Gothaer

Gothaer Allgemeine Versicherung AG
Annual Report 2019

Five-Year Summary

€ thousand

	Financial Year				
	2019	2018	2017	2016	2015
Gross premiums written	1,853,007	1,810,124	1,822,082	1,722,724	1,703,286
Premiums written net of reinsurance	1,589,057	1,565,542	1,598,422	1,485,952	1,471,728
Retention (in %)	85.8	86.5	87.7	86.3	86.4
Claims expenses net of reinsurance	1,064,040	1,071,392	998,573	1,009,073	1,011,046
In % of premiums earned	66.1	68.5	63.3	67.6	68.9
Underwriting expenses net of reinsurance	473,136	461,918	469,405	445,318	431,492
In % of premiums earned	29.4	29.5	29.8	29.8	29.4
Net income for the year [1]	142,164	114,803	123,885	89,839	120,981
Investments [2]	3,583,423	3,544,163	3,481,268	3,228,229	3,470,660
Net return (in %)	3.2	3.3	3.1	3.4	5.2
Gross underwriting reserves	3,337,471	3,349,938	3,301,762	3,182,125	3,133,260
In % of gross premiums written	180.1	185.1	181.2	184.7	184.0
Equity capital [3]	609,423	609,423	609,423	575,602	825,602
In % of premiums written net of reinsurance	38.4	38.9	38.1	38.7	56.1
Policies in force (in thousands)	6,342	6,285	6,237	5,694	5,595
Claims reported (in thousands)	361	386	381	359	395

[1] Before transfer of profit and tax charged by the controlling company
[2] Exclusive of outstanding deposits
[3] Including subordinate liabilities, less outstanding contributions not called in

Gothaer Allgemeine Versicherung AG

Report for the Financial Year as of 1 January to 31 December 2019

Registered Office
Gothaer Allee 1
50969 Cologne
Germany

Cologne Local Court, HRB 21433

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

Supervisory Board

Prof. Dr. Werner Görg Chairman	Lawyer
Peter-Josef Schützeichel *) Vice Chairman	Employee, Chairman of the Central Works Council of Gothaer Allgemeine Versicherung AG
Carl Graf von Hardenberg	Chairman of the Supervisory Board of Hardenberg-Wilthen AG
Srecko Jagarinec *)	Employee, as of 1 November 2019
Uta Kemmerich-Keil	CEO Procter & Gamble Health International
Dr. Judith Kerschbaumer *)	Trade Union Secretary of ver.di, Lawyer
Dr. Dirk Niedermeyer	Managing Director of NZD Grundbesitzverwaltung GmbH & Co. KG
Gesine Rades	Diplom-Kauffrau, Auditor/Tax Consultant Rades partnership
Georg Rokitzki *)	Employee, up to 31 October 2019
Thorsten Schlack *)	Employee, Chairman of the Central Works Council of Gothaer Krankenversicherung AG
Edgar Schoenen *)	Employee
Ulrich Heinz Wollschläger	Lawyer
Markus Wulfert *)	Employee, Head of Liability Claims Department

*) Elected by employees

Management

Dr. Christopher Lohmann
Chairman

Oliver Brüß

Dr. Mathias Bühring-Uhle

Dr. Karsten Eichmann
Director of Industrial Relations

Harald Epple

Pursuant to section 285 no.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

Christina Begale	Consultant
Wilm-Hendric Cronenberg	Managing Partner of Julius Cronenberg o.H.
Werner Dacol	Real Estate Valuer
Dr. Jörg Friedmann	Lawyer, Law firm Dr. Friedmann & Partner mbB
Dr. Vera Nicola Geisel	Head of Executive Board Affairs & Executives Contracts, Corporate Function People Development & Executives Management of ThyssenKrupp AG
Birgit Heinzel	Master craftswoman in ophthalmic optics and auditory acoustics, Managing Director of HEINZEL Sehen + Hören
Knut Kreuch	Lord Mayor of the City of Gotha
Uwe von Padberg	Diplom-Kaufmann, Managing Director of Creditreform Cologne v. Padberg KG
Peter Riegelein	Diplom-Kaufmann, Managing Partner of Hans Riegelein + Sohn GmbH & Co. KG
Prof. Dr. Torsten Rohlfs	TH Köln/University of Applied Sciences, Institute of Insurance Studies (ivw Cologne)
Jürgen Scheel	Chairman of the Management of Kieler Rückversicherungsverein a. G., (Retd.)
Dr. h.c. Fritz Schramma	Former Lord Mayor of the City of Cologne
Astrid Schulte	Member of the Management of Heraeus Bildungsstiftung, as of 5 July 2019
Birgit Schwarze	President of DSSV e.V. Arbeitgeberverband deutscher Fitness- und Gesundheits-Anlagen

Management Report

Developments in the property and casualty insurance sector

Trends in 2019

Motor insurance – the largest property and casualty insurance class, generating around 39 % and € 28.5 billion of total premium revenues – significantly lost momentum in the financial year 2019. Against an ongoing backdrop of intense price competition, the average motor liability premium stagnated and the average premium in collision & comprehensive insurance is expected to rise by 0.5 %. The average partial own damage premium also shows signs of falling by another 2.0 %. Owing to the anticipated portfolio growth, premium revenues from motor insurance as a whole are expected to rise by 2.0 %. Claims expenses are forecast to rise more sharply than premium income, climbing by 4.5 %. In view of the significant increase in the number of natural hazard claims reported, a slightly above-average burden of claims needs to be anticipated in 2019. As a result, motor insurance business should again produce an underwriting profit. The projected combined ratio will be around 98 %.

Premium income from **property insurance** is expected to grow by 5.6 % to € 21.5 billion, boosted by both private and non-private client business. The upturn in the private property segment is particularly due to an increase in insured sums and, in some cases, extensions of cover. Despite a number of storm events – especially in the first half of 2019 – claims expenses in comprehensive homeowners and householders insurance are expected to fall by 4.0 %. The downturn in claims expenses is due partly to a below-average incidence of severe precipitation events in 2019. Comprehensive homeowners business is thus likely to produce an underwriting profit and a combined ratio of 96 %. In non-private property insurance in the industrial, commercial and agricultural sectors, a significant 11.0 % drop in claims expenses is anticipated due to an absence of major fire losses. As a consequence, this property insurance segment is also expected to produce a vigorous underwriting profit. Overall, the combined ratio for property insurance business is forecast to be 91 %.

For **property and casualty insurance as a whole**, the German Insurance Association (GDV) expects premium revenues to continue to grow with undiminished dynamism in 2019, rising by 3.2 % to € 72.9 billion. The number of policies in force should increase by 1.0 %. Regardless of the general economic slowdown and a somewhat less dynamic labour market, property and casualty insurance continues to profit from the favourable economic situation of private households. Claims expenses for the financial year, up by 1.7 %, show a less sharp rise than in the prior year. This is the net result of significantly higher claims expenses in the motor classes and lower expenses in property insurance, especially due to the absence of major fire losses. With an anticipated gross combined ratio of 93 %, the underwriting profit from property and casualty insurance business should be significantly higher than in the prior year at around € 4.7 billion.

Outlook 2020

Developments in property and casualty insurance business will continue to be buoyed in 2020 by the favourable economic situation of private households, although premium growth is expected to be weaker than in the prior year at 2.5 %. While growth rates are forecast to slacken in non-private and private client property insurance, a moderate upturn is anticipated in motor premium revenues. Growth is increasingly expected to be driven by a desire to guard against new or increased risks such as cybercrime or natural hazards. Short-term growth inhibitors will be the restructuring undertaken to make the economy more sustainable. However, that will also help create growth opportunities for the future.

Business developments in 2019

Gothaer Allgemeine Versicherung AG can look back on a very successful year. The Company is on a growth path and reports an outstanding net profit for the year.

While total gross premiums written increased by 2.4 %, premium income from direct written business grew by 4.7 %. The slower growth overall was due to a one-off effect in connection with our former Polish sister company: with the sale of our shareholding in the company we terminated our reinsurance relationship with Wiener TU S. A. (formerly Gothaer Towarzystwo Ubezpieczeń S.A.).

The highly gratifying growth of direct written business fortifies us for the road ahead. We have set ourselves the goal of becoming one of the top ten German property and casualty insurers (in terms of revenues and profitability). In pursuit of that goal, we have fundamentally modernized our product range for the private client business segment. For instance, we introduced a policy for e-scooters and a premium discount for purely electric cars and offer clients the possibility to compensate for the carbon footprint of their vehicle. We incorporated an optional no-claims bonus system in our homeowners insurance and extended householders insurance to include new “internet protection” and “electronics protection” modules. We receive positive feedback from external product comparison services. Our householders insurance was named Product of the Month in September by the German insurance journal Versicherungsmagazin and in the motor segment, our “AutoMobil Topschutz” tariff received an “outstanding” FFF rating from analysts Franke und Bornberg. Similar upgrading has been undertaken for corporate client business, where this year, for example, we added a group accident component to our modular Gothaer GewerbeProtect product, improved our liability insurance for architects and civil engineers and integrated the cyber prevention product of Insurtech Perseus Technologies GmbH into our cyber insurance for commercial and industrial clients.

In 2019, the underwriting result side was less affected by natural and accumulation losses but was badly hit instead by major losses. Claims expenses for major fire losses in the financial year remained high. In addition, a loss event presenting an exceptionally heavy gross burden of € 35.2 million occurred in the all-risk insurance segment. This resulted in a 3.6 % increase in gross claims expenses, while the number of claims reported declined significantly by 6.5 %. The gross loss ratio remained unchanged at 66.1 %. The gross cost ratio fell to 28.9 %, partly as a result of our efforts in the Group project Efficiency Plus. The gross combined ratio was 95.1 %, so the gross underwriting account shows a slightly higher profit than in the previous year.

Both our reinsurance structure and the conditions on which our reinsurance treaties were concluded showed only moderate change against the prior year. The development of reinsurance premiums paid and reinsurance commissions received was thus in line with the development of the reinsured portfolios. The retention rate, at 85.8 %, was moderately lower in 2019. Major fire losses and loss events relating to all-risk insurance also impacted on the reinsurance result. The incidence of individual reinsured losses was consequently higher in the financial year and the reinsurance result significantly more favourable than in the prior year.

Overall, these developments produced a significantly increased underwriting result net of reinsurance before adjustment of equalization reserves in the financial year. After equalization reserves were adjusted, the underwriting account showed a profit of € 72.8 million net of reinsurance.

2019 was another challenging year for investment. The yield of German government bonds (Bunds) with a residual term of 10 years showed an unparalleled downturn and ended the year at – 0.2 %. Against this backdrop, our investment portfolios produced a virtually unchanged net return of 3.2 %. Investment thus continued to contribute to the success of the Company in the year under review.

After allowance for other income and expenses, income before taxes totalled € 138.5 million. After taxes, profit amounted to € 142.2 million, which was transferred as a tax allocation and as a profit transfer to our parent company, Gothaer Finanzholding AG, under the existing profit transfer agreement.

Premium income

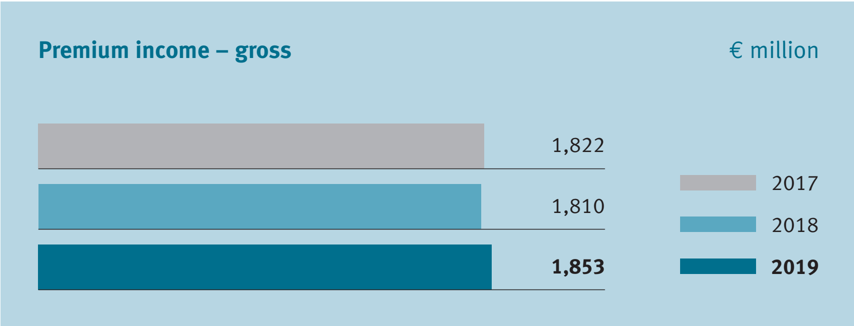
The gross premiums written by Gothaer Allgemeine Versicherung AG increased in the financial year, growing by € 42.9 million to € 1,853.0 million. Our growth strategy continues to be based on a profit-oriented underwriting policy and thus selective writing of new business.

Growth was driven by direct written business, where premium income rose by € 76.7 million – and thus more sharply than anticipated – to € 1,708.7 million. This figure includes direct premium income of € 19.3 million written by our branch operation in France (PY: € 17.4 million).

With the sale of our shareholding in our former sister company, we terminated our reinsurance relationship with Wiener TU S. A. (formerly Gothaer Towarzystwo Ubezpieczeń S.A.). Premium income from reinsurance business assumed thus decreased, as projected, by 19.0 % to € 144.3 million.

Premiums ceded to reinsurance providers totalled € 263.9 million (PY: € 244.6 million). This made for a retention rate of 85.8 % (PY: 86.5 %). As a result, net premium income amounted to € 1,589.1 million (PY: € 1,565.5 million). After deduction of unearned amounts, net earned premiums rose by € 44.4 million to € 1,608.7 million.

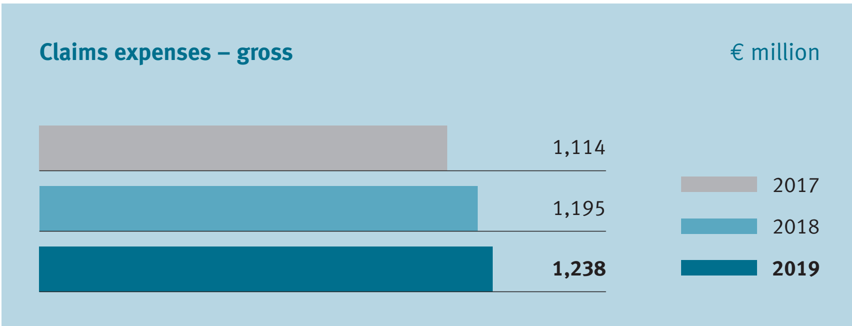
At the end of the year, the insurance portfolio comprised 6,341,626 direct policies with a residual term of at least one year (PY: 6,284,933).



Claims

Underwriting results were less affected by natural and accumulation losses in 2019 but were badly hit instead by major losses. Accordingly, the number of claims reported fell from 386,462 to 361,288. Contrary to expectations for the financial year, both the number of major claims reported and the volume of major claims expenses were above prior year levels. Included here was an exceptional major loss of around € 35.2 million in all-risk insurance. Overall, gross claims expenses in connection with direct written business rose by € 45.2 million to € 1,128.9 million. At 66.1 % (PY: 66.5 %), the gross claims ratio in direct written business remains above our targeted ratio. Gross claims expenses in connection with reinsurance business assumed were moderately lower, down from € 111.3 million to € 109.2 million.

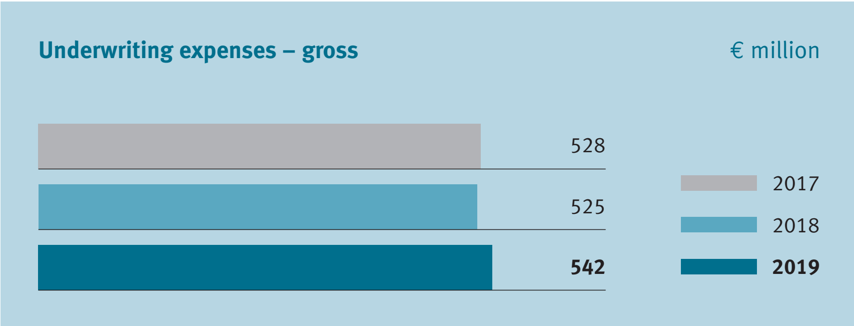
Increased major loss expenses were covered by our reinsurance structure. After allowance for reinsurance, total claims expenses net of reinsurance were actually lower than in the prior year at € 1,064.0 million (PY: € 1,071.4 million). The loss ratio net of reinsurance stood at 66.1 %, after 68.5 % in 2018. The loss reserve ratio net of reinsurance was 140.5 % (PY: 145.0 %). The ratio of gross underwriting reserves to gross premiums written – at 180.1 % (PY: 185.1 %) – remained at a constant high level.



Underwriting expenses

Gross underwriting expenses increased by € 17.1 million to € 541.9 million. Total underwriting expenses included € 274.1 million (PY: € 247.8 million) in acquisition costs and € 267.9 million (PY: € 277.0 million) in insurance policy management costs. The implementation of our efficiency programmes thus resulted in the desired cost-cutting effects. Contrary to expectations, the gross cost ratio improved only to 28.9 % (PY: 29.0 %). However, this was entirely due to higher acquisition expenses incurred because of gratifying production.

Underwriting expenses net of reinsurance totalled € 473.1 million (PY: € 461.9 million). In line with the development of the reinsured portfolio, reinsurance commissions were higher than in the prior year, up by € 5.9 million at € 68.8 million. As a result, the cost ratio net of reinsurance improved by 0.1 percentage points to 29.4 %.



Underwriting result

The underwriting result is essentially shaped by the relief afforded by reinsurance. Before adjustment of equalization reserves, the underwriting account showed a profit of € 58.3 million in the year under review, which follows a prior-year profit of € 20.2 million. On balance, the sum of € 14.5 million needed to be withdrawn from equalization reserves, as against € 18.3 million in the prior year. After this withdrawal, the underwriting result net of reinsurance stood at € 72.8 million (PY: € 38.5 million).

Investments

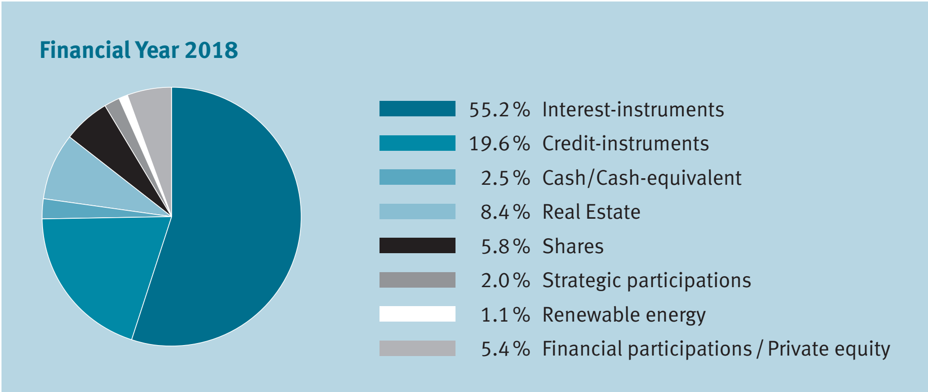
Gothaer Allgemeine Versicherung AG pursues an investment strategy that is primarily geared to generating a robust, sustained net return in a competitive environment while taking account of regulatory requirements that need to be met by investment earnings, liquidity, security and quality as well as Solvency II requirements. This is ensured by the systematic use of risk-adjusted and risk-balanced performance management aimed at optimizing the return/risk ratio of the investment portfolio. The Company's current investment strategy and the resulting asset allocation should therefore be seen as the result of a continuous and comprehensive asset liability management process that also, and particularly, takes account of underwriting requirements. In 2019, Gothaer Allgemeine Versicherung AG remained systematically committed to a long standing investment policy that is largely geared to stable current income. The two priorities of this strategy are to generate attractive returns even in the current market environment of sustained low interest rates and to ensure that risks are reduced overall by being spread as broadly as possible over the different types of investment. For the first time, investment decisions took greater account of environmental, social and governance criteria – so-called sustainability criteria – in 2019. Against this backdrop, investment positions that failed to meet the developed sustainability criteria started to be reduced.

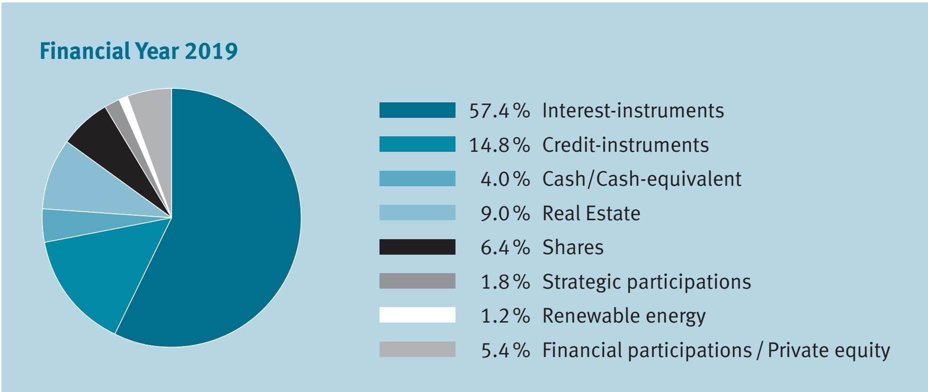
The cooling of the global economy that commenced in 2017 continued through the period under review at an accelerated pace. The economic slowdown was particularly pronounced in the Western industrialized countries, especially in export-oriented sectors. Domestic economic activity, however, was effectively supported by the low interest rate environment created by the central banks and thus stabilized the economy as a whole. Developments in the capital markets were marked by accelerated asset inflation. The record levels reached by bond and stock markets in the course of the year clearly reflected the asset price distortion caused by extremely expansive monetary policy. From the beginning of the year, German government bonds followed an accelerating downward yield trend that took the ten-year Bund yield to a new all-time low of –0.7 % in August. Remarkably, the onset of a trend reversal towards higher capital market yields was seen ahead of the ECB Interest Rate Decision in September. Despite the resumption of ECB bond-buying in November, that turnaround continued and took the ten-year Bund yield back to –0.2 % by the end of the year. With geopolitics driving markets, the development of the yield of US government bonds was largely in synch with that of German government bonds in the period under review. The yield on 10-year US government bonds fell from 2.7 % at the beginning of the year to 1.5 % in August, then rose to 1.9 % by the end of the year. After a weak year for stocks in 2018, culminating in an extreme fourth-quarter slump, equity investors in 2019 experienced one of the strongest years since the turn of the millennium. Over the 2019 calendar year, the performance of the S&P500 Total Return Index in USD reached +32.6 % – the best result since 2013. The performance of European equities over the year, at +28.8 % (EuroStoxx50 Total Return Index), was hardly less bullish. Japanese equities rose by +18.1 % (Topix Total Return Index in JPY) – slightly less than emerging market equities, which recorded a firmer performance of 18.8 % in the MSCI Emerging Markets Total Return Index in USD.

The book value of the Gothaer Allgemeine Versicherung AG investment portfolio increased by around € 37.6 million to € 3,608.2 million in the year under review (PY: € 3,570.6 million). Largely as a result of interest rate movements, the value of net valuation reserves at overall portfolio level rose to € 249,2 million (PY: € 132,1 million). This development was essentially driven by reserves for interest rate instruments totalling € 96.7 million (PY: € 62.8 million).

Composition of investments

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





Selective optimization of returns and risk continued to be a major focus of investment activity last year, so asset allocation remained largely unchanged. Within the interest rate instrument asset class, greater emphasis was placed on investing in alternative fixed-income investments such as Dutch mortgage loans. Disposals in the credit instrument asset class resulted in a significantly lower credit ratio. These developments will continue in the coming year. Some of the capital thus released was reinvested in attractive real estate opportunities in 2019. More capital called from existing commitments is expected to be invested in this asset class in 2020. Because of the indirect real estate strategy pursued, investment in property (real estate asset class) within the investment structure is not reported under the balance sheet item “Land, land rights and buildings, including buildings on third-party land”. Duration increased over the course of the year from 5.3 to 5.4.

In addition to current income, extraordinary income also made a contribution to the overall result. At € 38.5 million (PY: € 3.8 million), extraordinary income was significantly higher than in the prior year. Insignificant write-downs in the areas of real estate, strategic shareholdings and private equity were offset by significantly higher profits, in particular from the reclassification of a subordinated loan within the Group and from write-ups on special bond funds.

Over the year as a whole, investment income totalled € 114.8 million (PY: € 118.2 million). This made for a net return of 3.2 % (PY: 3.3 %).

Net income for the year

Income before taxes totalled € 138.5 million after € 116.1 million in the prior year, benefiting particularly from an improved underwriting result net of reinsurance. A sum of € 102.4 million (PY: € 73.0 million) was transferred for the financial year under the profit transfer agreement with Gothaer Finanzholding AG, with the result that net income for the year was at the break-even point.

Shareholders' equity

At € 359.4 million, shareholders' equity in the Company was unchanged at the end of 2019. The equity ratio – defined here as the ratio of equity to premiums earned net of reinsurance – thus reached 22.3 % (PY: 23.0 %). Together with subordinate liabilities of € 250.0 million, the guarantee assets of the Company totalled € 609.4 million at balance-sheet date.

Comments on the individual lines of direct written business

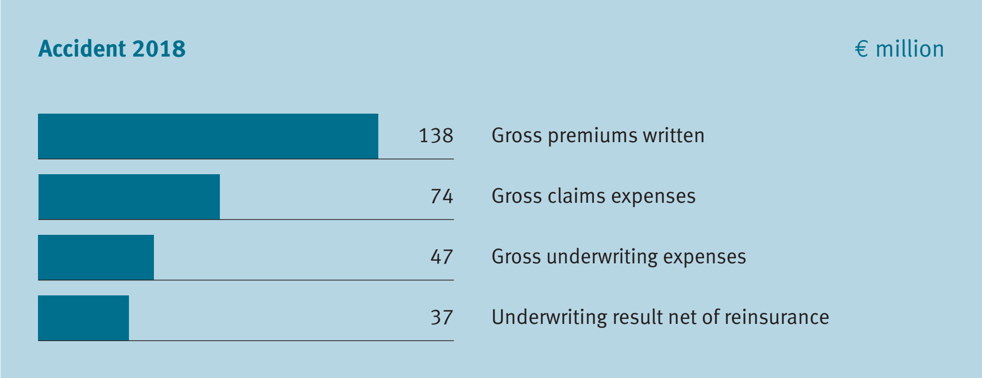
Accident

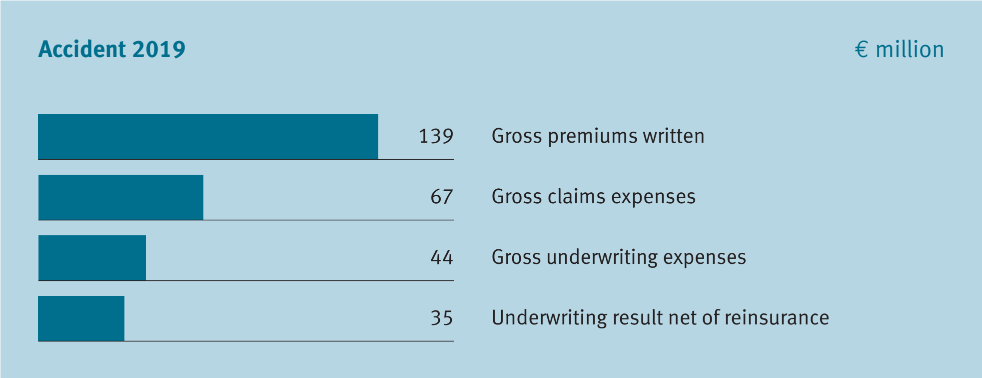
Despite a recessive insurance portfolio, gross premiums written in accident insurance increased moderately to € 138.6 million (PY: € 138.1).

Accident insurance with premium return – a combination of insurance protection and savings similar to endowment insurance – is no longer actively pursued. Gross premium income from this insurance line totalled € 2.3 million (PY: € 2.5 million). At year-end, aggregate policy reserves for the savings component of policyholders' premiums totalled € 38.0 million (PY: € 40.9 million).

Gross claims expenses for all accident insurance decreased by € 6.9 million to € 67.4 million in the financial year, making for a gross loss ratio of 48.7 % after 53.8 % in the prior year. Gross underwriting expenses fell to € 43.7 million (PY: € 47.4 million), largely due to lower commission rates.

After the one-off effect requiring a € 16.1 million withdrawal from equalization reserves in the prior year, a sum of € 3.2 million needed to be withdrawn in the year under review. After adjustment of equalization reserves, the underwriting result net of reinsurance was thus a profit of € 34.5 million (PY: € 37.4 million).



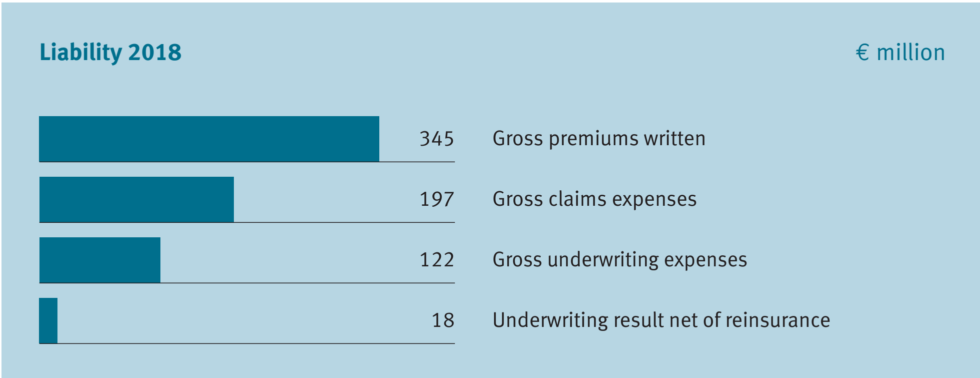


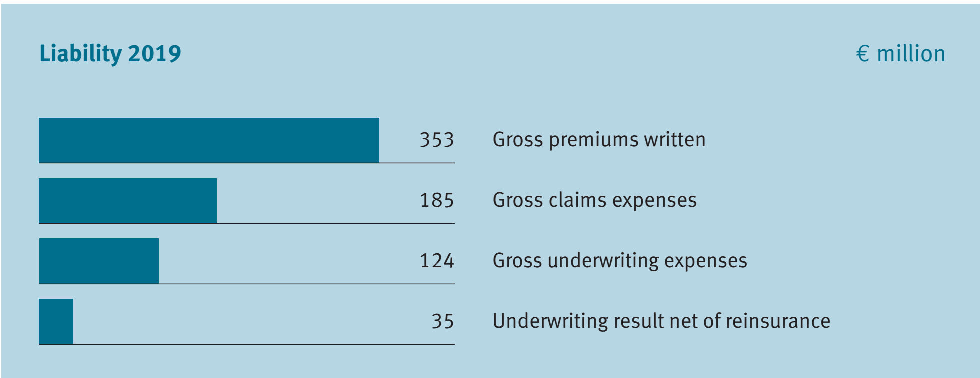
Liability

After the prior-year downturn in premium income due to restructuring, premium revenues from general liability insurance returned to growth. Gross premiums written in the financial year increased by € 8.5 million to € 353.5 million.

Gross claims expenses, at € 185.3 million, were down on the prior year's good level (PY: € 196.8 million). As a result of the higher premium income, the gross loss ratio improved again from 56.9 % to 52.0 %. Gross underwriting expenses rose by € 2.8 million to € 124.5 million in line with the volume of business.

After allowance for reinsurance and adjustment of equalization reserves, this line of insurance produced an underwriting profit net of reinsurance of € 35.2 million (PY: € 18.3 million).



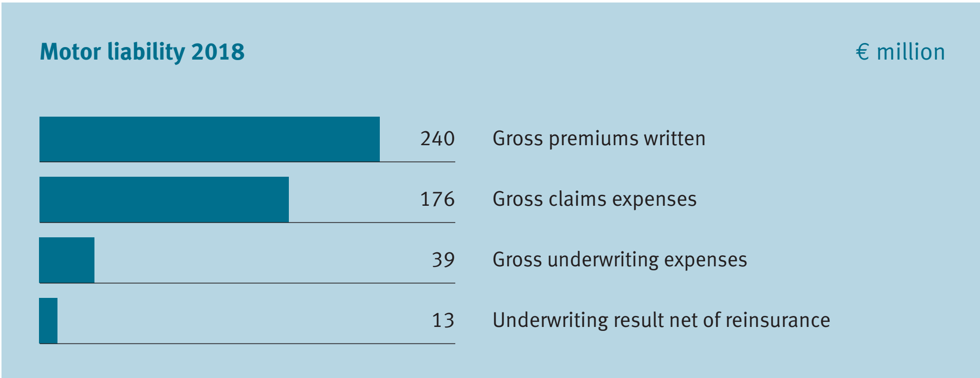


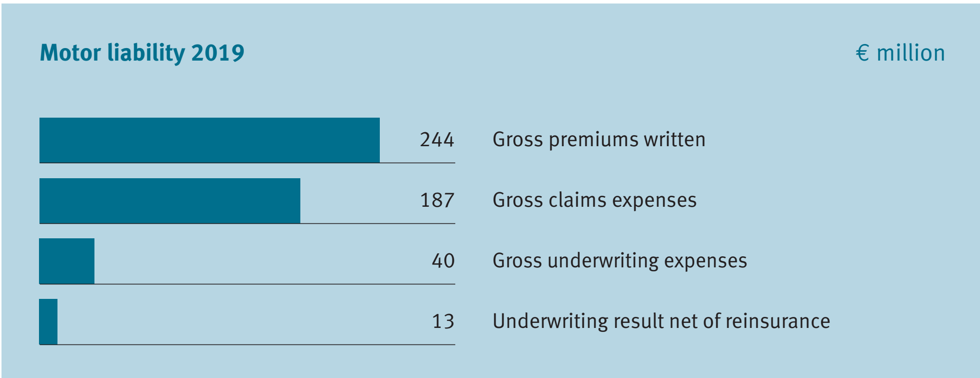
Motor liability

In motor insurance, we couple systematic portfolio management with a restrictive underwriting policy in order to ensure a reasonable risk structure. Against this backdrop, gross premiums written grew by € 4.6 million to € 244.2 million despite a recessive number of policies in force.

At the same time, gross claims expenses in the financial year rose by 6.0 % to € 186.8 million. This made for a loss ratio of 76.5 %, after 73.5 % in the prior year. Gross underwriting expenses totalled € 40.4 million (PY: € 39.4 million).

After reinsurance and a transfer to equalization reserves, the underwriting account showed a profit net of reinsurance of € 12.6 million, which was virtually on a par with the prior-year figure (PY: € 13.1 million).





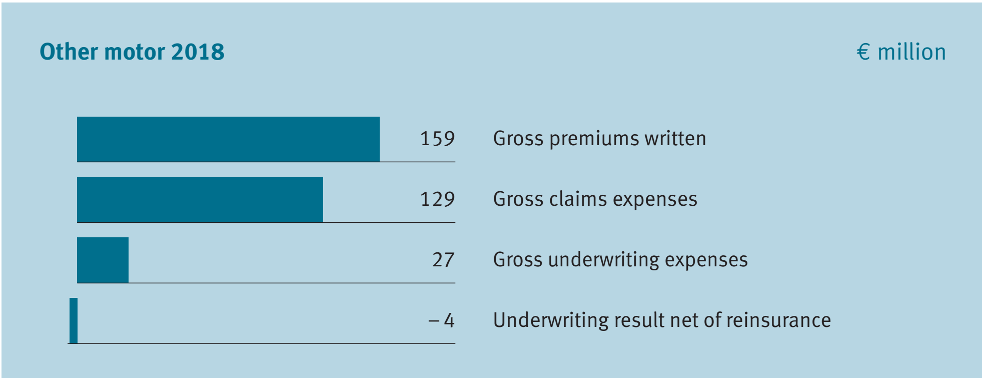
Other motor

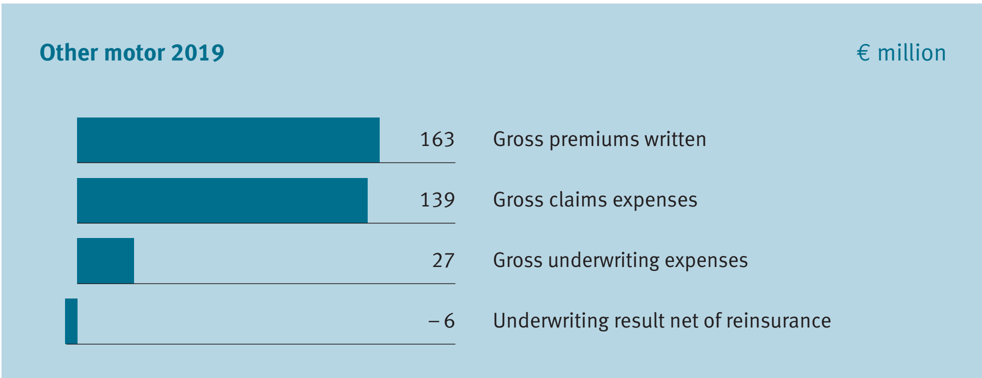
Performance in the other lines of motor insurance – which include collision & comprehensive and partial own damage insurance – is essentially dependent upon the same factors that shape motor liability business.

The other motor insurance lines also saw a fall in the number of policies in force – a downturn of 1.0 %. However, the volume of gross premiums written grew by 2.6 % to €162.7 million. Collision & comprehensive policies accounted for €144.0 million of this figure (PY: €139.6 million); partial own damage premiums written totalled €18.6 million (PY: €18.9 million).

As in motor liability insurance, gross claims expenses increased in the financial year to €139.1 million (PY: €129.5 million). The gross loss ratio stood at 85.5 %, up from 81.7 % in the prior year. Gross underwriting expenses totalled €27.2 million (PY: €26.6 million).

A sum of €2.0 million was withdrawn from equalization reserves (PY: €1.8 million allocation). Net of reinsurance, the underwriting account for other motor insurance continued to show a loss, which stood at €–5.6 million after €–3.9 million in the prior year.





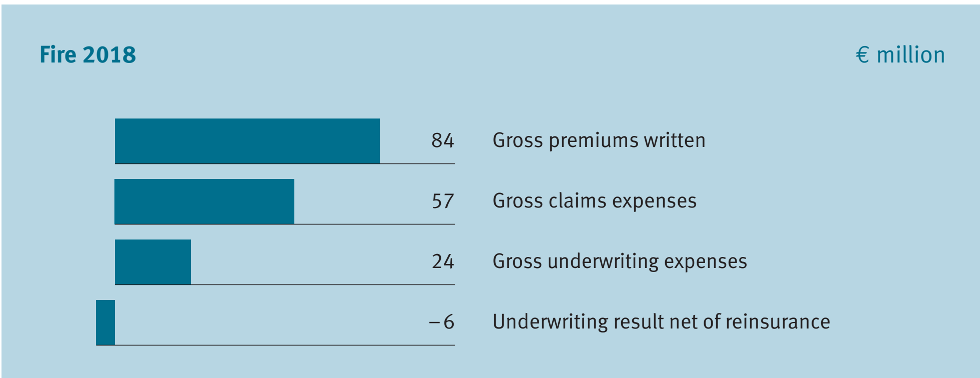
Fire

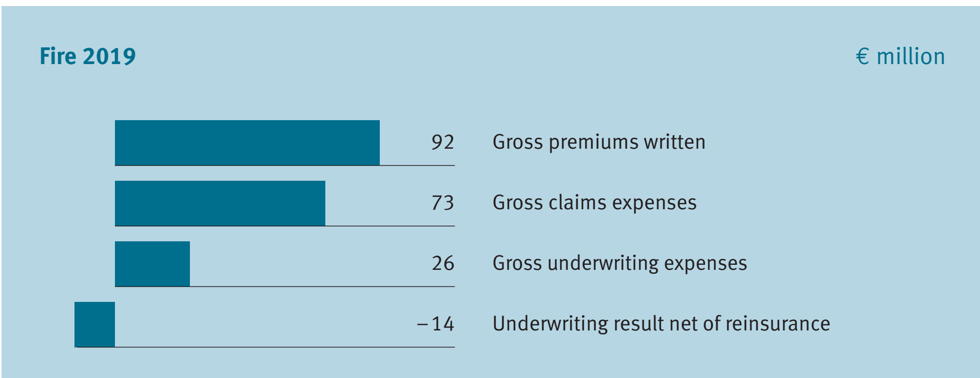
Gross premiums written in fire insurance increased by 9.3 % to € 91.6 million. Within fire insurance, we make a further distinction between industrial and other fire insurance. The lion's share of premium income in the fire class – and virtually the whole of the upturn in premium volume – was generated by industrial fire insurance, which contributed premiums of € 62.5 million in the financial year (PY: € 54.8 million). Due to hardening of the market, we were able to implement premium adjustments here for loss-making policies.

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 € 29.1 million, which was virtually on a par with the prior year.

Gross claims expenses increased significantly in the financial year, rising by € 16.0 million to € 72.9 million. As a result, the gross loss ratio in this very volatile, claims-prone class moved to 79.5 % (PY: 68.3 %). Gross underwriting expenses climbed by 9.3 % to a total of € 26.3 million.

After allowance for reinsurers' shares and the change in equalization reserves, the underwriting loss in fire business stood at € – 14.4 million (PY: € – 6.2 million).



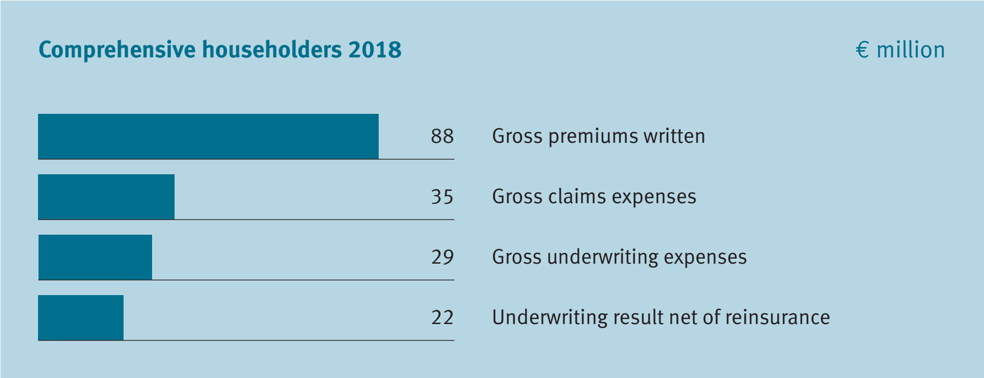


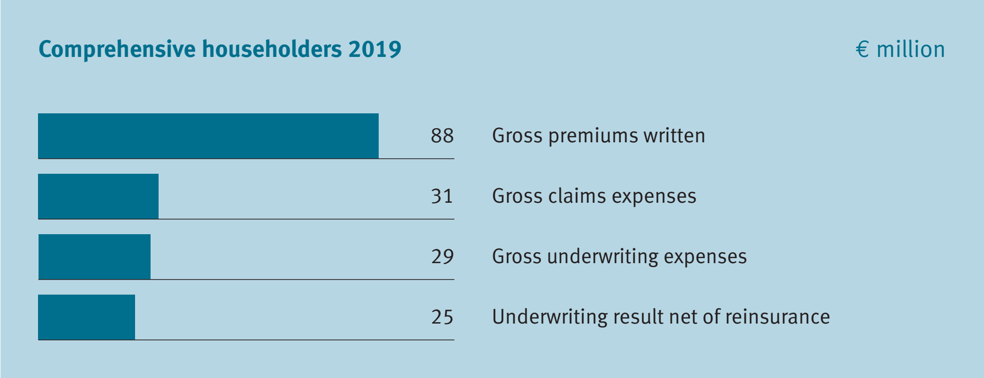
Comprehensive householders

Gross premiums written in comprehensive householders insurance were moderately lower than in the prior year at € 87.6 million (PY: € 88.3 million).

The burden of natural and accumulation losses was lighter in 2019 than in the prior year. As a result, both the number of reported claims and gross claims expenses fell sharply in the financial year – the former by 10.3 % to 27,882, the latter by 9.3 % to € 31.4 million. The gross loss ratio, at 35.6 % (PY: 39.3 %) remained at a very good level. Gross underwriting expenses totalled € 29.5 million (PY: € 29.1 million).

Net of reinsurance, the underwriting account for comprehensive householders insurance showed a profit of € 24.6 million in the financial year (PY: € 21.6 million).





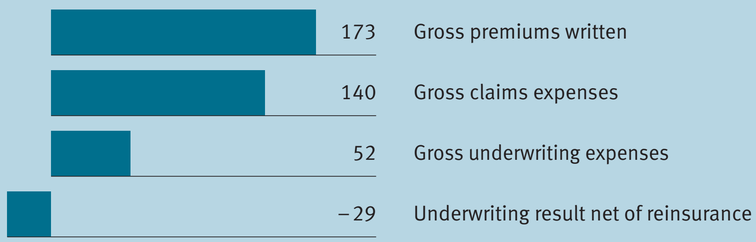
Comprehensive homeowners

As in the prior year, a significant increase was noted in the volume of gross premiums written in comprehensive homeowners insurance. The figure rose by € 17.0 million to € 189.9 million.

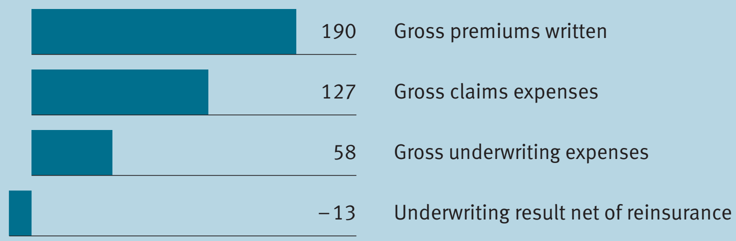
The decrease in natural and accumulation losses also had a marked impact on performance in comprehensive homeowners insurance. The number of reported claims fell from 63,799 to 51,985. As a result, gross claims expenses were € 12.6 million lower at € 126.9 million. This made for a gross loss ratio of 67.8 % (PY: 81.8 %). Gross underwriting expenses rose by € 5.8 million to € 58.1 million.

After allowance for reinsurance and a transfer to equalization reserves, comprehensive homeowners business thus again produced an underwriting loss in 2019, amounting to € – 13.5 million (PY: € – 28.8 million).

Comprehensive homeowners 2018 € million



Comprehensive homeowners 2019 € million



Other property

Other property insurance includes a large group of diverse lines of insurance. Lines that are significant in terms of premium include business interruption, burglary, water damage, glass, storm and extended coverage as well as engineering insurance. Premium income from other property insurance increased by 9.2 % to € 261.5 million.

Gross claims expenses rose by € 2.9 million to € 175.5 million in the financial year. Owing to the significantly sharper growth of premiums, the gross loss ratio for the year moved to 67.5 %, from 72.4 % in the prior year. Gross underwriting expenses increased by 8.9 % to € 90.9 million.

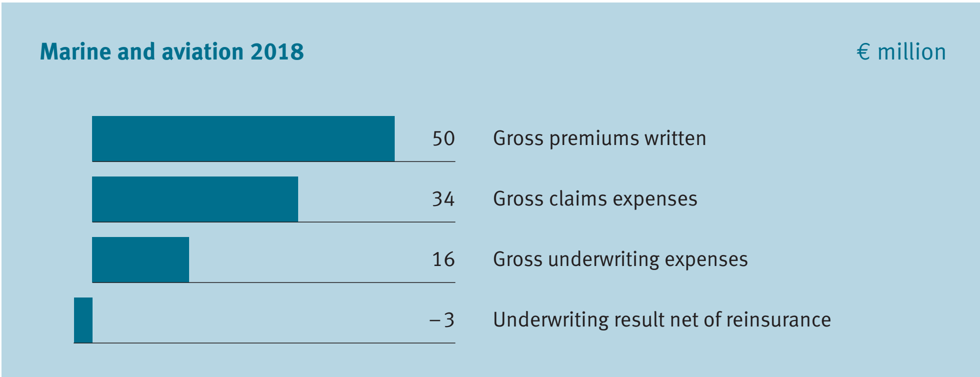
After deduction of reinsurers' shares and transfers to equalization reserves, the underwriting account for the lines of insurance in this group showed a loss of € – 8.4 million (PY: € – 19.3 million).

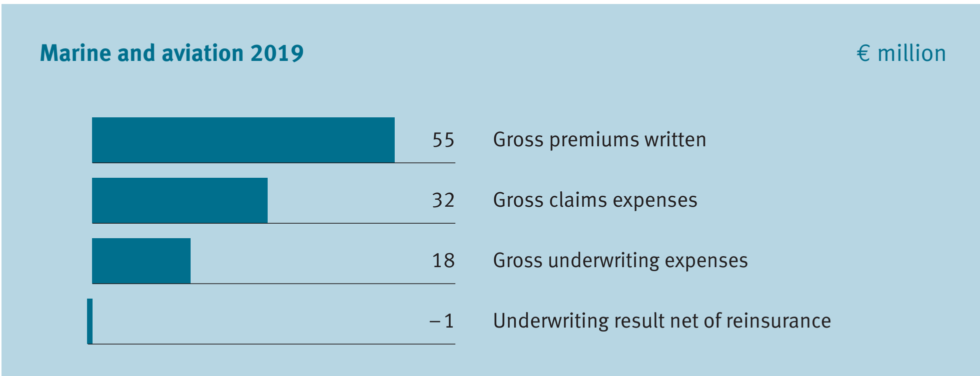
Marine and aviation

Gross premium income from marine insurance business rose by € 4.9 million to € 54.8 million in the financial year.

The number of reported claims decreased to 4,645 in the financial year (PY: 5,013). Accordingly, gross claims expenses fell by 4.8 % to € 32.0 million. This made for a gross loss ratio of 58.6 % after 67.6 % in the prior year. Gross underwriting expenses rose to € 18.2 million (PY: € 15.7 million).

After allowance for reinsurance and a transfer to equalization reserves, marine and aviation business produced an underwriting loss of € – 1.2 million (PY: € – 3.4 million).





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. The total volume of gross premiums written in this group of insurance lines increased by € 8.0 million to € 124.2 million. The upturn resulted essentially from all risks business.

Claims experience was also essentially shaped by all risks business. Gross claims expenses for the entire group of other insurance lines rose by € 42.1 million to € 111.6 million. This includes € 35.2 million in connection with an exceptional major all-risks loss. Underwriting expenses increased by € 1.1 million to € 35.0 million.

After allowance for reinsurance and an allocation to equalization reserves, business in other insurance lines produced an underwriting loss of € –14.9 million after a profit of € 2.7 million in the prior year.

Foreign business

Gross premiums from direct foreign business totalled € 52.2 million (PY: € 43.1 million) in the year under review, € 19.3 million of which (PY: € 17.4 million) was generated by our branch operation in France. Our local presence in France is a major prerequisite for the development of renewable energy business.

The remaining € 32.9 million of premium income (PY: € 25.6 million) related to insurance cover provided for risks abroad under policies issued in Germany.

Comments on reinsurance business assumed

With the sale of our shareholding in our former sister company, we terminated our reinsurance relationship with Wiener TU S. A. (formerly Gothaer Towarzystwo Ubezpieczeń S.A.). Gross premium income from reinsurance business assumed thus totalled only € 144.3 million (PY: € 178.2 million), as anticipated. Claims expenses improved by € 2.1 million to € 109.2 million; underwriting expenses fell to € 48.2 million (PY: € 51.4 million).

A sum of € 16.6 million needed to be withdrawn from equalization reserves in the financial year (PY: € 4.3 million allocation). Owing to the long-term stability of the loss ratio, the requirements to form equalization reserves no longer apply in the area of engineering insurance. The release of those equalization reserves will be spread evenly over five years. After deduction of reinsurers' shares, underwriting profit net of reinsurance thus totalled € 23.8 million (PY: € 7.2 million).

Insurance lines and coverages

- **Health insurance** [2)]

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

- **Liability insurance**
  Personal, employers' and professional malpractice, environmental, property damage, carriers liability, radiation and nuclear plant, fire, marine, inland and river shipping [1)], other liability insurance

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

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

- **Aviation insurance**
  Aviation hull, spacecraft hull [1)], other aviation insurance [1)]

- **Comprehensive householders insurance**

- **Comprehensive homeowners insurance**

- **Marine insurance**
  Hull, goods in transit, valuables (commercial) [1)], war risk [1)], other marine insurance [1)]

- **Credit and surety insurance**
  Delcredere insurance [1)]

- **Motorist assistance insurance**
  Motor travel service [1)]

- **Aviation and spacecraft liability insurance**

- **Other property insurance**
  Burglary and robbery, water damage, glass, storm, engineering insurance (machinery, electronic, erection all risks, contractor's all risks [1)] and other engineering insurance), stock in transit [1)], insurance of extended coverage for fire and fire business interruption insurance (EC), business interruption insurance (fire business interruption, engineering and other business interruption insurance)

• **Other non-life insurance**
Other property damage insurance, other financial loss, other combined insurance, fidelity insurance [1]

[1] only direct written insurance business
[2] only reinsurance business assumed

Membership in associations and similar organizations

The Company is a member of the following associations:

• Gesamtverband der Deutschen Versicherungswirtschaft e. V., Berlin
• Arbeitgeberverband der Versicherungsunternehmen, Munich
• Wiesbadener Vereinigung, Cologne
• Der Versicherungsombudsmann e. V., Berlin
• Verein Hanseatischer Transportversicherer e. V., Hamburg and Bremen
• Verkehrsopferhilfe e. V., Hamburg

We also belong to the following European associations:

• Fédération Française de l’Assurance (FFA), Paris
• France Énergie Éolienne, Paris
• L’Office franco-allemand pour la transition énergétique (OFATE)
• Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE), Brussels
• Verband der Versicherungsunternehmen Österreichs VVO, Vienna

Employees

Qualified, motivated employees are crucially important for the Company. Their skills, their dedication and their outstanding commitment are the basis for our success. In view of digitalization and the challenges of the market, capacity for change is increasingly important, both for the organization as a whole and for each individual employee.

Mobile and flexible working, the promotion of innovativeness and transformational leadership are hugely important for the organization’s capacity for change. We meet the challenges of mobile and flexible working through home office solutions, modern office concepts and innovative processes and techniques. With regard to the capacity for innovation and change required from employees, we invest special efforts in upgrading leadership and change management skills. Cross-departmental networking, embedding agile methods in project management and piloting agile organizational models are also key topics.

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

Both internal and external employer attractiveness is crucial for the retention and recruitment of employees. The establishment of a consistent employer brand and competitive employment benefits are thus an important focus of HR management. Regular rating via the Group Dialogue and external audits provide important impulses for the further development of our HR services and offerings.

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

Gender diversity

Under the "Law for Equal Participation of Women and Men in Leadership Positions within the Private and Public Sector", Gothaer Allgemeine Versicherung AG is required to set recurrent gender quotas for the Supervisory Board, the Management Board and for one to two tiers of management below the Management Board.

In 2017, the Supervisory Board approved a 33.3 % quota target for female membership of the Supervisory Board by 30 June 2020. The mandates reserved for women will be divided equally between the employee and employer sides. The target for the Management Board was set at 0 % because of the present composition of the Board.

A target of 10.0 % was approved for the first and second tier of management below the Management Board.

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

The above statements simultaneously constitute the declarations required for compliance with section 289f paragraph 4 of the German Commercial Code (HGB).

Brand

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

Code of conduct for sales and distribution

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

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

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

Non-financial Declaration

We claim exemption on grounds of group membership under Section 289b (2) of the German Commercial Code (HGB). The Non-financial Declaration is contained in the consolidated financial statements of Gothaer Versicherungsbank VVaG Cologne, in which the Company is included. The consolidated financial statements are published on the Gothaer website (www.gothaer.de) as well as in the Federal Gazette.

Outlook for 2020

Proviso

The forecasts and estimates contained in this annual report are based on information available before the onset of the Corona crisis. The impacts that Covid-19 will have on future business cannot be accurately assessed at present. Please refer to our comments under “Events of special significance” in the notes to the financial statements.

Apart from the possible impacts of the Corona virus, especially on economic developments and capital market performance, the accuracy of projections may be affected by unanticipated major and accumulation losses, changes in the legal or tax environment and changes in the competitive situation of the Company.

Premium income

Our corporate strategy in the coming year will continue to focus on stable and substantial sales performance.

Our direct written business is projected to grow moderately faster than the market average in 2020. In the private client segment, further vigorous growth will come from comprehensive homeowners insurance, while in the corporate client segment the main drivers will be industrial property, liability and motor insurance.

In private property, liability and accident insurance, the current intense competition on prices and conditions is expected to continue. Against this backdrop, we will take a range of measures to strengthen our growth target. The goal of establishing the Company as a solution-based provider of demand-driven and digitalized retail products is explicitly embedded in our strategy. We will continue to push ahead with the use of strategic cooperations as well as digital-focus platforms such as Hepster, Emil, Getaway and Optiopay.

On the corporate client side, after the successful launch of our new modular multi-line commercial product Gothaer GewerbeProtect, 2019 revealed significant new business opportunities across all distribution channels. Against this backdrop, we expect to see marked growth impulses for this new product in 2020. In the future, a special focus will be on creating digital interfaces based on the market-wide standards of the industry institute for process optimization (Brancheninstitut für Prozessoptimierung – BiPRO) to establish seamless connections with brokers and platforms.

For reinsurance business assumed, the coming year is expected to produce moderate premium growth.

Claims

On the claims side, projections are based on the assumption that the burden of major and natural hazard claims will return to its normal higher level. The generally growing risk presented by natural disasters is hedged by appropriate reinsurance programmes. On the basis of our portfolio structure, we anticipate a gross loss ratio in 2020 that is significantly lower than in 2019.

Underwriting expenses

The sustained implementation of efficiency programmes as well as quality improvements in processes will have significant positive impacts on our cost ratio in the coming year.

Underwriting result

Owing to the level of claims forecast, the gross underwriting result will be distinctly more positive than in the prior year. After 2019, the gross combined ratio should again be below the 95 % mark.

Investments

Because of the continuing low level of interest rates forecast and the challenges connected with it, we anticipate an appreciable downturn in investment income and net return in the coming year.

Income before taxes

In view of the projected positive development of underwriting income, we again anticipate distinctly positive net earnings in the coming year despite falling investment income.

Opportunities and risks of future developments

Risk-oriented management concept

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

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

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

Risk management organization

Risk management at Gothaer Allgemeine Versicherung AG is part of the risk management system of the Gothaer Group. It is regarded as a process consisting of five phases:

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

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

To facilitate the Company-wide identification of risks in risk inventories, risk officers have been designated at the operative units to define duties, responsibilities, deputization arrangements and authority for dealing with risks while ensuring separation of functions. They also assess risks in terms of foreseeable damage and probability of occurrence. The risk management function (second line of defence) is performed by the central risk controlling unit at Gothaer Finanzholding AG, which is supported in its work by the actuarial department of Gothaer Allgemeine Versicherung AG and the Middle/Back Office of Gothaer Asset Management AG.

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

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

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, observing the risk category limits defined in the limit system and further developing uniform cross-Group risk assessment and management methods and processes.

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

Opportunities and risks for the Company

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

We see opportunities for the Company in new emerging fields such as cyber insurance as well as in existing sectors. Increasingly frequent extreme weather events are also expected to continue to push up demand for insurance from both corporate and private clients.

The initiatives emerging from the "Expedition GA 2022" project are being implemented as planned. Successful Lean Six Sigma measures should lead to efficiency gains in the future. In addition, the increasing use of robotics solutions will facilitate the rapid processing of standardized, repetitive transactions.

Underwriting risks

Assumption of risk lies at the core of our business activities.

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

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

Our tariffs are calculated on the basis of actuarial models. Provisions are established on the basis of HGB standards Both loss reserves and reserve run-off are reviewed on a yearly basis. We are thus able to guarantee the long-term fulfilment of our obligations. To even out fluctuations, we form equalization reserves calculated on the basis of the statutory requirements stipulated for insurers.

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

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

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

Reinsurance

The natural hazards reinsurance market continues to be very liquid in regions such as Europe, which are less globally exposed and affected by lower natural hazard losses. After the most damaging two-year period ever – from 2017 to 2018 – this fact kept the upward pressure on prices confined mainly to those parts of the world that are affected by large and very large losses, such as North America and Japan. The renewal of reinsurance treaties on 1 January 2019 was thus unproblematic, despite the impact of Cyclone Friederike (Storm David) in January 2018 in Germany. Owing to the ongoing high supply of reinsurance capacity, all reinsurance treaties were placed on terms that were regarded as satisfactory by Gothaer.

The structure of reinsurance cover remained largely stable in comparison to the prior year. The excess of loss programme covering natural hazard losses was extended, in line with standard practice, to take account of the increased exposure due to portfolio growth during the course of the year. In addition, the threshold for our motor liability cover was moderately raised to take account of market conditions.

The results of Gothaer reinsurance cessions for reinsurers were largely unaffected by natural hazard losses. However, since claims expenses connected with major losses increased – particularly in industrial fire insurance but also in engineering insurance – the net account benefited from a volume of reinsurance relief above the historical average.

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

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

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

Claims

The following chart shows a ten-year summary of the changes in 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
2010	68.5	13.1
2011	66.5	12.6
2012	66.8	12.5
2013	70.0	11.3
2014	67.0	10.8
2015	69.1	10.4
2016	67.4	9.7
2017	62.9	12.3
2018	69.5	11.6
2019	64.7	11.2

Risks arising from reinsurance assumed

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

Risks arising from fronting agreements

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

Loss of receivables risk

Accounts receivable from policyholders and insurance agents in connection with direct written insurance business totalled € 87.0 million for Gothaer Allgemeine Versicherung AG at balance sheet date. € 25.8 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 € 2.5 million, which represented an average of 1.4 ‰ of gross premiums written.

Risks arising from business ceded for reinsurance

We cede reinsurance only to high-class reinsurers. 69 % of our reinsurance premiums are ceded to reinsurers with a rating of AA- or better. Accounts receivable in connection with assumed and ceded reinsurance business totalled € 46.0 million at balance sheet date. Accounts receivable in connection with reinsurance ceded amounted to € 42.5 million. The structure of receivables from reinsurers by rating category was as follows:

Rating class	€ million
AA	29.3
A	12.4
BBB	0.6
Not rated	0.1

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

Investment risks

Risk strategy

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

Risk situation and management

- **Market change risk**

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

Simulating interest rate change risk in line with German Accounting Standard DRS 20 A2.14 produced the following result for Gothaer Allgemeine Versicherung AG: a 1 percentage point parallel increase in the interest curve with a modified duration of 5.4 (PY: 5.3) reduced the market value of interest-bearing securities by € 158.0 million (PY: € 152.7 million) in comparison to the year-end value of the portfolio.

The market value of the equity portfolio is also expected to remain stable in the coming year. Share exposure increased moderately as a result of positive market developments. Risk capital stress testing (20 % downturn in prices) resulted in a fall in market value of around € 118.3 million (PY: € 105.5 million) at balance sheet date.

Real estate markets continued to develop well in 2019, most of them producing high transaction volumes. In view of the attractive long-term investment opportunities available, commitments were entered into in the real estate asset class. The portfolio is valued at market prices and highly diversified. In light of market developments and the structure of the portfolio, we do not anticipate the need for substantive extraordinary depreciation. A price fall of 10 % results in a loss of market value of € 34.6 million (PY: € 31.2 million).

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

• Credit/solvency risk

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

Despite positive market developments, the percentage of the Company's total investment volume accounted for by credit instruments fell to around 14.8 % (PY: 19.6 %) on a market value basis as a result of active scaling back. At year-end, there was no significant credit risk discernible. Total investment in PIIS-government bonds accounted for around 6.6 % (PY: 6.8 %) of the market value of the investment portfolio. At the end of the year, these investments produced an aggregate unrealized profit of around € 20.3 million (PY: € 10.1 million).

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

Rating class		in %
	2019	2018
AAA	30.4	26.0
AA+	8.6	11.0
AA	7.9	8.4
AA–	6.8	5.1
A+	9.0	7.5
A	4.4	6.7
A–	8.4	6.5
BBB+	7.3	7.1
BBB	10.1	13.2
BBB–	5.1	5.5
Speculative Grade (BB+ to D)	1.0	1.0
Not rated	1.0	2.0

• Liquidity risk

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

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

Operational and other risks

IT risks

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

HR risks

The management of HR risks (scarcity, departure, motivation, adaptation and loyalty risks) and the identification and utilization of opportunities are major constituents of Gothaer HR management. Key points of reference are HR strategy, the economic situation of the Group companies, change processes within the Group and external factors such as market developments, digitalization and changes in population demographics. The HR topics of primary importance at present are as follows:

- Acquisition and retention of employees,
- Securing skills critical for the success of the Company and
- Strengthening capacity for change in Group companies.

Gothaer HR management has a comprehensive set of analytical instruments at its disposal for measuring, assessing and managing risks. The data and analyses thus generated are important HR tools. At the same time, the managements of the specialist departments are important players in HR risk management. The HR department therefore supports them in this role by providing data (e.g. in the form of cockpits) and by conducting joint analyses and activities (e.g. quantitative and qualitative analyses for demographic risk management).

A very close eye is kept on the adjustment risks connected with the implementation of the Group strategy and changes in the Company. This monitoring is performed, for example, through use of the Group Dialogue and follow-up surveys, which permit a differentiated analysis of the views of employees and management on matters such as corporate strategy, customer orientation, leadership, cooperation and sustained commitment. Consultations of this kind are thus important for the further development of the Company. The findings of the 2019 follow-up survey confirm the effectiveness of the measures derived from them.

Scarcity risks in the acquisition of external know-how carriers are primarily addressed by appropriate HR marketing tools. At the same time, an attempt is made to counter the risks by means of internal development programmes. Analysis of candidate management data and verification of Gothaer's attractiveness as an employer are also important instruments for managing scarcity risks.

Demographic change management is particularly relevant. This is because demographic change not only pushes up the number of employees leaving the Company on grounds of age but also reduces the number of qualified applicants available in the external labour market. It thus fundamentally increases scarcity and departure risks – even more so in the Cologne local market, with its dense cluster of insurance companies competing for human resources. Gothaer long ago identified these risks both internally (e.g. by calculating scenarios) and externally (e.g. by taking part in employer rankings) and thus possesses an extensive risk management data-base. Gothaer's enhanced employer marketing activities as well as projects such as "Frauen im Management" (Women in Management) help successfully counter the risks described above.

Regulatory compliance of financial statements

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

Legal risks

Due to mounting legislative requirements at European and national level, the insurance industry faces major challenges even from a purely administrative perspective.

Targeted legal monitoring coordinated by the compliance function of the Company is implemented to keep abreast of these extensive changes, identify the need for action and – taking company-specific circumstances into account – ensure that appropriate and sufficiently prompt measures are taken.

Money laundering

Internal guidelines and safeguards are in place to prevent refund-of-premium accident insurance being used to launder money or finance terrorism. For mortgage loans granted by Gothaer Allgemeine Versicherung AG in the past, run-off is handled centrally. No new mortgage loans are granted. The internal guidelines and safeguards are also used – alongside a wide range of work instructions – to minimize risks.

Summary of the risk situation

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

The main risk identified for Gothaer Allgemeine Versicherung AG comes from natural catastrophes. We hedge that risk through selective reinsurance agreements.

Risk controlling is performed by quantitative and qualitative analysis. The control mechanisms, instruments and analytical processes described above ensure effective risk management. The result is a risk profile that is accurate and stable over time. This assessment is supported inter alia by the following:

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

In 2019, Standard & Poor's gave Gothaer Allgemeine Versicherung AG a confirmatory A- follow-up rating for financial stability and raised outlook to positive.

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

Balance Sheet as at 31 December 2019

Assets

€ thousand					
				2019	2018
A. Intangible assets					
I. Acquired concessions, industrial property rights, similar rights and assets as well as licences for such rights and assets			62,483		52,555
II. Payments in advance			20,388		27,622
				82,871	80,177
B. Investments					
I. Investments in affiliated companies and associates					
1. Shares in affiliated companies		167,152			151,995
2. Loans to affiliated companies		125,000			225,000
3. Investments in associated companies		196,106			211,737
4. Loans to associated companies		19			7,702
			488,276		596,434
II. Other investments					
1. Shares, investments in unit trust and funds and other non-fixed-interest securities		1,447,246			1,335,517
2. Bearer bonds and other fixed-interest securities		1,079,371			1,117,496
3. Mortgages, liens on real property and annuities		848			1,290
4. Other loans					
a) Registered bonds	328,104				284,699
b) Promissory notes and loans	129,807				132,064
c) Loans and advance payments on insurance policies	9				10
d) Other miscellaneous loans	20,809				13,551
		478,729			430,324
5. Bank deposits		88,950			63,100
6. Miscellaneous investments		2			2
			3,095,146		2,947,729
III. Deposits made in connection with reinsurance business assumed			24,777		26,454
of which from affiliated companies: € 24,210 thousand (PY: € 25,804 thousand)				3,608,200	3,570,617

Assets

				€ thousand
			2019	2018
C. Accounts receivable				
I. Accounts receivable in connection with direct insurance business from:				
1. Policyholders	34,367			32,609
2. Insurance agents	52,620			46,445
		86,987		79,054
II. Accounts receivable in connection with reinsurance business of which from affiliated companies: € 3,569 thousand (PY: € 63,842 thousand) of which from associated companies: € 2,144 thousand (PY: € 2,219 thousand)		46,013		85,000
III. Other accounts receivable		71,002		52,148
			204,003	216,202
of which from affiliated companies: € 11,239 thousand (PY: € 10,835 thousand) of which from associated companies: € 0 thousand (PY: € 91 thousand)				
D. Other assets				
I. Tangible assets and inventories		3,467		2,287
II. Current credit balances with banks, checks and cash on hand		33,923		37,916
III. Miscellaneous assets		1,043		766
			38,434	40,968
E. Prepaid expenses				
I. Prepaid interest and rent		25,527		25,513
II. Other prepaid expenses		438		707
			25,966	26,220
F. Excess of plan assets over pension liability			976	2,158
Total assets			**3,960,448**	**3,936,342**

Shareholders' equity and liabilities

€ thousand

			2019	2018
A. Shareholders' equity				
I. Called-in capital				
Subscribed capital	153,388			153,388
Less outstanding contributions not called in	10,226			10,226
		143,162		143,162
II. Capital reserve		216,256		216,256
III. Revenue reserve				
Statutory reserve		5		5
			359,423	359,423
B. Subordinate liabilities			250,000	250,000
C. Underwriting reserves				
I. Unearned premiums				
1. Gross amount	248,936			268,507
2. less:				
amounts ceded	20,113			20,151
		228,823		248,356
II. Aggregate policy reserve				
1. Gross amount	38,004			40,917
2. less:				
amounts ceded	0			0
		38,004		40,917
III. Reserve for outstanding claims				
1. Gross amount	2,638,311			2,614,817
2. less:				
amounts ceded	377,681			345,857
		2,260,630		2,268,959
IV. Reserve for performance-related and non-performance-related premium refunds				
1. Gross amount	4,744			3,796
2. less:				
amounts ceded	95			106
		4,649		3,690
V. Equalization reserves and similar reserves		399,533		414,022
VI. Other underwriting reserves				
1. Gross amount	7,942			7,879
2. less:				
amounts ceded	−4,061			−1,316
		12,004		9,195
			2,943,644	2,985,140

Shareholders' equity and liabilities

				€ thousand
			2019	**2018**
D. Other accruals				
I. Accruals for pensions and similar obligations		597		556
II. Accruals for taxes		3,500		6,240
III. Miscellaneous accruals		30,254		36,071
			34,351	42,867
E. Deposits held in connection with reinsurance business ceded			36,254	25,150
F. Other liabilities				
I. Accounts payable in connection with direct insurance business to				
1. Policyholders	92,202			84,578
2. Insurance agents	15,414			12,070
		107,616		96,648
II. Accounts payable in connection with reinsurance business of which to affiliated companies: € 775 thousand (PY: € 869 thousand)		56,020		32,812
III. Miscellaneous liabilities		173,139		144,302
			336,775	273,762
of which: for taxes: € 19,586 thousand (PY: € 21,514 thousand) for social security: € 0 thousand (PY: € 0 thousand) toward affiliated companies: € 141,328 thousand (PY: € 106,405 thousand) toward associated companies: € 249 thousand (PY: € 324 thousand)				
Total shareholders' equity and liabilities			**3,960,448**	**3,936,342**

I hereby confirm that the aggregate policy reserve for accident insurance with premium return shown under Shareholders' Equity and Liability line item C II. and the annuity reserve for claims under Shareholders' Equity and Liability line item C III. on the 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 88 (3) of the German Insurance Supervision Act (VAG); in the case of older accident insurance policies with premium return within the meaning of section 336 VAG, the aggregate policy reserve was calculated on the basis of the authorized current business plan.

Cologne, 4 March 2020

Dr. Land
Appointed actuary

I hereby certify pursuant to section 128 (5) 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, 4 March 2020

zur Mühlen
Trustee

Income Statement for the Year Ended 31 December 2019

				€ thousand
			2019	2018
I. Underwriting account				
1. Earned premiums net of reinsurance				
a) Gross premiums written	1,853,007			1,810,124
b) Reinsurance premiums ceded	263,950			244,582
		1,589,057		1,565,542
c) Change in gross unearned premiums	19,718			−2,562
d) Change in gross unearned premiums ceded	38			−1,395
		19,680		−1,166
			1,608,737	1,564,376
2. Technical interest net of reinsurance			2,960	2,641
3. Other underwriting income net of reinsurance			1,921	3,464
4. Claims expenses net of reinsurance				
a) Claims paid				
aa) Gross amount	1,229,792			1,135,509
bb) Amount ceded	143,372			132,231
		1,086,420		1,003,278
b) Change in reserve for outstanding claims				
aa) Gross amount	8,340			59,473
bb) Amount ceded	30,720			−8,642
		−22,380		68,115
			1,064,040	1,071,392
5. Change in other net underwriting reserves				
a) Net aggregate policy reserve		2,913		3,251
b) Other net underwriting reserves		−2,808		−3,738
			104	−487
6. Expenses for performance-related and non-performance-related premium refunds net of reinsurance			4,050	3,006
7. Underwriting expenses net of reinsurance				
a) Gross underwriting expenses		541,942		524,801
b) less: commissions and profit sharing received on reinsurance business ceded		68,806		62,883
			473,136	461,918
8. Other underwriting expenses net of reinsurance			14,200	13,430
9. Subtotal			58,297	20,246
10. Change in equalization reserves and similar reserves			14,489	18,297
11. Underwriting result net of reinsurance			72,786	38,543

€ thousand

			2019	2018
II. Non-underwriting account				
1. Investment income				
a) Income from investments of which from affiliated companies €7,250 thousand (PY: €25,359 thousand)	15,507			50,298
b) Income from other investments of which from affiliated companies €12,406 thousand (PY: €12,675 thousand)	69,080			74,080
c) Income from write-ups	18,309			2,452
d) Proceeds from the disposal of investments	27,144			29,254
		130,040		156,084
2. Investment expenses				
a) Cost of portfolio management, interest expenses and other expenses in connection with investments	8,232			9,992
b) Amortization of investments	4,298			17,439
c) Losses from the disposal of investments	2,689			10,465
		15,219		37,896
			114,820	118,188
3. Technical interest			−3,224	−2,965
			111,596	115,223
4. Other income		62,543		60,154
5. Other expenses		108,448		97,793
			−45,905	−37,639
6. Income before taxes			138,478	116,126
7. Taxes on income and tax charged	−4,072			1,160
by the controlling company	39,760			41,786
		35,688		42,946
8. Other taxes		385		163
			36,073	43,109
9. Profit transferred on the basis of a profit-transfer or pooling agreement			102,404	73,018
10. 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), the Stock Corporation Act (AktG), the Insurance Supervision Act (VAG) and the Insurance Accounting Regulation (RechVersV).

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

Acquired intangible assets are recognized at cost less straight-line depreciation based on an anticipated economic life of 3 to 10 years for the relevant asset. Where permanent impairment is anticipated, write-downs are performed in accordance with section 253 (3) HGB.

Investments

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

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

Loans to affiliated and associated companies are recognized at cost, unless permanent impairment is anticipated, in which case they are recognized at the lower fair value. If the reason for impairment no longer exists, write-ups are performed up to at most the amortized cost. Differences between the cost and repayment amount of these securities are amortized by the effective interest method as a matter of principle.

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

Investment fund certificates, which are classed as fixed assets, are recognized at cost. In accordance with section 253 (3) HGB, depreciation is applied only in the case of permanent impairment, e.g. where a significant deterioration of credit quality occurs. If the reason for impairment no longer exists, a write-up is performed pursuant to section 253 (5) HGB.

Investment fund certificates and other non-fixed-interest securities that are not intended to be held as long-term investments are recognized at cost on the strict lower-of-cost-or-market principle, where appropriate taking into account write-downs to stock exchange value or redemption price pursuant to section 253 (4) HGB. Where values recover, write-ups are performed in accordance with section 253 (5) HGB.

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

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

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

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

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

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

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

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

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

Valuation units between investments exposed to a foreign exchange risk (underlying transactions) and foreign exchange sale contracts (hedging instruments) are formed in the same currency. The valuation units exist for the projected holding period of the underlying transaction. Hedges are rolled as a matter of principle, i.e. as forward contracts near maturity, they are prolonged by a new hedge. The forward component, which is the difference between the spot exchange rate and the forward exchange rate, is not included in the offsettable portion of compensatory valuation but deferred over the term of the foreign exchange sale contract and recognized in profit or loss as interest earned or interest paid. Cash flows from the prolongation of contracts are offset in equity against the book values of the relevant underlying transactions, provided that the amount relates to the effective part of the hedge (net hedge presentation method). Please also refer to the disclosures pursuant to section 285 no. 23 HGB (disclosures on valuation units) in the notes to the financial statements in this report.

Bank deposits are carried at nominal value.

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

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

Deposits with ceding companies are recognized at nominal value.

Accounts receivable in connection with direct insurance business

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

Tangible assets and inventories

Operating and office equipment was capitalized at cost less straight-line depreciation based on an anticipated economic life of 2 to 15 years for the assets. Low-cost assets with a cost value up to € 250 were written down directly.

Surplus from offsetting

The surplus is stated at fair value.

Other assets

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

Underwriting reserves

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

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

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

Aggregate policy reserves for accident insurance with premium return and the annuity reserves 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.

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

The reserve for losses (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 a flat-rate basis in compliance with section 341g (2) HGB. It is based on previous years’ figures and takes account of the specific requirements of individual lines and types of insurance.

The reserve for loss adjustment expenses is determined 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 336 of the Insurance Supervision Act (VAG)) or meet the requirements of section 28 (7) RechVersV (new policies within the meaning of section 336 VAG).

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

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

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

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

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

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

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

The reserve for contractual premium adjustments 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.

Accruals for pensions and similar obligations

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

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

• Actuarial interest		2.71 %
• Wage and salary trend		2.20 %
• Pension progression rate		1.60 %
• Fluctuation	up to age 35	6.00 %
	up to age 45	3.00 %
	up to age 60	1.00 %

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

Miscellaneous accruals

The reserve for obligations in connection with pre-retirement employment agreements was determined by applying actuarial principles. Calculation was based on the 2018 G mortality tables developed by Prof. Dr. Klaus Heubeck, taking account of a wage and salary trend of 2.20 % and actuarial interest of 0.63 %.

Accruals for taxes and all other reserves were recognized at the settlement amount dictated by prudent business judgement. Reserves with a residual term of more than a year were discounted over the rest of their life at the average rate of market interest over the last seven years.

Other liabilities

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

Notes to the Balance Sheet

Assets

Changes in assets (items A, B I. and B II.) in the financial year 2019 [1)]

	Carrying amount previous year
A. Intangible assets	
1. Acquired concessions, industrial property rights, similar rights and assets as well as licences for such rights and assets	52,555
2. Payments in advance	27,622
3. Subtotal A.	**80,177**
B I. Investments in affiliated companies and associates	
1. Shares in affiliated companies	151,995
2. Loans to affiliated companies	225,000
3. Investments in associated companies	211,737
4. Loans to associated companies	7,702
5. Subtotal B I.	**596,434**
B II. Other investments	
1. Shares, investments in unit trusts and funds and other non-fixed-interest securities	1,335,517
2. Bearer bonds and other fixed-interest securities	1,117,496
3. Mortgages, liens on real property and annuities	1,290
4. Other loans	
a) Registered bonds	284,699
b) Promissory notes and loans	132,064
c) Loans and advance payments on insurance policies	10
d) Other miscellaneous loans	13,551
5. Bank deposits	63,100
6. Miscellaneous investments	2
7. Subtotal B II.	**2,947,729**
Total	**3,624,339**

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	20,240	0	0	10,312	62,483
17,042	−20,240	0	0	4,036	20,388
17,042	**0**	**0**	**0**	**14,348**	**82,871**
48,414	0	32,906	12	365	167,152
0	0	100,000	0	0	125,000
9,219	0	21,428	152	3,575	196,106
0	0	7,683	0	0	19
57,633	**0**	**162,017**	**164**	**3,939**	**488,276**
112,019	0	18,280	18,145	154	1,447,246
245,690	0	283,815	0	0	1,079,371
0	0	442	0	0	848
52,606	0	9,200	0	0	328,104
19	0	2,276	0	0	129,807
0	0	2	0	0	9
9,313	0	1,851	0	205	20,809
25,850	0	0	0	0	88,950
0	0	0	0	0	2
445,498	**0**	**315,866**	**18,145**	**359**	**3,095,146**
520,173	**0**	**477,882**	**18,309**	**18,646**	**3,666,293**

Carrying amounts and fair value of investments

€ thousand	Carrying amount	Fair value	Valuation reserves
B.I. Investments in affiliated companies and associates			
1. Shares in affiliated companies	167,152	182,079	14,927
2. Loans to affiliated companies	125,000	144,367	19,367
3. Investments in associated companies	196,106	230,187	34,081
4. Loans to associated companies	19	19	0
B.II. Other investments			
1. Shares, investments in unit trusts and funds and other non-fixed-interest securities	1,447,246	1,504,982	57,736
2. Bearer bonds and other fixed-interest securities	1,079,371	1,153,269	73,898
3. Mortgages, liens on real property and annuities	848	890	42
4. Other loans			
a) Registered bonds	328,104	363,496	35,391
b) Promissory notes and loans	129,807	142,392	12,585
c) Loans and advance payments on insurance policies	9	10	1
d) Other miscellaneous loans	20,809	21,961	1,152
5. Bank deposits	88,950	88,950	0
6. Miscellaneous investments	2	2	0
B.III. Deposits in connection with reinsurance business assumed	24,777	24,777	0
Total	**3,608,200**	**3,857,379**	**249,180**

B II. 1. and 2. include investment fund certificates, bearer bonds and other fixed-interest securities with a carrying amount of € 2,305,897 thousand that are classified as long-term assets pursuant to section 341b (2) HGB. The fair value of these assets comes to a total € 2,406,034 thousand. Hidden liabilities amounted to € 849 thousand.

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

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 € 58,005 thousand with a fair value of € 65,991 thousand are included for purposes of payment of surplus bonuses. As of 31 December 2019, the difference between cost and fair value came to € 7,986 thousand.

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

			€ thousand
		Carrying amount	Fair value
B.I.3.	Shares in associated companies	3,817	3,032
B.II.2.	Bearer bonds and other fixed-interest securities	21,981	21,132

In the case of one investment in an associate company, depreciation was waived because impairment is temporary and there is already evidence of early recovery.

In the case of bearer bonds and other fixed-interest securities, depreciation was waived because impairment was temporary, due to interest rate movements or credit risk/price fluctuations.

Information on valuation units

		Trading/Nominal volume	Carrying amount	Fair value
				€ thousand
B. I. 3.	Investments in associated companies		59,585	84,232
	Forward currency sales	97,920 TUSD		1,990
	Forward currency purchases	3,890 TUSD		−81
	Portfolio valuation unit	**94,030 TUSD**	**59,585**	**86,141**
B. I. 3.	Investments in associated companies		16,224	16,693
	Forward currency sales	9,380 TGBP		−469
	Portfolio valuation unit	**9,380 TGBP**	**16,224**	**16,224**
B. I. 3.	Investments in associated companies		16,557	19,611
	Forward currency sales	9,880 TNOK		−8
	Forward currency sales	2,770 TSEK		−1
	Forward currency sales	4,110 TGBP		−178
	Portfolio valuation unit		**16,557**	**19,424**
B. II. 2.	Bearer bonds		28,156	26,717
	Forward currency sales	31,000 TUSD		632
	Portfolio valuation unit		**28,156**	**27,349**
B. II. 4. d)	Other loans		10,809	10,640
	Forward currency sales	12,690 TUSD		255
	Forward currency purchases	760 TUSD		−9
	Portfolio valuation unit	**11,930 TUSD**	**10,809**	**10,886**

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

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

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

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

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

					€ thousand
Type of fund/ investment objective	Carrying amount	Fair value	Difference	Payout	Redemption option
Equity fund	152,624	160,841	8,216	4,877	daily
Pension fund	969,679	986,777	17,098	10,779	daily or within one month
Property fund	97,860	114,477	16,617	4,909	daily or within max. six months
Other	84,965	95,219	10,255	0	daily

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

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

Shareholders' equity and liabilities

Shareholders' equity

€ thousand	2019	2018
I. Called-in capital		
Subscribed capital	153,388	153,388
Less outstanding contributions not called in	10,226	10,226
The subscribed capital in the amount of € 153,387,564.36 consists of 300,000 registered shares of € 511.29 each (see bylaws of 19.12.2011). Gothaer Finanzholding AG has informed our Company that it controls a majority of the voting rights pursuant to section 20 (4) AktG.		
Total	**143,162**	**143,162**
II. Capital reserve	**216,256**	**216,256**
of which pursuant to section 272 (2) no. 4 HGB	51,821	51,821
III. Revenue reserve		
Statutory reserve	5	5
Total	**359,423**	**359,423**

Gross underwriting reserves

€ thousand	2019	2018
Accident	353,779	362,718
Liability	1,161,887	1,161,700
Motor liability	621,853	617,798
Other motor	28,413	27,792
Fire and property	652,540	613,937
Of which:		
Fire	126,602	105,990
Comprehensive householders	40,022	41,430
Comprehensive homeowners	194,194	182,653
Other property	291,722	283,864
Marine and aviation	75,203	75,812
Other insurance	149,183	114,045
Direct insurance business	3,042,858	2,973,801
Reinsurance business assumed	294,614	376,137
Total	**3,337,471**	**3,349,938**

Of which gross reserves for outstanding claims

	€ thousand	
	2019	**2018**
Accident	267,657	271,431
Liability	1,030,887	1,029,598
Motor liability	540,082	536,048
Other motor	26,133	23,581
Fire and property	421,032	388,687
Of which:		
Fire	106,862	86,508
Comprehensive householders	14,771	15,490
Comprehensive homeowners	80,614	77,066
Other property	218,785	209,623
Marine and aviation	53,764	56,111
Other insurance	129,739	96,614
Direct insurance business	2,469,294	2,402,070
Reinsurance business assumed	169,016	212,746
Total	**2,638,311**	**2,614,817**

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 € 9,781 thousand (PY: € 8,031 thousand).

Reserve for performance-related and non-performance-related premium refunds

	€ thousand	
Performance-related	**2019**	**2018**
Opening balance	**475**	**712**
Withdrawals	282	497
Additions	1,171	260
Final balance	**1,364**	**475**

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

- € 153 thousand (PY: € 172 thousand) for current surplus bonuses that have already been fixed but not yet distributed
- € 46 thousand (PY: € 36 thousand) for terminal bonuses that have already been fixed but not yet distributed
- € 3 thousand (PY: € 1 thousand) for amounts that have already been fixed but not yet distributed for participation in valuation reserves

The terminal bonus fund amounts to € 210 thousand (PY: € 228 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 2.5 %.

The following rates apply for surplus bonuses due in the calendar year 2020 on the basis of contractual provisions. Where rates have changed against 2019, the prior-year rates are shown in brackets:

- **Old policies**

Interest on bonus	8.00 %	(5.00 %)	on the eligible aggregate policy reserve of basic insurance
	4.50 %	(1.50 %)	on the eligible aggregate policy reserve of bonus insurance
Basic bonus	6.00 %		on the annual return premium
Terminal bonus	15.00 %	(30.00 %)	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	0.00 %	on the eligible aggregate policy reserve
Basic bonus	0.00 %	on the annual return premium
Terminal bonus	0.00 %	on total eligible return premiums

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

Interest on bonus	0.00 %	on the eligible aggregate policy reserve of basic insurance
	0.00 %	on the eligible aggregate policy reserve of bonus insurance
Basic bonus	0.00 %	on the annual return premium
Terminal bonus	0.00 %	on total eligible return premiums

Policies with rates BRE1, BRK1, BRS1, BRT1

Interest on bonus	0.00 %	on the eligible aggregate policy reserve of basic insurance
	0.00 %	on the eligible aggregate policy reserve of bonus insurance
Basic bonus	0.00 %	on the annual return premium
Terminal bonus	0.00 %	on total eligible return premiums

Policies with rates BRE2, BRK2, BRS2, BRT2

Interest on bonus	0.00 %	on the eligible aggregate policy reserve of basic insurance
	0.00 %	on the eligible aggregate policy reserve of bonus insurance
Basic bonus	0.00 %	on the annual return premium
Terminal bonus	0.00 %	on total eligible return premiums

Increase in policy reserve for interest rate risk (Zinszusatzreserve)

As of the financial year 2011, the German Policy Reserve Ordinance (DeckRV) requires that a calculation be performed comparing guaranteed interest rates with an average current yield of public investments. Where the amount of the comparative policy reserve is greater, an additional policy reserve needs to be formed for the relevant insurance policies. The funds required for this are charged on net profit for the year and are thus no longer available for surplus bonuses. The amount of surplus bonus rates determined takes account of this subject to all supervisory regulations and contractual arrangements.

In the financial year, all refund-of-premium accident insurance policies were affected.

This additional policy reserve (Zinszusatzreserve) is not assigned to individual policies but to the relevant portfolio on a flat-rate basis.

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 refund policies. In the case of investments, application of valuation rules results in valuation reserves (non-realized profit) or valuation deficits (non-realized losses). In line with section 153 of the German Insurance Contract Act (VVG), policyholders participate in any positive balance of valuation reserves and valuation deficits (less the security [Sicherungsbedarf] required by Section 139 of the Insurance Supervision Act (VAG) for the deregulated portfolio) on the basis of causation. The principles applied to determine participation, which are based on the proposal of the German Insurance Association (GDV), are presented below.

Where the term “valuation reserves” is used below, it always means the net balance of valuation reserves and deficits (less the security [Sicherungsbedarf] required by Section 139 of the Insurance Supervision Act (VAG) for the deregulated portfolio) subject 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 the 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 latter 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 from 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	
	2019	**2018**
Accident	24,978	28,176
Liability	74,798	73,076
Motor liability	77,050	77,010
Other motor	0	2,022
Fire and property	115,199	112,326
Of which:		
Fire	10,391	10,052
Comprehensive householders	0	0
Comprehensive homeowners	70,000	65,151
Other property	34,809	37,123
Marine and aviation	14,755	13,288
Other insurance	3,573	2,324
Direct insurance business	310,354	308,222
Reinsurance business assumed	89,180	105,800
Total	**399,533**	**414,022**

Other accruals

The difference resulting from the valuation of pension accruals and similar obligations totals €72 thousand (PY: €78 thousand).

	€ thousand	
	2019	**2018**
III. Miscellaneous accruals for:		
Pre-retirement employment	3,088	5,007
Social plans/severance payments	5,176	9,473
Bonuses	11,584	11,439
Leave/Time credits	1,856	2,075
Employer's liability insurance contributions	406	452
Compensatory levy (disabled employment)	2	2
Sales remuneration	1,060	743
Financial statement expenses	582	564
Interest commitments	4,859	3,952
Legal disputes	398	440
Anticipated losses	1,244	1,926
Total	**30,254**	**36,071**

Offsetting of assets and liabilities

Offsetting of assets and liabilitiesIn line with section 246 (2) sent. 2 HGB, plan assets of € 7,888 thousand (PY: € 7,085 thousand) have been offset against corresponding pension obligations of €10,000 thousand (PY: €9,933 thousand). The fair value of the plan assets offset is equal to value at cost.

Notes to the Income Statement

Gross premiums written

	€ thousand	
	2019	**2018**
Accident	138,635	138,084
Liability	353,490	344,992
Motor liability	244,243	239,661
Other motor	162,664	158,503
Fire and property	630,591	584,516
Of which:		
Fire	91,603	83,801
Comprehensive householders	87,595	88,293
Comprehensive homeowners	189,937	172,942
Other property	261,457	239,481
Marine and aviation	54,823	49,926
Other insurance	124,224	116,264
Direct insurance business	1,708,671	1,631,947
Reinsurance business assumed	144,337	178,177
Total	**1,853,007**	**1,810,124**

Gross premiums earned

	€ thousand	
	2019	**2018**
Accident	138,537	138,191
Liability	356,513	345,810
Motor liability	244,286	239,590
Other motor	162,639	158,430
Fire and property	627,087	580,706
Of which:		
Fire	91,687	83,292
Comprehensive householders	88,291	88,118
Comprehensive homeowners	187,203	170,692
Other property	259,907	238,604
Marine and aviation	54,637	49,773
Other insurance	123,372	117,594
Direct insurance business	1,707,071	1,630,093
Reinsurance business assumed	165,654	177,469
Total	**1,872,725**	**1,807,562**

Net premiums earned

	2019	2018
		€ thousand
Accident	137,466	137,175
Liability	311,007	302,276
Motor liability	210,866	205,415
Other motor	137,405	133,913
Fire and property	499,664	465,868
Of which:		
Fire	53,988	49,039
Comprehensive householders	87,824	87,777
Comprehensive homeowners	158,407	144,203
Other property	199,446	184,849
Marine and aviation	53,057	48,469
Other insurance	105,153	99,597
Direct insurance business	1,454,618	1,392,713
Reinsurance business assumed	154,119	171,663
Total	**1,608,737**	**1,564,376**

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 0.9 %, 1.25 %, 1.75 %, 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.

Gross claims expenses

	2019	2018
		€ thousand
Accident	67,421	74,302
Liability	185,122	196,847
Motor liability	186,792	176,214
Other motor	139,121	129,484
Fire and property	406,734	403,675
Of which:		
Fire	72,900	56,866
Comprehensive householders	31,390	34,591
Comprehensive homeowners	126,907	139,549
Other property	175,536	172,670
Marine and aviation	32,138	33,636
Other insurance	111,608	69,548
Direct insurance business	1,128,936	1,083,705
Reinsurance business assumed	109,197	111,276
Total	**1,238,132**	**1,194,982**

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 8.4 % (PY: 9.8 %) of the reserve at the beginning of the period.

Expenses for performance-related and non-performance-related premium refunds net of reinsurance

	2019	2018
		€ thousand
Performance-related	1,171	260
Non-performance-related	2,802	2,738
Direct insurance business	3,973	2,998
Reinsurance business assumed	76	8
Total	**4,050**	**3,006**

Gross underwriting expenses

€ thousand	2019	2018
Accident	43,738	47,375
Liability	124,462	121,656
Motor liability	40,394	39,358
Other motor	27,248	26,624
Fire and property	204,739	188,800
Of which:		
Fire	26,270	24,025
Comprehensive householders	29,498	29,060
Comprehensive homeowners	58,063	52,226
Other property	90,908	83,490
Marine and aviation	18,180	15,744
Other insurance	35,000	33,868
Direct insurance business	493,761	473,425
Reinsurance business assumed	48,181	51,376
Total	**541,942**	**524,801**

Gross underwriting expenses include acquisition expenses of € 274,056 thousand (PY: € 247,810 thousand) and administrative expenses of € 267,886 thousand (PY: € 276,990 thousand).

Net for reinsurance business
(– = credit to reinsurers)

€ thousand	2019	2018
Accident	–418	–287
Liability	–10,122	–13,339
Motor liability	–4,616	–8,563
Other motor	–3,804	–4,315
Fire and property	–10,317	–15,715
Marine and aviation	–2,454	–1,043
Other insurance	11,681	–10,115
Direct insurance business	–20,050	–53,377
Reinsurance business assumed	–1,039	–3,338
Total	**–21,089**	**–56,715**

Underwriting result net of reinsurance

		€ thousand
	2019	2018
Accident	34,507	37,353
Liability	35,199	18,324
Motor liability	12,630	13,072
Other motor	−5,600	−3,940
Fire and property	−11,607	−32,745
Of which:		
Fire	−14,376	−6,231
Comprehensive householders	24,624	21,647
Comprehensive homeowners	−13,483	−28,830
Other property	−8,371	−19,331
Marine and aviation	−1,239	−3,442
Other insurance	−14,910	2,714
Direct insurance business	48,981	31,336
Reinsurance business assumed	23,805	7,207
Total	**72,786**	**38,543**

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

		PIF
	2019	2018
Accident	684,924	700,030
Liability	1,662,416	1,669,615
Motor liability	874,627	884,935
Other motor	679,825	686,746
Fire and property	1,803,172	1,706,510
Of which:		
Fire	110,477	107,250
Comprehensive householders	737,117	760,509
Comprehensive homeowners	364,803	346,599
Other property	590,775	492,152
Marine and aviation	25,908	24,150
Other insurance	610,754	612,947
Total	**6,341,626**	**6,284,933**

Investment expenses

Amortization of investments includes non-scheduled depreciation of € 3,941 thousand (PY: € 15,951 thousand) in accordance with section 277 (3) HGB.

Other income

Other income includes € 186 thousand (PY: € 2,101 thousand) resulting from currency translations.

Other expenses

Other expenses include € 3,394 thousand (PY: € 3,716 thousand) resulting from compounding of reserves and € 211 thousand (PY: € 255 thousand) from currency translations. Non-scheduled depreciation of € 4,036 thousand (PY: € 0 thousand) was applied to advance payments for intangible assets.

Offsetting of income and expenses

In line with the offsetting of retirement pension commitments and the corresponding plan assets, related expenses of € 3,169 thousand (PY: € 3,551 thousand) were offset against related income of € 2,943 thousand (PY: € 3,551 thousand) as stipulated in section 246 (2) sent. 2 HGB.

Other disclosures

List of holdings

€ thousand

Name	City of domicile	Country of domicile	Equity interest in %	Share-holders' equity	Year result
Aberdeen Asia Pacific II, L.P.	George Town	KY	5.4	123,007	–10,592
Accession Mezzanine Capital III L.P.	St. Helier	JE	3.4	107,756	1,978
Achmea B.V.	Zeist	NL	0.5	9,697,000	314,000
Aquila Capital Wasserkraft Invest GmbH	Hamburg	DE	25.6	67,134	–3,082
Aquila GAM Fund GmbH & Co. geschlossene Investment-kommanditgesellschaft	Hamburg	DE	25.6	80,598	4,695
Behrman Capital PEP L.P.	Wilmington	US	1.0	685,677	49,812
Behrman Capital IV, L.P.	Wilmington	US	4.9	208,358	4,743
Caerus Real Estate Debt Lux. S.C.A., SICAV-SIF – Fund III	Luxemburg	LU	8.9	221,268	10,068
Curzon Capital Partners IV L.P.	London	GB	4.9	287,011	40,641
Derya Elektrik Üretimi Ve Ticaret A.S.	Ankara	TUR	6.7	–15,413	–22,663
EMF NEIF I (A) L.P.	London	GB	8.5	25,270	–25,797
EPISO III, L.P.	London	GB	1.3	673,937	–2,486
EPISO IV, L.P.	London	GB	1.5	1,165,881	119,867
Falcon Strategic Partners V (Cayman), L.P.	George Town	KY	12.4	698,668	118,341
FirstMark Capital III L.P.	Wilmington	US	3.4	281,236	45,363
FirstMark Capital II, L.P.	Wilmington	US	13.3	395,655	85,764
GDV Dienstleistungs-GmbH	Hamburg	DE	1.1	27,430	901
GG-Grundfonds Vermittlungs GmbH	Cologne	DE	100.0	–16,712	–24
GoldPoint Partners Co-Investment V, L.P.	Wilmington	US	4.4	627,042	89,626
GoldPoint Partners Co-Investment VI, L.P.	Wilmington	US	3.3	236,739	–11,203
Gothaer Erste Kapitalbeteiligungsgesellschaft mbH	Cologne	DE	20.4	19,100	553
Ideal Enerjo Üretimi Sanayi Ve Ticaret A.S.	Erzurum	TUR	6.7	17,432	2,388
Janitos Versicherung AG	Heidelberg	DE	100.0	16,881	483
KILOS Beteiligungs GmbH & Co. Vermietungs-KG	Pöcking	DE	93.1	60,589	3,397
Nuveen Immobilien GmbH & Co. GB I KG	Frankfurt a.M.	DE	3.3	20,888	2,759
NYLCAP 2010 Co-Invest L.P.	New York	US	39.6	7,622	–31
NYLCAP Mezzanine Partners III 2012 Co-Invest, L.P.	Wilmington	US	38.0	20,253	–959
PE Holding USD GmbH	Cologne	DE	40.0	247,662	4,273
PineBridge Secondary Partners III L.P.	Wilmington	US	4.5	147,926	7,680
PineBridge Secondary Partners IV Feeder, SLP	Luxemburg	LU	4.2	188,712	16,923

€ thousand					
Name	**City of domicile**	**Country of domicile**	**Equity interest** in %	**Share-holders' equity**	**Year result**
Praesidian Capital Bridge Fund, L.P.	Wilmington	US	8.0	67,238	8,791
Praesidian Capital Opportunity Fund III-A, L.P.	Wilmington	US	13.1	37,588	1,165
Rocket Internet Capital Partners (Euro) SCS	Luxemburg	LU	2.6	255,330	70,530
Selbca Holding GmbH	Berlin	DE	5.5	6,301	−393
SilkRoad Asia Value Parallel Fund, SICAV-SIF	Luxemburg	LU	6.3	316,146	29,088
Småkraft AS	Bergen	NOR	3.9	161,268	−7,295
Surface Technologies GmbH & Co. KG	Baruth	DE	6.7	16,318	619
WAI S.C.A., SICAV- FIS / Private Equity Secondary 2008	Luxemburg	LU	4.5	38,033	2,326

The figures relate to the last financial year for which annual financial statements were available. Financial statements in foreign currencies were translated into euro at the average spot exchange rate at balance sheet date.

The option set out in section 286 (3) no. 1 of the German Commercial Code (HGB) was exercised.

Commissions and other remuneration of insurance agents, personnel expenses

€ thousand		
	2019	**2018**
1. Commissions of insurance agents within the meaning of section 92 HGB in connection with direct insurance business	353,990	330,962
2. Other remuneration of insurance agents within the meaning of section 92 HGB	607	988
3. Wages and salaries	109,764	112,637
4. Social security contributions and employee benefits	18,601	19,187
5. Post retirement benefits	8,166	9,558
6. Total expenses	**491,128**	**473,332**

Liabilities

Total liabilities with a residual term of more than 5 years come to € 250 million (PY: € 250 million).

Members of the Supervisory Board and Management

The names of the members of the Supervisory Board and Management are provided at the beginning of this report.

No remuneration was paid to the Management. Retirement benefits, survivors' benefits and other remuneration for former members of Management amounted to € 677 thousand. Provisions for pension benefits for this group of individuals total € 9,759 thousand.

Remuneration paid to the Supervisory Board came to € 523 thousand; remuneration for the Advisory Board totalled € 13 thousand.

No loans were granted to members of Management or the Supervisory Board.

Total fee for the statutory auditor

The total fee charged by the statutory auditors for the financial year is reported in the consolidated financial statement of Gothaer Versicherungsbank VVaG, Cologne, in which the financial statement of the Company is included.

Human resources on average

Gothaer Allgemeine Versicherung AG had an average of 1,701 employees in the financial year. Of these, 1,201 were employed in-house and 379 in the field. In addition, the Company had an average of 122 trainees in the course of the year.

Contingent liabilities and other financial commitments

In compliance with section 28 (1) EGHGB, accruals of € 1,507 thousand have not been recognized for pension-related obligations for which a legal entitlement was acquired prior to 1 January 1987.

There is a joint liability and debt of € 66,807 thousand for post-retirement benefits of employees and executive officers and former employees and executive officers disclosed by Gothaer Finanzholding AG. Owing to the intrinsic strength of Gothaer Finanzholding AG, there is no perceived risk from the present vantage of the Company having to fulfil this obligation instead of Gothaer Finanzholding AG.

At year-end, contributions totalling € 164,429 thousand (including € 86,061 thousand due to affiliated companies) were outstanding for shares held by the Company in affiliated companies and associates as well as for other investments.

At balance sheet date, contingent liabilities not shown in the balance sheet existed for letters of comfort for long-term and unlimited rental and leasing agreements concluded by affiliated companies. The annual obligation for these totals € 1,476 thousand.

Under a company acquisition agreement concluded in the financial year, Gothaer Allgemeine Versicherung AG undertook to acquire shares and ownership interest to the amount of € 10,000 thousand.

Our membership of “Verkehrsopferhilfe e.V.” entails an obligation to contribute to the funds that 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.

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. Gothaer Versicherungsbank VVaG prepares the consolidated financial statements for the largest and smallest group of companies. The consolidated financial statements are published in the Federal Gazette (Bundesanzeiger).

Events of special significance

In December 2019, the novel virus SARS-CoV-2 and coronavirus disease COVID-19 were discovered in the Chinese city of Wuhan (Hubei province). The disease resembles influenza, the risk of infection is high and a vaccine does not yet exist. The estimated mortality rate is 0.5 – 2 %, which is higher than in the case of a classical influenza epidemic (0.1 %). The first cases of coronavirus infection in Germany were identified at the end of January. The number of reported cases then increased significantly through to the end of February and the first deaths occurred in March. To slow the spread of the disease, nationwide restrictions on movement and far-reaching contact bans have now been introduced across Germany. This places severe restrictions on public and economic life. The disease is spreading rapidly not only in Germany but worldwide. The consequences of the pandemic are even more serious in other countries than in Germany.

Since the increase in the number of cases of infection in Germany, we have focused intensively on the possible impacts. On the one hand, we have worked to maintain business operations. A high percentage of our employees are already working from home. The aim is soon to be able to make home office arrangements for nearly all employees. This will enable us to maintain business operations, in some cases with limited service times.

At the same time, we are analyzing the economic consequences of the Corona crisis. There are loss exposures, in particular, in media and film insurance, event cancellation insurance and accident insurance. The current developments in capital markets will result in significantly lower valuation reserves for investments. The economic consequences for our clients could lead to downturns in sales.

Negative effects are therefore to be expected. The situation is changing constantly. Both in Germany and worldwide, political decisions are being taken not only to slow the increase in new infections but also to provide economic support packages. Owing to the highly dynamic nature of the situation, it is not possible at present to make a valid assessment of the fundamental impacts on our net assets, financial position and earnings.

No other events of special significance occurred.

Cologne, 30 March 2020

Board of Management

Dr. Christopher Lohmann   Oliver Brüß   Dr. Mathias Bühring-Uhle

Dr. Karsten Eichmann   Harald Epple

Independent Auditors’ Report

Gothaer Allgemeine Versicherung AG, Cologne

Report on the Audit of the Annual Financial Statements and the Management Report

Audit opinions

We have audited the annual financial statements of Gothaer Allgemeine Versicherung AG, Cologne, which comprise the balance sheet as at 31 December 2019, the income statement for the financial year from 1 January to 31 December 2019 and the notes to the financial statements, including the presentation of accounting and valuation policies. We have also audited the management report of Gothaer Allgemeine Versicherung AG, Cologne, for the financial year from 1 January to 31 December 2019. In line with the requirements of German law, we have not audited the content of the parts of the management report referred to in this report under “Other information”.

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

– the accompanying financial statements comply in all material respects with the rules of German commercial law applicable to insurance companies and, in accordance with German general accounting principles, present a true and fair picture of the net assets and financial position of the Company as at 31 December 2019 as well as the results of its operations from 1 January to 31 December 2019 and

– the accompanying management report as a whole provides an accurate view of the situation of the Company. In all material respects, this management report is consistent with the financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the parts of the management report referred to under “Other information”.

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

Basis for the audit opinions

We conducted our audit of the financial statements and the management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014, hereinafter referred to as “EU Audit Regulation “), observing the German Generally Accepted Standards on Auditing as promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). Our responsibilities under those regulations and standards are described in more detail in the section of our auditor’s report headed “Auditor’s Responsibilities for the Audit of the Financial Statements and the Management Report”. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained provides an adequate and reasonable basis for our opinions on the financial statements and management report.

Key Audit Matters in the Audit of the Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year from 1 January to 31 December 2019. These matters were considered in the context of our audit of the financial statements as a whole and in the process of forming our audit opinion on them; we do not provide a separate audit opinion on these matters.

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

With regard to the accounting and valuation policies, please refer to the underwriting reserves section of the chapter on accounting and valuation policies in the notes to the financial statements of the Company. Risk disclosures are contained in the underwriting risks section of the chapter on opportunities and risks for the Company in the management report.

THE FINANCIAL STATEMENT RISK

The gross reserve for losses incurred but not reported in direct written business totalled € 2,469.3 million at balance sheet date. This was 62.3 % of the balance sheet total.

The gross reserve for losses incurred but not reported is subdivided into various partial loss reserves. The reserve for reported and unreported losses accounts for substantial amount of the gross reserve for losses incurred but not reported.

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

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

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

OUR AUDIT APPROACH

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

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

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

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

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

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

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

OUR CONCLUSIONS

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

Other Information

The legal representatives and/or the supervisory board are responsible for other information. Other information comprises

– the corporate governance statement (proportion of women) contained in the "Gender diversity" section of the management report and

– the reference to the non-financial declaration contained in the "Non-financial Declaration" section of the management report.

Other information also includes the following remaining parts of the annual report:

– the Five-Year Summary and

– the Report of the Supervisory Board.

Other information does not include the financial statements, the audited content of the management report or our auditor's report thereon.

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

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

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

– whether it otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor at the Supervisory Board meeting on 10 April 2019. We were appointed by the Supervisory Board on 21 August 2019. We have acted as auditor for Gothaer Allgemeine Versicherung AG without interruption since the financial year 2002.

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

In addition to performing the audit for the audited company and the companies controlled by it, we provided the following services that were not disclosed in the financial statements or management report: audit of the solvency overview, audit of the financial statements of a controlled company, audit review of the financial statements of controlled companies, tax advisory services for controlled companies, certifications for foreign authorities and general advisory services.

Responsible Auditor

The auditor responsible for the audit is Roland Hansen.

Cologne, 2 April 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft

Hansen	Theißen
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

The Supervisory Board continuously monitored the conduct of business by Management in the course of the financial year in fulfilment of its duties under the law and the bylaws of the Company. Management regularly submitted written reports on business developments and the situation of the Company to the Board and reported orally at three meetings. The Board was involved in all decisions of fundamental importance for the Company. The committees of the Board were also involved in informational and oversight activities. The Investment Committee and the Audit Committee each convened on three occasions and the Executive Committee met four times during the past financial year. It was not necessary to convene the committee established pursuant to section 27 (3) of the Co-Determination Act (MitbestG). The progress and outcomes of the committee meetings were reported and discussed at the meetings of the Supervisory Board.

In line with the stipulations of the Federal Financial Supervisory Authority, the members of the Supervisory Board conducted a self-appraisal, assessing their knowledge of investment, underwriting and accounting. This appraisal will form the basis for a development plan drawn up by the Board each year identifying the topics in which the Board as a whole or individual members of it wish to deepen their knowledge. Two training events were held for Board members on underwriting, accounting, investment and IT.

The issues addressed regularly included developments as regards the Company's premiums, claims and 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, the results of benchmarking comparisons with similarly structured companies and IT strategy.

The solvency situation under Solvency II was also a focus. Furthermore, Management reported to the Board on the development of the Company's reinsurance programme and on the status of all major strategic programmes and projects. The Supervisory Board continued in 2019 to pay special attention to the "Expedition 2022" strategy developed as part of the "Gothaer 2020" group strategy, in which the Company addresses priority areas such as optimizing existing processes, structures, products and transitioning towards an internally and externally effective digital organization. The Board welcomed the premium growth above the market level as well as the increase in market shares. In addition, the Board received reports on the establishment of the "Industrial Value Stream – Modern Forms of Work in a Modern Working World".

With regard to sales, the Supervisory Board discussed cross-selling potential with other risk carriers in the Gothaer Group. The Board also continued to encourage Management to systematically harness cross-selling opportunities.

Thanks to the good underwriting results, the Company again amply demonstrated its earning power and also improved its financial strength with an investment result better than that of competitors. The rating agency Standard & Poor's awarded a confirmatory "A-" rating and raised outlook to "positive" in 2019.

The Supervisory Board discharged its statutory duty to examine HR issues relating to Management. The Management Board appointment of Mr. Oliver Brüß was extended.

Management's investment planning and policy were regularly a subject of Investment Committee meetings. Management reported to the Board in detail on developments in the capital markets and their impacts on investments, changes in undisclosed liabilities/undisclosed reserves and the development of investment income and discussed the possible macroeconomic consequences of the development of interest rates and the implications for the insurance industry.

The Audit Committee established by the Supervisory Board in line with section 107 (3) of the German Corporation Act (AktG) monitored the accounting process and verified the effectiveness of the internal control system, risk management system, compliance organization and internal auditing system. There were no objections. The key performance indicators in the financial statements were discussed in detail with Management and auditors, taking benchmarks of comparable companies into account. The Audit Committee therefore proposed to the Supervisory Board that the financial statements for the financial year 2019 should be formally adopted in accordance with section 172 AktG.

The financial statements and accompanying management report presented for the financial year 2019 were audited by the auditor appointed in line with section 341k of the German Commercial Code (HGB), KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne, which also evaluated the early risk detection system.

The auditors fully certified the reports presented in accordance with section 322 HGB. The auditors reported on the key results of the audits at the Supervisory Board meeting on the financial statements. The Supervisory Board meeting on the financial statements was also attended by the Responsible Actuary.

The Supervisory Board received the audit report presented and duly noted and approved the result of the audit.

After examining the financial statements and Management Report presented for the financial year 2019, the Supervisory Board has no objections to raise. It endorses the 2019 financial statements. The financial statements are thus formally adopted pursuant to section 172 AktG.

The Supervisory Board wishes to express its special appreciation and heart-felt thanks to staff and Management for their work last year in an ongoing difficult environment.

Cologne, 2 April 2020

The Supervisory Board

Prof. Dr. Werner Görg	Peter-Josef Schützeichel	Carl Graf von Hardenberg
Srecko Jagarinec	Uta Kemmerich-Keil	Dr. Judith Kerschbaumer
Dr. Dirk Niedermeyer	Gesinde Rades	Thorsten Schlack
Edgar Schoenen	Ulrich Heinz Wollschläger	Markus Wulfert

Company Locations

Headquarters	Gothaer Allee 1 50969 Cologne Germany	Telephone Facsimile Internet	+49 221 308-00 +49 221 308-103 www.gothaer.de
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