Gothaer

Gothaer Allgemeine Versicherung AG
Annual Report 2010

107845 – 03.2010

Five-Year Summary

€ thousand	Business Year				
	2010	2009	2008	2007	2006
Gross premiums written	1,402,371	1,400,400	1,414,553	1,396,780	1,371,113
Premiums net of reinsurance	1,183,718	1,161,474	1,168,623	1,146,386	1,089,437
Retention (in %)	84.4	82.9	82.6	82.1	79.5
Claims expenses net of reinsurance	812,642	800,694	777,853	755,020	694,682
In % of premiums earned	69.2	69.4	67.0	66.1	63.8
Underwriting expenses net of reinsurance	370,770	340,902	368,906	357,425	333,299
In % of premiums net of reinsurance	31.3	29.4	31.6	31.2	30.6
Net income for the year 1)	70,000	85,392	72,167	85,783	82,500
Investments 2)	2,842,835	2,861,216	2,698,606	2,675,335	2,623,922
Net return (%)	3.9	3.8	4.2	5.1	4.3
Gross underwriting reserves	2,831,037	2,826,823	2,826,318	2,771,899	2,668,894
In % of gross premiums	201.9	201.9	199.8	198.4	194.7
Equity capital 3)	557,602	557,602	599,502	561,006	571,232
In % of premiums net of reinsurance	47.1	48.0	51.3	48.9	52.4
Policies in force (thousands)	5,248	5,111	5,137	5,240	5,403
Claims reported (thousands)	383	397	424	486	433
Employees	2,033	2,371	2,521	2,587	2,638

1) Before transfer of profit and tax charged by the controlling company 2006 to 2007 and 2009, 2010
2) Exclusive of outstanding deposits
3) Including special dividend right certificates and subordinate liabilities, less outstanding contributions not called in

Gothaer Allgemeine Versicherung AG

Report for the Financial Year as of 1 January to 31 December 2010

Registered Office
Gothaer Allee 1
50969 Cologne
Germany

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Supervisory Board

Dr. Roland Schulz Chairman	Former Managing Partner, Düsseldorf
Peter-Josef Schützeichel *) Vice Chairman	Employee, Chairman of the Central Works Council of Gothaer Allgemeine Versicherung AG, Öhringen
Urs Berger	CEO Schweizerische Mobiliar Holding GmbH, Therwil as of 17 May 2010
Dieter Bick	Diplom-Betriebswirt, Management Consultant, Cologne
Diethelm Garvelmann *)	Employee, Gleichen
Carl Graf von Hardenberg	Chairman of the Supervisory Board of Hardenberg-Wilthen AG, Nörten-Hardenberg
Judith Kerschbaumer *)	Trade Union Secretary of ver.di, Lawyer, Berlin
Dr. Dirk Niedermeyer	Director of Fürst zu Bentheimsche Domänenkammer, Steinfurt
Jürgen Oberbusch *)	Employee, Cologne
Harald Ommer *)	Head Staff Sales Center Düsseldorf, Overath
Edgar Schoenen *)	Employee, Cologne
Dr. Gerd G. Weiland	Lawyer, Hamburg
Dr. Ulrike Wolff	Dr. Wolff Managementberatung, Berlin up to 21 April 2010

*) Elected by employees.

Management

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

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

Advisory Board

Wilm-Hendric Cronenberg	Managing Partner of Julius Cronenberg o.H., Arnsberg as of 19 July 2010
Werner Dacol	Managing Director of Aachener Siedlungs- und Wohnungsgesellschaft mbH, Cologne
Prof. Dr. Klaus Goder	Specialist for General Medicine, Neuss
Knut Kreuch	Mayor of the City of Gotha, Günthersleben-Wechmar as of 4 August 2010
Eckhard Netzmann	Diplom-Ingenieur, Corporate Consultant, Berlin up to 18 June 2010
Uwe von Padberg	Diplom-Kaufmann, President of Creditreform e.V., Creditreform Cologne v. Padberg KG, Cologne
Jürgen Scheel	Chairman of the Management of Kieler Rückversicherungsverein a. G., Mühbrook
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 i.R., Oldenburg

Management Report

Overview of business developments

Gothaer Allgemeine Versicherung AG closed the financial year 2010 with a satisfactory result despite an environment made difficult by factors such as high market penetration, sustained pressure of prices in property/casualty insurance, an increased volume of major losses and a still-tense situation in the capital markets. We owe this to our systematic adherence to a policy of profit-oriented management.

The underwriting account of the Company is marked by stable premium income. Set against a moderate decrease in gross premium revenues from direct insurance business was a further upturn in reinsurance business assumed. Gross claims expenses were shaped by an increase in major industrial fire losses, which played a crucial role in pushing up gross claims expenses to € 50.7 million. The gross loss ratio, at 67.4 %, remained at a good level. With the help of our sustained cost-cutting programmes, gross underwriting expenses again showed a moderate decrease.

The revision of our reinsurance programme resulted in an increased retention rate and a corresponding rise in premium income net of reinsurance. Along with reinsurance premiums ceded, reinsurance commissions were also recessive. A sharply increased share of claims expenses for reinsurers – due particularly to major loss events – provided significant relief for claims expenses net of reinsurance.

Overall, these developments produced a negative underwriting result before adjustment of equalization reserves in the financial year 2010. After equalization reserves were adjusted, the underwriting account showed a balanced result of € 0.6 million.

2010 was another difficult year for investment. The yields of government bonds reached all-time lows during the course of the year. Despite this difficult general economic situation, the investment result was satisfactory, showing a moderate improvement on the prior year. This contributed significantly to the success of the Company.

After allowance for other income and expenses, income before taxes totalled € 70.2 million. After taxes, profit amounted to € 70.0 million, which was transferred to the controlling company as a tax allocation and to our parent company, Gothaer Finanzholding AG, under the existing profit transfer agreement.

Premium income

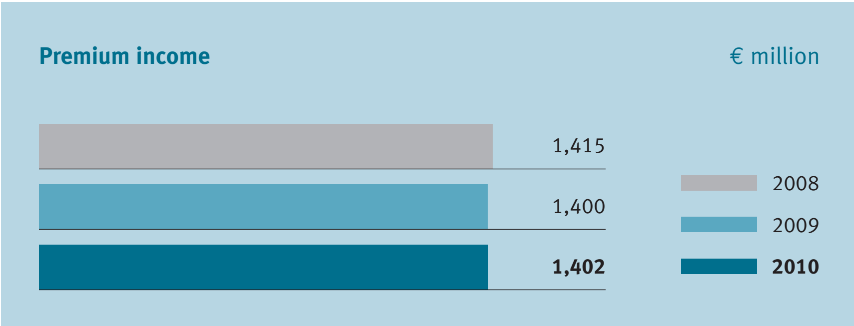
The gross premiums written by Gothaer Allgemeine Versicherung AG were on a par with the prior year at € 1.40 billion. The moderate downturn of € 2.0 million in premium income from direct insurance business was more than offset by an upturn of € 4.0 million in premiums from reinsurance business assumed.

As in the prior year, the volume of direct written premiums totalled € 1.26 billion in the year under review. This included direct premiums of € 22.5 million written in other countries (PY: € 9.8 million). Our resources in this area are concentrated on providing services to meet the needs of our domestic clients while in other European Union countries. For the first time, simultaneous accounts were prepared for foreign branch business in the year under review.

Reinsurance premiums assumed rose from € 136.2 million in the prior year to € 140.2 million. This upturn was essentially due to the increased volume of active insurance business assumed from Roland Rechtsschutz-Versicherungs-AG.

Premiums ceded to our reinsurance providers decreased by 8.5 % to € 218.6 million. This led to an increased retention rate of 84.4 % (PY: 82,9 %). As a result, net premium income retained amounted to € 1,183.7 million (PY: € 1,161.5 million).

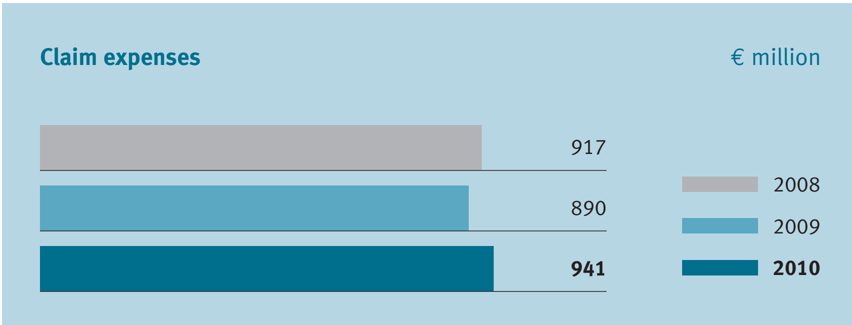
At the end of the year, the insurance portfolio comprised 5,248,195 direct policies with a residual term of at least one year (PY: 5,111,216).



Claims

The number of new claims reported took another gratifying downturn in the financial year 2010, falling by 3.6 % to 383,201. This positive development was observed in nearly every line of insurance. At the same time, however, there was a rise in the number of major fire and other property insurance losses. As a result, gross claims expenses in direct written insurance business increased by € 56.9 million to € 838.2 million. The gross loss ratio for direct written business stood at 66.7 % (PY: 61.7 %), which is still a good level. Despite an upturn in premium income, gross claims expenses in reinsurance business assumed decreased by 5.7 % to € 102.4 million.

After deduction of reinsurers' shares, net claims expenses showed only a moderate increase overall, rising by € 11.9 million to € 812.6 million. The loss ratio net of reinsurance, at 69.2 %, edged just below the prior-year ratio of 69.4 %. The loss reserve ratio net of reinsurance stood at 144.1 % (PY: 145.0 %).

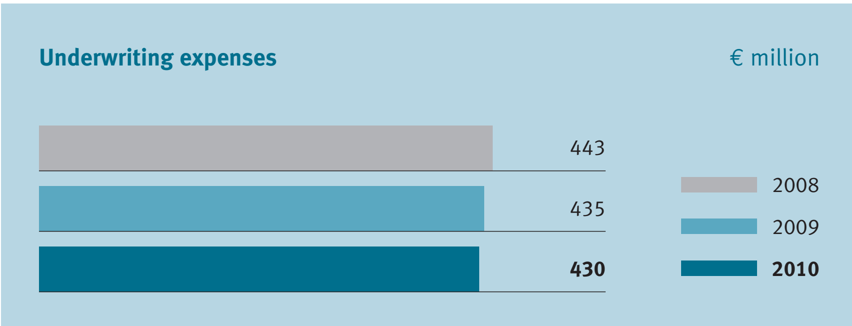


Underwriting expenses

Gross underwriting expenses were lowered by € 4.4 million to € 430.5 million in the financial year. Cost efficiency is an issue vigorously pursued at Gothaer. The gross cost ratio – defined here as the ratio of underwriting expenses to premiums written – improved accordingly from 31.1 % to 30.7 %.

Total underwriting expenses included € 63.3 million (PY: € 65.0 million) in commissions and € 367.2 million (PY: € 369.9 million) for management of policies. The ratios of commissions and administrative expenses to gross premiums written were 4.5 % (PY: 4.6 %) and 26.2 % (PY: 26.4 %) respectively.

As a result of changes in reinsurance arrangements and the consequent sharp decrease in reinsurance commissions, underwriting expenses net of reinsurance increased to € 370.8 million (PY: € 340.9 million). This pushed up the underwriting expense ratio net of reinsurance from 29.4 % to 31.3 %.



Underwriting result

The underwriting result before adjustment of equalization reserves was shaped by the development of three significant components, namely an increase in premiums earned net of reinsurance coupled with a moderate rise in claims expenses net of reinsurance and higher underwriting expenses net of reinsurance. Accordingly, the underwriting result before adjustment of equalization reserves was down on the € 10.1 million posted in the prior year at € – 12.2 million. € 12.9 million, on balance, needed to be withdrawn from equalization reserves. (PY: € 15.6 million Euro). After this withdrawal, the underwriting result was balanced at € 0.6 million (PY: € 25.7 million).

Investments

Gothaer Allgemeine Versicherung AG pursues an investment policy that is primarily geared to generating a robust, sustained return in a competitive environment. This is ensured by the systematic use of risk-adjusted performance management aimed at optimizing the return/risk ratio of the investment portfolio while considering the Company's risk-bearing capacity. The tougher capitalization rules anticipated under Solvency II already form a key basis for establishing prospective required capital as well as the appropriate medium-term capitalization based on it. The Company's investment strategy is embedded in an asset liability management system and takes account of the underwriting requirements that need to be met by investment income, liquidity and security. In 2010, Gothaer remained systematically committed to an investment policy geared to stable, largely current income. The two priorities of this strategy are to generate attractive returns in the existing market environment and to ensure that risks are reduced by being spread as broadly as possible over the different types of investment.

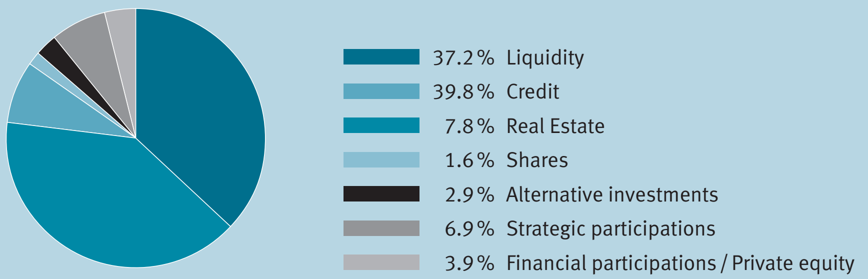
As well as government bonds and mortgage bonds (Pfandbriefe), the investment portfolio has for years encompassed corporate bonds. The latter include both senior and subordinate bonds issued by financials (banks, insurance companies, financial service providers) or corporates. Owing to the long-term nature of our investment in bonds, the entire bond portfolio has been recognized for years under fixed assets; depreciation is performed only where permanent impairment occurs. No allowance for impairment is made in the case of temporary fluctuations in value due to interest rate movements or credit risk and price changes; in this case, section 341b(2) of the German Commercial Code (HGB) is applied and fluctuations are recognized in the Notes to the Financial Statements as hidden liabilities. As in previous years, assets in all other investment categories in 2010 were valued on the strict lower-of-cost-or-market principle, which excludes the formation of hidden liabilities. Adverse changes in the value of investments classed as current assets were taken into account in the financial statements by direct value adjustments.

The book value of the Gothaer Allgemeine Versicherung AG investment portfolio decreased only marginally in the financial year 2010. During the course of the year, the financial markets performed very differently and had varying impacts on profits and reserves. Yields in the bond markets reached new historical lows in the period under review and took until Q4 to stage a modest rally. Developments in the credit and stock markets were also very diverse during the course of the year. The capital markets underwent marked fluctuations – a state of affairs reflected in the high volatility of prices for stocks and bonds. The investment result was again based on high current income in 2010, so the fluctuating markets had only a minor impact on it. Sustained losses in value due to the financial and debt crises were written down.

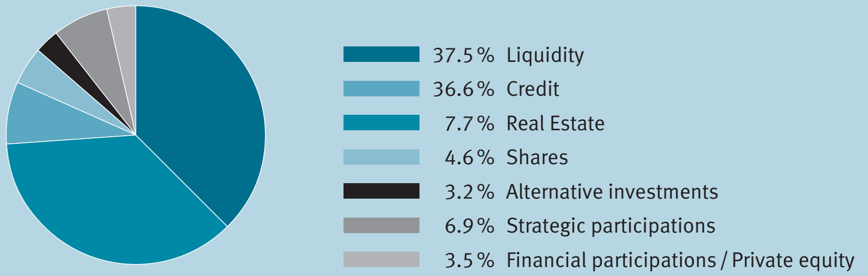
At balance sheet date, the composition of the investment portfolio of Gothaer Allgemeine Versicherung AG on the basis of book values was as follows:

Composition of investments

Financial year 2010



Financial year 2009



Even as the financial crisis waned and the sovereign debt crisis loomed, the Company adhered to its existing investment policy in the year under review. Against the backdrop of prospective regulatory changes under Solvency II, only minor levels of investment were maintained in venture capital (participations, alternative investments) and real estate. However, share exposure was significantly reduced. At the same time, investment activity was geared to further strengthening the current average ROI of the portfolio. Opportunities for this were presented during the year by turbulence in the euro government bond markets and were simultaneously harnessed to diversify the euro government bond portfolio.

Over the whole year, investments produced a result of € 113.5 million (PY: € 107.1 million). Major contributions to the extraordinary result were made by profits realized by tactical duration management of promissory notes as well as depreciation on special assets in the real estate portfolio in the aftermath of the financial crisis and, on a smaller scale, depreciation on subordinated financial bonds. The investment result was based on a high current average ROI, so despite the relatively small contribution by real estate, the overall net return was better than in the prior year at 3.9 % (PY: 3.8 %). The reserve situation of the Company changed only marginally during the course of the year, totalling € 65.5 million (PY: € 62.9 million) at year-end.

Net income for the year/shareholders' equity

Overall, the lower underwriting profit after adjustment of equalization reserves and the positive result in the non-underwriting account produced income before taxes totalling € 70.2 million (PY: € 85.8 million). This income includes premium refunds of € 1.1 million (PY: € 0.9 million) to holders of accident insurance policies with premium return.

Under the accounting rules of the BilMoG, outstanding contributions need to be recognized separately from subscribed capital as of the financial year 2010. Consequently, shareholders' equity in the Company totalled € 307.6 million (PY: € 317.8 million) in the year under review. As a result, the equity ratio reached 26.2 % (PY: 27.6 %). The guarantee assets of the Company – which included subordinate liabilities of € 250 million – amounted to € 567.7 million. This represented 48.3 % (PY: 49.2 %) of premium income net of reinsurance.

Shareholders' equity and the portion of subordinate liabilities classed as own funds thus significantly exceeded solvency requirements. Compliance was 145.9 %.

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

Comments on the individual lines of direct written business

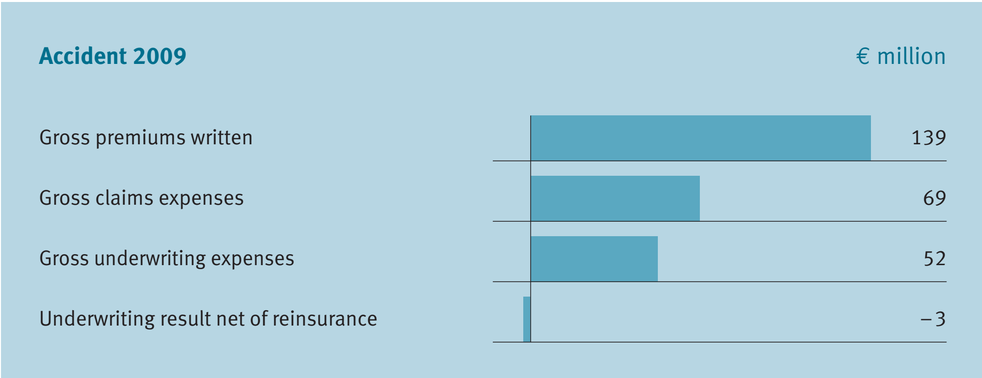
Accident

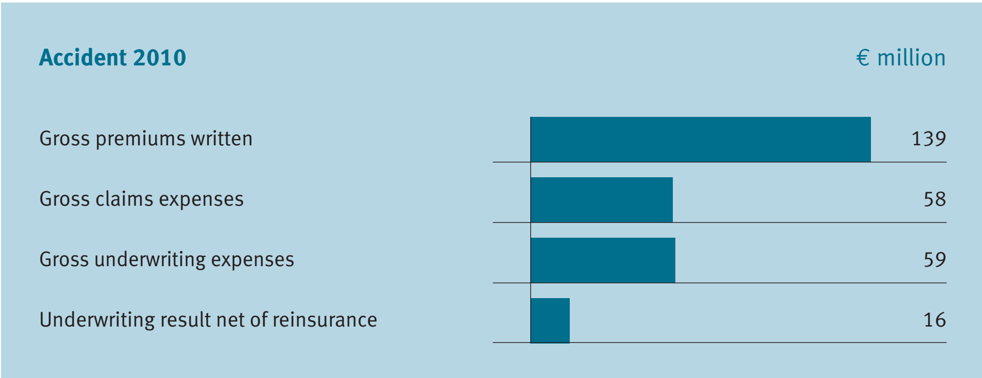
Gross premiums written in accident insurance were on a par with the prior year at € 139.2 million.

At € 6.9 million (PY: € 7.8 million), gross premium income from accident insurance with premium return was moderately recessive. This form of accident insurance represents a combination of insurance coverage and capital formation similar to endowment insurance. At year-end, aggregate policy reserves for the savings component of policyholders' premiums totalled € 59.6 million (PY: € 61.0 million).

Premium refund expenses amounted to € 1.1 million (PY: € 0.9 million) in the year under review.

Gross claims expenses totalled € 57.8 million, down from € 68.6 million in the prior year. Owing to the termination of a reinsurance relationship, the underwriting result net of reinsurance after adjustment of equalization reserves returned to profit, at € 16.4 million, after showing a loss of € – 3.0 million in the prior year.



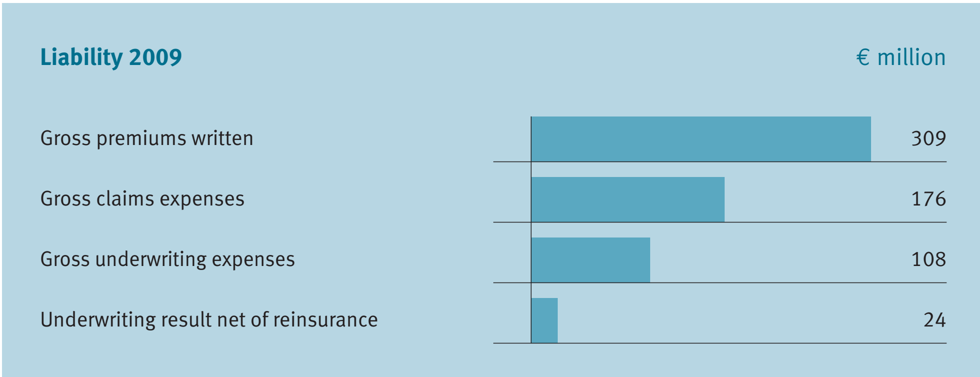


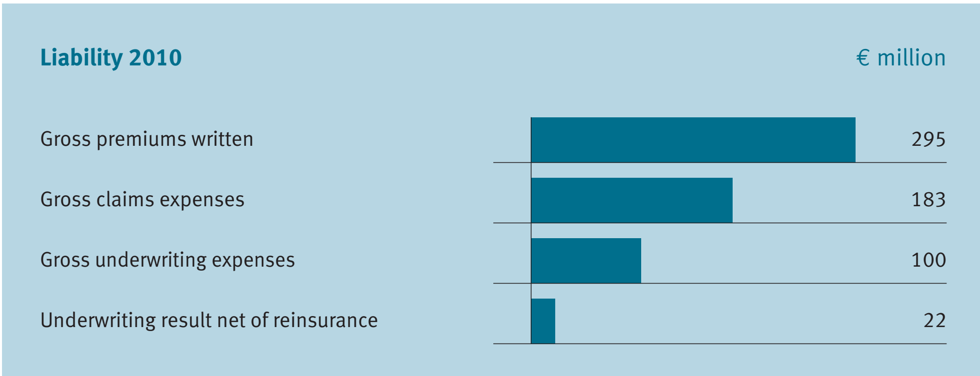
Liability

The premium income generated by general liability insurance was again recessive in comparison to the prior year. It decreased by 4.5 % to € 295.4 million

At the same time, gross claims expenses increased by € 7.3 million to € 183.4 million, causing the gross loss ratio to rise to 62.1 % (PY: 56.7 %).

Gross underwriting expenses decreased by € 7.6 million to € 100.5 million in line with the changed volume of business. After reinsurance and particularly transfers to equalization reserves, this line of insurance generated a profit of € 22.3 million, only € 1.9 million less than in the prior year.



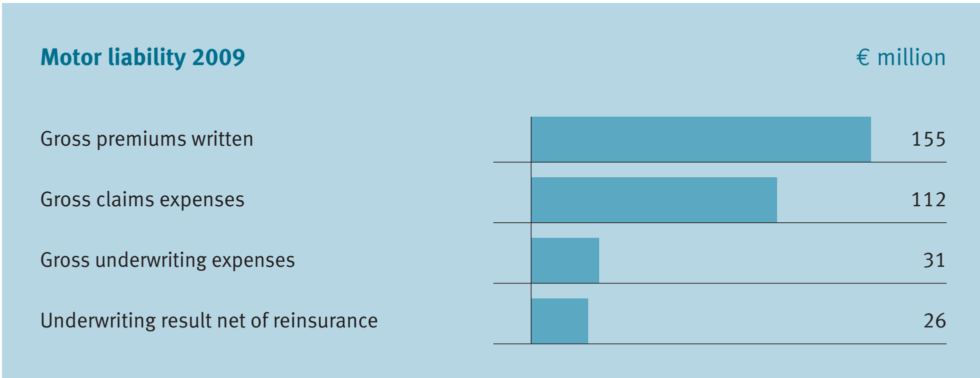


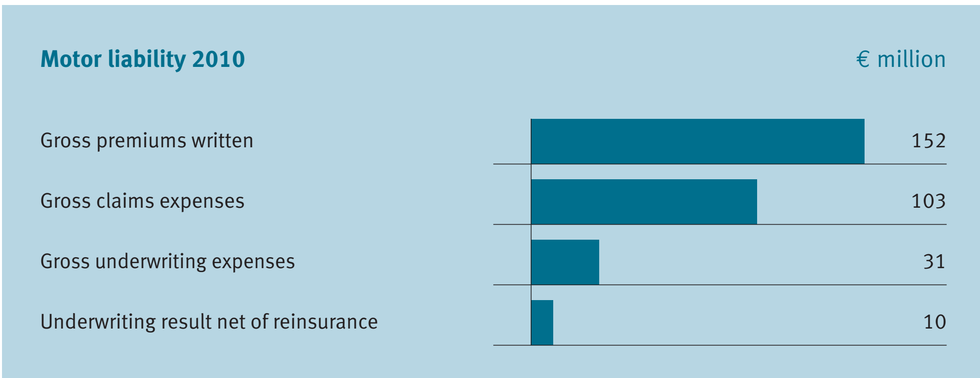
Motor liability

In motor insurance, we continue to improve our risk structure through systematic portfolio management. In the financial year 2010, this resulted in further portfolio losses and, as a consequence, a moderate downturn of 1.8 % in gross premiums written, which decreased to € 152.4 million.

The encouraging trend in claims frequency – another consequence of systematic portfolio management – continued through 2010. This is reflected in a sharp fall in the number of new claims, which declined by 7.2 % to 42,231. Claims expenses for the financial year decreased accordingly. Overall, the loss ratio improved from 72.4 % in the prior year to 67.3 % in the year under review

Underwriting expenses, at € 31.3 million, rose only marginally above the prior-year total of € 30.8 million. After reinsurance and transfers to equalization reserves, the underwriting account showed a profit of € 10.1 million (PY: € 25.8 million).





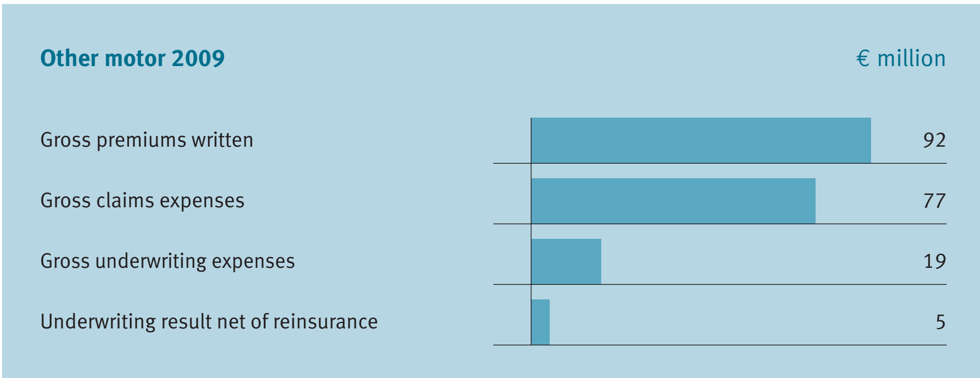
Other motor

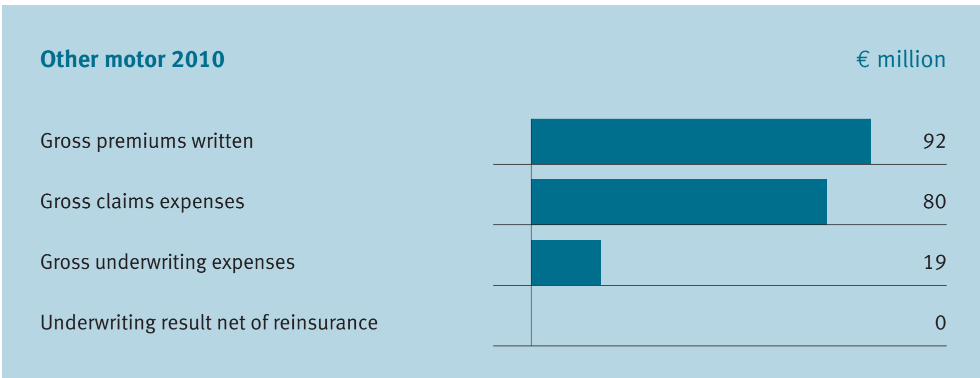
Performance in the other lines of motor insurance, which include collision & comprehensive and partial own damage insurance, is essentially dependent upon the same factors that shape motor liability business.

In the other lines of motor insurance, however, 2010 saw a halt in the decline in gross premiums written. Volume edged up by € 0.3 million to € 92.2 million. Collision and comprehensive policies accounted for € 76.3 million of this (PY: € 75.3 million). Partial own damage premiums written totalled € 15.9 million (PY: € 16.6 million).

The number of new claims reported in these lines of insurance was again recessive compared with the prior year. Nevertheless, gross claims expenses increased by € 3.4 million to € 80.3 million in the year under review. The gross loss ratio for other lines of motor insurance stood at 86.9 % after 83.9 % in the prior year.

Underwriting expenses, at € 0.7 million, were only marginally up on in the prior year. In the light of claims experience, a sum of € 8.2 million was withdrawn from equalization reserves (PY: € 9.7 million), so the net underwriting result was again positive, at € 0.3 million (PY: € 4.8 million).





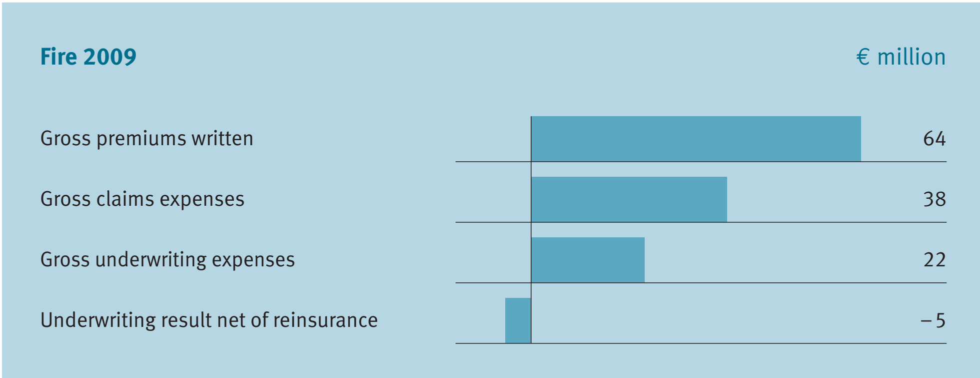
Fire

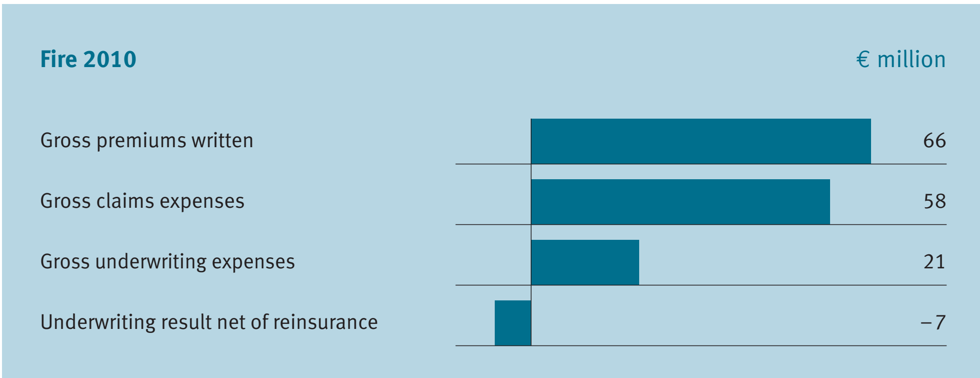
Gross premiums written in fire insurance staged a moderate rally, rising to € 65.9 million from € 63.8 million in the prior year. The increase was essentially due to industrial fire business, where premium income was € 42.2 million (PY: € 39.7 million).

In other lines of fire insurance, which include contents and fire insurance for larger commercial buildings, as well as agricultural fire insurance, written premiums totalled € 23.3 million, just € 0.4 million less than in the prior year.

Fire insurance saw an upturn in major losses in the financial year. As a result of this, gross claims expenses rose sharply against the prior year to €19.7 million. The gross loss ratio stood at 88.2 % (PY: 60.0 %).

After deduction of reinsurers' shares and withdrawal from equalization reserves, the underwriting loss in fire business amounted to € – 6.9 million (PY: € – 5.5 million).



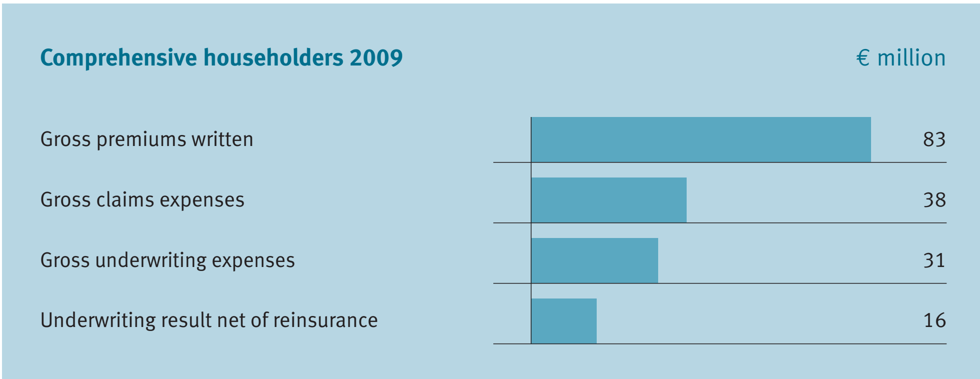


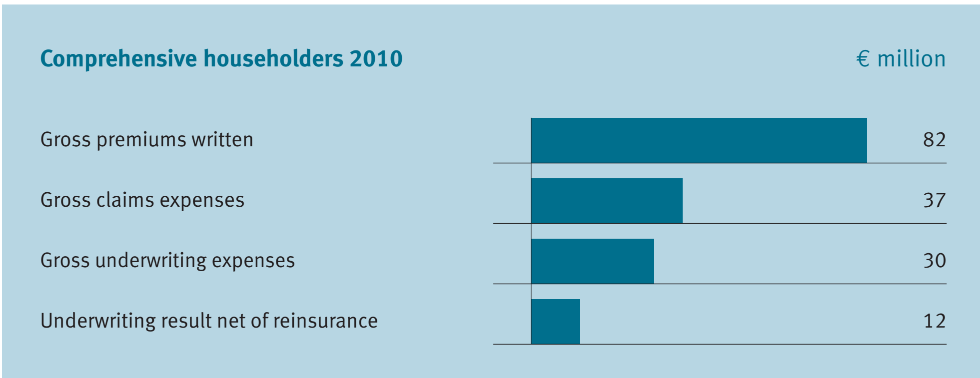
Comprehensive householders

A year-on-year fall of 1.6 % to € 82.0 million was registered for premiums written in this line of insurance.

The number of claims decreased again in comparison to the prior-year figure. A total of 36,685 new claims were reported in the year under review (PY: 40,836). Gross claims expenses remained on a par with the prior year at € 37.4 million. Owing to the moderately reduced volume of premium income, the gross loss ratio, at 45.8 %, was higher than the prior-year ratio of 45.1 % but still at a stable good level.

A sum of € 0.5 million was transferred to equalization reserves in the year under review (PY: € – 3.3 million). After it, the net underwriting result from this line of insurance was again positive, at € 11.9 million (PY: € 15.6 million).



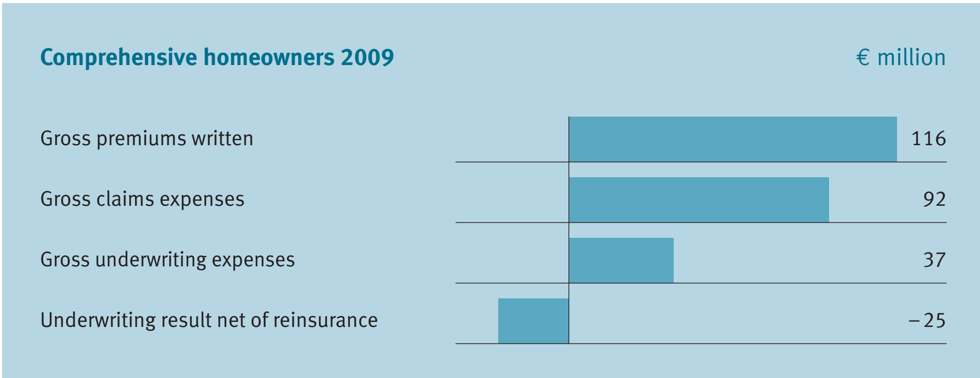


Comprehensive homeowners

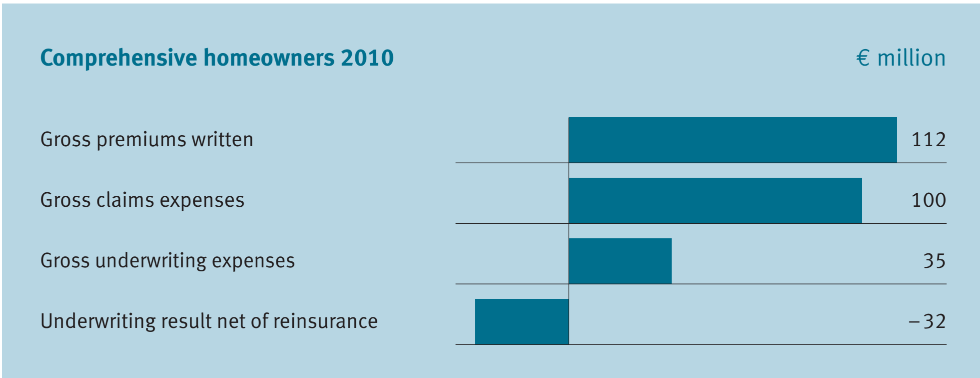
Gross premiums written in comprehensive homeowners insurance decreased by 3.4 % to € 111.8 million.

The number of claims reported sharply increased by 6,827 to 59,309. In line with this development, gross claims expenses rose by € 7.5 million to € 99.9 million. In conjunction with the development of premium income, this led to a gross loss ratio of 91.3 % after 79.3 % in the prior year.

Overall, this made for another negative net underwriting result of € – 31.5 million (PY: € – 25.0 million).



Comprehensive homeowners 2009



Comprehensive homeowners 2010

Other property

Other property insurance includes a large group of diverse lines of insurance. Lines that are significant in terms of premium include burglary, water, glass, storm and extended coverage as well as engineering insurance.

Premium income generated by the lines of insurance in this group increased to € 174.0 million (PY: € 165.2 million). At the same time, gross claims expenses rose by € 14.4 million to € 106.8 million. The gross loss ratio changed accordingly from 55.7 % to 61.7 %.

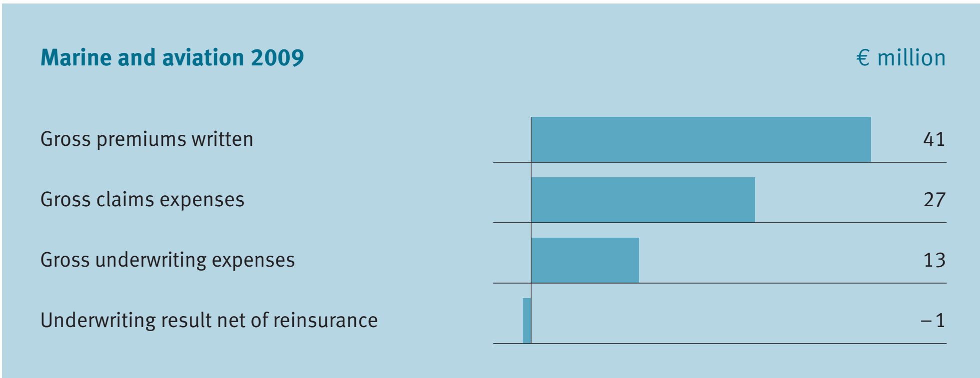
After deduction of reinsurers’ shares and transfers to equalization reserves, the underwriting account for the lines of insurance in this group showed a loss of € – 5.4 million in the financial year (PY: € 0.1 million).

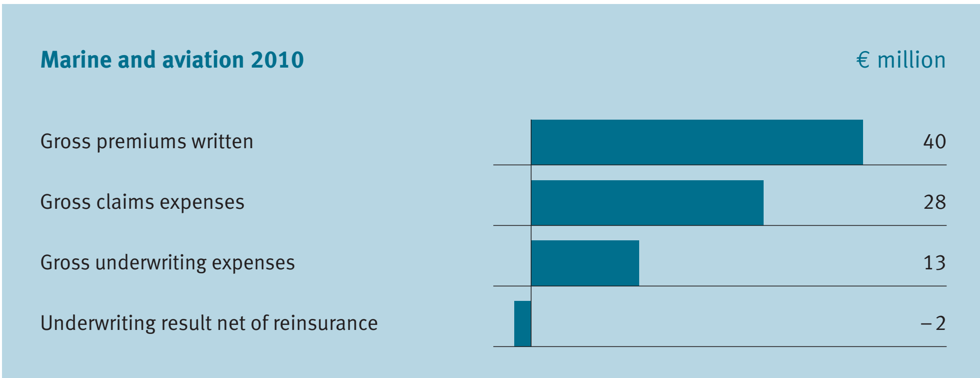
Marine and aviation

Premium income from marine and aviation business remained virtually unchanged at € 40.4 million. Net of reinsurance, an underwriting result of € –2.2 million (PY: € – 0.9 million) was recorded for the two lines. Revenues and earnings here were essentially defined by marine insurance business.

With gross claims expenses up by € 1.6 million, the gross loss ratio stood at 69.6 % (PY: 65.7 %).

In line with premium income, gross underwriting expenses amounted to € 12.6 million, putting them on a par with the € 12.9 million registered in the prior year.





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 € 108.9 million (PY: € 100.0 million). The increase resulted essentially from all-risk business.

Despite gross claims expenses increasing to € 83.4 million (PY: € 60.1 million) and underwriting expenses rising to € 32.9 million (PY: € 31.8 million), the underwriting result net of reinsurance was balanced at € 0.0 million (PY: € – 0.4 million) for this entire group of lines and coverages.

Comments on reinsurance business assumed

Premium income for the financial year increased by € 3.9 million to € 140.2 million. This upturn essentially resulted from the increased volume of active reinsurance business with Roland Rechtsschutz-Versicherungs- AG.

Despite lower claims expenses, the underwriting account still showed a loss of € – 14.4 million (PY: € – 10.million) owing to the transfers made to equalization reserves.

Foreign business

Gross direct premiums written in other countries totalled € 22.5 million (PY: € 9.8 million) in the year under review. For the first time, simultaneous accounts were prepared for foreign branch business. By partnering with Eureko and EurAPCo, Gothaer is able to market its services in collaboration with Achmea in the Netherlands, AVIVA Insurance in Great Britain, Topdanmark in Denmark, Imperio Bonanca in Portugal, Länsförsäkringar in Sweden, Topiola in Finland, Interamerican Property & Casualty in Greece, Union poistovna in Slovakia, Die Mobiliar in Switzerland and CASER in Spain

Employees

Qualified, motivated employees are crucially important for the success of an insurance company. Hence the absolute priority assigned to personnel promotion and retention in our HR operations. As well as financial performance incentives, we rely here on targeted development and further training programmes. Promotion of women is also naturally an element of our human resource management, as is company health promotion.

Risks of future developments

Risk-oriented management concept

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

- From a regulatory perspective, minimum standards have been defined stipulating that solvency capital requirements – including a security buffer against unplanned, additional risks – are fulfilled at all times and that quarterly evidence is presented to show that policy conditions can be met even in the event of adverse capital market developments such as those simulated in Federal Financial Supervisory Authority (BaFin) stress scenarios.

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

- A minimum security level of 99.5 % (one-year value at risk based on our own risk model) is set for internal management purposes.

Risk management organization

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

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

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

The efficacy of the risk management system, the checks and balances and the management and monitoring processes is regularly assessed by the Group internal auditing unit; a review of the risk early-warning system is also part of the audit of the annual financial statements performed by our auditors.

In the year under review, Gothaer Allgemeine Versicherung AG continued to work on meeting the risk management requirements set out in section 64a of the German Insurance Supervision Act (VAG). In doing so, we took due account of the stipulations of BaFin Circular 3/2009 (MaRisk VA). We also monitored the development of the new Solvency II supervisory regime, analyzing the Pillar 1-3 requirements that need to be met for its implementation at Gothaer Allgemeine Versicherung AG as part of a Group-wide project designed to pave the way for coordinating implementation.

The Gothaer Group is thus working at both national and European level for a proper, competition-neutral set of new solvency rules.

General risk situation

Gothaer Allgemeine Versicherung AG operations are segmented by target group into private and corporate client business. Risks that could have a major or even existential impact on the Company's net assets, financial position and earnings are rated on the basis of scale of loss and probability of occurrence. Identified risk positions are analyzed, observed and actively managed (e.g. by portfolio refurbishment). Limit systems, underwriting guidelines and the exclusion of specific risks are used here as risk-minimizing tools. Risk reports prepared several times a year keep executives and the Supervisory Board informed of the current risk situation, changes in its makeup and any new or newly detected major risks.

Underwriting risks

We attach paramount importance to regular reviews of risk experience and adequacy of underwriting provisions as tools of underwriting risk management. Both our tariffs and our provisions are invariably calculated in accordance with actuarial principles. Moreover, acceptance of underwriting risks is governed by a policy of risk-commensurate underwriting that is documented in our underwriting guidelines. Compliance with these guidelines 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. We are thus able to guarantee the long-term fulfilment of our obligations.

We also pursue an active reinsurance policy that limits the risk of major and accumulation losses by ensuring reinsurance agreements commensurate with risks. To even out fluctuations, we form equalization reserves calculated on the basis of an accepted commercial calculation formula. Owing to the use of planning and management tools, we are in a position to identify unscheduled or hazardous portfolio and claims developments at an early stage and to address them with appropriate measures.

Our risk portfolio in the private client segment is homogeneous. Nevertheless, we still model the impacts of changing loss scenarios (e.g. accumulation losses) within the framework of our internal risk model. Externally, our private client segment is exposed to very high pressure of competition, which manifests itself in sustained pressure on prices, high attrition rates, abundant supply and market saturation. We address this market trend with product solutions that offer good value for money while still geared to profit.

The corporate client segment is characterized by widely differing insured values and risks. To enable us to manage those risks, we have strict underwriting guidelines in place as well as authorization and competency rules that are finely tuned to the requirements of the individual lines of insurance. In the case of special and particularly large risks, we involve other insurers as risk partners or conclude facultative reinsurance treaties.

In the corporate client market, we increasingly see the same developments as in private client business, particularly in terms of high competitive pressure on premiums and conditions. We face this competition, having adjusted at an early stage with a profit-geared cyclical management system, responsible underwriting and premiums calculated to be commensurate with risks. Professional supervision is provided to monitor the way underwriting guidelines are applied and observed.

As in previous years, natural events resulting from climate change are expected to play a significant role in shaping underwriting risk in the future. As a result, portfolio monitoring and management are increasingly important and enable unprofitable risks to be terminated for the protection of the insured community.

Systematic use of ZÜRS, the zoning classification system develop by the GDV to identify exposure to natural hazards, also ensures that underwriting conforms to risk management requirements.

Reinsurance

In 2010, as in the prior year, an extensive stochastic-based optimization analysis was conducted to appraise the structure of our reinsurance operation and at the same time review our exposure to natural catastrophes. The result was that the reinsurance structure in place on 1 January 2011 was largely retained. In addition, a so-called aggregate XL cover was purchased to cover the annual net burden in the wake of prior existing reinsurance treaties and to encompass all lines of insurance except motor liability, general liability and general accident. The cover primarily affords protection from frequency losses while also making for a significant reduction of the net risk capital requirement or increase in the net return on investment. The renewal of reinsurance treaties was marked by the fact that reinsurer capital rose to a record level in 2010, leading to overcapacities and thus price reductions in the face of unchanged demand.

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

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

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

In the coming year, a Dynamic Financial Analysis-based reinsurance analysis is planned to show whether, considering balance sheet impacts, it may be a profitable move to increase retention by making greater use of non-proportional reinsurance.

Claims

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

Claims		in %
	Loss ratio after run-off	Run-off results of initial reserves
2001	73.7	12.4
2002	64.4	19.9
2003	63.7	10.3
2004	63.8	10.3
2005	65.7	9.0
2006	63.7	12.1
2007	65.8	11.2
2008	66.6	11.8
2009	67.9	12.2
2010	68.5	13.1

Risks arising from reinsurance assumed

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

Loss of receivables risks

Accounts receivable from policyholders and insurance agents in connection with direct written insurance business totalled € 102.5 million for Gothaer Allgemeine Versicherung AG at balance sheet date. This figure includes valuation adjustments that take adequate account of the possible loss of receivables risk. € 77.2 million of the aggregate total of accounts receivable handled by our central collection systems has been due for more than 90 days. The average collection loss (unsuccessful court orders) in the last three years was € 2.9 million, which represented an average of 2.1 ‰ of gross premiums written.

We cede reinsurance only to first-class reinsurers. 52 % of our reinsurance premiums are ceded to reinsurers with a rating of AA- or better. Accounts receivable in connection with reinsurance business totalled € 38.2 million at balance sheet date. Accounts receivable in connection with reinsurance ceded amounted to € 32.5 million. The structure of receivables from reinsurers by rating class was as follows:

Rating class	€ million
AAA	0.2
AA	12.9
A	12.1
BBB	5.9

Companies with no rating accounted for € 1.4 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

The risk strategy for investments derives directly from the business strategy implemented by Gothaer Allgemeine Versicherung. At its heart is the guarantee of the Company's risk-bearing capacity for its selected risk appetite, which needs to be viewed in direct relation to capitalization and future requirements under Solvency II as well as to the target ratings sought. Investment risk strategy is embedded in a risk-adjusted 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 the additional – and in some cases more restrictive – risk limits set by the Company itself are also observed. In the context of diversification to improve the risk-earnings ratio, Gothaer Allgemeine Versicherung AG attaches a great deal of importance to the de-correlation of investments. So the goal of investment activity is to achieve broad diversification across the various asset classes and at the same time avoid excessive concentrations.

Risk situation and management

• Market change risk

Investments are exposed to the risk of possible 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. Exchange rate risk is almost completely hedged by the use of forward exchange deals. For more information, please refer to the Notes to the Financial Statements and the comments on valuation units pursuant to section 285 no. 23 HGB.

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 4.6 reduced the market value of interest-bearing securities by € 99 million in comparison to the year-end value of the portfolio.

The residual share exposure of the Company was only minor at balance sheet date. The market value of its equity and hedge fund investments is expected to be stable in the coming year. After allowance for hedging, risk capital stress (20 % downturn in prices) led to a fall in market value of around € 95 million.

In the property sector, market values show a moderate recovery, heralding a return to normal after the crisis years. Accordingly, net asset values moved increasingly in line with the model values produced by discounted cash flow analysis. Value adjustments needed to be made only in a few special instances. In the coming year, negative earnings contributions cannot be ruled out for individual cases. Having said that, this asset class also has the greatest value appreciation potential. Especially in view of long terms, relatively low marketability and existing commitments, our engagement in this asset class is long-term. A price fall of 10 % results in a loss of market value of € 27 million.

• Credit / solvency risk

Credit /solvency risk is the risk of insolvency or late payment; it also includes the risk of a negative change in the creditworthiness of a debtor or issuer. In the interest of risk management, investment vehicles are acquired only when a qualified assessment of creditworthiness by external agencies such as Standard & Poor's, Moody's or Fitch or a qualified internal rating is available. Credit risks are broadly diversified to avoid concentration risks. As well as supervisory requirements, supplementary, more restrictive internal limits are in place to keep credit risk within reasonable bounds at both individual loan and portfolio level.

At year-end, credit risk in the portfolio managed by the Company itself resulted primarily from subordinated bank bonds as well as sovereign bonds from the PIIGS countries (Portugal, Ireland, Italy, Greece, Spain). Other credit risks exist for externally managed high-yield and emerging market mandates. All critical names are monitored during the course of the credit process in both the front and middle office of Gothaer Asset Management AG. Special front office analyses are also performed for the annual financial statements to verify the value of investments that come under pressure during the course of the year in the wake of downgrades or market evaluations. Other investments receiving negative assessments are systematically written down to fair value.

Fixed-interest securities accounted for around 77 % of the book value of the investment portfolio (PY: 74 %) at the end of the year under review. The percentage of subordinated bonds – which includes all bearer bonds and registered bonds issued by financials (banks, insurance companies, financial service providers) as well as corporate subordinated notes – remained unchanged at 6 %.

Despite some massive downgrades by external rating agencies, the credit risk in the portfolio indicated by the spread of ratings barely changed. The percentage of securities with an investment grade rating decreased to around 91% (–3%). Around 71% (–4%) of securities in the fixed-interest portfolio have an A rating or better; 33% (–7%) have an AAA rating.

• 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. These easily liquidizable assets account for around 4% (PY: 8%) of the investment portfolio alongside cash on hand. There were no liquidity bottlenecks in 2010.

Minor payment obligations (around €1 million) arising from real estate commitments with planned net calls have been included in liquidity planning for the financial year 2011. In line with prior-year developments, a liquidity surplus is always anticipated over the year as a whole.

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

Stress test

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

Operational and other risks

Information and communication technology (ICT) is an indispensable tool for an insurance company and, due to the increasing importance of process support and automation, plays a central role in Gothaer Group risk management. Because of increasing dependence on ICT, security mechanisms have been systematically improved and stabilized in recent years. 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 present significant human resource risks. HR activity is already influenced by 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.

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

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.

Summary of the risk situation

The available own funds of € 314.7 million exceed the amount needed to meet regulatory solvency requirements by € 99.0 million.

In 2010, two independent rating agencies gave Gothaer Allgemeine Versicherung AG positive ratings for financial stability: Standard & Poor's (S&P) and Fitch awarded A- (very good) and A (strong) follow-up ratings respectively.

The control mechanisms, instruments and analytical processes described above ensure effective risk management. At the present time, we see nothing in the risk situation of Gothaer Allgemeine Versicherung AG that might jeopardise the fulfilment of commitments assumed under insurance contracts.

Forecast

General economic outlook 2011

Global economic recovery is expected to continue in 2011, although the dynamism of the upswing is likely to slacken. As a consequence, a further increase in production capacity utilization is anticipated, easing the pressure on labour markets.

In view of the structural problems that exist in a number of developed economies, however, the improved labour market situation is not expected to produce a considerable rise in wage pressure. So general inflationary pressure in the United States and eurozone is likely to increase only moderately.

This moderate inflation should give the central banks an opportunity to mop up surplus liquidity in the financial system gently without having to raise key lending rates sharply. As a result, it is not anticipated that interest rates will increase massively in the bond markets. On the contrary, the yields of government bonds with a residual term of 10 years are expected to return to a normal level of around 3.5 % to 4.0 % in the United States and the eurozone.

This environment could prompt institutional investors to opt for higher-risk investments such as shares. If they abandoned their caution towards shares even partly, the increased demand would impact positively on the price of dividend-bearing securities. However, profit-taking or the euro debt crisis may cause temporary disruptions and thus lead to volatile market phases.

The risk of the global economy sliding back into recession, coupled with deflation and sustained low interest rates, can be considered small from the present perspective. However, it also seems unlikely at present that the global economic recovery will continue at an undiminished pace, which would present an increased risk of inflation and significantly higher interest rates.

Developments in the insurance industry

After the insurance industry's steady performance through the financial and economic crisis, which strengthened its competitive position, the first signs of an upward trend were noted in the second half of 2010. That upswing will continue through 2011, although the current environment is marked by sustained intense competition and a constant stream of new and modified legislative and regulatory requirements. On the whole, business is rated at least 'satisfactory' by the majority of companies. Expectations are thus higher in the insurance sector than in industry in Germany.

Business expectations remain broadly stable in property/casualty insurance. Private client business is profiting from the stable economic position of private households, corporate client business from the general economic recovery in Germany, although buoyancy is less pronounced here owing to uncertainty about future economic developments. At the same time, scope for growth in many lines of property/casualty insurance is curbed by ruinous price competition, which has been going on for years in some areas, a high degree of market penetration as well as price sensitivity of demand. In motor insurance, which is the largest line in the property/casualty segment, 2010 produced the first premium volume for years that has not been recessive. The upturn is also forecast to continue through 2011, although at a slower pace. In liability insurance, where premium volume fell in 2010, scope for premium adjustments and other factors are expected to produce 1.5 % premium volume growth in 2011. A low level of premium growth is also anticipated in 2011 in accident insurance and the property insurance lines.

Overall, premium revenues from property/casualty insurance are expected to grow by 1 % in 2011.

(NB: Market statements are based on the economic appraisal published by the Gesamtverband der Deutschen Versicherungswirtschaft e.V., in "GDV Volkswirtschaft, Konjunktur und Märkte 02/2010")

Outlook for Gothaer Allgemeine Versicherung AG

Our internal management system divides property/casualty insurance business into a private client segment and a corporate client segment. In the coming years, we will continue to improve the market positioning of Gothaer Allgemeine as a profitable property/casualty insurer in the middle and upper private client segment as well as in the corporate client sector. In the private client segment, we continue to systematically implement our product and price strategy for the development of new products. In the corporate client segment, the focus is on further developing local expertise and increasing engagement in growth areas such as renewable energies, multi-risk business and international insurance programmes.

According to current projections, the premium income of Gothaer Allgemeine will remain moderately recessive in 2011 before returning to positive growth from 2012 onwards. Within that growth, the two segments – corporate client business and private client business – will perform differently.

Corporate client business is forecast to remain on a steady growth path through 2011 and 2012, with all insurance lines contributing positive figures. The main dynamos of growth will be engineering and liability insurance. The result achieved in engineering insurance will be largely due to the development of the renewable energy market. We intend to further improve our already strong competitive position in this field of business. However, growth is also expected to be fuelled by traditional electronic and machinery portfolio business, which depends on the business performance of our clients. As a result of the economic recovery, liability business will again generate premium growth in 2011 and 2012 and thus remain the largest single line within the corporate client segment.

In the private client segment of Gothaer Allgemeine business, growth opportunities in the next two years will continue to be shaped by the development of private motor premiums. Gothaer Allgemeine will continue to limit its participation in the tough competition that prevails in this line of insurance.

As a result of the systematic implementation of our product and price strategy as well as risk-sensitive acquisition and underwriting, we anticipate a moderate improvement in loss ratios in 2011 and 2012. Our efforts are also geared to achieving further improvements in cost efficiency. Buoyed by these factors, the positive underwriting result will increase significantly in the coming years, with a combined ratio – both gross and net – below 100 %.

Owing to the growing stabilization of financial markets worldwide, the investment result is expected to remain stable in the next two years. According to our projections, the result for the year in 2011 will surpass that of 2010. We also anticipate a satisfying result for the year in 2012.

Transactions and events of special significance

The full scale of the major earthquake in the east of Japan and the devastating global economic consequences of the tsunami and impending nuclear catastrophe cannot be predicted at the present time.

Because we service many clients that are engaged in business activities worldwide, we are also an insurer of risks in Japan. The aggregate insured sums in property and consequential loss insurance are in the low tens of millions. The largest single risk underwritten is a property risk insured for the gross sum of 11 million euros. Whether contingent business interruption losses will occur at the risk locations identified cannot be conclusively assessed at present. However, they are not anticipated. No losses at all have yet been reported.

No other events of special significance occurred after the conclusion of the financial year 2010.

Proviso

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

Membership in associations and similar organizations

Our Company is member of the following associations:

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

We also belong to the Verbond van Verzekeraars in Nederland in the Netherlands, the Union syndicale des sociétés étrangères d'assurance and the Fédération française des sociétés d'assurances in Paris, France, the Association of mutual insurers and insurance cooperatives in Europe (AMICE), in Brussels, and the Motors Insurers Bureau, in London, Great Britain

List of insurance lines and coverages

Direct written insurance business

- **Accident insurance**
  Personal accident, group accident, clinical trials, motor accident, accident insurance with premium return

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

- **Motor insurance**
  Motor liability, other motor insurance (collision and comprehensive, and partial own damage coverage)

- **Aviation insurance**
  Aviation hull, spacecraft hull, other aviation insurance

- **Fire insurance**
  Fire industrial, agricultural and other fire insurance

- **Comprehensive householders insurance**

- **Comprehensive homeowners insurance**

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

- **Credit and surety insurance**
  Delcredere insurance

- **Motorist assistance insurance**
  Motor travel service

- **Aviation and spacecraft liability insurance**

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

- **Other non-life insurance**
  Business interruption insurance (fire business interruption, engineering and other business interruption insurance), other property insurance, other financial loss, other combined insurance, fidelity, other and non-specific combined non-life insurance

Reinsurance business assumed

- **Life**
- **Health**
- **Accident**
- **Liability**
- **Motor**
- **Aviation**
- **Legal expenses**
- **Fire**
- **Comprehensive Householders**
- **Comprehensive Homeowners**
- **Marine**
- **Aviation and spacecraft liability**
- **Other property**
- **Other non-life**

Balance Sheet as at 31 December 2010

Assets

				€ thousand	
				2010	2009
A. Outstanding contributions				0	10,226
B. Intangible assets					
I. Acquired concessions, industrial property rights, similar rights and assets as well as licences for such rights and assets			34,281		36,688
II. Payments in advance			9,550		5,608
				43,831	42,296
C. Investments					
I. Investments in affiliated companies and associates					
1. Shares in affiliated companies		202,511			185,470
2. Loans to affiliated companies		226,700			201,700
3. Investments in associated companies		246,016			249,602
4. Loans to associated companies		28,372			18,613
			703,599		655,385
II. Other Investments					
1. Stocks, investment fund certificates and other non-fixed-interest securities		1,000,098			984,258
2. Bearer bonds and other fixed-interest securities		501,557			577,431
3. Mortgages, liens on real property and annuities		4,335			4,811
4. Other loans					
a) Registered bonds	75,346				95,000
b) Promissory notes and loans	394,480				458,906
c) Loans and advance payments on insurance policies	122				119
d) Other miscellaneous loans	4,794				4,204
		474,742			558,229
5. Bank deposits		158,500			81,100
6. Miscellaneous investments		2			2
			2,139,234		2,205,831
III. Deposits made in connection with reinsurance business assumed			28,512		26,497
				2,871,345	2,887,713

Assets

			€ thousand	
			2010	2009
D. Accounts receivable				
I. Accounts receivable in connection with direct insurance business from:				
1. Policyholders	29,962			37,033
2. Insurance agents	72,533			71,884
		102,495		108,917
II. Accounts receivable in connection with reinsurance business		38,195		48,020
of which from affiliated companies: € 2,433 thousand (PY: € 1,953 thousand)				
III. Other accounts receivable		63,050		70,902
			203,740	227,839
of which from affiliated companies: € 5,108 thousand (PY: € 8,584 thousand) of which from associated companies: € 28 thousand (PY: € 28 thousand)				
E. Other assets				
I. Tangible assets and inventories		3,970		4,505
II. Current credit balances with banks, checks and cash on hand		14,680		12,975
III. Miscellaneous assets		558		477
			19,208	17,957
F. Prepaid expenses				
I. Prepaid interest and rent		21,801		20,963
II. Other prepaid expenses		8,489		2,861
			30,290	23,824
G. Excess of plan assets over pension liability			2,856	0
Total assets			**3,171,272**	**3,209,855**

Shareholders' equity and liabilities

€ thousand

		2010		2009
A. Shareholders' equity				
I. Called-in capital				
Subscribed capital	153,388			153,388
Outstanding contributions not called in	– 10,226			0
		143,162		153,388
II. Capital reserve		164,435		164,435
III. Revenue reserve				
Statutory reserve		5		5
			307,602	317,828
B. Subordinate liabilities			250,000	250,000
C. Underwriting reserves				
I. Unearned premiums				
1. Gross amount	217,002			210,503
2. less: amounts ceded	16,038			18,469
		200,964		192,034
II. Aggregate policy reserve				
1. Gross amount	59,620			60.988
2. less: amounts ceded	0			0
		59,620		60,988
III. Reserve for outstanding claims				
1. Gross amount	2,152,775			2,141,309
2. less: amounts ceded	459,485			468,895
		1,693,290		1,672,414
IV. Reserve for performance-related and non-performance-related premium refunds				
1. Gross amount	11,984			12,122
2. less: amounts ceded	234			199
		11,750		11,923
V. Equalization reserves and similar reserves		380,659		393,513
VI. Other underwriting reserves				
1. Gross amount	8,996			8,388
2. less: amounts ceded	– 1,268			– 3,328
		10,264		11,716
			2,356,547	2,342,588

Shareholders' equity and liabilities

				€ thousand
			2010	2009
D. Other accruals				
I. Accruals for taxes		1,674		6,209
II. Miscellaneous accruals		46,788		57,384
			48,462	63,593
E. Deposits held in connection with reinsurance business ceded			32,935	32,462
F. Other liabilities				
I. Accounts payable in connection with direct insurance business to				
1. Policyholders	59,340			58,303
2. Insurance agents	10,283			18,423
		69,623		76,726
II. Accounts payable in connection with reinsurance business of which to affiliated companies: € 3,780 thousand (PY: € 2,731 thousand)		17,609		14,902
III. Miscellaneous liabilities		88,347		111,741
of which: for taxes: € 15,663 thousand (PY: € 16,803 thousand) for social security: € 0 thousand (PY: € 0 thousand) toward affiliated companies: € 55,364 thousand (PY: € 73,368 thousand) toward associated companies: € 814 thousand (PY: € 627 thousand)			175,579	203,369
G. Deferred income			147	15
Total shareholders' equity and liabilities			**3,171,272**	**3,209,855**

I hereby confirm that the aggregate policy reserve for accident insurance with premium return shown under item C II. no. 1 under Shareholders' Equity and Liabilities in the amount of € 59,619,902 and the annuity reserve for claims under item C III. no. 1 in the amount of € 55,635,261 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, 21 January 2011

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, 21 March 2011

Bertrams
Trustee

Income Statement for the Year Ended 31 December 2010

			€ thousand	
			2010	2009
I. Underwriting account				
1. Earned premiums net of reinsurance				
a) Gross premiums written	1,402,371			1,400,400
b) Reinsurance premiums ceded	218,653			238,926
		1,183,718		1,161,474
c) Change in gross unearned premiums	−6,498			−3,830
d) Change in gross unearned premiums ceded	2,431			4,221
		−8,929		−8,051
			1,174,789	1,153,423
2. Technical interest net of reinsurance			3,593	3,230
3. Other underwritting income net of reinsurance			2,479	2,932
4. Claims expenses net of reinsurance				
a) Claims paid				
aa) Gross amount	934,332			881,456
bb) Amount ceded	137,550			155,898
		796,782		725,558
b) Change in reserve for outstanding claims				
aa) Gross amount	6,299			8,482
bb) Amount ceded	−9,562			−66,654
		15,861		75,136
			812,643	800,694
5. Change in other net underwriting reserves				
a) Net aggregate policy reserve		1,368		240
b) Other net underwriting reserves		1,451		2,274
			2,819	2,514
6. Expenses for performance-related and non-performance-related premium refunds net of reinsurance			3,627	3,478
7. Underwriting expenses net of reinsurance				
a) Gross underwriting expenses		430,498		434,923
b) less: commissions and profit sharing received on reinsurance business ceded		59,728		94,021
			370,770	340,902
8. Other underwriting expenses net of reinsurance			8,878	6,935
9. Subtotal			−12,238	10,090
10. Change in equalization reserves and similar reserves			12,854	15,604
11. Underwriting result net of reinsurance			616	25,694

€ thousand

			2010	2009
II. Non-underwriting account				
1. Investment income				
a) Income from investments of which from affiliated companies € 5,300 Tsd. EUR (PY: € 3,892 thousand)	18,765			17,160
b) Income from other investments of which from affiliated companies € 11,743 thousand (PY: € 11,837 thousand)	97,031			90,697
c) Income from write-ups	2,368			14,085
d) Proceeds from the disposal of investments	27,813			35,902
		145,977		157,844
2. Investment expenses				
a) Cost of portfolio management, interest expense and other expenses in connection with investments	11,335			5,994
b) Amortization of investments of which: non-scheduled depreciation pursuant to section 277(3) sent. 1 HGB € 11,106 thousand (PY: € 14,703 thousand)	13,375			25,470
c) Losses from disposal of investments	7,786			19,320
		32,496		50,784
			113,481	107,060
3. Technical interest			−3,654	−3,295
			109,827	103,765
4. Other income		69,374		80,799
5. Other expenses		108,617		124,470
			−39,243	−43,671
6. Income before taxes			71,199	85,788
7. Extraordinary expenses			999	0
8. Taxes on income and tax charged by the controlling company	14			212
	12,929			23,600
		12,943		23,812
9. Other taxes		186		184
			13,129	23,996
10. Profit transferred on the basis of a profit-transfer or pooling agreement			57,071	61,792
11. Net income for the year			**0**	**0**

Notes to the Financial Statements
Accounting and Valuation Policies

Introduction

The financial statements have been prepared in accordance with the rules of the German Commercial Code (HGB) applicable to insurance companies in the version of the Accounting Law Modernization Act (BilMoG) promulgated on 25 May 2009, the Stock Corporation Act (AktG), the Insurance Supervision Act (VAG) and the Insurance Accounting Regulation (RechVersV).

In accordance with section 67(8) sent. 2 EGHGB, prior-year figures have not been adjusted in line with the new BilMoG rules.

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

Currency translation

Foreign currency positions have been translated into euros at the foreign exchange reference rate as at balance sheet date.

Intangible assets

Internally generated intangible assets recognized as fixed assets have not been capitalized. Acquired intangible assets are recognized at cost less scheduled depreciation based on the anticipated economic life of the asset.

Investments

Shares in affiliated and associated companies are recognized at cost unless a lower fair value was appropriate in the individual case. Impairment losses were reversed pursuant to section 253(5) of the German Commercial Code HGB.

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

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

In 2010, a large number of diverse investment fund certificates, bearer bonds and other fixed-interest securities were again purchased and recognized as fixed assets. These securities are intended to be held as long-term investments. To avoid short-term fluctuations in results in this segment, we decided to exercise the option offered by section 341b(2) HGB and apply the moderated lower-of-cost-or-market principle to bond portfolios (investment fund certificates with a fixed income, bearer bonds and other fixed-interest investments) as a matter of principle. This does not, however, apply in the case of permanent impairment, e.g. deterioration in credit quality.

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

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

Shares, investment fund certificates and other non-fixed-interest securities carried under current assets are 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 253(5) HGB.

Bearer bonds and other fixed-interest securities classed as fixed assets are valued at cost. In line with section 341b(2) HGB, write-downs have been made in the case of permanent impairment (modified lower of cost-or-market principle). In the case of securities with a purchase price in excess of 100 %, the book value is reduced pro rata over the life of the asset and offset against current income.

Bearer bonds and other fixed-interest securities held as current assets are recognized at cost, taking into account write-downs to market value (strict lower-of-cost-or-market principle) where appropriate. Write-ups have been performed pursuant to section 253(5) HGB.

In 2009, the fair value of subordinated bearer bonds (T1 bank bonds and UT2 securities as well as insurance bonds in direct and fund portfolios), for which there was no active market in the wake of the financial crisis, was defined with the help of a valuation model of our own. The model price system was abandoned after 31 March 2010 when markets returned to normal. All subordinated bearer bonds are now recognized at market prices as at balance sheet date, which are supplied by relevant market information systems.

Registered securities, receivables covered by promissory notes and loans, as well as mortgages, liens on real property and annuities, loans and advance payments on policies are recognized at nominal value less amortization and any write-downs on fair value.

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

The fair value of all standard registered securities, receivables covered by promissory notes and loans, as well as mortgages, liens on real property and annuities, loans and advance payments on policies is established by mark-to-model valuation. Using the Excel valuation tool "Rendite & Derivate" from Moosmüller & Knauf or the controlling system FIRST, all the relevant securities are valued on the basis of an appropriate swap curve at balance sheet date plus a security-specific spread. Securities that cannot be assigned as standard to one of the pre-defined groups (e.g. Namensgenussscheine) are subjected to special individual mark-to-model valuation.

Structured products that need to be broken down into their components and are coupled to hedge fund indices are recognized at cost, taking into account write-downs on the market price (strict lower-of-cost-or-market principle). Impairment losses were reversed pursuant to section 253(5) HGB.

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

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

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

The Company forms valuation units from investments acquired in foreign currency (underlying transaction) and foreign exchange sale contracts in the same currency (hedging instrument). The valuation unit exists for as long as the underlying transaction. Profits and losses accruing in the interim are deferred over the life of the underlying transaction. Please also refer to the comments pursuant to section 285 no. 23 HGB in the notes to the financial statements in this report.

Bank deposits are carried at nominal value.

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

Deposits with ceding companies are recognized at nominal value.

Accounts receivable in connection with direct insurance business

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

Tangible assets and inventories

Operating and office equipment is capitalized at cost less scheduled depreciation based on the anticipated economic life of the assets. Movable and limited-life assets with a cost value between € 150 and € 1.000 are recognized as a collective item and written down over 5 years by the straight-line method. Inventories are carried at cost.

Other assets

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

Underwriting reserves

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Miscellaneous accruals

The reserve for obligations in connection with pre-retirement employment agreements was determined by applying actuarial principles. Calculation was based on the 2005 G mortality tables developed by Prof. Dr. Klaus Heubeck, taking account of a wage and salary trend of 2.5 % and actuarial interest of 4.38 %. Possible obligations in connection with future pre-retirement employment agreements are recognized at an amount equal to probable take-up.

The anniversary reserve was calculated by the projected unit credit method, taking account of a wage and salary trend of 2.5 % and actuarial interest of 5.17 %.

All other reserves are recognized at the settlement amount dictated by prudent business judgement Reserves with a residual term of more than a year were discounted over the rest of their life at the average rate of market interest over the last seven years. Reserves for which revaluation under the BilMoG would result in reversal were retained, exercising the option set out in section 67(1) sent. 2 EGHGB.

Other liabilities

Deposits held in connection with reinsurance business ceded and miscellaneous liabilities are recognized at settlement amounts pursuant to section 253(1) HGB; prepaid expenses are carried at nominal value.

Notes to the Balance Sheet

Assets

Changes in assets (items B., C.I. and C.II.) in the financial year[1]

	Carrying amounts previous year
B. Intangible assets	
1. Acquired concessions, industrial property rights, similar rights and assets as well as licences for such rihts and assets	36,688
2. Payments in advance	5,608
3. Subtotal B.	**42,296**
C. I. Investments in affiliated companies and associates	
1. Shares in affiliated companies	185,470
2. Loans to affiliated companies	201,700
3. Investments in associated companies	249,602
4. Loans to associated companies	18,613
5. Subtotal C. I.	**655,385**
C. II. Other investments	
1. Stocks, investment fund certificates and other non-fixed-interest securities	984,258
2. Bearer bonds and other fixed-interest securities	577,431
3. Mortgages, liens on real property and annuities	4,811
4. Other loans	
a) Registered bonds	95,000
b) Promissory notes and loans	458,906
c) Loans and advance payments on insurance policies	119
d) Other miscellaneous loans	4,204
5. Bank deposits	81,100
6. Miscellaneous investments	2
7. Subtotal C. II.	**2,205,831**
Total	**2,903,512**

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

					€ thousand
Additions	Reclassifications	Disposals	Reversals	Amortization	Carrying amounts Financial year
0	4,428	0	0	6,835	34,281
8,370	−4,428	0	0	0	9,550
8,370	**0**	**0**	**0**	**6,835**	**43,831**
23,673	0	3,838	99	2,893	202,511
25,000	0	0	0	0	226,700
12,496	0	12,409	377	4,051	246,016
10,254	0	495	0	0	28,372
71,423	**0**	**16,742**	**476**	**6,944**	**703,599**
185,105	0	163,774	924	6,414	1,000,098
213,123	0	289,960	968	4	501,557
90	0	566	0	0	4,335
89,346	0	109,000	0	0	75,346
414,019	0	478,431	0	14	394,480
58	0	54	0	0	122
1,000	0	410	0	0	4,794
77,400	0	0	0	0	158,500
0	0	0	0	0	2
980,141	**0**	**1,042,195**	**1,892**	**6,432**	**2,139,234**
1,059,934	**0**	**1,058,937**	**2,368**	**20,211**	**2,886,664**

Carrying amounts and fair value of investments

€ thousand			
Type of investment	Carrying amounts	Fair value	Valuation reserves
	2010	2010	2010
I. Investments in affiliated companies and associates			
1. Shares in affiliated companies	202,511	239,008	36,497
2. Loans to affiliated companies	226,700	226,700	0
3. Investments in associated companies	246,016	328,478	82,462
4. Loans to associated companies	28,372	28,372	0
II. Other investments			
1. Stocks, investment fund certificates and other non-fixed-interest securities	1,000,098	945,305	–54,793
2. Bearer bonds and other fixed-interest securities	501,557	501,150	–407
3. Mortgages, liens on real property and annuities	4,335	4,599	264
4. Other loans			
Registered bonds	75,346	77,687	2,341
Promissory notes and loans	394,480	393,632	–848
Loans and advance payments on insurance policies	122	141	19
Other miscellaneous loans	4,794	4,794	0
5. Bank deposits	158,500	158,500	0
6. Miscellaneous investments	2	2	0
III. Deposits in connection with reinsurance business assumed	28,512	28,512	0
Total	**2,871,345**	**2,936,880**	**65,535**

II. 1. and 2. include investment fund certificates, bearer bonds and other fixed-interest securities with a carrying amount of € 1,233,776 thousand that are classified as long-term assets pursuant to section 341b(2) HGB. The fair value of these assets comes to a total € 1,173,610 thousand. Hidden liabilities amounted to € 73,033 thousand.

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

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

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

Total investments included for purposes of payment of surplus bonuses

In the case of accident insurance with premium refunds, investments carried at a cost of € 70,729 thousand with a fair value of € 72,183 thousand are included for purposes of payment of surplus bonuses. As of 31 December 2010, the difference between cost and fair value came to € 1,454 thousand.

Information on financial instruments classified as financial assets pursuant to section 285 no. 18 HGB

		€ thousand
Balance sheet item	Carrying amount	Fair value
C.I [1]	92,581	87,000
C.II.1. [2] [3]	820,555	759,748
C.II.2. [2]	122,435	110,209

[1] No depreciation was effected because the impairment is only temporary and due exclusively to normal exchange rate fluctuations.
[2] No depreciation was effected because the fluctuations in value are only a temporary consequence of interest rate movements or changes in credit risk prices.
[3] These values are also listed in section 285 no. 26 HGB.

Information on valuation units pursuant to section 285 no. 23 HGB

					€ thousand
Balance sheet item	Risks	Type of valuation unit	(Trading/ Nominal) volume	Fair value	Carrying amount
C.I .	Exchange rate movement	Portfolio hedges	97,080 TUSD	70,522	69,872
C.I.	Exchange rate movement	Portfolio hedges	5,070 TGBP	5,090	4,970
C.II.2.	Exchange rate movement	Portfolio hedges	23,800 TUSD	18,329	18,765
C.II.2.	Exchange rate movement	Portfolio hedges	3,500 TGBP	4,530	5,231
C.II.2.	Exchange rate movement	Micro hedges	15,500 TUSD	12,541	11,921
C.II.4.b)	Exchange rate movement	Portfolio hedges	58,700 TUSD	45,501	45,182

Derivative financial instruments such as swaps and forward transactions are used to hedge market risks (i.e. interest or exchange rate movements). In the case of exchange rate risks, only forward transactions are used as a hedging instrument.

The resulting opposite changes in value and payment flows are expected to offset one another completely by the time the underlying contracts mature (2013-2025) because bases, terms and currencies are identical.

Gothaer Asset Management AG uses the dollar offset method to assess hedge effectiveness in the case of FX forwards and the critical terms match method in the case of swap positions. Hedges are also documented at individual contract level, as are the stipulated risk management objectives and the strategy for the conclusion of the different hedge transactions.

The company also checks – both at the beginning of the hedge and on an ongoing basis – whether the derivative financial instruments used for the hedge transactions are sufficiently effective in offsetting fluctuations in the fair value or cash flow of the hedged items.

Hedges are reported in the balance sheet exclusively by the so-called freezing method.

Information on investment funds pursuant to section 285 no. 26 HGB

Type of fund/ investment objective	Carrying amount 31.12.2010	Market value 31.12.2010	Difference	Payout 2010	Redemption option
					€ thousand
Equity fund	41,860	41,860	0	404	daily
Pension fund	875,621	820,130	–55,491	42,486	daily within one month
Property fund	75,760	75,912	152	2,498	daily within max. six month
Other	0	0	0	1,065	daily

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

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

No depreciation was effected because impairment is only temporary.

Accounts receivable in connection with direct insurance business

€ thousand	2010	2009
1. From policyholders	29,962	37,033
2. From insurance agents		
Of which:		
Lead and co-insurance business	4,927	4,515
Other	67,606	67,369
Subtotal	72,533	71,884
Total	**102,495**	**108,917**

Write-downs in the amount of a total of € 5,516 thousand (PY: € 8,193 thousand) were taken on receivables due from policyholders and insurance agents.

Prepaid expenses

Other prepaid expenses include premiums on registered bonds and promissory notes of € 7,934 thousand (PY: € 2,050 thousand).

Shareholders equity and liabilities

Shareholders' equity

	€ thousand	
	2010	**2009**
I. Called-in capital		
Subscribed capital	153,388	153,388
Outstanding contributions not called in	– 10,226	0
II. Capital reserve	164,435	164,435
III. Revenue reserve		
Statutory reserve	5	5
Total	**307,602**	**317,828**

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

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

Gross underwriting reserves

	€ thousand	
	2010	**2009**
Accident	342,663	337,892
Liability	991,653	992,413
Motor liability	642,367	677,199
Other motor	38,317	45,726
Fire and property:	408,287	396,651
Of which		
Fire	99,109	97,447
Comprehensive householders	50,077	49,293
Comprehensive homeowners	91,097	84,118
Other property	168,003	165,793
Marine and aviation	64,411	65,797
Other insurance	146,742	135,613
Direct insurance business	2,634,440	2,651,291
Reinsurance business assumed	196,596	175,532
Total	**2,831,036**	**2,826,823**

Of which gross reserves for outstanding claims

€ thousand	2010	2009
Accident	235,041	247,227
Liability	796,488	780,294
Motor liability	577,094	614,296
Other motors	20,441	19,413
Fire:	257,509	234,287
Of which		
Fire	57,617	45,840
Comprehensive householders	17,301	17,313
Comprehensive homeowners	63,399	58,778
Other property	119,191	112,356
Marine and aviation	34,995	35,375
Other insurance	128,739	120,884
Direct insurance business	2,050,307	2,051,776
Reinsurance business assumed	102,469	89,533
Total	**2,152,776**	**2,141,309**

The evaluation of the figures of gross reserves for outstanding claims has taken into account salvage, subrogation and loss sharing agreements in the amount of € 7,005 thousand (PY: € 8,051 thousand)

Reserve for performance-related premium refunds

€ thousand	2010	2009
Opening balance	**9,090**	**9,363**
Withdrawals	1,360	1,182
Additions	1,136	909
Final balance	**8,866**	**9,090**

Surplus bonuses in accident insurance with premium return

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

- € 919 thousand for current surplus bonuses that have already been fixed but not yet distributed
- € 263 thousand for terminal bonuses that have already been fixed but not yet distributed
- € 8 thousand for amounts that have already been fixed but not yet distributed for participation in valuation reserves.

The terminal bonus fund amounts to € 4,362 thousand.

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

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

• **Old policies**

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

• **New policies**

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

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

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

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

Policies with rates BRE1, BRK1, BRS1, BRT1

Interest on bonus	1 %	on the eligible aggregate policy reserve of basic insurance
	3.25 %	on 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 BRE2, BRK2, BRS2, BRT2

Interest on bonus	2.5 %	on the eligible aggregate policy reserve of basic insurance
	3.75 %	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

Participation in valuation reserves

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

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

Eligible policies

All accident insurance with premium return policies are eligible.

Time of irrevocable allocation of valuation reserves

A share of the valuation reserves is allocated to the insurance policy upon termination.

Determination of valuation reserves available for distribution

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

The distribution factor of a policy is based on the ratio of the policy assets to the assets of all active policies at the end of the financial year. The assets of a policy at the end of the financial year are based on the sum of the assets at the end of the previous financial year and the positive aggregate policy reserve (exclusive of prefinancing) of the policy at the end of the financial year. The aggregate policy reserve (exclusive of prefinancing) includes the rate reserve and the bonus reserve.

Distribution of valuation reserves upon maturity of policies

An amount equal to 50 % of valuation reserves available for distribution multiplied by the distribution factor of the policy is distributed upon maturity.

Equalization reserves and similar reserves

		€ thousand
	2010	**2009**
Accident	18,719	0
Liability	141,870	158,762
Motor liability	61,146	58,146
Other motors	15,859	24,068
Fire and property:	58,721	74,754
Of which		
Fire	34,872	45,192
Comprehensive householders	8,654	8,109
Comprehensive homeowners	0	0
Other property	15,196	21,453
Marine and aviation	23,387	24,360
Other insurance	1,296	130
Direct insurance business	320,998	340,220
Reinsurance business assumed	59,660	53,293
Total	**380,658**	**393,513**

Other accruals

€ thousand	2010	2009
II. Miscellaneous accruals for:		
Pre-retirement employment	10,177	25,942
Anniversary payments	10,999	11,804
Social plans/severance payments	2,617	2,606
Bonuses	5,173	3,927
Leave/time credits	1,850	1,002
Employer's liability insurance contributions	483	440
Compensatory levy (disable employment)	5	11
Financial statement expenses	442	436
Outstanding accounts	950	948
Interest commitments	210	0
Legal disputes	13,467	7,220
Impending investment losses	415	415
Others	0	2,633
Total	**46,788**	**57,384**

The Company exercised the option to retain reserves pursuant to section 67(1) sent. 2 EGHGB. Other accruals include a surplus of cover of € 901 thousand pursuant to section 67(1) sent. 4 EGHGB.

Offsetting of assets and liabilities

In line with section 246(2) sent. 2 HGB, plan assets of € 17,164 thousand have been offset against corresponding pension obligations of € 24,485 thousand. The fair value of the plan assets offset is equal to value at cost.

Accounts payable in connection with direct insurance business

€ thousand	2010	2009
1. Toward policyholders	59,340	58,303
2. Toward insurance agents		
Of which:		
Lead and co-insurance business	3,858	4,389
Other	6,425	14,034
Subtotal	**10,283**	**18,423**
Total	**69,623**	**76,726**

Deferred income

€ thousand	2010	2009
Discount on registered bonds and promissory notes	147	15

Notes to the Income Statement

Gross premiums written

€ thousand	2010	2009
Accident	139,151	139,055
Liability	295,369	309,291
Motor liability	152,418	155,208
Other motors	92,193	91,935
Fire and property:	433,726	428,081
Of which		
Fire	65,908	63,820
Comprehensive householders	81,991	83,292
Comprehensive homeowners	111,809	115,732
Other property	174,019	165,237
Marine and aviation	40,412	40,654
Other insurance	108,948	99,953
Direct insurance business	1,262,217	1,264,177
Reinsurance business assumed	140,153	136,223
Total	**1,402,370**	**1,400,400**

Gross premiums earned

€ thousand	2010	2009
Accident	138,987	139,316
Liability	295,488	310,392
Motor liability	152,870	154,879
Other motors	92,398	91,695
Fire and property:	430,138	430,366
Of which		
Fire	65,847	64,054
Comprehensive householders	81,730	83,905
Comprehensive homeowners	109,403	116,515
Other property	173,157	165,892
Marine and aviation	40,470	40,451
Other insurance	107,130	99,745
Direct insurance business	1,257,481	1,266,844
Reinsurance business assumed	138,391	129,726
Total	**1,395,872**	**1,396,570**

Net premiums earned

€ thousand	2010	2009
Accident	137,144	120,535
Liability	257,690	272,922
Motor liability	120,462	122,129
Other motors	70,981	70,356
Fire and property:	331,553	325,485
Of which		
Fire	33,977	33,226
Comprehensive householders	81,330	83,514
Comprehensive homeowners	90,752	78,424
Other property	125,495	130,321
Marine and aviation	38,089	37,202
Other insurance	83,846	79,658
Direct insurance business	1,039,765	1,028,287
Reinsurance business assumed	135,024	125,136
Total	**1,174,789**	**1,153,423**

Gross claims expenses

€ thousand	2010	2009
Accident	57,798	68,566
Liability	183,416	176,104
Motor liability	102,910	112,144
Other motors	80,302	76,903
Fire and property:	302,226	260,974
Of which		
Fire	58,096	38,407
Comprehensive householders	37,432	37,805
Comprehensive homeowners	99,912	92,379
Other property	106,786	92,383
Marine and aviation	28,154	26,593
Other insurance	83,402	60,066
Direct insurance business	838,208	781,350
Reinsurance business assumed	102,423	108,588
Total	**940,631**	**889,938**

Gross claims expenses include claims expenses in the financial year and the result of loss adjustment from reserves for outstanding claims taken over from the previous year (gross in each case). Profit on adjustments represents 11.0 % 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 performance-related and non-performance-related premium refunds net of reinsurance

		€ thousand
	2010	**2009**
Performance related	1,136	909
Non-performance related	2,490	2,545
Direct insurance business	3,626	3,454
Reinsurance business assumed	1	24
Total	**3,627**	**3,478**

Gross underwriting expenses

		€ thousand
	2010	**2009**
Accident	48,938	51,643
Liability	100,462	108,078
Motor liability	31,341	30,812
Other motors	19,456	18,781
Fire and property:	144,080	146,402
Of which		
Fire	20,717	21,854
Comprehensive householders	30,104	30,832
Comprehensive homeowners	35,335	37,411
Other property	57,924	56,305
Marine and aviation	12,553	12,901
Other insurance	32,875	31,790
Direct insurance business	389,705	400,407
Reinsurance business assumed	40,794	34,516
Total	**430,499**	**434,923**

Allocation of gross underwriting expenses

Acquisition costs

€ thousand	2010	2009
Accident	10,284	11,769
Liability	13,755	14,174
Motor liability	3,745	3,331
Other motors	2,459	2,173
Fire and property:	25,470	24,833
Of which		
Fire	3,511	3,884
Comprehensive householders	4,794	4,397
Comprehensive homeowners	5,618	5,711
Other property	11,546	10,841
Marine and aviation	2,115	2,330
Other insurance	5,508	6,367
Direct insurance business	63,336	64,977
Reinsurance business assumed	0	0
Total	**63,336**	**64,977**

Administration expenses

€ thousand	2010	2009
Accident	38,653	39,873
Liability	86,707	93,905
Motor liability	27,595	27,482
Other motors	16,997	16,608
Fire and property:	118,610	121,568
Of which		
Fire	17,205	17,969
Comprehensive householders	25,311	26,435
Comprehensive homeowners	29,716	31,700
Other property	46,378	45,464
Marine and aviation	10,438	10,571
Other insurance	27,367	25,423
Direct insurance business	326,367	335,430
Reinsurance business assumed	40,794	34,516
Total	**367,161**	**369,946**

Net for reinsurance business
(– = credit to reinsurers)

€ thousand	2010	2009
Accident	–758	–24,444
Liability	–6,447	–2,165
Motor liability	–6,236	10,708
Other motors	–682	–1,167
Fire and property	–24,421	–31,724
Marine and aviation	–1,923	–2,756
Other insurance	10,218	–7,189
Direct insurance business	–30,249	–58,737
Reinsurance business assumed	–3,119	–1,144
Total	**–33,368**	**–59,881**

Underwriting result net of reinsurance

€ thousand	2010	2009
Accident	16,420	–2,995
Liability	22,320	24,177
Motor liability	10,129	25,752
Other motors	257	4,833
Fire and property:	–31,902	–14,725
Of which		
Fire	–6,872	–5,492
Comprehensive householders	11,915	15,633
Comprehensive homeowners	–31,502	–24,972
Other property	–5,443	106
Marine and aviation	–2,217	–880
Other insurance	–37	–417
Direct insurance business	14,970	35,745
Reinsurance business assumed	–14,352	–10,051
Total	**618**	**25,694**

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

	PIF	
	2010	**2009**
Accident	742,725	704,768
Liability	1.352,135	1,328,936
Motor liability	677,015	666,598
Other motors	510,691	499,724
Fire and property:	1,532,179	1,497,817
Of which		
Fire	86,037	85,669
Comprehensive householders	741,500	732,936
Comprehensive homeowners	307,667	289,217
Other property	96,975	389,995
Marine and aviation	23,511	23,408
Other insurance	409,939	389,965
Total	**5,248,195**	**5,111,216**

Other income

Other income includes € 68 thousand resulting from the discounting of other reserves and € 675 thousand from currency translations.

Other expenses

Other expenses include € 885 thousand resulting from currency translations.

Offsetting of income and expenses

In line with the offsetting of retirement pension commitments and the corresponding plan assets, related expenses of € 5,185 thousand were offset against related income of € 4,673 thousand as stipulated in section 246(2) sent. 2 HGB

Extraordinary expenses

Extraordinary expenses include the revaluation expenses for pension obligations and anniversary reserves incurred as a result of the transition to the BilMoG.

Other Disclosures

Commissions and other remuneration of insurance agents, personnel expenses

€ thousand	2010	2009
1. Commissions of insurance agents within the meaning of the section 92 HGB in connection with direct insurance business	263,638	265,977
2. Other remunertion of insurance agents within the meaning of section	3,046	3,771
3. Wages and salaries	110,667	121,469
4. Social security contributions and employee benefits	19,974	21,428
5. Post retirement benefits	4,972	6,672
6. Total expenses	**402,297**	**419,317**

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 € 592 thousand and that of former members to € 373 thousand. Retirement and survivors' benefits for former members of Management came to € 298 thousand. Gothaer Finanzholding AG has established accruals in the amount of € 3,670 thousand to cover current pensions and pension entitlements for this group of individuals.

Remuneration paid to the Supervisory Board came to € 465 thousand. Remuneration in the amount of € 14 thousand was paid to the Advisory Board. No amounts were paid 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 2010.

Total fee for the statutory auditor

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

Human resources

Gothaer Allgemeine Versicherung AG had an average of 2,011 employees in the financial year. Of these, 1,519 were employed in the home offices and 492 in the field. In addition, the Company had an average 101 trainees in the course of the year.

List of holdings pursuant to section 285 no. 11 HGB

Name, registered office	Interest in %	Shareholders' equity	Previous year result
			€ thousand
A&O Vertriebs AG, Oldenburg	100.00	1,704	1,050
Classen Finanz GmbH & Co. KG, Kaisersesch	35.71	14	n. a.
GG-Grundfonds Vermittlungs-GmbH, Berlin	100.00	−15,452	−256
Gothaer Risk-Management GmbH, Köln	100.00	735	180
Gothaer Sechste Kapitalbeteiligungs GmbH, Köln	66.67	73,340	4,697
Gothaer Systems GmbH, Köln	74.90	4,010	138
Gothaer Zweite Beteiligungsgesellschaft Niederlande mbH, Köln	28.60	2,166	−58
Gothaer Zweite Kapitalbeteiligungsgesellschaft mbH, Köln	40.00	9,660	618
Gotham City Residential Partners I GmbH & Co.KG, Frankfurt a. M	49.99	13,426	58
Janitos Versicherung AG, Heidelberg	100.00	29,376	−304
KILOS Beteiligungsgesellschaft mbH & Co. Vermietungs-KG, Pöcking	93.06	38,217	2,821
Munich Carlyle Produktions GmbH & Co KG, Grünwald	93.93	−64,506	766
NYLCAP 2010 Co-Invest L.P., New York, USA	40.00	$1,695	n.a.
PE Feeder GmbH, Köln	100.00	28	2
PE Holding USD GmbH & Co. KG, Köln	40.00	12,191	12
RE Brockton Capital Fund I Feeder GmbH & Co. KG, Köln	24.94	25,850	−56
Triforum Verwaltung GmbH & Co. Objekt IKS Köln KG, Pöcking	88.10	659	18
VOV Vers. Gemeinschaft GmbH, Köln	30.00	1,657	133
Zippel Netmarket GmbH, Elsdorf-Heppendorf	25.86	−6,733	−123

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 € 167,389 thousand (€ 129,919 thousand of which due to affiliated companies) were outstanding for shares in affiliated companies and associates and other investments in our possession.

Guarantees of € 27,736 thousand were given under the bonds insurance operated in the framework of our business plan.

There is a joint liability of € 43,414 thousand for post-retirement benefits of employees and executive officers and former employees and executive officers disclosed by Gothaer Finanzholding AG.

Our Company is a member of "Verkehrsopferhilfe 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 motor 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 € 1,047 thousand incurred in net present value as defined by section 6a EStG due to the assumption of current pension obligations and entitlements.

Deferred taxes

Owing to consolidation for tax purposes, information on deferred taxes is provided at parent company level by Gothaer Versicherungsbank VVaG.

Group membership

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

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

Both consolidated financial statements appear in the electronic Federal Gazette.

Cologne, 28. March 2011

Board of Management

Thomas Leicht	Dr. Werner Görg	Dr. Helmut Hofmeier	Michael Kurtenbach
Jürgen Meisch	Dr. Hartmut Nickel-Waninger		Oliver Schoeller

Auditors' Report

We have audited the annual financial statements – consisting of the balance sheet, income statement and notes to the financial statements – as well as related accounting and the report of management of Gothaer Allgemeine Versicherung AG, Cologne, for the year ended 31 December 2010. 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, 12 April 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Dahl	Offizier
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

The Supervisory Board monitored the conduct of business by Management in the course of the financial year in 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 four meetings. The committees of the Board were also involved in informational and oversight activities. The Investment Committee, the Audit Committee and the Executive Committee each met three times. It was not necessary to convene the committee established pursuant to section 27(3) of the Co-Determination Act (MitbestG).

The issues addressed regularly included developments as regards the Company's premiums, losses incurred and underwriting costs as well as investment policy and the effect thereof on the financial statements. In addition, Management regularly reported to the Supervisory Board on the basic issues involved in corporate planning, the Company's risk strategy and exposure and the results of benchmarking comparisons with similarly structured companies. In addition, the audit committee established by the Supervisory Board in line with section 107(3) AktG not only monitored the accounting process and verified the effectiveness of the internal control system, risk management system and internal auditing system but also discussed in detail the valuation of investments in the prepared balance sheet with Management and the auditors of the financial statements. Management's investment planning and policy were regularly a subject of investment committee meetings. Management reported extensively to the Board on developments in the capital markets and the resulting impacts on investments and investment income and discussed the possible general economic consequences of the financial market crisis as well as the implications for the insurance industry. The investment guidelines were discussed in depth and adjusted to meet the increase in requirements.

Management submitted regular reports to the Supervisory Board on the status of all major strategic programmes and projects. The GoBest project proceeded on schedule. The Supervisory Board critically and closely monitored the success of the measures implemented to eliminate the quantitative and qualitative processing problems that temporarily arose in the prior year during the structural and organizational re-gearing of operations and claims.

The Supervisory Board discharged its statutory duty to examine HR issues relating to Management, especially issues of pay. Management also informed the Board about the latest requirements that insurance company pay systems need to meet to comply with the Insurance Pay Ordinance (VersVergV) that came into force in 2010.

Gothaer Allgemeine is successful in competition in both private and corporate client segments. Largely as a result of systematic adherence to a policy of profit-oriented growth but also because of an economic environment significantly better than anticipated, the Company exceeded its growth targets in nearly every segment. In the corporate client segment in particular, services outside the realm of pure insurance have been further developed. A profit-oriented underwriting policy continues to be systematically pursued in all segments. This played a significant role in helping ensure that the Company lost none of its profitability and retained its financial strength with a good investment result – an achievement reflected in rating results. The performance of Gothaer Allgemeine Versicherung AG was again confirmed by the ratings of Standard & Poor's (A-) and Fitch (A).

The Financial Statements for the financial year 2010 and associated Management Report as well as the 2010 Consolidated Financial Statements prepared in accordance with internationally accepted accounting standards (IFRS) and the associated Management Report were audited by KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Cologne, the auditor appointed in compliance with section 341k HGB, in each case including an assessment of the risk early-warning system.

The auditors fully certified the reports presented.

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

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 2010 as well as the Consolidated Financial Statements and the associated Management Report for the financial year 2010, the Supervisory Board has no objections to raise.

The Board approves the Financial Statements and Consolidated Financial Statements for the financial year 2010. The Financial Statements are thus formally adopted pursuant to section 172 AktG.

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

Cologne, 11 May 2011

The Supervisory Board

Dr. Roland Schulz
Chairman

Domestic and Foreign Locations

Headquarters location

Gothaer Allee 1, 50969 Cologne	Telephone Facsimile	(02 21) 3 08-00 (02 21) 3 08-103

Domestic locations

Branch locations

Katharinenstr. 23-25 20457 Hamburg	Telephone	(0 40) 37 04-00
Gothaer Allee 1 50969 Cologne	Telephone	(02 21) 3 08-00
Johannesstr. 39-45 70176 Stuttgart	Telephone	(07 11) 66 69-00

Foreign locations

France
Gothaer Allgemeine Versicherung AG
French branch
1 bis, rue de Bouxwiller
F-67000 Strasbourg

Authorized representative and
branch manager:
Claude Ketterlé

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

Authorized representative and
branch manager:
Michael Giesen

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