €-11.4 million (PY: €-8.5 million).

Liability 2007 (in € million)

Gross premiums written		308
Gross losses incurred		161
Gross underwriting expenses		112
Underwriting result net of reinsurance		-8

Liability 2008 (in € million)

Gross premiums written		312
Gross losses incurred		191
Gross underwriting expenses		112
Underwriting result net of reinsurance		-12

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 8.5 % from €188.5 to €172.4 million. The number of policies in force fell accordingly from 691,751 to 671,626.

The encouraging trend in claims frequency in this line of insurance continued into 2008. This is reflected in a sharp fall in the number of new claims, which decreased by 8.7 % to 47,387. Claims expenses for the financial year decreased accordingly. Overall, the loss ratio improved from 74.0 % in the prior year to 70.8 % in the financial year under review.

Underwriting expenses reflected the change in premiums written. As a result, the net underwriting result before adjustment of equalization reserves was once again positive, totalling €7.8 million after €5.2 million in the prior year. After withdrawal from equalization reserves, the underwriting account showed positive income of €11.5 million as compared with a negative €-4.8 million in the prior year.

Automotive Liability 2007 (in € million)

Gross premiums written	188
Gross losses incurred	140
Gross underwriting expenses	36
Underwriting result net of reinsurance	-5

Automotive Liability 2008 (in € million)

Gross premiums written	172
Gross losses incurred	122
Gross underwriting expenses	35
Underwriting result net of reinsurance	12

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 7.3 % in gross premiums written to €100.1 million.

Collision and comprehensive policies accounted for €80.4 million of this (PY: €86.0 million). Partial own damage premiums written totalled €19.7 million (PY: €22.0 million).

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

The gross loss ratio for other lines of automotive insurance was 83.6 % in the year under review, up from 72.8 % in the prior year. This was the result of a rise in the loss ratio for collision and comprehensive policies from 78.6 % to 87.8 % and a higher ratio of 66.4 % for partial own damage policies, which had stood at 50.1 % in the prior year.

In the light of claims experience, a sum of €10.0 million was withdrawn from equalization reserves. The net underwriting result remained positive, totalling €5.9 million after €12.0 million in the prior year.

Other Automotive 2007 (in € million)

Gross premiums written	108
Gross losses incurred	79
Gross underwriting expenses	21
Underwriting result net of reinsurance	12

Other Automotive 2008 (in € million)

Gross premiums written	100
Gross losses incurred	84
Gross underwriting expenses	21
Underwriting result net of reinsurance	6

Fire

The number of policies in force in this line of insurance decreased by 1,483 to 85,910 – reduced, as in the prior year, by risk – conscious underwriting.

The decline was reflected in gross premiums written, which fell from €66.4 million in the prior year to €64.2 million. This downturn was essentially due to industrial fire business.

In other lines of fire insurance, which include fire insurance for contents and fire insurance for larger commercial buildings, premium income was marginally higher than the prior-year figure at €24.3 million.





A decrease was registered in premium income from agricultural fire insurance. Premiums written, at €0.5 million, were on a par with the prior year.

Gross losses incurred were moderately recessive in comparison to the prior year. Owing to these developments in claims and premiums, the gross loss ratio edged above the 64.3 % registered in the prior year but remained good at 65.3 %.

Net of reinsurance, overall developments resulted in an underwriting loss of €–13.3 million (PY: €–12.5 million) after transfers to equalization reserves.





Fire

2007 (in € million)

Gross premiums written		66
Gross losses incurred		43
Gross underwriting expenses		24
Underwriting result net of reinsurance		-13

Fire

2008 (in € million)

Gross premiums written		64
Gross losses incurred		42
Gross underwriting expenses		23
Underwriting result net of reinsurance		-13

Comprehensive Householders

A decrease of 1.3 % to €85.2 million was registered for premiums written in this line of insurance. The number of policies in force reflected this development, declining to 746,352 in the financial year 2008 from 772,786 a year earlier.

The number of claims decreased yet again in comparison with the prior-year figure. A total of 43,425 new claims were reported in the year under review, after 48,560 were recorded in 2007. This development was also reflected in the gross losses incurred during the reporting period. Overall, however, expenses increased by 1.7 % to €35.7 million (PY: €35.1 million). The gross loss ratio, at 41.4 %, remained stable at a good level.

A total of €5.5 million was withdrawn from equalization reserves in the year under review (PY: €1.2 million allocation). As a result, the net underwriting result from this line of insurance was again positive, at €25.6 million (PY: €20.3 million).

Comprehensive Householders 2007 (in € million)

Gross premiums written	86
Gross losses incurred	35
Gross underwriting expenses	31
Underwriting result net of reinsurance	20

Comprehensive Householders 2008 (in € million)

Gross premiums written	85
Gross losses incurred	36
Gross underwriting expenses	31
Underwriting result net of reinsurance	26





Comprehensive Homeowners

Gross premiums written in comprehensive homeowners insurance increased by 4.9 % to €111.6 million (PY: €106.4 million).





As anticipated, the number of reported claims decreased, falling by 34,865 to 62,395 from a prior-year figure inflated by the windstorm Kyrill. Gross losses incurred reflected this development, decreasing to €92,0 million (PY: €125.2 million). As a result, the gross loss ratio moved down, falling to 83.4 %, from the prior-year ratio of 116.9 %.

Overall, this produced a net underwriting result of €-18.2 million (PY: €-27.0 million) for the year.

Comprehensive Homeowners 2007 (in € million)

Gross premiums written		106
Gross losses incurred		125
Gross underwriting expenses		35
Underwriting result net of reinsurance		-27

Comprehensive Homeowners 2008 (in € million)

Gross premiums written		112
Gross losses incurred		92
Gross underwriting expenses		37
Underwriting result net of reinsurance		-18

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 €160,0 million (PY: €152.7 million). The upturn was essentially due to engineering insurance.

Gross losses incurred for the entire group decreased from €119.2 million in the prior year to €95.0 million. The gross loss ratio improved accordingly from 79.1 % to 59.2 %.

Overall, this group of insurance lines produced a positive underwriting result of €6.5 million, after €4.1 million in the prior year.





Marine and Aviation

Premium income from marine and aviation business increased by 9.4 % to €38.5 million, after totalling €35.2 million in the prior year. Net of reinsurance, an underwriting loss of €1.6 million (PY: €1.4 million) was recorded for these two lines. Revenues and earnings here were essentially shaped by marine insurance business.





The gross loss ratio rose to 71.8 %, from 62.7 % in the prior year.

In line with premium income, gross underwriting expenses in marine and aviation insurance rose above the prior-year figure, totalling €12.0 million after €11.3 million in 2007.

Marine and Aviation 2007 (in € million)

Gross premiums written		35
Gross losses incurred		22
Gross underwriting expenses		11
Underwriting result net of reinsurance		1

Marine and Aviation 2008 (in € million)

Gross premiums written		39
Gross losses incurred		28
Gross underwriting expenses		12
Underwriting result net of reinsurance		-2

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 €95.9 million (PY: €92.3 million). The increase resulted essentially from all-risk business.

With a fall in gross losses incurred to €59.2 million (PY: €65.2 million) and an increase in underwriting expenses, the underwriting account showed a profit net of reinsurance of €1.6 million (PY: €-9.5 million) for this entire group of lines and coverages.

Comments on Reinsurance Business Assumed

Premium income for the financial year increased by €21.5 million to €130.6 million. This upturn essentially resulted from expansion of existing reinsurance business assumed from Janitos Versicherung AG and CG Car-Garantie Versicherungs-AG.

Due to the expansion of business, a total of €15.8 million (PY: €6.4 million) was transferred to equalization reserves. This produced an underwriting loss of €-16.7 million after adjustment of equalization reserves, which followed a prior-year loss of €-4.4 million.

Foreign Business

Gross direct premiums written in other countries totalled €8.5 million (PY: €8.8 million) in 2008. By partnering with Eureka and EurAPCo, Gothaer is able to market its products in collaboration with Achmea in the Netherlands, Norwich Union 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 on a sustainable basis, our corporate governance is geared to the “safety first” principle, i.e. growth and profit targets are pursued under strict observance of the standards needed to secure the long-term future of the Company. The framework of acceptable risks that can be consciously assumed is defined in our risk strategy. This requires that assumption of risk should be limited, in particular, by our existing risk-bearing capacity and declared risk tolerance, i.e. our maximum permissible risk exposure. This security aspect is taken into account from various perspectives by minimum requirements that need to be observed:

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).

For internal management purposes, we have set a minimum security level of 99.5 % (one-year value at risk based on our own risk model).

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. Risk controlling tasks are performed by the actuarial department and the central risk controlling unit at Gothaer Finanzholding AG. At the same time, close cooperation takes place with the Middle Office of Gothaer Asset Management AG, especially on asset/liability management issues. 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 guideline, 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. Transparency about the risk situation and early implementation of risk-limiting measures are ensured by regular risk reporting and ad hoc reports on specific developments.

Internal monitoring of the rules of the risk management system, especially in terms of their efficacy, is regularly reviewed 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.

The regulatory requirements that need to be met by an insurance company's risk management system were codified at the beginning of 2008 by the provisions of section 64a of the German Insurance Supervision Act (VAG). At the same time, work continued at European level on the development of the Solvency II supervisory system. During the year under review, we made preparations and implemented measures to ensure that we meet the supervisory requirements on both these fronts. That action included addressing compliance with section 64a VAG as a project and is geared to the principles contained in the Minimum Requirements for Risk Management in Insurance Companies (MaRisk VA).

General risk situation

Our operations are segmented by target group into private and corporate client business. The possible 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. As a result of falling sales for industry in 2009, or 2010 at the latest, and reduced wage bills, insurance lines with premiums based on annual turnover will register declining premium income. These lines include liability, marine and even property insurance. The prospectively recessive inclination to invest will also affect engineering insurance. These negative impacts should be offset and more than compensated by profitable new business. The poorer economic climate will also impact on private client business, although to a lesser extent, and will result in reduced numbers of accident and glass policies in force.

Underwriting risks

As a matter of principle, 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 is marked by increasing 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 and economical insurance solutions to counter this market trend.

Accordingly, we conducted a rate review last year and lowered the level of our rates for private automotive insurance as far as costs and claims experience would permit. The current product secures our automotive business and positions us well for future market developments. In addition, the quality of our portfolio is being steadily improved by effective portfolio management. On the whole, we thus continue to address the market with acceptable rates, committing to profit even at the expense of market share.

In property, liability, accident and multiple-risk insurance, predatory competition is increasing. Due to price pressure, market saturation and financial crisis, growth prospects are seen as low. 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 very well positioned in popular rankings and test reports because of its price. We also offer premium products, which provide high-performance solutions for clients. In 2009, we will additionally conduct an accident campaign with a view to securing portfolios and improving new production.

The natural catastrophes resulting from climate change in recent years will have a significant negative impact on the underwriting result. 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 maintained.

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 by very intense competition with pressure on premiums and conditions, especially in industrial property insurance and fleet insurance for major risks. We adjusted to this at an early stage with a profit-oriented 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.

All these efforts have helped generate growth that is above the market average and earnings that are on target.

The market environment for the largest single insurance class – liability insurance – stabilized further in the period under review. The exemplary market launch of our environmental damage insurance impacted positively on premium growth and led to a high level of satisfaction among clients and sales partners.

The policy of renouncing highly exposed risks – a policy that has been observed for many years – was systematically maintained. In addition to these profit-oriented measures, value-based management resulted in new policies being written.

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 despite intense competition. In the industrial sector, the pressure on premiums increased even more. Portfolio business was largely retained, so no policies were lost after new business was taken into account. Fire safety and security are the concepts that boost earnings in industry and commerce and offer the client genuine solution-oriented added value.

Marine insurance is a regular source of growth for Gothaer Allgemeine Versicherung AG. In carriers liability insurance, underwriting experience deteriorated somewhat as a result of the tense loss situation.

In engineering insurance, vigorous growth was achieved in machinery and electronic lines. Renewable energy insurance also contributed to growth as anticipated.

Our position as market leader in windpower plant insurance was further consolidated and major acquisitions were noted in biogas facility and photovoltaic system insurance. Developments in geothermal risks continue to be closely monitored and initial experience is being gathered in the insurance of such risks.

Automotive insurance also needs to be seen in a differentiated light. In commercial automotive insurance, only a minor decrease in premiums was sustained. Extensive insurance was provided for new risks, which will impact positively on income in 2009. The selective underwriting policy pursued is producing very good 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. As a consequence, premium income fell and the underwriting result deteriorated.

Growing interest in target-group and multiple-risk products was noted on the part of clients and agents. While the SME campaign has produced positive results in the area of multiple-risk products, growth has been achieved in corporate client business through master agreements.

Reinsurance

The reinsurance structure validated for 2008 in the wake of extensive optimization analysis was largely retained on the basis of the review of exposure as of 1 January 2009. The context for the renewal of reinsurance treaties was shaped partly by the natural catastrophes that occurred in the second half of 2008 but mostly by the impacts of the global financial market crisis. This resulted in loss of capital for reinsurers across the board. Primary insurers sought more reinsurance to strengthen their capital base. As a result, reinsurers demanded significantly higher prices, especially in capital-intensive areas such as natural catastrophe business.

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 natural catastrophe, 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 with the help of a newly available 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 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.

	Loss ratio (%) after run-off	Run-off results as % of initial reserves
1999	75.5	15.8
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	68.0	11.2

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 stable small business and private client lines. Terms are negotiated annually and are in line with current market conditions. We see no significant risks in our reinsurance business at the present time.

Loss of Receivables Risks

Accounts receivable from policyholders and insurance agents in connection with direct insurance business totalled €107.1 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. €58.4 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 €7.4 million, which represented an average of 5.3 % of gross premiums written.

We cede reinsurance only to first-class reinsurers. 72 % of our reinsurance premiums are ceded to reinsurers with a rating of AA– or better. In the course of the financial market crisis, two of our reinsurers were downgraded by the rating agency Standard & Poor's. This has been taken into account accordingly in the reinsurance we cede. Accounts receivable in connection with reinsurance business totalled €48.4 million at balance sheet date. Accounts receivable in connection with reinsurance ceded amounted to €44.9 million. The structure of receivables from reinsurers by rating class was as follows:

Rating class	€ million
AAA	5.7
AA	11.0
A	26.4
BBB	0.2

Companies with no rating accounted for €1.5 million of accounts receivable from reinsurers. 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 de-correlation of investments. In the wake of the market anomalies that occurred in the year under review, the diversification across asset classes that is otherwise normal sharply decreased. 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 4.3 reduced the market value of interest-bearing securities by €80,601 thousand in comparison to the year-end value of the portfolio.

In view of the hedge that exists for the share position, there is actually only minor residual exposure for the Company in shares. Against this backdrop, the chances and risks for the hedged part are very limited in scope. After allowance for hedging, share stress (20 % downturn in prices) led to a fall in market value of €1,388 thousand. Within the framework of the Gothaer Allgemeine Versicherung investment strategy, it has been decided that risk capital, i.e. the share and hedge fund position, should be further reduced in the coming financial year. Exchange rate risk is 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 and 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 crisis, special impairment analyses were performed for critical investments, none of which revealed any sustainable impairment. In certain segments of the bond market, especially in the market for subordinate bank bonds, there has been no trading since the fourth quarter of 2008. To perform the required pricing of these illiquid bonds, we switched to 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.

At year-end, fixed-interest securities once again accounted for around 73 % of the portfolio. In the area of bearer bonds, without taking account of retail funds, financials (unsecured/subordinate bonds issued by banks, insurers or financial service providers) accounted for around 9 % of total investment and corporates (unsecured/subordinate bonds issued by companies) for around 8 %. Because of the marked increase in credit spreads and illiquidity premiums, the fixed-interest portfolio had significantly greater hidden liability than in the prior year, most of it due to subordinate fixed-interest securities. Owing to the severe economic crisis, we believe that some interest payments on subordinate bank bonds and ABS/CDOs may not be received in the coming financial year. In spite of the tense financial market situation, we do not anticipate loss of nominal value due to nationalization or insolvency, especially in the bank sector.

As a result of the revenues generated in the financial year, the percentage of fixed interest securities with an investment grade rating edged up from 93.4 % to around 93.9 %. Around 75 % of the fixed-interest portfolio consisted of A-rated securities and around 33 % of securities with an AAA rating. Owing to major downgrades – especially in the bank and ABS sectors – there is a risk of increased rating migration to the high-yield segment and thus also the risk of a breach of the high-yield ratio required by regulatory legislation.

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 2008.

Substantive payment obligations arising from real estate commitments included in liquidity planning exist in the financial year 2009. In line with prior-year developments, a liquidity surplus is anticipated over the year as a whole.

Stress Test

Gothaer Allgemeine Versicherung AG meets all four variants of the stress test prescribed by the Federal Financial Supervisory Authority (BaFin), even in the stringent form that applied up to December 2008. 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 – even in this exaggerated stress scenario – 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 this dependence on ICT, security mechanisms have been systematically improved and stabilized in recent years. 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.

Our managerial principles are based on delegation of responsibility and authority. An effective system of internal control procedures makes it possible to control and monitor all business activities. This also involves the use of multiple organizational checks and balances as well as cross-process monitoring by internal auditors. For example, mention may be made in this context of appropriate segregation of duties and the use of the four-eyes principle, regular plausibility tests and dedicated fraud-detection software.

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.

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

Summary of the Risk Situation

The available own funds of €317.8 million exceed the amount needed to meet regulatory solvency requirements by €110.6 million.

In 2008, the rating agencies Standard and Poor’s (S&P) and Fitch again gave Gothaer Allgemeine Versicherung AG “Very Good” ratings for financial stability (A– and A rating 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 2008.

Economic Environment in Germany

Global economic forecasts are currently marked by general uncertainty over the long-term implications of the financial crisis as well as the impacts of the monetary and financial policy measures taken and governments' economic programmes and interventions. There is general agreement that the world economy has been in economic downswing since the significant intensification of the financial crisis in autumn 2008 and that a worsening global recession is anticipated in 2009.

The sharply deteriorated general economic climate also continued into 2009 with a recession in Germany. GDP forecasts range from -1.2% to -2.7% (as of January 2009).

The principal causes are sharply falling exports and a marked slowdown in orders in the wake of the global recession. Investment is decreasing and capacity utilization declining at the same time. On the labour market, negative developments with falling employment are anticipated. Despite an initial rise in real incomes, domestic consumer demand will not increase significantly.

Demand for Indemnity and Accident Insurance Unfavourably Affected by Recessive Economic Development

Economic recession will impact unfavourably on demand for indemnity and accident insurance in 2009 – not only because of its effect on the economic situation of private households. Commercial and industrial demand is also expected to be subdued. At the same time, the price sensitivity of private and corporate clients will become even more pronounced while price competition between providers will persist. In the light of these underlying conditions, the German Insurance Association (*GDV*) expects 2009 to bring a further reduction of scope for growth in indemnity and accident insurance.

Premium income from the most important class of indemnity and accident insurance business – automotive insurance – is already being depressed by portfolio reductions to shifts towards more economical no-claims classes and more economical premium segments. In addition, particularly intense price competition is anticipated in individual fields of business due to the increasing market share commanded by cut-price insurers, e.g. direct insurers. Premium revenues from automotive insurance business are expected to decrease by a further 2%.

Across all lines of insurance, premium volume is expected to remain virtually the same as in 2008.

Outlook for Gothaer Allgemeine Versicherung AG

We fully expect Gothaer Allgemeine to maintain premium income at the current level in the financial year 2009 although, as experience has shown, premium volumes in the different lines of insurance will differ.

Private client business in the coming years will be shaped by developments in private automotive business, where premium revenues are expected to decrease because of the level of competition. In all other lines in this segment, we anticipate a stable level of premiums.

In private client business, we will continue to pursue a balanced business policy line between earnings and growth in the year ahead. This includes a systematic underwriting policy and constant portfolio management.

In the commercial client segment, we anticipate moderate premium growth in all lines of insurance over the coming years, although a deviation from targeted premium volume because of the present financial market crisis is not ruled out. In liability and engineering insurance, we will take selected, targeted individual risk management measures at relevant clients.

The development of the renewable energies market will also be significant in the years ahead. To achieve the climate goals set by the German government and the European Union, major investment in plant and equipment as well as production premises will be needed in the coming years.

Continuing Focus on Earnings Targets

In view of the increased intensity of competition, Gothaer Allgemeine will continue to focus on achieving sufficiently high underwriting results. At the same time, we will pursue the goal of successively lowering cost ratios in the planning horizon and thus maintaining a combined ratio of less than 100 %.

Earnings Remain at Sound Level

Provided that investment income is on target and the underwriting result is adequate, net income in 2009 will again reach a sound level.

We also expect earnings before transfer of profit to remain reasonable in the following years of the planning horizon.

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 the capital markets, competition, unexpected major or accumulation losses and changes in national or international legislation.

Relations with Affiliated Companies

The Company is wholly owned by Gothaer Finanzholding AG (GoFiHo), Cologne.

Since we are dependent via GoFiHo on Gothaer Versicherungsbank VVaG (GVB), a Report on Relations with Affiliated Companies has been prepared in compliance with section 312 of the German Stock Corporation Act (AktG). Fully certified by our auditors, it concludes with the statement:

“Under the circumstances known at the time, the Company received fair and reasonable consideration in every transaction with Gothaer Versicherungsbank VVaG, Cologne, or companies affiliated with it. No transactions or measures were either undertaken or omitted in the interests of enterprises affiliated with the Company.”

Membership in Associations and Similar Organization

We are members of the following associations: Gesamtverband der German Versicherungswirtschaft e.V., Berlin, Verein Hamburger Assekuradeure e.V., Hamburg, Hansa-Industriervereinigung, Hamburg and Bremen, Wiesbadener Vereinigung, Bonn, Rothenburger Vereinigung, Cologne, Arbeitgeberverband der insurance companies, Munich, Verkehrsofopferhilfe e.V., Hamburg, and German Büro Grüne Karte e.V., Hamburg.

We also belong to the Verbond van Verzekeraars in Nederland in the Netherlands, the Union Syndicale des Sociétés Etrangères d'Assurance, Paris, in France, the Fédération Française des Sociétés d'Assurances, Paris, in France and the Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE), Paris, in France and the Motors Insurers Bureau, London, in Great Britain.

List of Insurance Lines and Coverages

Life Insurance

Accident Insurance

Personal accident (incl. aviation), group accident, clinical trials and accident insurance with premium return and automotive accident insurance

Liability Insurance

Personal (incl. pleasure craft and dog owners' liability), employers' and professional malpractice, environmental, property damage, carriers liability, radiation and nuclear plant, fire and other liability (incl. property owners' liability) and aviation and aerospace liability insurance

Automotive Liability Insurance

Other Automotive Insurance

Collision and comprehensive, and partial own damage coverage

Legal Expenses Insurance

Fire Insurance

Fire industrial, agricultural and other fire insurance

Comprehensive Householders Insurance (with or without natural disaster insurance)

Comprehensive Homeowners Insurance (with or without natural hazards insurance)

Other Property Insurance

Burglary and theft, water, glass, storm (with or without other natural hazards coverage in the case of commercial risks), machinery (incl. construction machinery), electronic (incl. Internet), erection and contractor's all risks and other engineering insurance (electrical and gas-operated household appliances, television wear and tear), stock in transit (general, fur, textile processing, laundry), extended coverage and other property damage insurance (trade exhibits, bicycles, cloakroom, hunting and sport weapons, nuclear plant property, vending machines, luggage, automotive luggage, valuables (personal), art, eyeglasses, dental)

Marine and Aviation Insurance

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

Credit and Surety Insurance

Delcredere insurance

Motorist Assistance Insurance

Motor travel service

Other Insurance Lines and Coverages

Business interruption (fire, engineering and other business interruption insurance), other financial loss (travel cancellation, machinery guarantee, check cards, loss of rent and spacecraft financial loss), other combined (tank and container leakage, all risks), cinema, other and non-specific combined insurance (multiple-risk) and fidelity insurance.

Proposed appropriation of profit

The net income for the year is €72,167,338.10. Taking into consideration the previous year's balance sheet loss of €30,267,338.10, the Annual General Meeting shall take a resolution on a balance sheet profit of €41.900.000,00.

We propose that the balance sheet profit be distributed in full.

Balance Sheet for the Year Ended 31 December 2008

Assets

	€000	€000	€000	2008 €000	2007* €000
A. Subscribed capital unpaid				10,226	11,913
B. Intangible assets				41,581	35,187
C. Investments					
I. Investments in affiliated companies and associates					
1. Shares in affiliated companies		132,938			111,608
2. Loans to affiliated companies		201,700			201,700
3. Investments in associated companies		266,826			266,987
4. Loans to associated companies		<u>17,714</u>			<u>24,101</u>
			619,178		<u>604,396</u>
II. Other investments					
1. Stocks, investment fund certificates and other non-fixed-interest securities		936,927			934,868
2. Bearer bonds and other fixed-interest securities		452,171			360,986
3. Mortgages, liens on real property and annuities		5,315			5,876
4. Other loans					
a) Registered bonds	145,000				250,000
b) Promissory notes and loans	455,709				468,993
c) Loans and advance payments on insurance policies	121				101
d) Other loans	<u>18,683</u>				<u>15,863</u>
		619,513			<u>734,957</u>
5. Bank deposits		65,500			34,250
6. Miscellaneous investments		<u>2</u>			<u>2</u>
			2,079,428		<u>2,070,939</u>
III. Deposits made in connection with reinsurance business assumed					
			<u>23,150</u>		<u>17,420</u>
				2,721,756	2,692,755

Assets

	€000	€000	2008 €000	2007* €000
D. Accounts receivable				
I. Accounts receivable in connection with direct insurance business from:				
1. Policyholders	42,981			51,614
2. Insurance agents	<u>64,089</u>			<u>60,447</u>
		107,070		112,061
II. Accounts receivable in connection with reinsurance business of which from affiliated companies: €2,017 thousand (PY: €9,924 thousand)		48,430		61,255
III. Other accounts receivable		<u>135,655</u>		<u>93,058</u>
of which from affiliated companies: €18,681 thousand (PY: €5,764 thousand)			291,155	266,374
of which from associated companies: €26 thousand (PY: €14 thousand)				
E. Other assets				
I. Tangible assets and inventories		5,024		8,587
II. Current credit balances with banks, checks and cash on hand		17,122		19,436
III. Miscellaneous assets		<u>431</u>		<u>458</u>
			22,577	28,481
F. Prepaid expenses				
I. Prepaid interest and rent		24,543		21,597
II. Other prepaid expenses		<u>425</u>		<u>216</u>
			24,968	21,813
G. Deficit not covered by equity			0	2,994
Total Assets			3,112,263	3,059,517

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

Shareholders' Equity and Liabilities

	€000	€000	2008 €000	2007* €000
A. Shareholders' equity				
I. Subscribed capital		153,388		180,656
II. Capital reserve		164,435		138,854
III. Revenue reserve				
Statutory reserve		5		5
IV. Balance sheet loss		41,900		-30,267
V. Deficit not covered by equity		0		2,994
			359,728	292,242
B. Profit participation rights			0	30,677
C. Subordinate liabilities			250,000	250,000
D. Underwriting reserves				
I. Unearned premiums				
1. Gross amount	206,674			200,242
2. of which less:				
Amounts ceded	22,691			24,216
		183,983		176,026
II. Aggregate policy reserve				
1. Gross amount	61,228			61,033
2. of which less:				
Amounts ceded	0			0
		61,228		61,033
III. Reserve for outstanding claims				
1. Gross amount	2,126,317			2,083,288
2. of which less:				
Amounts ceded	534,521			544,844
		1,591,796		1,538,444
IV. Reserve for experience-rated and non-experience-rated premium refunds				
1. Gross amount	12,316			10,891
2. of which less:				
Amounts ceded	173			12
		12,143		10,879
V. Equalization reserves and similar reserves		409,117		405,604
VI. Other underwriting reserves				
1. Gross amount	10,666			10,841
2. of which less:				
Amounts ceded	-3,324			-276
		13,990		11,117
			2,272,257	2,203,103

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

Shareholders' Equity and Liabilities

	€000	€000	2008 €000	2007* €000
E. Other accruals				
I. Accruals for pensions and similar accruals		0		888
II. Accruals for taxes		6,862		0
III. Miscellaneous accruals		62,302		74,334
			69,164	75,222
F. Deposits held in connection with reinsurance business ceded			32,705	31,127
G. Other liabilities				
I. Accounts payable in connection with direct insurance business to				
1. Policyholders	51,251			61,603
2. Insurance agents	16,590			17,352
		67,841		78,955
II. Accounts payable in connection with reinsurance business		9,493		5,967
of which to affiliated companies: €1,886 thousand (PY: €424 thousand)				
III. Miscellaneous liabilities		51,058		92,205
of which			128,392	177,127
for taxes: €17,640 thousand (PY: €17,408 thousand) for social security: €67 thousand (PY: €24 thousand) toward affiliated companies: €6,872 thousand (PY: €53,152 thousand) toward associated companies: €2,965 thousand (PY: €4,078 thousand)				
H. Deferred income			17	19
Total Shareholders' Equity and Liabilities			3,112,263	3,059,517

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

I hereby confirm that the aggregate policy reserve for accident insurance with premium return shown under item D II. No. 1 under Shareholders' Equity and Liabilities in the amount of €61,228,438 and the annuity reserve for claims under item D III. No. 1 in the amount of €52,078,877 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 2009

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 2009

Bertrams
Trustee

Income Statement for the Year Ended 31 December 2008

	€000	€000	2008 €000	2007* €000
I. Underwriting account				
1. Earned premiums net of reinsurance				
a) Gross premiums written	1,414,553			1,396,780
b) Reinsurance premiums ceded	245,930			250,394
		1,168,623		1,146,386
c) Change in gross unearned premiums	-6,431			-1,481
d) Change in gross unearned premiums ceded	1,526			-2,998
		-7,957		-4,479
			1,160,666	1,141,907
2. Technical interest net of reinsurance			3,489	3,419
3. Other underwriting income net of reinsurance			2,981	2,493
4. Losses incurred net of reinsurance				
a) Claims paid				
aa) Gross amount	880,434			900,230
bb) Amounts ceded	150,947			204,819
		729,487		695,411
b) Change in reserve for outstanding claims				
aa) Gross amount	36,560			29,998
bb) Amounts ceded	-11,806			-29,611
		48,366		59,609
			777,853	755,020
5. Changes in other net underwriting reserves				
a) Net aggregate policy reserve		-196		-798
b) Other net underwriting reserve		-2,872		-1,620
			-3,068	-2,418
6. Expenses for experience-rated and non-experience-rated premium refunds net of reinsurance			4,994	1,335
7. Underwriting expenses net of reinsurance				
a) Gross underwriting expenses		442,707		430,553
b) of which less:				
commissions and profit received on reinsurance business ceded		73,801		73,128
			368,906	357,425
8. Other underwriting expenses net of reinsurance			7,341	7,552
9. Subtotal			4,974	24,069
10. Change in equalization reserves and similar reserves			-3,513	-30,541
11. Underwriting result net of reinsurance			1,461	-6,472

	€000	€000	2008 €000	2007* Tsd. €
II. Non-underwriting account				
1. Investment income				
a) Income from investments of which: from affiliated companies €33,828 thousand (PY: €10,037 thousand)		55,888		27,816
b) Income from other investments of which: from affiliated companies €11,164 thousand (PY: €11,148 thousand)				
aa) Income from land, land rights and buildings, including buildings on third-party land	0			2
bb) income from other investments	100,623			152,409
		100,623		152,411
c) Income from write-ups		2,330		3,856
d) Proceeds from the disposal of investments		6,841		33,986
		165,682		218,069
2. Investment expenses				
a) Cost of portfolio management, interest expense and other expenses in connection with investments		4,300		66,024
b) Amortization of investments of which: non-scheduled depreciation pursuant to the first sentence of section 277(3), 1HGB €15,741 thousand (PY: €11,087 thousand)		46,328		13,877
c) Losses from the disposal of investments		503		2,703
		51,131		82,604
			114,551	135,465
3. Technical interest			-3,586	-3,517
			110,965	131,948
4. Other income		88,497		80,775
5. Other expenses		114,093		127,574
			-25,596	-46,799
6. Income before taxes			86,830	78,677
7. Taxes on income		14,240		-7,304
8. Other taxes		423		198
			-14,663	-7,106
9. Profit transferred on the basis of a profit-transfer or pooling agreement			0	85,000
10. Net income for the year			72,167	783
11. Loss carryover			-30,267	-31,050
12 Balance sheet profit/loss			41,900	-30,267

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

The Balance Sheet and Income Statement of Gothaer Credit Versicherung AG to 31 December 2007 are included in the Appendix on pages 46 to 51.

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 straight-line 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.

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

Balances within limited partnership holdings are carried at nominal value.

Various investment fund certificates, bearer bonds and other fixed-interest securities shown as current assets were reclassified as fixed assets in past years. In 2008, too, a large volume of various investment fund certificates, bearer bonds and other fixed-interest securities was purchased and recognized as fixed assets. One security shown as current asset was reclassified as fixed asset (nominal 3 million USD/book value €2.3 million), additional depreciation of €0.7 million was avoided. 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 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.

It is our explicit intent to avoid application of section 341b 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 trading 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 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.

Mortgages, liens on real property and annuities are recognized at nominal value less amortization.

The fair value of registered securities, receivables covered by promissory notes and loans as well as mortgages, liens on real property and annuities were determined by the use of the yield curve. Nominal value less amortization and any write-downs is consistently taken for purposes for recognition. 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 Company uses the services of an independent, certified valuation service provider for purposes of measurement of structured financing products. Valuation is based on market-based parameters. Perpetual bonds, which need to be divided into their different components, are recognized as fixed assets and divided accordingly. Because of the high probability of the issuer's right of termination being exercised, the embedded derivative has not been capitalized.

The fair value of subordinate bearer bonds issued by banks or insurance companies (Tier 1 and Upper Tier 2) was established by mark-to-model valuation; stock market prices could not be used because of the absence of an active market. The valuation method used takes account of security-specific cash flows assessed by the *Marktzinsmethode* (measurement of opportunity/cost-oriented performance) developed by Moosmüller&Knauf. Anticipated coupon losses have been taken into account in the model.

Structured products that need to be broken down into their components and are coupled to hedge fund indices are, if necessary, written down to fair value, provided that value is lower than the book value (strict lower-of-cost-or-market principle) at balance-sheet date. In the prior year, structured products coupled to hedge fund indices acquired in the financial year 2007 were recognized separately as a basic transaction and an embedded total return swap. In the financial year 2008, the way these products were treated for reporting was standardized and all structured products coupled to hedge funds were valued on the strict lower-of-cost-or-market principle.

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 as regards derivative financial instruments.

Loans and prepayments in connection with insurance policies are recognized at nominal value.

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.

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 domestic insurance activities. Other methods are used to a limited extent. In the engineering and marine insurance lines, the flat-rate method was used to determine the amount of unearned premiums. In the case of foreign business, the flat-rate method was used to determine the amount of unearned premium from both direct and 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 1/8th 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 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 (IBNR) 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 section 11c *VAG*).

The terminal bonus reserve is calculated separately for each individual policy to obtain that share of the profit due upon maturity of the policy that corresponds to the ratio of the elapsed portion of the term of insurance to the entire term up to maturity.

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 determined 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 *Verkehrsofopferhilfe 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 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

Reserves for pensions and similar commitments were valued on the basis of section 6a of the German Income Tax Act (*EStG*).

Accruals for obligations arising from part-time 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 part-time 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. According to section 54a(3) VAG, underwriting liabilities involving payment in foreign currencies must be covered by funds in the same currency (congruent coverage) to the extent possible due to the difficulty of estimating such contingent liabilities.

Assets and liabilities in that currency were treated together for purposes of recognition. Excess and surplus cover was calculated for each individual currency and the balances recognized in the income statement as non-underwriting items.

Merger of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

In the financial year 2008, Gothaer Allgemeine Versicherung AG was combined with Gothaer Credit Versicherung AG in a merger through absorption with retroactive effect from 1 January 2008. When the merger took effect, Gothaer Allgemeine Versicherung AG became defunct. Gothaer Credit Versicherung AG, as universal successor, then assumed all the rights and responsibilities of Gothaer Allgemeine Versicherung AG. It trades under the name of the extinct Gothaer Allgemeine Versicherung AG. For the sake of comparison, the prior-year figures indicated are the aggregate figures of the former Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG.

The financial statements of Gothaer Credit Versicherung AG to 31 December 2007 are included in the Appendix on pages 46 to 51.

Balance Sheet for the Year Ended 31 December 2007

Gothaer Credit Versicherung AG

Assets

	€000	€000	2007 €000
A. Subscribed capital unpaid			
of which called up: €0 thousand			10,226
B. Investments			
I. Investments in affiliated companies and associates Shares in affiliated companies		18	
II. Other investments			
1. Other loans			
Receivables arising from promissory notes and loans	0		
2. Bank deposits	4,850		
		4,850	
			4,868
C. Accounts receivable			
I. Accounts receivable in connection with direct insurance business from:			
1. Policyholders	4		
2. Insurance agents	1		
		5	
II. Accounts receivable in connection with reinsurance business		20	
of which from affiliated companies: €0 thousand			
III. Other accounts receivable		3	
of which from affiliated companies: €0 thousand			
			28
D. Other assets			
I. Tangible assets and inventories		1	
II. Current credit balances with banks, checks and cash on hand		46	
			47
E. Prepaid expenses			
Prepaid interest and rent			11
F. Deficit not covered by equity			2,994
Total Assets			18,174

Shareholders' Equity and Liabilities

	€000	€000	2007 €000
A. Shareholders' equity			
I. Subscribed capital		27,268	
II. Revenue reserve			
Statutory reserve		5	
III. Balance sheet loss		-30,267	
IV. Deficit not covered by equity		<u>2,994</u>	0
B. Underwriting reserves			
I. Unearned premiums			
1. Gross amount	0		
2. of which less:			
Amounts ceded	<u>0</u>		
		0	
II. Reserve for outstanding claims			
1. Gross amount	34,317		
2. of which less:			
Amounts ceded	<u>17,320</u>		
		16,997	16,997
C. Other accruals			
I. Accruals for pensions and similar accruals		888	
II. Miscellaneous accruals		<u>27</u>	915
D. Deposits held in connection with reinsurance business ceded			70
E. Other liabilities			
I. Accounts payable in connection with direct insurance business to			
1. Policyholders	11		
2. Insurance agents	<u>0</u>		
		11	
II. Accounts payable in connection with reinsurance business		66	
of which to affiliated companies: €8 thousand			
III. Miscellaneous liabilities		<u>115</u>	
of which to affiliated companies: €15 thousand			
of which for taxes: €8 thousand			
of which for social security: €0 thousand			
			<u>192</u>
Total Shareholders' Equity and Liabilities			18,174

Income Statement for the Year Ended 31 December 2007 Gothaer Credit Versicherung AG

	€000	€000	2007 €000
I. Underwriting account			
1. Earned premiums net of reinsurance			
a) Gross premiums written	403		
b) Reinsurance premiums ceded	<u>211</u>		
		192	
c) Change in gross unearned premiums	4		
d) Change in gross unearned premiums ceded	<u>1</u>		
		<u>3</u>	
			195
2. Other underwriting income net of reinsurance			0
3. Losses incurred net of reinsurance			
a) Claims paid			
aa) Gross amount	451		
bb) Amounts ceded	<u>94</u>		
		357	
b) Change in reserve for outstanding claims			
aa) Gross amount	-2,629		
bb) Amounts ceded	<u>-1,490</u>		
		<u>-1,139</u>	
			-782
4. Expenses for experience-rated and non-experience-rated premium refunds net of reinsurance			0
5. Underwriting expenses net of reinsurance			
a) Gross underwriting expenses		356	
b) of which less:			
commissions and profit received			
on reinsurance business ceded		<u>31</u>	
			325
6. Subtotal			652

	€000	€000	2007 €000
II. Non-underwriting account			
1. Investment income			
a) Income from other investments	204		
b) Income from write-ups	<u>18</u>		
		222	
2. Investment expenses			
Cost of portfolio management, interest expense and other expenses in connection with investments	10		
		<u>10</u>	212
3. Other income		3	
4. Other expenses		<u>84</u>	
			<u>-81</u>
5. Income before taxes			783
6. Taxes on income		0	
7. Other taxes		<u>0</u>	
			0
8. Net income for the year			783
9. Loss carryover			<u>-31,050</u>
10. Balance sheet loss			-30,267

Appendix

Notes to the Balance Sheet and the Income Statement of Gothaer Credit Versicherung AG for the Year Ended 31 December 2007

Shareholders' equity

	2007 €000
I. Subscribed capital	27,268
II. Revenue reserve	
Statutory reserve	5
III. Balance sheet loss	
of which loss carryover (€-31.051 thousand)	-30,267
IV. Deficit not covered by equity	2,994
Total equity	0

Other accruals

	2007 €000
I. Accruals for pensions and similar obligations	
Pension provisions	888
II. Other accruals for	
Closing expenses	26
Employers liability insurance association	1
Subtotal	27
Total	915

Other underwriting information

	Other Insurance €000
Gross underwriting reserves	34,317
Gross premiums written	403
Gross premiums earned	407
Net premiums earned	195
Gross losses incurred	-2,178
Gross underwriting expenses	356
Closing expenses	52
Administrative expenses	304
Reinsurance balance (– = credited to reinsurers)	-1,577
Underwriting account net of reinsurance	652

	Other Insurance PIF
Number of direct insurance policies with a residual term of at least one year	139

Personnel Expenses

	€000
1. Commissions of insurance agents within the meaning of section 92 HGB in connection with direct insurance business	40
2. Wages and salaries	308
3. Social security contributions and employee benefits	24
3 Post-retirement benefits	49
5. Total expenses	421

Note to the Financial Statements

Comments

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

	Carrying amounts previous year* €000
B. Intangible assets	
Other intangible assets	35,187
C I. Investments in affiliated companies and associates	
1. Shares in affiliated companies	111,608
2. Loans to affiliated companies	201,700
3. Investments in associated companies	266,987
4. Loans to associated companies	24,101
5. Subtotal C I.	604,396
C II. Other investments	
1. Stocks, investment fund certificates and other non-fixed-interest securities	934,868
2. Bearer bonds and other fixed-interest securities	360,986
3. Mortgages, liens on real property and annuities	5,876
4. Other loans	
a) Registered bonds	250,000
b) Promissory notes and loans	468,993
c) Loans and advance payments on insurance policies	101
d) Other loans	15,863
5. Bank deposits	34,250
6. Miscellaneous investments	2
7. Subtotal C II.	2,070,939
Total	2,710,522

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.

* Balance sheet after merger of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

	Additions	Reclassifications	Disposals	Reversals	Amortization	Carrying amounts
	€000	€000	€000	€000	€000	Financial year €000
	12,725	0	0	0	6,331	41,581
	23,370	0	867	747	1,920	132,938
	0	0	0	0	0	201,700
	31,043	0	24,395	1	6,810	266,826
	70	0	6,457	0	0	17,714
	54,483	0	31,719	748	8,730	619,178
	37,936	0	15,638	1,582	21,821	936,927
	161,960	0	66,947	0	3,828	452,171
	105	0	667	0	0	5,315
	10,000	0	115,000	0	0	145,000
	5,182	0	10,051	0	8,416	455,708
	51	0	31	0	0	121
	6,374	0	20	0	3,533	18,683
	31,250	0	0	0	0	65,500
	0	0	0	0	0	2
	252,858	0	208,354	1,582	37,598	2,079,427
	320,066	0	240,073	2,330	52,659	2,740,186

Carrying Amounts and Fair Value of Investments

Type of investment	Carrying amounts	Fair value	Valuation reserves
	2008	2008	2008
	€000	€000	€000
I. Investments in affiliated and associated companies			
1. Shares in affiliated companies	132,938	164,317	31,379
2. Loans to affiliated companies	201,700	201,700	0
3. Investments in associated companies	266,826	373,108	106,282
4. Loans to associated companies	17,714	17,714	0
II. Other investments			
1. Stocks, investment fund certificates and other non-fixed-interest securities	936,927	868,534	-68,393
2. Bearer bonds and other fixed-interest securities	452,171	419,995	-32,176
3. Mortgages, liens on real property and annuities	5,315	5,532	217
4. Other loans			
Registered bonds	145,000	147,688	2,688
Promissory notes and loans	455,708	443,013	-12,695
Loans and advance payments on insurance policies	121	140	19
Other loans	18,683	18,683	0
5. Bank deposits	65,500	65,500	0
6. Miscellaneous investments	2	2	0
III. Deposits in connection with reinsurance business assumed	23,150	23,150	0
Total	2,721,755	2,749,076	27,321

II. 1. and 2. include investment fund certificates, bearer bonds and other fixed-interest securities with a carrying amount of €1,083,105 thousand that are classified as long-term assets pursuant to section 341b(2) HGB. The fair value of these assets comes to a total €977,299 thousand after deduction of €108,778 thousand on which no write-downs were taken.

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 quoted 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 quoted 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 €83,069 thousand with a fair value von €79,199 thousand are included for purposes of payment of surplus bonuses. As of 31 December 2008, the difference between cost and fair value came to a negative €-3,870 thousand.

Information on Derivative Financial Instruments Pursuant to Section 285 No. 18 HGB

Balance sheet item	Type	Trading/ Nominal volume in thousands	Carrying amount ¹⁾ €000	Fair value ²⁾ €000	Valuation method
C. I.	Future	71,880 USD+ 2,566 GBP	56,246	52,002	Interest rate differential
C. II. 1.	Future	1,630 GBP	2,858	2,858	Interest rate differential
C. II. 2.	Future	46,960 USD	30,184	34,155	Interest rate differential
C. II. 2.	Future	3,500 GBP	4,896	5,255	Interest rate differential
C. II 1.	Interest swap	165,100 EUR	62,028	104,643	Discounted future cash flows
C. II 2.	Interest swap	7,000 EUR	6,784	6,965	Present value according to valuation information by LBBW

The transactions constitute a valuation unit with the corresponding underlying.

1) Carrying amount of the valuation unit

2) Fair value of the valuation unit

Information on Financial Instruments Classified as Financial Assets Pursuant to Section 285 No. 19 HGB

Balance sheet item	Carrying amount €000	Fair value €000
C. I ³⁾	68,637	61,533
C. II.1. ³⁾	537,109	464,922
C. II.2. ³⁾	300,814	264,222

3) No depreciation since impairment is not expected to be permanent.

Receivables Due in Connection with Direct Insurance Business

	2008 €000	2007* €000
1. From policyholders	42,981	51,614
2. From insurance agents		
Of which:		
Lead and co-insurance business	5,406	4,893
Other	58,683	55,554
Subtotal	64,089	60,447
Total	107,070	112,061

Write-downs in the amount of a total of €10,298 thousand (PY: €12,087 thousand) were taken on receivables due from policyholders and insurance agents.

Prepaid Expenses

	2008 €000	2007* €000
I. Interest and rent	24,543	21,597
II. Other prepaid expenses	425	216
Total	24,968	21,813

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

Shareholders' Equity

	2008 €000	2007* €000
I. Subscribed capital	153,388	180,656
Situation 1 January before merger	27,268	
Capital increase upon merger	126,120	
Situation 31 December 2008	153,388	
II. Capital reserve	164,435	138,854
Other capital reserve		
Situation 1 January before merger	0	
Addition following merger	164,435	
Situation 31 December 2008	164,435	
III. Revenue reserve		
Statutory reserve	5	5
IV. Balance sheet profit/loss	41,900	- 30,267
V. Deficit not covered by equity	0	2,994
Situation 1 January before merger	2,994	
Disposal following merger	2,994	
Situation 31 December 2008	0	
Total shareholders' equity	359,728	292,242

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

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.

Special Dividend Right Certificate

The obligations connected with a special dividend right assumed by Gothaer Versicherungsbank VVaG under a debt assumption agreement dated 14 December 2001 were discharged in the financial year by repayment of the special dividend right certificate of €30,677 thousand.

Gross Underwriting Reserves

Total	2008 €000	2007* €000
Accident	339,457	330,781
Liability	975,054	928,547
Automotive liability	710,573	736,914
Other automotive	57,287	69,177
Fire and property:	383,030	376,509
Of which		
Fire	92,723	88,071
Comprehensive householders	51,093	57,493
Comprehensive homeowners	81,908	80,919
Other property	157,306	150,026
Marine and aviation	63,966	62,953
Other insurance	135,070	132,879
Direct insurance business	2,664,437	2,637,760
Reinsurance business assumed	161,881	134,139
Total	2,826,318	2,771,899

Of which Gross Reserves for Outstanding Claims

	2008 €000	2007* €000
Accident	247,788	235,325
Liability	762,151	725,131
Automotive liability	645,347	667,898
Other automotive	21,410	23,352
Fire and property:	219,357	210,902
Of which		
Fire	41,841	38,936
Comprehensive householders	15,130	14,972
Comprehensive homeowners	55,420	55,936
Other property	106,966	101,058
Marine and aviation	31,690	28,383
Other insurance	120,694	119,417
Direct insurance business	2,048,437	2,010,408
Reinsurance business assumed	77,880	72,880
Total	2,126,317	2,083,288

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

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 €6,719 thousand (PY: €8,153 thousand).

Reserves for Experience-Related Refund of Premium

	2008 €000	2007 €000
Opening balance	9,445	10,579
Withdrawals	1,420	1,402
Additions	1,338	268
Final balance	9,363	9,445

Surplus Bonuses in Accident Insurance with Premium Return

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

- €2,020 thousand for current surplus bonuses that have already been fixed but not yet distributed
- €501 thousand for terminal bonuses that have already been fixed but not yet distributed
- €0 for amounts that have already been fixed but not yet distributed for participation in valuation reserves.

The reserve for terminal bonuses came to €4,613 thousand as of 31 December 2008.

The following rates apply for surplus bonuses due in the calendar years 2009 and 2010 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 (*GDK*), 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

The valuation reserves available for distribution are determined by multiplying the entire valuation reserves of the guarantee assets for accident insurance with premium return policies by the ratio of the sum of interest-bearing equity and liabilities items exclusive of the non-allocated reserve for premium refunds to the sum of the guarantee assets for accident insurance with premium return policies. The interest-bearing equity and liabilities items include

- the aggregate policy reserve (exclusive of prefinancing)
less amounts due to policyholders (not yet payable)
- unearned premiums
- reserve for premium refunds (gross)
- accrual for outstanding surrenders
- liabilities to policyholder

Allocation of Valuation Reserves upon Maturity of Policies

The valuation reserves as of the first trading date of the month preceding the month in which a policy matures are used for 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 in 2009

The distribution factor of a policy is based on the ratio of the policy assets to the assets of all active policies as of 31 December 2008. The assets of a policy as of 31 December 2008 is based on the sum of the assets as of 31 December 2007 and the positive aggregate policy reserve (exclusive of prefinancing) of the policy as of 31 December 2008. 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

	2008 €000	2007 €000
Accident	224	3,542
Liability	157,893	148,683
Automotive liability	59,710	63,392
Other automotive	33,798	43,797
Fire and property:	73,300	75,237
Of which		
Fire	44,259	41,984
Comprehensive householders	11,375	16,883
Comprehensive homeowners	0	0
Other property	17,666	16,370
Marine and aviation	26,376	28,866
Other insurance	0	30
Direct insurance business	351,301	363,547
Reinsurance business assumed	57,816	42,057
Total	409,117	405,604

Other Provisions and Accruals

	2008 €000	2007* €000
I. Accruals for pensions and similar accruals	0	888
II. Accruals for taxes	6,862	0
III. Other accruals for:		
Bonuses and sales contest premiums	3,173	4,377
Years of service awards	11,710	12,911
Social plan	7,902	10,867
Pre-retirement	23,885	21,775
Closing expenses	443	433
Holiday pay	948	925
Impending investment losses	332	455
Outstanding invoices	7,010	10,877
Pending litigation	585	1,213
Other expenses	823	1,108
Pending legal disputes	5,491	9,393
Subtotal	62,302	74,334
Total	69,164	75,222

Liabilities in Connection with Direct Insurance Business

	2008 €000	2007* €000
1. Toward policyholders	51,251	61,603
2. Toward insurance agents		
Of which:		
Lead and co-insurance business	5,810	4,589
Other	10,780	12,763
Subtotal	16,590	17,352
Total	67,841	78,955

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

Deferred Income

	2008 €000	2007* €000
Discount on registered bonds and promissory notes	17	19

Gross Premiums Written

	2008 €000	2007* €000
Accident	143,675	143,479
Liability	312,423	308,321
Automotive liability	172,388	188,497
Other automotive	100,087	108,015
Fire and property:	421,025	411,824
Of which		
Fire	64,185	66,355
Comprehensive householders	85,242	86,349
Comprehensive homeowners	111,556	106,390
Other property	160,042	152,730
Marine and aviation	38,515	35,217
Other insurance	95,872	92,336
Direct insurance business	1,283,985	1,287,689
Reinsurance business assumed	130,568	109,091
Total	1,414,553	1,396,780

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

Gross Premiums Earned

	2008 €000	2007* €000
Accident	144,304	143,428
Liability	312,566	309,315
Automotive liability	172,409	188,593
Other automotive	100,098	108,045
Fire and property:	421,946	412,728
Of which		
Fire	64,792	66,759
Comprehensive householders	86,265	88,166
Comprehensive homeowners	110,387	107,077
Other property	160,502	150,726
Marine and aviation	38,451	34,845
Other insurance	94,818	92,090
Direct insurance business	1,284,592	1,289,044
Reinsurance business assumed	123,530	106,255
Total	1,408,122	1,395,299

Net Premiums Earned

	2008 €000	2007* €000
Accident	124,995	124,149
Liability	269,728	267,379
Automotive liability	133,223	145,661
Other automotive	77,139	83,758
Fire and property:	321,483	313,580
Of which		
Fire	33,460	35,204
Comprehensive householders	85,847	87,657
Comprehensive homeowners	74,836	68,895
Other property	127,340	121,824
Marine and aviation	36,156	32,444
Other insurance	78,232	73,510
Direct insurance business	1,040,956	1,040,481
Reinsurance business assumed	119,710	101,426
Total	1,160,666	1,141,907

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

Gross Losses Incurred

	2008 €000	2007* €000
Accident	85,541	69,224
Liability	191,157	160,708
Automotive liability	122,118	139,516
Other automotive	83,630	78,614
Fire and property:	265,078	322,366
Of which		
Fire	42,319	42,925
Comprehensive householders	35,692	35,083
Comprehensive homeowners	92,042	125,188
Other property	95,025	119,170
Marine and aviation	27,600	21,853
Other insurance	59,225	65,247
Direct insurance business	834,349	857,528
Reinsurance business assumed	82,645	72,700
Total	916,994	930,228

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

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 9.9 % 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

	2008 €000	2007 €000
Experience rated	1,338	268
Non-experience rated	3,671	1,196
Direct insurance business	5,009	1,464
Reinsurance business assumed	-15	-129
Total	4,994	1,335

Gross Underwriting Expenses

	2008 €000	2007* €000
Accident	51,413	49,073
Liability	112,384	112,478
Automotive liability	35,307	36,353
Other automotive	21,276	21,088
Fire and property:	144,441	139,449
Of which		
Fire	23,469	23,906
Comprehensive householders	31,336	30,533
Comprehensive homeowners	37,141	35,429
Other property	52,495	49,581
Marine and aviation	11,966	11,258
Other insurance	30,356	29,621
Direct insurance business	407,143	399,320
Reinsurance business assumed	35,564	31,233
Total	442,707	430,553

Allocation of Gross Underwriting Expenses Closing Expenses

	2008 €000	2007* €000
Accident	9,847	9,502
Liability	14,098	13,722
Automotive liability	2,519	2,200
Other automotive	1,660	1,387
Fire and property:	21,320	20,561
Of which		
Fire	4,008	3,708
Comprehensive householders	3,961	3,992
Comprehensive homeowners	5,585	5,370
Other property	7,766	7,491
Marine and aviation	1,645	1,696
Other insurance	5,962	5,216
Direct insurance business	57,051	54,284
Reinsurance business assumed	0	0
Total	57,051	54,284

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

Administrative Expenses

	2008 €000	2007* €000
Accident	41,566	39,570
Liability	98,286	98,756
Automotive liability	32,788	34,154
Other automotive	19,616	19,701
Fire and property:	123,121	118,888
Of which		
Fire	19,461	20,198
Comprehensive householders	27,376	26,541
Comprehensive homeowners	31,555	30,058
Other property	44,729	42,091
Marine and aviation	10,321	9,562
Other insurance	24,394	24,405
Direct insurance business	350,092	345,036
Reinsurance business assumed	35,564	31,233
Total	385,656	376,269

Net for Reinsurance Business

(– = credited to reinsurers)

	2008 €000	2007* €000
Accident	–200	–1,044
Liability	–11,290	–19,386
Automotive liability	–7,834	–8,481
Other automotive	868	–1,460
Fire and property	–8,638	33,761
Marine and aviation	–1,909	–2,002
Other insurance	629	–6,050
Direct insurance business	–28,374	–4,662
Reinsurance business assumed	–6,139	–394
Total	–34,513	–5,056

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

Underwriting Income from Direct Insurance Business

	2008 €000	2007* €000
Accident	11,857	22,255
Liability	-11,673	-8,238
Automotive liability	11,511	-4,840
Other automotive	5,915	12,032
Fire and property:	577	-15,120
Of which		
Fire	-13,348	-12,486
Comprehensive householders	25,609	20,280
Comprehensive homeowners	-18,232	-27,023
Other property	6,548	4,109
Marine and aviation	-1,624	1,365
Other insurance	1,580	-9,530
Direct insurance business	18,143	-2,076
Reinsurance business assumed	-16,682	-4,396
Total	1,461	-6,472

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

	2008 PIF	2007* PIF
Accident	709,569	722,585
Liability	1,339,687	1,364,488
Automotive liability	671,626	691,751
Other automotive	495,731	507,267
Fire and property:	1,521,612	1,568,815
Of which		
Fire	85,910	87,393
Comprehensive householders	746,352	772,786
Comprehensive homeowners	287,382	290,022
Other property	401,968	418,614
Marine and aviation	23,227	22,547
Other insurance	375,960	362,584
Total	5,137,412	5,240,037

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

Notes to the Financial Statements

Other Disclosures

Personnel Expenses

	2008 €000	2007* €000
1. Commissions of insurance agents within the meaning of section 92 HGB in connection with direct insurance business	272,812	263,588
2. Other remuneration of insurance agents within the meaning of section 92 HGB	3,630	3,370
3. Wages and salaries	120,829	133,695
4. Social security contributions and employee benefits	21,987	22,580
5. Post-retirement benefits	5,723	1,298
6. Total Expenses	424,981	424,531

* Aggregate values of Gothaer Allgemeine Versicherung AG and Gothaer Credit Versicherung AG

Members of the Supervisory Board and Management

The names of the members of the Supervisory Board and Management are provided on pages 4 and 5 of this report.

Remuneration of active members of Management came to €811 thousand and that of former members to €304 thousand. Retirement and survivors' benefits for former members of Management came to €197 thousand. Gothaer Finanzholding AG has established accruals in the amount of €2,402 thousand to cover current pension and earned post-retirement benefits for this group of individuals.

Remuneration paid to the Supervisory Board came to €341 thousand. Remuneration in the amount of €4 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 2008.

Expenses for the Statutory Auditor

The cost of the annual audit came to €356 thousand. There were no other expenses for other certification or valuation services or tax advisory. Other auditor services amounted to €0 thousand.

Human Resources

Gothaer Allgemeine Versicherung AG had an average of 2,434 employees in the financial year. Of these, 1,921 were employed in the home offices and 513 in the field. In addition, the Company had an average 110 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

Name, registered office	Interest	Shareholders' equity	Previous year result
	%	€000	€000
GG-Grundfonds Vermittlungs-GmbH, Cologne	100.00	-15,196	-679
Gothaer Systems GmbH, Cologne	74.90	5,783	2,109
Gotham City Residential Partners I GmbH & Co, KG, Frankfurt a, M,	49.99	20,603	-298
Janitos Versicherung AG, Heidelberg	100.00	29,758	801
KILOS Beteiligungsgesellschaft mbH & Co, Vermietungs-KG, Pöcking	93.06	44,731	2,538
Munich Carlyle Produktions GmbH & Co KG, Grünewald	93.93	-63,976	892

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 €189,681 thousand (€118,465 thousand of which due to affiliated companies) were outstanding for shares in affiliated companies and associates and other investments in our possession.

Guarantees of €42 million were given under the bonds insurance operated in the framework of our business plan.

There is a joint liability 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 €514 thousand incurred in net present value as defined by § 6a EStG due to the assumption of current pension obligations and earned benefits.

In October 2008, the German government decided on a rescue package for Hypo Real Estate (HRE) which involve both the Bundesbank and the German financial sector. The financial institutions participating in the rescue were obliged to back up the guarantee of a liquidity line given by the government. Gothaer Allgemeine Versicherung AG's share of the €8.5 billion back-up guarantee is €3,351 thousand.

Forward purchases were consistently 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.

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

The consolidated financial statements of Gothaer Versicherungsbank VVaG appear in the electronic Federal Gazette.

Cologne, 31 March 2009

Board of Management

Leicht

Dr. Görg

Dr. Hofmeier

Kurtenbach

Meisch

Dr. Nickel-Waninger

Dr. Schmitz

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 2008. 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, 2 April 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft
(formerly KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Beerlage	Glößner
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 fulfillment 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 five 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.

The Supervisory Board monitored the investment planning and policy of Management particularly closely. Management submitted detailed reports to the Supervisory Board about developments on the capital markets and the resulting impacts on investments and investment income and explained the possible implications of the financial market crisis for the performance of the economy as a whole and the consequences for the insurance industry.

Management submitted regular reports to the Supervisory Board on the implementational status of the structural and organizational measures for the GoMit campaign targeting medium-sized companies. The Supervisory Board critically and carefully examined the progress made here to achieve customer-driven gearing of the Company and generate earnings-driven growth.

Gothaer Allgemeine exceeded its new business targets. In the composite corporate clients segment, it positioned itself well in terms of product portfolio, structures and procedures for catering to changes in the market and harnessing growth opportunities. The sustained intensive price competition in the commodity products segment, especially in the automotive class, calls for further adjustment of business processes.

The financial strength derived from the Company's earnings-driven growth orientation is reflected in the results of ratings in 2008. The performance of Gothaer Allgemeine Versicherung AG was once again confirmed by the ratings of Standard & Poor's (A-) and Fitch (A).

The Financial Statements for the financial year 2008 and the associated Management Report, the 2008 Consolidated Financial Statements prepared on the basis of International Financial Reporting Standards (IFRS) and the associated Management Report as well as the Report on Relations with Affiliated Companies prepared by Management in compliance with section 312 of the German Stock Corporation Act (AktG) were audited by KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Cologne, the auditor appointed in compliance with section 341k of the German commercial Code (HGB), in each case including an assessment of the risk early-warning system.

The auditors fully certified the reports presented and certified Management's Report on Relations with Affiliated Companies as follows:

"After due examination and assessment, we confirm that

1. the facts stated in the report are correct
2. the Company's contribution to the transactions listed in the report was not excessive."

The auditors attended the relevant Supervisory Board meetings and reported on the key results of the audit.

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

After examining the submitted Financial Statements and Management Report for the financial year 2008 as well as the Consolidated Financial Statements and Group Management Report for the financial year 2008, the Supervisory Board has no objections to raise. Nor has it any objections to raise in connection with the statement by Management at the end of the Report on Relations with Affiliated Companies.

The Board approves the Financial Statements and Consolidated Financial Statements for the financial year 2008. The Financial Statements are thus formally adopted pursuant to section 172 AktG. The Board examined Management's proposal for the appropriation of profit and recommends that it should be approved by the Annual General Meeting.

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

Cologne, 28 April 2009

The Supervisory Board

Dr. Roland Schulz
Chairman

Domestic and Foreign Locations

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