Gothaer Allgemeine Versicherung AG
Annual Report 2017

Five-Year Summary

€ thousand	Financial Year				
	2017 [4]	2016	2015	2014	2013
Gross premiums written	1,822,082	1,722,724	1,703,286	1,617,272	1,526,900
Premiums net of reinsurance	1,598,422	1,485,952	1,471,728	1,391,503	11,311,076
Retention (in %)	87.7	86.3	86.4	86.0	85.9
Claims expenses net of reinsurance	998,573	1,009,073	1,011,046	922,045	923,548
In % of premiums earned	63.3	67.6	68.9	66.8	70.7
Underwriting expenses net of reinsurance	469,405	445,318	431,492	415,027	396,337
In % of premiums net of reinsurance	29.4	30.0	29.3	29.8	30.2
Net income for the year [1]	123,885	89,839	120,981	88,778	50,740
Investments [2]	3,481,268	3,228,229	3,470,660	3,043,072	2,930,511
Net return (%)	3.1	3.4	5.2	4.1	4.1
Gross underwriting reserves	3,301,762	3,182,125	3,133,260	3,018,004	3,021,446
In % of gross premiums	181.2	184.7	184.0	186.6	197.9
Equity capital [3]	609,423	575,602	825,602	575,602	575,602
In % of premiums net of reinsurance	38.1	38.7	56.1	41.4	43.9
Policies in force (thousands)	6,237	5,694	5,595	5,510	5,407
Claims reported (thousands)	381	359	395	385	367

[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
[4] Gothaer Allgemeine Versicherung AG and Asstel Sachversicherung AG

Gothaer Allgemeine Versicherung AG

Report for the Financial Year as of 1 January to 31 December 2017

Registered Office
Gothaer Allee 1
50969 Cologne
Germany

Cologne Local Court, HRB 21433

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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
Dieter Bick	Diplom-Betriebswirt, Management Consultant
Carl Graf von Hardenberg	Chairman of the Supervisory Board of Hardenberg-Wilthen AG
Florian Knackstedt *)	Departmental head of the Business Clients Competence Centre, as of 23 May 2017
Dr. Judith Kerschbaumer *)	Trade Union Seretary of ver.di, Lawyer
Dr. Dirk Niedermeyer	Managing Director of NZD Grundbesitzverwaltung GmbH & Co. KG
Harald Ommer *)	Director for Partners and Staff, Gothaer Staff Sales Centre (MVC), up to 23 May 2017
Gesine Rades	Diplom-Kauffrau, Auditor/Tax Consultant Rades partnership
Dr. Hans-Werner Rhein	Lawyer
Georg Rokitzki *)	Employee
Thorsten Schlack *)	Employee, Chairman of the Central Works Council of Gothaer Krankenversicherung AG
Edgar Schoenen *)	Employee

*) Elected by emploees

Management

Dr. Christopher Lohmann as of 1 May 2017 Chairman	as of 1 April 2017
Thomas Leicht up to 30 April 2017 Chairman	up to 31 May 2017
Oliver Brüß	
Dr. Mathias Bühring-Uhle	
Dr. Karsten Eichmann Director of Industrial Relations	
Harald Epple	
Michael Kurtenbach	up to 31 May 2017
Oliver Schoeller	up to 31 May 2017

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	Managing Director of Aachener Siedlungs- und Wohnungsgesellschaft mbH, Cologne
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, HEINZEL Sehen + Hören
Knut Kreuch	Lord Mayor of the City of Gotha
Uwe von Padberg	Diplom-Kaufmann, former President of the Verband der Vereine Creditreform e.V., Creditreform Cologne v. Padberg KG
Peter Riegelein	Diplom-Kaufmann, Managing Partner of Hans Riegelein + Sohn GmbH & Co. KG, as of 14 July 2017
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
Birgit Schwarze	President of DSSV e.V. Arbeitgeberverband deutscher Fitness- und Gesundheits-Anlagen

Management Report

Developments in property/casualty insurance

The business environment for property and casualty insurance profited in 2017 from the vigorous economic upswing and the good economic situation of private households associated with it. The German Insurance Association (GDV) expects the year to produce stable premium growth of 3.0 % for property and casualty insurers. Extensions of cover and portfolio growth played a major role in shaping this development. With claims expenses only 2.3 % higher than in 2016, the combined ratio is expected to drop to 94 %. Underwriting profit from property and casualty business should exceed the prior-year figure at around € 4.1 billion.

Overview of business developments

On 1 January 2017, Asstel Sachversicherung AG was merged with Gothaer Allgemeine Versicherung AG, as planned, to enable changed market requirements to be met more effectively and pave the way for a multi-channel strategy. As a result of this move, the figures for the financial year cannot be compared directly with those of the prior year. The values carried forward after the merger are shown in the Notes to the Financial Statements.

Gothaer Allgemeine Versicherung AG significantly strengthened its net income for the year – before profit transfer and before tax due to the controlling company – from € 89.8 million to € 123.9 million in 2017. In the highly competitive property/casualty insurance market, this is a very satisfactory result.

4.0 % more direct written business and 5.8 % more business overall meant that Company growth was more vigorous than anticipated and above market average. As a result of favourable claims experience, gross claims expenses decreased by a further 0.9 %, making for a satisfying gross loss ratio of 61.9 % for the financial year. The gross cost ratio, at 29.3 %, was moderately higher as anticipated. The gross underwriting account thus also showed a significantly increased profit in 2017. The gross combined ratio, at 91.2 %, was nearly 3 percentage points below the market average.

The structure of our reinsurance operation changed in the year under review due to modification of the excess of loss programme. As a result, premium income ceded to reinsurers was reduced and reinsurance commissions received were lower. The retention rate was thus moderately higher in 2017.

Overall, these developments produced a substantially improved underwriting result net of reinsurance before adjustment of equalization reserves in the financial year 2017. After equalization reserves were adjusted, the underwriting account showed a profit of € 64.8 million net of reinsurance, which was significantly more than in the prior year.

2017 was another difficult year for investment. The year-end yield of low-risk German government bonds (Bunds) with a residual term of 10 years remained low at 0.4 %. Against this backdrop, our investment portfolios produced a satisfactory net return of 3.1 %. Investment thus continued to contribute to the success of the Company.

After allowance for other income and expenses, income before taxes totalled € 122.3 million. After taxes, profit amounted to € 123.9 million, which was transferred as a tax allocation and as a profit transfer to our parent company, Gothaer Finanzholding AG, under the existing profit tansfer agreement.

Premium income

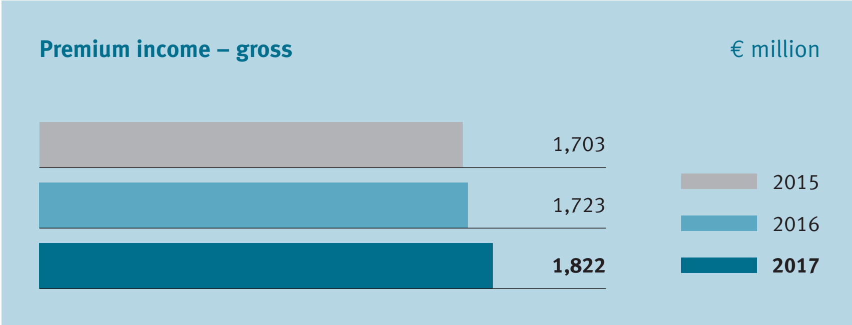
The gross premiums written by Gothaer Allgemeine Versicherung AG grew by 5.8 % in the financial year to € 1.82 billion. The volume of direct written premiums grew by € 61.7 million and reinsurance premiums assumed rose by € 37.6 million. The direct business figure was influenced by the Asstel Sachversicherung AG merger, the reinsurance figure by an amended agreement with our Polish affiliate. Even without these special effects, growth was achieved in 2017 in both areas of business.

The volume of direct written premiums totalled € 1.61 billion in the year under review (PY: € 1.55 billion). This included direct premiums of € 18.2 million written by our branch operation in France (PY: € 18.4 million).

Reinsurance premiums assumed increased from € 172.1 million in the prior year to € 209.7 million. This upturn was largely due to reinsurance business wih Gothaer Towarzystwo Ubezpieczeń S. A.

Premiums ceded to our reinsurance providers totalled € 223.7 million (PY: € 236.8 million). This made for a retention rate of 87.7 % (PY: 86.3 %). As a result, net premium income amounted to € 1,598.4 million (PY: € 1,486.0 million).

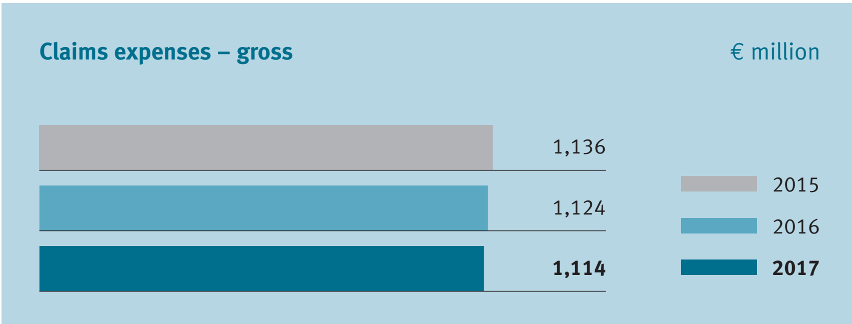
At the end of the year, the insurance portfolio comprised 6,237,264 direct policies with a residual term of a least one year (PY: 5,693,654).



Claims

The year under review produced significantly more storm and hail claims than 2016. Accordingly, the number of claims reported in 2017 rose from 359,380 to 381,382. However, the Asstel Sachversicherung AG merger was also a factor here. As for major losses, an improvement was noted. Both the number of major claims reported and the volume of major loss expenses were lower than in the prior year. Overall, gross claims expenses in connection with direct written business fell by € 11.8 million to € 996.8 million, as a result of which the gross loss ratio for direct written business unexpectedly improved to 62.0 % (PY: 65.0 %). Gross claims expenses in connection with reinsurance business assumed moderately increased, from € 115.9 million to € 117.5 million.

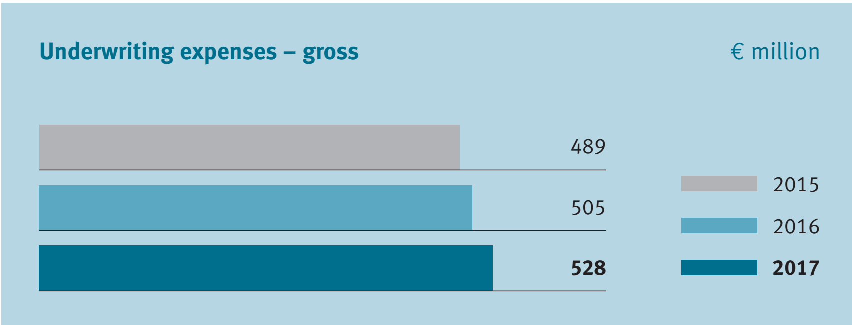
After deductions for reinsurance, total net claims expenses were marginally lower than in the prior year at € 998.6 million. The loss ratio net of reinsurance stood at 63.3 %, after 67.6 % in 2016. The loss reserve ratio net of reinsurance was 139.3 % (PY: 139.9 %). The ratio of gross underwriting reserves to gross premiums written – at 181.2 % (PY: 184.7 %) – remained at a constant high level.



Underwriting expenses

Gross underwriting expenses increased by € 23.1 million to € 528.1 million in the financial year 2017. Total underwriting expenses included € 237.1 million (PY: € 231.7 million) in acquisition costs and € 291.0 million (PY: € 273.2 million) for management of insurance policies. The gross cost ratio – defined here as the ratio of underwriting expenses to premiums written – improved from 29.3 % to 29.0 % as anticipated.

Underwriting expenses net of reinsurance totalled € 469.4 million (PY: € 445.3 million). Owing to changes in the structure of our reinsurance portfolio, reinsurance commissions were moderately lower than in the prior year, down by € 1.0 million at € 58.7 million. As a result, the cost ratio net of reinsurance improved by 0.6 percentage points to 29.4 %.



Underwriting result

The underwriting result before adjustment of equalization reserves was shaped by the development of three significant components. The upturn in underwriting expenses net of reinsurance was more than compensated by significantly increased premiums earned net of reinsurance and lower claims expenses net of reinsurance. The underwriting account before adjustment of equalization reserves thus showed a profit of € 100.6 million in the financial year 2017, after € 31.2 million in the prior year. On balance, the sum of € 35.8 million needed to be allocated to equalization reserves whereas the previous year required a € 0.7 million withdrawal. After this allocation, the underwriting result improved by € 32.9 million to € 64.8 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 and security as well as solvency 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 and thus also take account of underwriting requirements. In 2017, 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.

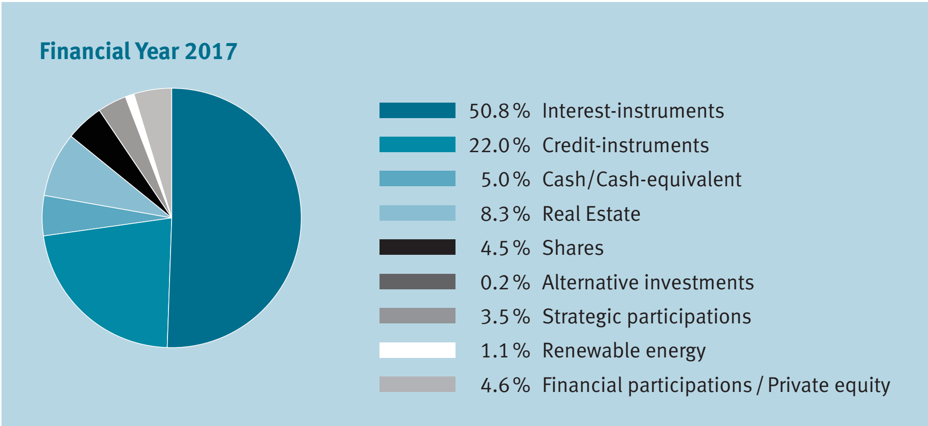
From a macroeconomic perspective, 2017 was marked by a simultaneous economic upswing in both the industrialized world and the emerging economies. The eurozone economy also continued to recover. Despite the worldwide economic upswing, general inflationary pressure remained weak in the industrial nations and even in a number of emerging economies. In view of the low inflation rates, the US Federal Reserve, the European Central Bank (ECB), the Bank of England and the Bank of Japan broadly adhered at first to their very expansive monetary policies. Only the Federal Reserve opted for a moderate rise in key lending rates and thus started shrinking its balance sheet in Q4 2017 by slowing the reinvestment of maturing securities.

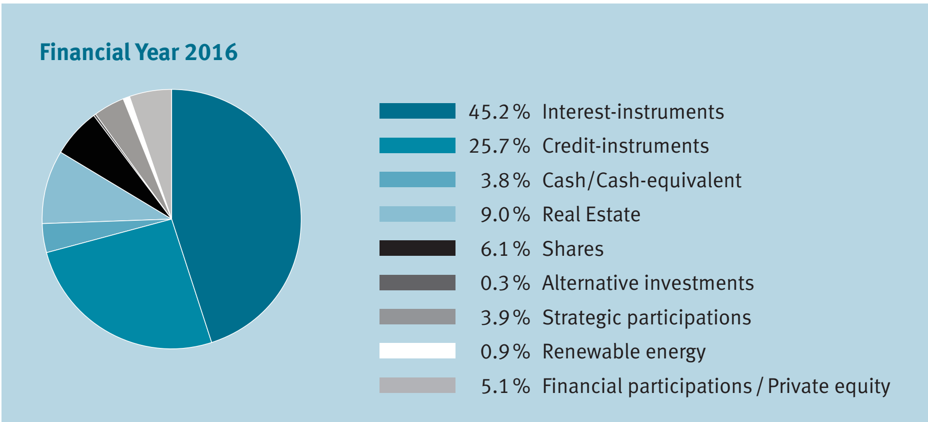
In the year under review, developments in the capital markets were shaped by the global economic expansion described above, the sustained expansive monetary policy of the central banks, political events (e.g. elections in France) and geopolitical tensions (North Korea, Middle East). The yield of low-risk German government bonds with a remaining period to maturity of 10 years mostly hovered between 0.2 % and 0.5 % in 2017. It ended the year at 0.4 %, around 0.2 percentage points higher than in 2016. 10-year US Treasuries yielded 2.4 % at the end of 2017, which was the same as the beginning of the year. Despite the (geo)political risks, 2017 proved to be an extremely successful year for stocks. While the performance of European stocks reached +9.2 % (EuroStoxx50 TR Index) in 2017, that of their Japanese counterparts rose by +22.2 % (Topix TR Index in JPY) over the year. American stocks also ended the year significantly firmer, up by +21.8 % (S&P500 TR Index in USD). However, it was emerging market stocks that topped the list of winners with a performance of +37.3 % (MSCI Emerging Markets TR Index in USD) over the year.

The book value of the Gothaer Allgemeine Versicherung AG investment portfolio increased by around € 252.2 million to € 3,508.3 million in the year under review (PY: € 3,256.1 million). Despite interest rate movements net valuation reserves at overall portfolio level grew by € 42.4 million to € 241.6 million (PY: € 199.2 million), largely as a result of much tighter spreads.

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:





Optimization of returns and – in the light of Solvency II – particularly optimization of risk in the investment portfolio continued to be a major focus of investment activity last year, with the result that a number of changes were made in asset allocation. Hedge funds were cut back further and the credit and stock ratio lowered. Moreover, in the course of tactical portfolio management, exposure to Italy and Spain was reduced. The liquidity thus released was mainly reinvested in interest-bearing instruments. Against the backdrop of Solvency II and the current financial market situation, equity investment in venture capital assets (stocks, shareholdings) continued to be limited while borrowed and hybrid capital investment, which requires little or no equity, will play a more prominent role in the future allocation of Gothaer Allgemeine Versicherung AG resources. This primarily concerns commitments and investments in the Private Equity asset class. 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 and land rights”. The renewable energy portfolio almost reached its allocation target. The stock ratio was reduced by the sale of the Gothaer Comfort funds.

In addition to high current income, extraordinary income also made an appreciable contribution to the overall result. Extraordinary income totalled € 7.3 million (PY: € 22.6 million). This included gains realized on the sale of the Gothaer Comfort funds, which were offset by write-downs, particularly on strategic shareholdings and real estate assets.

Over the year as a whole, investment income totalled € 107.0 million (PY: € 114.4 million). The overall results thus obtained made for a net return of 3.1 % (PY: 3.4 %).

Net income for the year

With the significant upturn in underwriting profit after adjustment of equalization reserves and an improved result in the non-underwriting account, income before taxes totalled € 122.3 million (PY: € 93.4 million) overall.

Shareholders’ equity

Shareholders’ equity in the Company totalled € 359.4 million at the end of 2017. A sum of € 20.0 million was transferred to the capital reserve in the year under review to strengthen our solvency ratio. There was also an addition of € 20.7 million resulting from the Asstel Sachversicherung AG merger, € 6.9 million of which was paid out as net profit to Gothaer Finanzholding AG. This made for an equity ratio – defined here as the ratio of equity to premiums earned net of reinsurance – of 22.8 % (PY: 21.8 %). 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

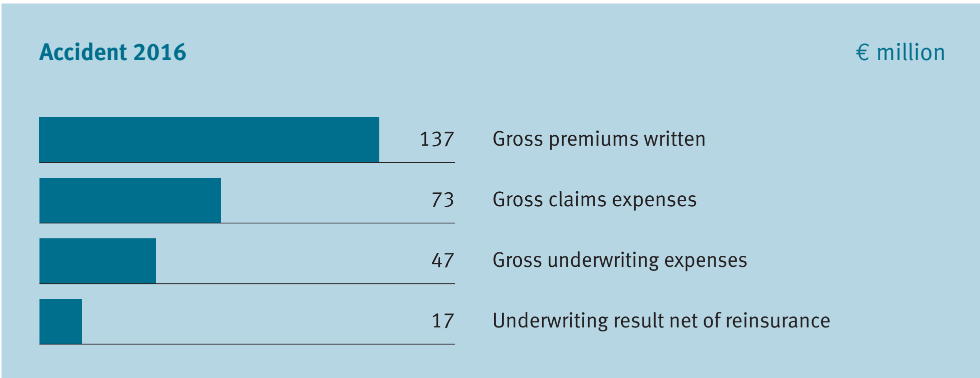
Accident

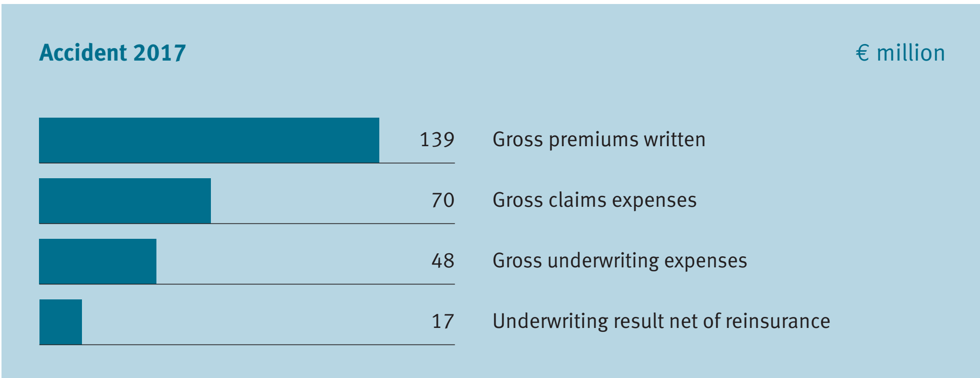
With the portfolio back on a growth path, gross premiums written in accident insurance increased by 2.0 % to € 139.3 million in the financial year 2017.

Gross premium income from accident insurance with premium return totalled € 2.9 million (PY: € 3.2 million). This form of accident insurance is a combination of insurance coverage and capital formation similar to endowment insurance. At year-end, aggregate policy reserves for the savings component of policyholders' premiums totalled € 44.2 million (PY: € 46.3 million).

Gross claims expenses decreased by € 3.4 million to € 69.9 million in the financial year, making for a gross loss ratio of 50.1 % after 53.6 % in the prior year. Gross underwriting expenses increased to € 48.0 million (PY: € 46.9 million) in line with the development of premium income.

A sum of € 7.7 million needed to be allocated to equalization reserves in the financial year (PY: € 4.5 million). After adjustment of equalization reserves, the underwriting result net of reinsurance was a profit of € 17.3 million (PY: € 17.0 million).



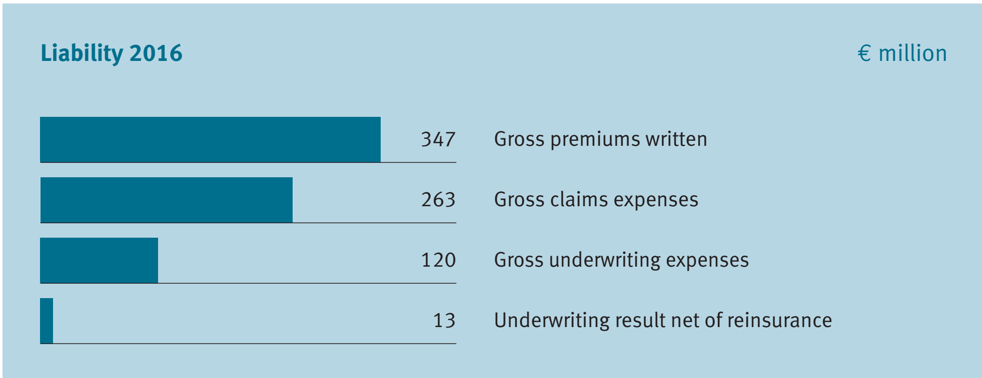


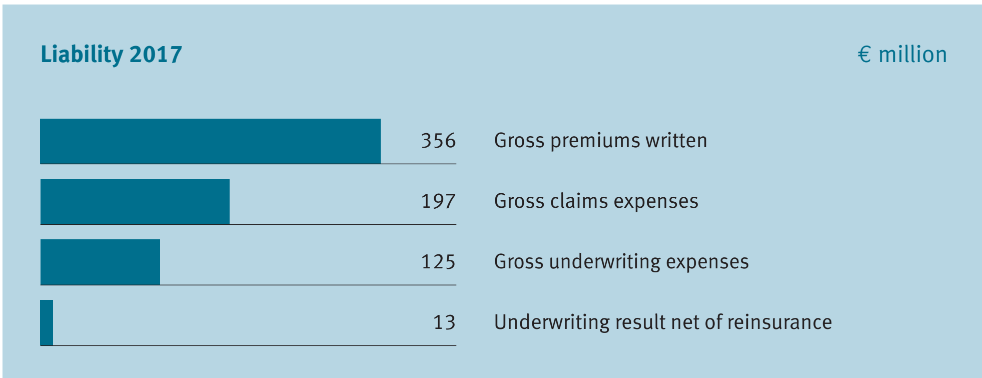
Liability

As in the prior year, premium revenues from general liability business increased. Premium income grew by 2.7 % to € 356.4 million.

At the same time, gross claims expenses fell by € 66.0 million to € 197.2 million, partly as the result of a decrease in major losses and higher run-off gains from the prior-year provision. As a consequence, the gross loss ratio improved again from 75.9 % to 55.2 %. Gross underwriting expenses rose by € 5.1 million to € 124.9 million in line with the increased volume of business.

After reinsurance and particularly after adjustment of equalization reserves, this line of insurance continued to show a positive result, generating a profit of € 13.2 million (PY: € 12.6 million).



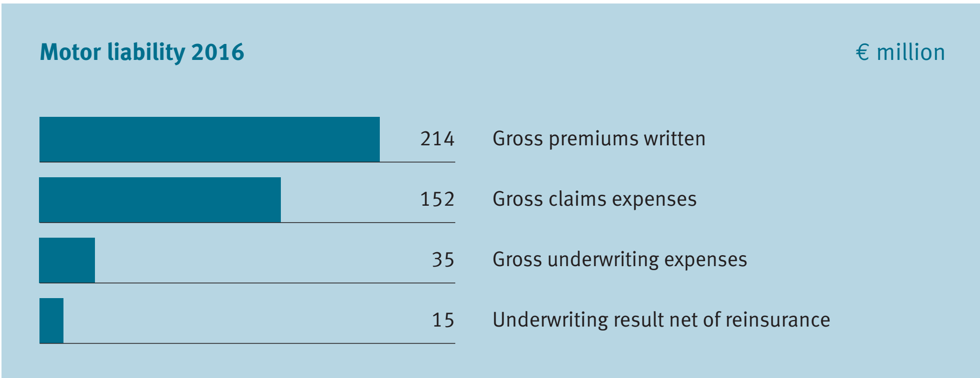


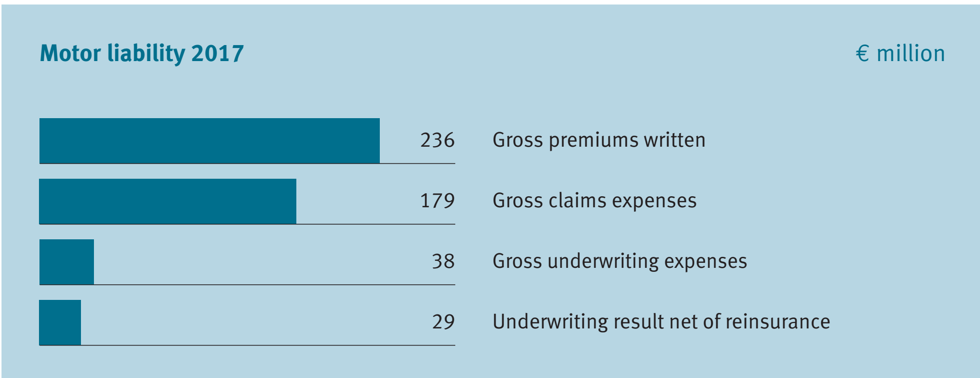
Motor liability

In motor insurance, we continue to improve our risk structure through systematic portfolio management. Despite the restrictive underwriting policy that this entails, the number of policies in force increased by 68,243, boosting gross premiums written by € 21.6 million to € 235.8 million. A significant part of the increase was due this year to the Asstel Sachversicherung AG merger.

The number of new claims fell by 4.0 % to 53,663 in the financial year 2017. At the same time, major claims expenses decreased. Overall, however, gross claims expenses rose by € 27.1 million to € 178.6 million. This made for a loss ratio of 75.7 %, after 70.7 % in the prior year. Gross underwriting expenses totalled € 38.3 million (PY: € 35.3 million).

After reinsurance and the withdrawal of € 9.6 million from equalization reserves (PY: € 4.7 million allocation), the underwriting account showed a profit of € 28.6 million in the financial year 20017 (PY: € 15.1 million).





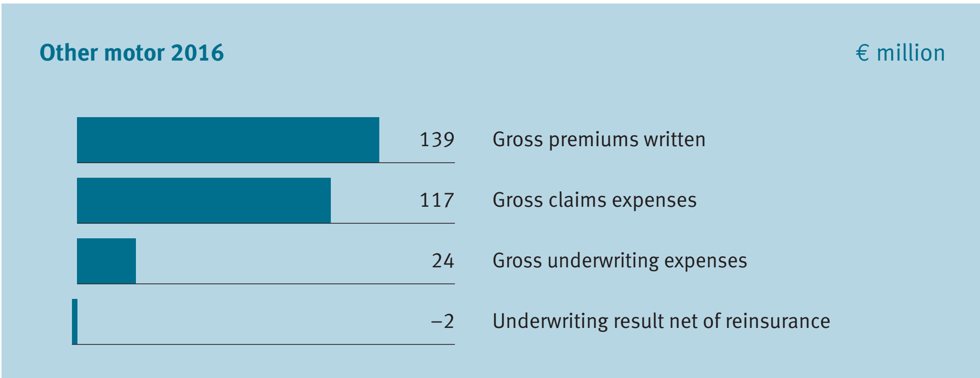
Other motor

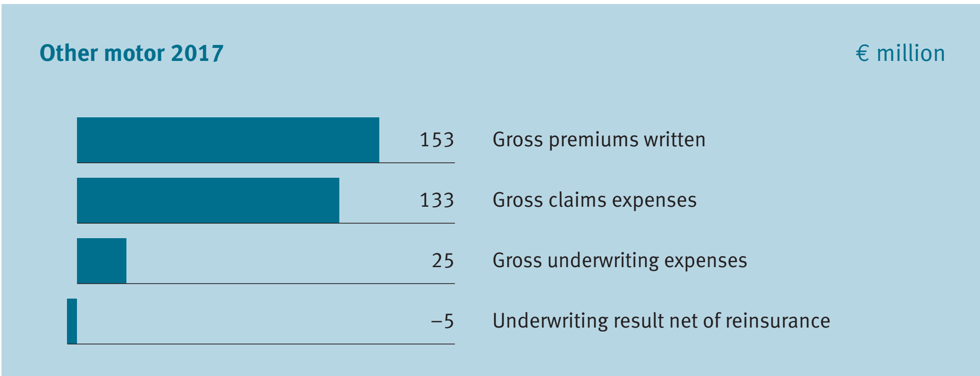
Performance in the other lines of motor insurance – which include collision & comprehensive and partial own damage insurance – is essentially dependent upon the same factors that shape motor liability business.

The other lines of motor insurance also saw an increase in both the number of policies in force and the volume of gross premiums written. The former rose by 56,969, the latter by 10.4 % to € 153.5 million. Collision & comprehensive policies accounted for € 134.3 million of this figure (PY: € 120.9 million); partial own damage premiums written totalled € 19.2 million (PY: € 18.1 million).

As in motor liability insurance, the number of claims rose in the financial year. This resulted in higher gross claims expenses, which rose to € 133.4 million (PY: € 117.5 million). The gross loss ratio stood at 86.9 %, up from 84.5 % in the prior year. Gross underwriting expenses totalled € 25.5 million (PY: € 23.5 million).

A sum of € 2.9 million was withdrawn from equalization reserves (PY: € 3.8 million withdrawal). Net of reinsurance, the underwriting account for other motor insurance continued to show a loss, which stood at € –5.5 million after € –1.5 million in the prior year.





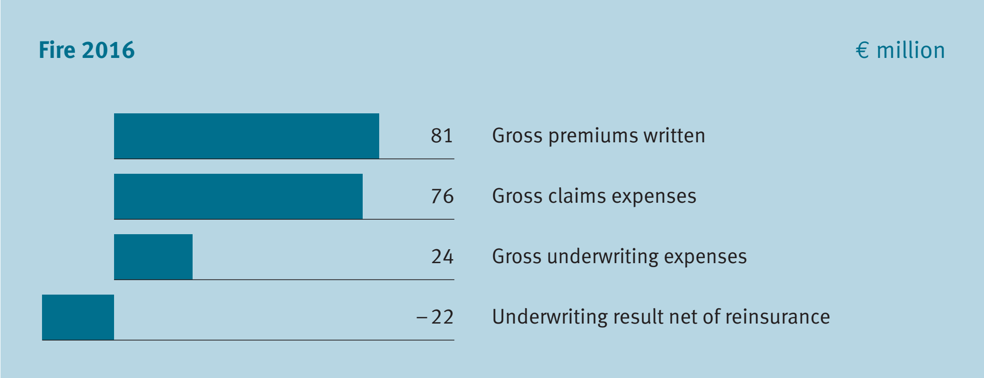
Fire

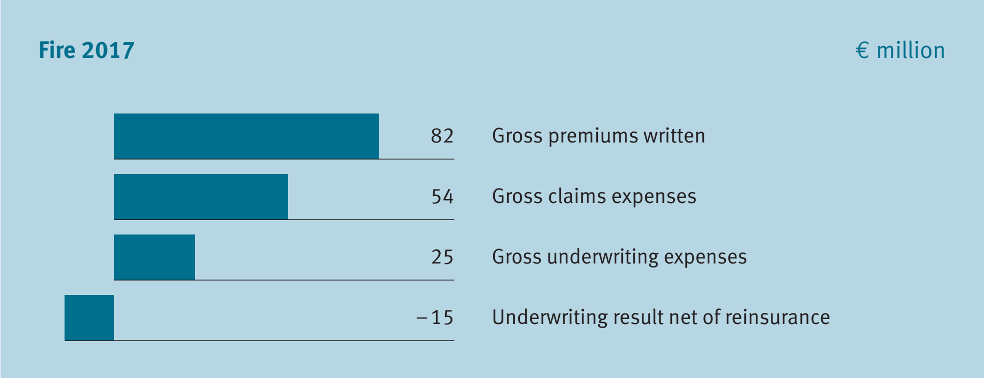
Gross premiums written in fire insurance increased by 1.7 % to € 82.3 million. This development was essentially shaped by industrial fire business, where premium income totalled € 54.1 million (PY: € 53.1 million).

In other lines of fire insurance, which include contents and fire insurance for larger commercial buildings as well as agricultural fire insurance, written premiums totalled € 28.2 million, which was € 0.4 million more than in the prior year.

The burden of major losses in fire insurance was significantly lighter in 2017, with the result that gross claims expenses decreased by € 21.7 million to € 54.3 million. The gross loss ratio consequently moved down to 66.1 % (PY: 94.4 %). Gross underwriting expenses totalled € 25.2 million (PY: € 24.2 million).

After deduction of reinsurers' shares and an allocation to equalization reserves, fire business produced a reduced underwriting loss of € – 14.6 million in the financial year (PY: € – 21.7 million).



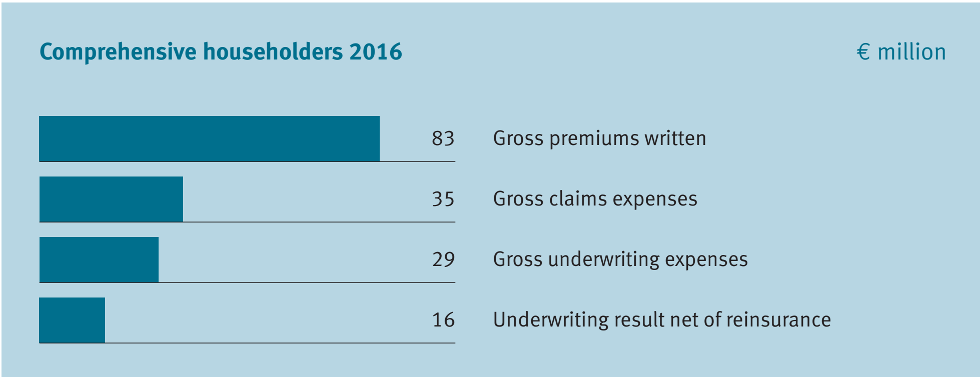


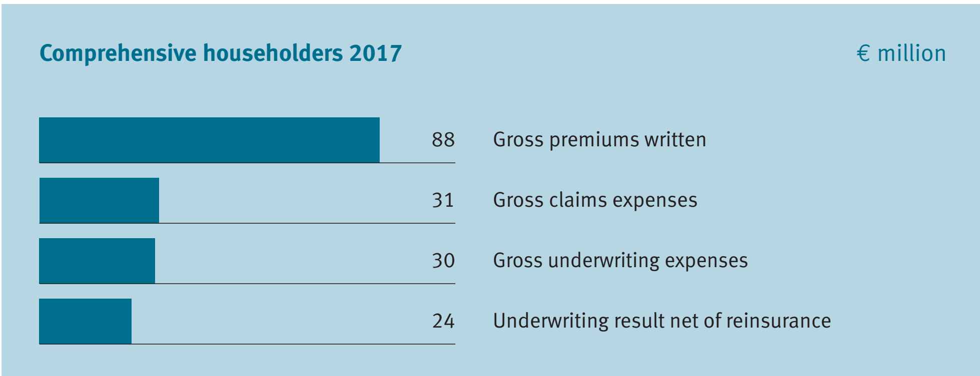
Comprehensive householders

Gross premiums written in comprehensive householders insurance rose by 6.3 % to € 87.8 million in 2017, partly as a result of the Asstel Sachversicherung AG merger.

The number of reported claims increased by 5.9 % to 31,945 in the financial year. Nonetheless, gross claims expenses totalled only € 31.3 million after € 35.4 million in the prior year. The gross loss ratio, at 35.6 % (PY: 42.8 %), remained at a very good level. Gross underwriting expenses totalled € 30.1 million (PY: € 28.5 million).

Net of reinsurance, the underwriting account for comprehensive householders insurance showed a profit of € 24.3 million in the financial year (PY: € 16.4 million).



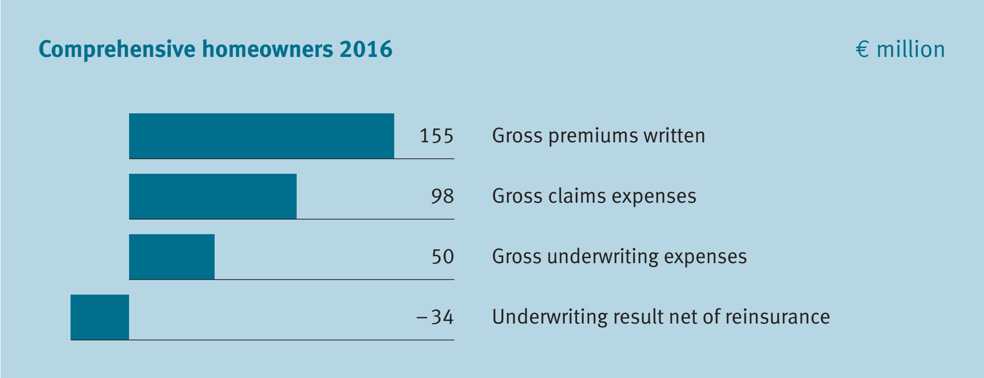


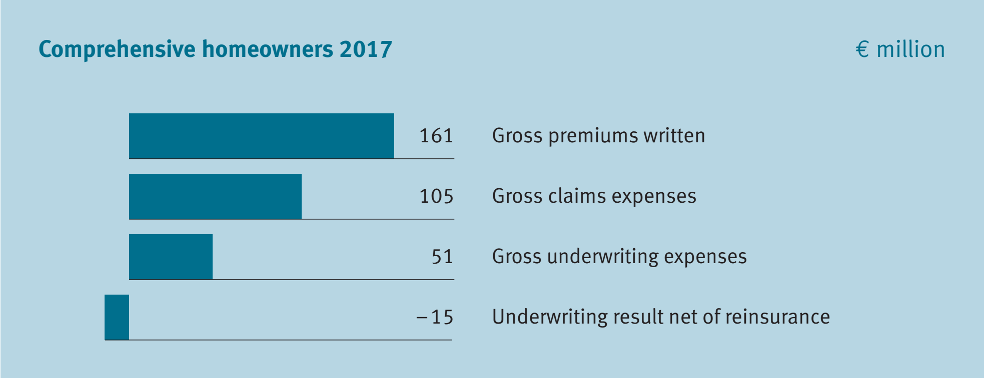
Comprehensive homeowners

The gross premiums written in comprehensive homeowners insurance showed another year-on-year increase, growing by € 6.1 million to € 161.2 million.

Comprehensive homeowners insurance is a line frequently affected by natural events. Because there were more storm and hail events in 2017 than in the prior year, the number of reported claims rose by 2.8 % to 56,320. As a result, gross claims expenses increased by € 7.7 million to € 105.3 million. This produced a gross loss ratio of 66.0 % (PY: 63.3 %). Gross underwriting expenses rose by € 1.2 million to € 50.7 million.

Reinsurers shared in the favourable claims experience. After allowance for reinsurance and an allocation to equalization reserves, the underwriting account thus again showed a loss in the financial year 2017, amounting to € – 15.1 million (PY: € – 33.8 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 0.7 % to € 233.1 million. Gross claims expenses improved moderately to € 109.6 million (PY: € 110.3 million). Gross underwriting expenses totalled € 80.8 million after € 74.7 million in the prior year.

After deduction of reinsurers' shares and transfers to equalization reserves, the underwriting account for the lines of insurance in this group showed a profit of € 19.5 million (PY: € 24.0 million).

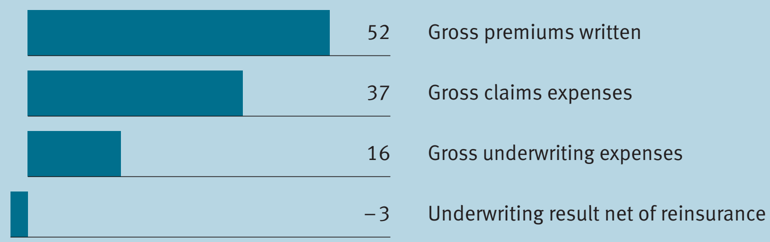
Marine and aviation

Premium income from marine and aviation insurance fell by € 4.4 million to € 47.4 million in the financial year 2017. Revenues and earnings in this class of insurance are essentially defined at Gothaer by marine insurance business.

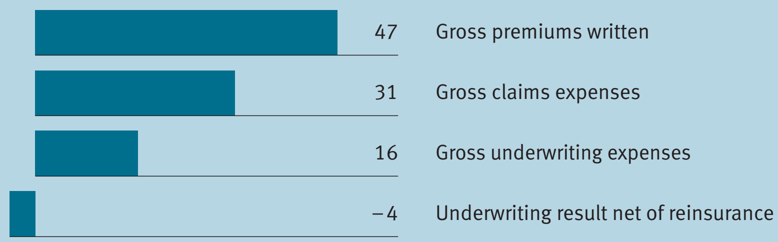
The number of claims reported during the financial year rose by 7.4 % to 5,697. Gross claims expenses increased as a result. Owing to a significant rise in run-off, total gross underwriting expenses decreased by € 6.8 million to € 30.7 million and the gross loss ratio fell from 72.2 % to 64.4 %. Gross underwriting expenses, at € 15.7 million, were virtually on a par with the € 15.6 million registered in the prior year.

Net of reinsurance, the underwriting account for the two lines showed an underwriting loss of € – 4.0 million (€ – 2.8 million) after adjustment of equalization reserves.

Marine and aviation 2016 € million



Marine and aviation 2017 € 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 € 3.9 million to € 115.6 million. The upturn resulted essentially from all risks business.

At the same time, gross claims expenses across the entire group of lines and coverages rose by € 40.2 million to € 86.5 million. This development was also essentially due to all risks business, which was affected by an exceptionally large major loss. Underwriting expenses marginally decreased, falling by € 0.4 million to € 34.4 million. These developments resulted in an underwriting loss of € 6.3 million net of reinsurance in the financial year, after a profit of € 14.1 million in the prior year.

Foreign business

Gross premiums from direct foreign business totalled € 41.8 million (PY: € 18.5 million) in the year under review, € 18.2 million of which was generated by our branch operation in France. Our local presence in France is a major prerequisite for the development of renewable energy business. This manifests itself in our market leadership as an insurer of wind power installations. As of this year, insurance cover provided within the framework of our German policies for risks located in EU member states (FOS-policies) is no longer treated as domestic business but as foreign business. The relevant premiums totalled € 23.6 million in 2017.

Comments on reinsurance business assumed

Premium income increased by € 37.6 million to € 209.7 million in the financial year 2017. The upturn was essentially due to an amended agreement with Gothaer Towarzystwo Ubezpieczeń S. A. This did not affect earned premiums or the result, however, because the increase in written premiums was offset by an increase in the change in unearned premiums. Claims expenses in connection with reinsurance business assumed rose by € 1.6 million to € 117.5 million. After significantly lower involvement of reinsurers and an allocation to equalization reserves, the underwriting account net of reinsurance showed a profit of € 7.3 million in the financial year 2017 against a loss of the same magnitude in the prior year.

List of insurance lines and coverages

Direct written insurance business

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

- **Comprehensive householders insurance**

- **Comprehensive homeowners insurance**

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

- **Credit and surety insurance**
  Delcredere insurance

- **Motorist assistance insurance**
  Motor travel service

- **Aviation and spacecraft liability insurance**

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

- **Other non-life insurance**
  Other property damage insurance, other financial loss, other combined insurance, fidelity insurance

Reinsurance business assumed	**• Health insurance • Accident insurance • Liability insurance • Motor insurance • Aviation insurance • Legal expenses insurance • Fire insurance • Comprehensive householders insurance • Comprehensive homeowners insurance • Marine insurance • Aviation and spacecraft liability insurance • Other property insurance • Other non-life insurance**

Membership in associations and similar organizations

Our 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
- Syndicat des Énergies Renouvelables, Paris
- France Énergie Éolienne, Paris
- 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 corporate success at Gothaer. That success is ensured by employees with high competence, intense motivation and exceptional commitment.

At the same time, absolute priority is assigned in our HR operations to personnel recruitment, development and retention aimed at furthering corporate strategy. In addition to offering commercially viable financial performance incentives, we rely here on targeted development and further training programmes as well as career models such as the project leader career developed and adopted in 2017. Demographic management, company health management and affirmative action for the advancement of women are also naturally elements of our multi-award winning human resource management. Especially in view of the need to maximize capacity for innovation and adaptation, Gothaer makes special efforts to develop expertise in management and change management, promote interdepartmental networking and anchor agile methodologies in project management.

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

In the coming years, our employees will become an increasingly important success factor for the continuous enhancement of our competitive strength, especially in the light of the changes in business processes and the working environment due to digitalization.

Gender quota

The Law for Equal Participation of Women and Men in Leadership Positions within the Private and Public Sector entered into force in 2015. Under it, we were required to set gender quotas by 30 September 2015 for the Supervisory Board, the Management Board and the tier or two tiers of management below the Management Board.

The table below shows the targets and status of gender diversity on 30 June 2017 as well as the new targets set by the Company for 30 June 2020:

in %	Target value 30.06.2017*	Actual value 30.06.2017	Target value 30.06.2020
Supervisory board	**33.3**	**16.7**	**33.3**
– Shareholders' side	16.7	8.3	16.7
– Employees' side	16.7	8.3	16.7
Management board	0.0	0.0	0.0
Executives			
– Management level 1	6.3	6.7	10.0
– Management level 2	4.0	5.4	10.0

* Target value 30.06.2017 is equal to actual value 30.06.2015

A vacancy at Gothaer is filled by choosing the applicant with the most appropriate professional and personal skills, regardless of gender. Positions cannot be awarded on the basis of gender alone.

The Supervisory Board of Gothaer Allgemeine Versicherung AG, which has 12 members, currently includes two women: one female member on the shareholder side and one on the staff side. The targets for the Supervisory Board failed to be achieved on either the shareholder or the staff side. In the staff representative elections held in April 2017, a male candidate was elected as successor to a male Supervisory Board member. The shareholder, exercising its right of determination and appointment, chose to retain its current representatives.

The targets for the Management Board and the tiers of management below it were met.

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 (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. As a mutual insurance company, Gothaer was founded nearly 200 years ago in the spirit of commonality. That fact should be emphasized more strongly – and the Gothaer brand positioned clearly and appropriately as a symbol of “Added Value through Fellowship”.

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 will become mandatory in Germany in February 2018.

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

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.

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 liquidity risk, strategic risk, reputational risk and legal risks, which are identified, reviewed and assessed in the course of risk inventories.

To facilitate the Group-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.

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. 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.

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

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

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

Underwriting risks

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

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

Our tariffs and provisions are calculated on the basis of actuarial models. 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 either not renewed or renewed only subject to an increased deductible or premium. Compliance with underwriting guidelines is monitored by the use of special controlling instruments. A comprehensive controlling system that identifies negative developments and deviations from projected figures also enables us to counteract undesirable developments promptly. In addition, active claims management and reinsurance are used as instruments of insurance risk management. To guard against major and accumulation losses as well as fluctuations in earnings, we pursue an active reinsurance policy. A good credit or company rating is an essential requirement for any reinsurer selected. In addition, in order to identify hazards and risks to earning capacity, we model the impacts of different loss scenarios on our portfolio within the framework of our internal risk model.

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

Our corporate client portfolio is less homogeneous and thus appreciably more volatile than the private client portfolio. We therefore attach great importance to premiums commensurate with risks and to responsible underwriting. As a result, 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 of the principal factors of our success in the corporate client segment is profit-oriented portfolio management, which also means that we consciously terminate unprofitable risks or insurance portfolios.

Reinsurance

With the soft market phase still ongoing, the renewal of reinsurance treaties on 1 January 2017 proceeded smoothly. Owing to the high supply of reinsurance capacity, all cessions were placed on terms that were regarded by Gothaer as satisfactory.

The structure of reinsurance operations in 2017 was somewhat different than in the prior year. Changes included an extension of the excess of loss reinsurance programme covering aggregate annual losses due to natural hazards. This now encompasses fire losses to take account of an increase in the excess per fire loss.

Gothaer reinsurance cessions produced a highly positive result for reinsurers in 2017. This was particularly due to the absence of highly reinsured single losses and a moderately below-average burden of expenditure in connection with natural hazards.

Gothaer continues to monitor closely the opportunities and options offered by alternative risk transfer. At present, the price of conventional reinsurance is still lower than that of alternative risk transfer. If that should change, Gothaer will quickly be in a position to restructure its reinsurance accordingly. This will be facilitated by the exchange of expertise with partners that already 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
2008	66.6	11.8
2009	67.9	12.2
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

Risks arising from reinsurance assumed

Within the Gothaer Group, Gothaer Allgemeine Versicherung AG acts as a reinsurance provider for small property/casualty insurers. This activity predominantly involves small business and private client lines. Terms are negotiated annually and are in line with current market conditions. The relationship with a cooperation partner that continued into the financial year 2017 was not renewed.

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 € 81.1 million for Gothaer Allgemeine Versicherung AG at balance sheet date. € 19.1 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 € 3.3 million, which represented an average of 1.9 ‰ of gross premiums written.

Risks arising from business ceded for reinsurance

We cede reinsurance only to high-class reinsurers. 60 % 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 € 120.0 million at balance sheet date. Accounts receivable in connection with reinsurance ceded amounted to € 51.1 million. The structure of receivables from reinsurers by rating class was as follows:

Rating class	€ million
AA	29.7
A	20.6
BBB	0.6
Ohne Rating	0.2

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 to improve the risk and earnings ratio, Gothaer Allgemeine Versicherung AG continues to attach great importance to the de-correlation of investments. So the goal of investment activity is to achieve broad diversification within and across the various asset classes and at the same time avoid excessive concentrations.

Risk situation and management

• Market change risk
Investments are exposed to the risk of possible 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 5.6 reduced the market value of interest-bearing securities by € 164.2 million (PY: € 141.1 million) in comparison to the year-end value of the portfolio.

In the renewable energy sector, more capital calls were made on existing commitments. Stock exposure was reduced by the sale of the Gothaer Comfort funds. Risk capital stress testing (20 % downturn in prices) resulted in a fall in market value of around € 104.3 million (PY: € 113.7 million) at balance sheet date.

No major investments were made in the real estate asset class because its share of the portfolio is already close to the strategic target. Real estate markets continued to develop well in 2017, most of them producing high transaction volumes.

Because of consistent valuation at market prices and the broad spread of the portfolio, it is anticipated that there will be no need for extraordinary depreciation in the next few years. A price fall of 10 % results in a loss of market value of € 31.2 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 were negligible.

Credit instruments in the fixed-interest portfolio accounted for around 22.0 % of the total volume of investments by the Company (PY: 25.7 %). At year-end, there was no significant credit risk discernible. The percentage of investments made up of subordinated financials fell to around 0.9 % by market value (PY: 1.1 %). In the coming financial year, too, further defaults on interest – perhaps even on principal – cannot be ruled out in the case of individual subordinated financials. A (partial) default on the principal of PIIS-government bonds (Portugal, Italy, Ireland, Spain) is considered unlikely. Total investment in PIIS-government bonds accounted for around 7.5 % (PY: 9.3 %) of the market value of the investment portfolio. The breakdown by country was as follows: Portugal 0.6 % (PY: 0.5 %), Spain 1.6 % (PY: 2.2 %), Ireland 2.8 % (PY: 2.2 %) and Italy 2.5 % (PY: 4.4 %). At year-end, these investments produced an aggregate unrealized profit of around € 9.6 million (PY: € 16.2 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 %
	2017	2016
AAA	21.5	18.1
AA+	9.3	6.4
AA	5.5	2.6
AA–	4.5	3.7
A+	10.3	6.2
A	4.4	6.7
A–	11.2	11.9
BBB+	7.9	12.6
BBB	16.3	19.4
BBB–	4.9	6.5
Speculative Grade (BB+ to D)	2.1	3.8
Not rated	2.1	2.1

• 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 the liquidity risk management concept implemented in 2017, 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. We also guarantee compliance with the provisions of the German Federal Data Protection Act (Bundesdatenschutzgesetz) and the code of conduct ("Verhaltensregeln für den Umgang mit personenbezogenen Daten durch die deutsche Versicherungswirtschaft") agreed by representatives of data protection agencies, consumer watchdog Verbraucherzentrale Bundesverband e. V. and the insurance industry to raise data protection standards. We protect business-critical applications by using a business continuity management process that not only ensures technological integrity but also safeguards critical business processes. Targeted checks in Data Loss Prevention systems are used to counter the risk of unintentional data loss. To achieve consistent information security and above all to maintain and, where appropriate, improve the level of security reached, we have created an Information Security Management System (ISMS) certified by DEKRA to the international standard ISO 27001:2013.

HR risks

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

Coordinated HR information and management systems guarantee that quantitative and qualitative hazard potentials are promptly identified and countered with appropriate measures. Options here include both HR IT systems (SAP HCM, HR-Cockpits, etc.) and established qualitative risk appraisal processes. In particular, Gothaer faces challenges that are typical for the industry, e.g. the need to create a multi-channel sales system and to develop solutions against the backdrop of digitalization. This presents HR-related adaptation and scarcity risks at various levels. There is thus a need to develop or procure skills and qualifications for both general application and specific areas of activity. 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. In managing and minimizing such risks, Gothaer focuses specifically on the strategy-relevant core competences of the Company as well as the positions relevant for strategy implementation.

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

Prospects for personal development in combination with competitive performance-based incentive instruments help us ensure that employees remain motivated even in times of constant change and that high performers and individuals with high potential are retained. Furthermore, Gothaer already possesses extensive experience and professional expertise in change management and is further upgrading them with targeted training in change, process and project management.

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

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

By keeping abreast of legislative activity and current case law, we are able to respond promptly to developments and implement change immediately according to the specific circumstances of the Company.

Money laundering

Internal guidelines and checks have been adopted to prevent refund-of-premium accident insurance being used to launder money or finance terrorism. For mortgage loans granted in the past by Gothaer Allgemeine Versicherung AG, run-off is handled centrally. No new mortgage loans are granted. Internal guidelines and hedging measures are also used 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.

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, which is also published on the Gothaer website (www.gothaer.de).

In 2017, two independent rating agencies gave Gothaer Allgemeine Versicherung AG positive ratings for financial stability: Standard & Poor's (S&P) and Fitch Ratings awarded A- and A (strong) follow-up ratings respectively.

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.

Forecast

General economic outlook 2018

Despite the existing (geo)political risks, the synchronized upswing of the global economy is expected to continue through 2018. A further increase in the utilization of macroeconomic production capacities is thus anticipated, which should gradually push up inflation.

Against this background, the central banks on both sides of the Atlantic will maintain the course they have set. While the US Federal Reserve is likely to raise interest rates higher and slowly shrink its balance sheet, the ECB will probably not inflate its balance sheet further this year by buying bonds. Given the prospect of slightly higher but still comparatively moderate pressure on prices, however, the central banks will continue to be very cautious.

If the macroeconomic upswing continues as forecast and the central banks pursue the monetary policies that are anticipated, government bond yields are likely to rise. With the US Federal Reserve exercising caution, however, no massive rise in US Treasury yields is expected. German government bonds (Bunds) will follow the lead of their US counterpart, although the rise of Bund yields is likely to be limited by the expected slow phase-out of the ECB bond-buying programme.

Despite the ambitious stock market valuations already seen in many places, the present growth of the global economy augurs well for positive stock market performances in 2018. Further upturns in stock prices will only materialize, however, if companies participating in the robust economic environment can secure rising profits.

Developments in the insurance industry

The development of premium revenues from property and casualty insurance business is shaped by the general economic environment, demand and prices. In 2018, the favourable development of the economic situation of private households will continue to support the development of business in the private client segment. Property and casualty insurance comprises diverse lines, which are subject to intense competition because of the high degree of market penetration. Because economic developments generally have a delayed impact on premium growth, the scope for growth in corporate client business is considered stable in 2018. Protection against cyber risks is also increasingly a focus. This is expected to be reflected in the medium term in premium revenues. Across all lines, the German Insurance Association (GDV) forecasts 2.7 % premium growth for property and casualty insurance as a whole in 2018, after 3.0 % in 2017.

(NB: Market statements are based on the appraisal published by the Gesamtverband der Deutschen Versicherungswirtschaft e.V. in 12/2017, and 03/2018, “Konjunktur und Märkte” 12/2017, “Beitragsentwicklung in der deutschen Versicherungswirtschaft” 11/2017, “ifo Geschäftsklima Versicherungswirtschaft” 11/2017, “Makro und Märkte kompakt” No. 16 12/2017)

Outlook for Gothaer Allgemeine Versicherung AG

Premium income

Our corporate strategy in the property and casualty sector in the coming year will continue to focus primarily on stable and, in particular, profitable growth.

Sound growth is projected in direct written business. Vigorous growth stimuli are particularly anticipated in the area of industrial property insurance. At the same time, we will continue to focus our attention on expanding commercial business more vigorously. In achieving that expansion, we will further drive forward the high degree of diversification achieved in recent years in our products and business segments. The customer base of our cyber insurance product launched last year is being extended to include SME clients with turnovers of less than five million euros. We will also further upgrade the Gothaer Gewerbe Protect policy that was successfully introduced to the market in 2017. Furthermore, with a view to achieving sustainably stable profitability, our focus in the coming year will be on segments with strong earnings. To ensure underwriting excellence, we are carrying out restructuring measures that will result in a significant decrease in premium income from architects liability insurance.

In the private client segment, we will offer an accident policy with a new supplementary invalidity protection module and – specially for children – with supplementary child protection as well as a supplementary child invalidity protection module. In comprehensive homeowners insurance, a product upgrade will also be introduced along with an optional no-claims bonus scheme – which is a market first. We will step up the implementation of our concepts for an agile organization with innovative working practices and a digitalized business model. 2018 will also see the launch of the Gothaer Claim Tracker, an interactive smart phone app.

In the private client segment, we project increases in premium income across all lines of insurance. Significant upturns in premium revenues are anticipated not only in motor business but also in accident, comprehensive householders and liability insurance in the coming year.

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 growing risk presented by natural disasters is hedged by purpose-designed reinsurance programmes. On the basis of our portfolio structure, we anticipate a moderately higher gross loss ratio in 2018 than in 2017.

Underwriting expenses

With the sustained implementation of efficiency programmes as well as quality improvements in processes, we will achieve positive effects in the coming year that will drive down our cost ratio.

Underwriting result

Owing to the level of claims forecast, the gross underwriting result will continue to be distinctly positive. The gross combined ratio will also remain below 95 % in the coming year.

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.

Income before taxes

In view of the projected positive development of underwriting income, we expect the coming year to produce distinctly positive net earnings despite a fall in investment income. In comparison to the exceptionally good claims situation in 2017, however, we expect total income before taxes to be moderately lower than in the prior year. We will thus remain a sound and dependable partner for clients in the future.

Proviso

The forecasts and estimates contained in this annual report were made on the basis of information available at the time. The influencing factors assumed for the purpose of forecasting may develop differently, depending on economic developments, capital market developments, unanticipated major or accumulation losses, changes in the legal or tax environment and changes in the competitive situation of the Company.

Balance Sheet as at 31 December 2017

Assets

					€ thousand
				2017	2016
A. Intangible assets					
I. Acquired concessions, industrial property rights, similar rights and assets as well as licences for such rights and assets			57,592		36,170
II. Payments in advance			13,552		22,212
				71,144	58,382
B. Investments					
I. Investments in affiliated companies and associates					
1. Shares in affiliated companies		164,120			189,359
2. Loans to affiliated companies		225,200			225,800
3. Investments in associated companies		176,555			176,210
4. Loans to associated companies		24,509			15,179
			590,384		606,548
II. Other investments					
1. Shares, investments in unit trust and funds and other non-fixed-interest securities		1,329,944			1,382,684
2. Bearer bonds and other fixed-interest securities		972,701			654,803
3. Mortgages, liens on real property and annuities		1,454			1,724
4. Other loans					
a) Registered bonds	293,992				320,517
b) Promissory notes and loans	134,431				155,660
c) Loans and advance payments on insurance policies	24				25
d) Other miscellaneous loans	12,736				10,967
		441,183			487,169
5. Bank deposits		145,600			95,300
6. Miscellaneous investments		2			2
			2,890,883		2,621,681
III. Deposits made in connection with reinsurance business assumed			27,027		27,890
of which from affiliated companies: € 26,327 thousand (PY: € 27,154 thousand)				3,508,294	3,256,119

Assets

€ thousand				
			2017	2016
C. Accounts receivable				
I. Accounts receivable in connection with direct insurance business from:				
1. Policyholders	31,564			30,567
2. Insurance agents	49,543			51,221
		81,107		81,788
II. Accounts receivable in connection with reinsurance business of which from affiliated companies: € 61,328 thousand (PY: € 36,308 thousand) of which from associated companies: € 4,986 thousand (PY: 2,645 thousand)		119,960		69,471
III. Other accounts receivable		39,865		124,581
			240,931	275,839
of which from affiliated companies: € 14,338 thousand (PY: € 90,074 thousand) of which from associated companies: € 0 thousand (PY: € 755 thousand)				
D. Other assets				
I. Tangible assets and inventories		2,480		2,378
II. Current credit balances with banks, checks and cash on hand		28,783		18,059
III. Miscellaneous assets		783		787
			32,046	21,224
E. Prepaid expenses				
I. Prepaid interest and rent		27,549		26,558
II. Other prepaid expenses		501		595
			28,050	27,152
F. Excess of plan assets over pension liability			2,584	3,466
Total assets			**3,883,049**	**3,642,182**

Shareholders' equity and liabilities

			€ thousand	
			2017	2016
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		182,435
III. Revenue reserve				
Statutory reserve		5		5
			359,423	325,602
B. Subordinate liabilities			250,000	250,000
C. Underwriting reserves				
I. Unearned premiums				
1. Gross amount	266,445			237,629
2. less:				
amounts ceded	18,756			18,059
		247,689		219,570
II. Aggregate policy reserve				
1. Gross amount	44,168			46,305
2. less:				
amounts ceded	0			0
		44,168		46,305
III. Reserve for outstanding claims				
1. Gross amount	2,550,562			2,513,288
2. less:				
amounts ceded	354,484			425,993
		2,196,078		2,087,295
IV. Reserve for performance-related and non-performance-related premium refunds				
1. Gross amount	4,426			4,955
2. less:				
amounts ceded	101			163
		4,325		4,792
V. Equalization reserves and similar reserves		432,319		376,388
VI. Other underwriting reserves				
1. Gross amount	3,843			3,561
2. less:				
amounts ceded	−1,614			−2,818
		5,457		6,378
			2,930,036	2,740,728

Shareholders' equity and liabilities

€ thousand				
			2017	2016
D. Other accruals				
I. Accruals for pensions and similar obligations		612		471
II. Accruals for taxes		11,021		13,040
III. Miscellaneous accruals		48,596		38,580
			60,229	52,091
E. Deposits held in connection with reinsurance business ceded			31,470	33,432
F. Other liabilities				
I. Accounts payable in connection with direct insurance business to				
1. Policyholders	86,577			87,709
2. Insurance agents	8,209			8,617
		94,787		96,326
II. Accounts payable in connection with reinsurance business of which to affiliated companies: € 0 thousand (PY: € 1,593 thousand)		24,582		20,944
III. Miscellaneous liabilities		132,523		123,061
of which:			251,892	240,330
for taxes: € 18,675 thousand (PY: € 17,938 thousand)				
for social security: € 0 thousand (PY: € 0 thousand)				
toward affiliated companies: € 96,357 thousand (PY: € 89,256 thousand)				
toward associated companies: € 3,679 thousand (PY: € 1,635 thousand)				
Total shareholders' equity and liabilities			**3,883,049**	**3,642,182**

I hereby confirm that the aggregate policy reserve for accident insurance with premium return shown under item C II. under Shareholders' Equity and Liabilities in the amount of € 44,167,712 and the annuity reserve for claims under item C III. in the amount of € 73,807,309 on the face of the balance sheet were calculated in compliance with sections 341f and 341g of the German Commercial Code (HGB) and the statutory instrument issued pursuant to section 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, 22 March 2018

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, 22 March 2018

Bertrams
Trustee

Income Statement for the Year Ended 31 December 2017

€ thousand

			2017	2016
I. Underwriting account				
1. Earned premiums net of reinsurance				
a) Gross premiums written	1,822,082			1,722,724
b) Reinsurance premiums ceded	223,661			236,772
		1,598,422		1,485,952
c) Change in gross unearned premiums	−22,155			7,949
d) Change in gross unearned premiums ceded	−696			1,549
		−21,458		6,400
			1,576,963	1,492,351
2. Technical interest net of reinsurance			2,741	2,800
3. Other underwriting income net of reinsurance			2,001	1,848
4. Claims expenses net of reinsurance				
a) Claims paid				
aa) Gross amount	1,125,010			1,068,700
bb) Amount ceded	192,132			129,476
		932,878		939,223
b) Change in reserve for outstanding claims				
aa) Gross amount	−10,703			55,796
bb) Amount ceded	−76,397			−14,053
		65,695		69,849
			998,573	1,009,073
5. Change in other net underwriting reserves				
a) Net aggregate policy reserve		2,137		2,793
b) Other net underwriting reserves		988		1,301
			3,125	4,094
6. Expenses for performance-related and non-performance-related premium refunds net of reinsurance			3,156	3,528
7. Underwriting expenses net of reinsurance				
a) Gross underwriting expenses		528,084		504,953
b) less: commissions and profit sharing received on reinsurance business ceded		58,679		59,635
			469,405	445,318
8. Other underwriting expenses net of reinsurance			13,109	11,963
9. Subtotal			100,588	31,211
10. Change in equalization reserves and similar reserves			−35,789	706
11. Underwriting result net of reinsurance			64,799	31,917

€ thousand				
			2017	2016
II. Non-underwriting account				
1. Investment income				
a) Income from investments of which from affiliated companies €7,723 thousand (PY: €7,957 thousand)	22,860			16,403
b) Income from other investments of which from affiliated companies €12,699 thousand (PY: €12,150 thousand)	90,206			87,567
c) Income from write-ups	4,430			8,029
d) Proceeds from the disposal of investments	27,972			43,314
		145,467		155,312
2. Investment expenses				
a) Cost of portfolio management interest expense and other expenses in connection with investments	9,831			7,633
b) Amortization of investments	23,705			21,830
c) Losses from the disposal of investments	1,362			6,882
d) Expenses from loss transfers	3,572			4,553
		38,470		40,897
			106,997	114,416
3. Technical interest			−3,075	−3,087
			103,922	111,328
4. Other income		68,917		68,310
5. Other expenses		115,372		118,130
			−46,456	−49,820
6. Income before taxes			122,266	93,425
7. Taxes on income and tax charged	−1,779			3,192
by the controlling company	47,614			36,500
		45,834		39,692
8. Other taxes		160		394
			45,995	40,086
9. Profit transferred on the basis of a profit-transfer or pooling agreement			76,271	53,339
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.

Because of the merger of Asstel Sachversicherung AG with Gothaer Allgemeine Versicherung AG on 1 January 2017, direct comparison of the figures for the financial year with those of the prior year is not possible. Against this backdrop, the following book values were transferred:

Assets of Asstel Sachversicherung AG as of 31 December 2016	€ thousand
A. Intangible assets	452
B. Investments	75,341
C. Accounts receivable	2,840
D. Other assets	1,203
E. Prepaid expenses	1,176
Total assets	**81,013**

Shareholders' equity and liabilities of Asstel Sachversicherung AG as of 31 December 2016	€ thousand
A. Shareholders' equity	20,738
B. Subordinate liabilities	0
C. Underwriting reserves	54,662
D. Other accruals	3,127
E. Other liabilities	2,487
Total shareholders' equity and liabilities	**81,013**

Currency translation

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

Intangible assets

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

Investments

Shares in affiliated and associated companies are recognized at cost 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.

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 with equity characteristics and a fixed income 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.

Shares, 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 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 individual and flat-rate value adjustments.

Tangible assets and inventories

Operating and office equipment was capitalized at cost less scheduled depreciation based on the anticipated economic life of the assets. Low-cost assets with a cost value up to € 150 were written down directly. Inventories were carried at cost.

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 BdF decree of 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, 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 2005 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		3.68 %
• 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 2005 G mortality tables developed by Prof. Dr. Klaus Heubeck, taking account of a wage and salary trend of 2.20 % and actuarial interest of 1.43 %.

The anniversary reserve is calculated by the projected unit credit method, taking account of a wage and salary trend of 2.20 % and actuarial interest of 2.81 %.

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 2017 [1)]

	Carrying amount previous year *)	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	36,170	36,623
2. Payments in advance	22,212	22,212
3. Subtotal A.	**58,382**	**58,834**
B I. Investments in affiliated companies and associates		
1. Shares in affiliated companies	189,359	189,359
2. Loans to affiliated companies	225,800	225,800
3. Investments in associated companies	176,210	176,210
4. Loans to associated companies	15,179	15,179
5. Subtotal B I.	**606,548**	**606,548**
B II. Other investments		
1. Shares, investments in unit trusts and funds and other non-fixed-interest securities	1,382,684	1,382,684
2. Bearer bonds and other fixed-interest securities	654,803	682,285
3. Mortgages, liens on real property and annuities	1,724	1,724
4. Other loans		
a) Registered bonds	320,517	348,559
b) Promissory notes and loans	155,660	166,626
c) Loans and advance payments on insurance policies	25	25
d) Other miscellaneous loans	10,967	10,967
5. Bank deposits	95,300	104,150
6. Miscellaneous investments	2	2
7. Subtotal B II.	**2,621,681**	**2,697,023**
Total	**3,286,611**	**3,362,405**

1) Exchange rate gains and losses in connection with the translation of carryforwards at 1 January are recognized as additions and disposals respectively.
*) Gothaer Allgemeine Versicherung AG
**) Gothaer Allgemeine Versicherung AG and Asstel Sachversicherung AG

€ thousand

Additions	Reclassifications	Disposals	Reversals	Amortization	Carrying amounts Financial year
0	29,223	0	0	8,254	57,592
20,563	− 29,223	0	0	0	13,552
20,563	**0**	**0**	**0**	**8,254**	**71,144**
11,341	0	32,830	1,298	5,047	164,120
2,508	0	3,108	0	0	225,200
32,078	0	28,403	78	3,407	176,555
12,621	0	3,291	0	0	24,509
58,548	**0**	**67,633**	**1,376**	**8,455**	**590,384**
19,628	0	60,176	3,054	15,246	1,329,944
423,435	0	133,020	0	0	972,701
0	0	270	0	0	1,454
589	0	55,157	0	0	293,992
10,067	0	42,257	0	4	134,431
3	0	4	0	0	24
1,900	0	132	0	0	12,736
41,450	0	0	0	0	145,600
0	0	0	0	0	2
497,072	**0**	**291,015**	**3,054**	**15,251**	**2,890,883**
576,184	**0**	**358,648**	**4,430**	**31,959**	**3,552,411**

Carrying amounts and fair value of investments

	Carrying amount	Fair value	Valuation reserves
			€ thousand
B.I. Investments in affiliated companies and associates			
1. Shares in affiliated companies	164,120	197,388	33,268
2. Loans to affiliated companies	225,200	264,935	39,734
3. Investments in associated companies	176,555	218,512	41,957
4. Loans to associated companies	24,509	24,323	–185
B.II. Other investments			
1. Shares, investments in unit trusts and funds and other non-fixed-interest securities	1,329,944	1,359,033	29,089
2. Bearer bonds and other fixed-interest securities	972,701	1,028,224	55,523
3. Mortgages, liens on real property and annuities	1,454	1,520	66
4. Other loans			
a) Registered bonds	293,992	327,809	33,817
b) Promissory notes and loans	134,431	142,730	8,299
c) Loans and advance payments on insurance policies	24	30	6
d) Other miscellaneous loans	12,736	12,808	72
5. Bank deposits	145,600	145,600	0
6. Miscellaneous investments	2	2	0
B.III. Deposits in connection with reinsurance business assumed	27,027	27,027	0
Total	**3,508,294**	**3,749,940**	**241,646**

B II. 1. and 2. include investment fund certificates, bearer bonds and other fixed-interest securities with a carrying amount of € 2,081,870 thousand that are classified as long-term assets pursuant to section 341b (2) HGB. The fair value of these assets comes to a total € 2,148,408 thousand. Hidden liabilities amounted to € 1,783 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 € 59,694 thousand with a fair value of € 65,328 thousand are included for purposes of payment of surplus bonuses. As of 31 December 2017, the difference between cost and fair value came to € 5,634 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	18,769	17,961
B.I.4.	Loans to associated companies	13,985	13,800
B.II.2.	Bearer bonds	101,689	99,907
B.II.4.a)	Registered bonds	29,453	29,354
B.II.4.b)	Promissory notes and loans	33,430	33,189
B.II.4.c)	Loans and advance payments on Insurance policies	5	5
B.II.4.d)	Other loans	1,883	1,784

In the case of associated companies, depreciation was waived because impairment was temporary and due solely to normal market fluctuations in exchange rates.

In the case of loans to associated companies, bearer bonds, registered bonds, promissory notes and loans, loans and advance payments on insurance policies as well as other loans, 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. 1.	Shares in affiliated companies		7,203	8,916
	Forward currency sales	16,960 TUSD		118
	Forward currency purchases	7,140 TUSD		–145
	Portfolio valuation unit	**9,820 TUSD**	**7,203**	**8,889**
B. I. 1.	Shares in affiliated companies		68,700	89,584
	Forward currency sales	109,840 TUSD		277
	Forward currency purchases	3,930 TUSD		–65
	Micro valuation unit	**105,910 TUSD**	**68,700**	**89,795**
B. I. 1.	Shares in affiliated companies		4,424	5,802
	Forward currency sales	7,320 TGBP		–220
	Forward currency purchases	2,170 TGBP		–15
	Portfolio valuation unit	**5,150 TGBP**	**4,424**	**5,567**
B. I. 3.	Investments in associated companies		53,743	66,893
	Forward currency sales	91,640 TUSD		606
	Forward currency purchases	11,680 TUSD		–309
	Portfolio valuation unit	**79,960 TUSD**	**53,743**	**67,190**
B. I. 3.	Investments in associated companies		6,742	16,936
	Forward currency sales	15,320 TGBP		–461
	Forward currency purchases	320 TGBP		–6
	Portfolio valuation unit	**15,000 TGBP**	**6,742**	**16,469**
B. II. 2.	Bearer bonds		45,813	47,499
	Forward currency sales	55,600 TUSD		346
	Portfolio valuation unit		**45,813**	**47,845**
B. II. 4. d)	Other loans		1,883	1,757
	Forward currency sales	2,220 TUSD		27
	Portfolio valuation unit		**1,883**	**1,784**

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	154,837	2,213	4,391	daily
Pension fund	968,634	978,685	10,052	37,468	daily or within one month
Property fund	93,974	100,468	6,494	246	daily or within max. six months
Other	18,432	26,836	8,404	210	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	2017	2016
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**	**182,435**
of which pursuant to section 272 (2) no. 4 HGB	51,821	18,000
III. Revenue reserve		
Statutory reserve	5	5
Total	**359,423**	**325,602**

Gross underwriting reserves

€ thousand	2017	2016
Accident	379,065	362,332
Liability	1,145,424	1,138,271
Motor liability	621,622	601,490
Other motor	28,751	24,891
Fire and property:	574,190	549,204
Of which		
Fire	116,473	104,824
Comprehensive householders	40,039	38,834
Comprehensive homeowners	167,245	152,716
Other property	250,434	252,830
Marine and aviation	71,545	67,233
Other insurance	113,849	99,062
Direct insurance business	2,934,446	2,842,482
Reinsurance business assumed	367,317	339,644
Total	**3,301,762**	**3,182,125**

Of which gross reserves for outstanding claims

€ thousand	2017	2016
Accident	268,253	259,761
Liability	1,009,852	1,021,987
Motor liability	542,778	519,894
Other motor	26,570	22,931
Fire and property:	345,172	348,918
Of which		
Fire	89,063	88,852
Comprehensive householders	14,399	14,672
Comprehensive homeowners	67,582	65,193
Other property	174,128	180,201
Marine and aviation	53,096	51,397
Other insurance	96,492	82,012
Direct insurance business	2,342,214	2,306,900
Reinsurance business assumed	208,348	206,388
Total	**2,550,562**	**2,513,288**

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 € 8,158 thousand (PY: € 5,814 thousand).

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

€ thousand		
Performance-related	**2017**	**2016**
Opening balance	**1.104**	**1.849**
Withdrawals	557	745
Additions	164	0
Final balance	**712**	**1.104**

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

- € 170 thousand (PY: € 199 thousand) for current surplus bonuses that have already been fixed but not yet distributed
- € 43 thousand (PY: € 56 thousand) for terminal bonuses that have already been fixed but not yet distributed
- € 23 thousand (PY: € 33 thousand) for amounts that have already been fixed but not yet distributed for participation in valuation reserves

The terminal bonus fund amounts to € 232 thousand (PY: € 319 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 2018 on the basis of contractual provisions. Where rates have changed against 2017, the prior-year rates are shown in brackets:

- **Old policies**

Interest on bonus	4.25 %	on the eligible aggregate policy reserve of basic insurance
	0.75 %	on the eligible aggregate policy reserve of bonus insurance
Basic bonus	6.00 %	on the annual return premium
Terminal bonus	15.00 %	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 %	(4.50 %)	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 guaranteed interest rates are higher than the current yield, 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 the balance of valuation reserves and valuation deficits – provided the result is positive – 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, but to the exclusion of any negative balance.

Eligible policies

All accident insurance with premium return policies are eligible.

Time of irrevocable allocation of valuation reserves

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

Determination of valuation reserves available for distribution

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

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

Allocation of valuation reserves upon maturity of policies

The valuation reserves as of the first trading date of the month preceding the month in which a policy matures are used for 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	
	2017	**2016**
Accident	44,299	34,814
Liability	77,656	61,064
Motor liability	74,854	77,914
Other motor	192	0
Fire and property:	120,516	95,707
Of which		
Fire	18,533	7,111
Comprehensive householders	0	0
Comprehensive homeowners	61,597	51,371
Other property	40,386	37,225
Marine and aviation	12,069	9,209
Other insurance	1,196	3,283
Direct insurance business	330,782	281,992
Reinsurance business assumed	101,536	94,396
Total	**432,319**	**376,388**

Other accruals

The difference resulting from the valuation of pension accruals and similar obligations totals € 84 thousand.

	€ thousand	
	2017	**2016**
III. Miscellaneous accruals for:		
Pre-retirement employment	3,290	975
Anniversary payments	11,074	11,993
Social plans/severance payments	16,945	7,802
Bonuses	8,736	4,312
Sales remuneration	143	100
Leave/Time credits	1,946	2,021
Employer's liability insurance contributions	430	440
Compensatory levy (disabled employment)	2	2
Financial statement expenses	585	586
Interest commitments	2,734	2,574
Legal disputes	347	5,202
Anticipated losses	2,366	2,574
Total	**48,596**	**38,580**

Offsetting of assets and liabilities

In line with section 246 (2) sent. 2 HGB, plan assets of € 5,866 thousand (PY: € 7,643 thousand) have been offset against corresponding pension obligations of € 6,572 thousand (PY: € 5,152 thousand). The fair value of the plan assets offset is equal to value at cost.

Other liabilities

Other liabilities include advance payments on future income from shareholdings in commercial partnerships totalling € 2,380 thousand (PY: € 5 thousand).

Notes to the Income Statement

Gross premiums written

€ thousand	2017	2016
Accident	139,288	136,541
Liability	356,376	347,066
Motor liability	235,848	214,268
Other motor	153,484	139,048
Fire and property:	564,353	550,127
Of which		
Fire	82,314	80,950
Comprehensive householders	87,769	82,530
Comprehensive homeowners	161,179	155,087
Other property	233,092	231,561
Marine and aviation	47,408	51,852
Other insurance	115,584	111,699
Direct insurance business	1,612,342	1,550,601
Reinsurance business assumed	209,740	172,122
Total	**1,822,082**	**1,722,724**

Gross premiums earned

€ thousand	2017	2016
Accident	139,322	136,704
Liability	357,018	346,916
Motor liability	235,857	214,251
Other motor	153,488	139,015
Fire and property:	562,283	549,922
Of which		
Fire	82,197	80,589
Comprehensive householders	88,020	82,700
Comprehensive homeowners	159,466	154,173
Other property	232,600	232,459
Marine and aviation	47,621	51,909
Other insurance	113,187	111,986
Direct insurance business	1,608,776	1,550,702
Reinsurance business assumed	191,152	179,971
Total	**1,799,928**	**1,730,673**

Net premiums earned

€ thousand	2017	2016
Accident	138,391	136,235
Liability	316,234	304,501
Motor liability	205,248	184,064
Other motor	132,077	117,306
Fire and property:	457,556	433,525
Of which		
Fire	50,813	43,242
Comprehensive householders	87,693	82,490
Comprehensive homeowners	135,915	129,885
Other property	183,135	177,909
Marine and aviation	46,421	50,492
Other insurance	96,774	93,938
Direct insurance business	1,392,701	1,320,060
Reinsurance business assumed	184,262	172,292
Total	**1,576,963**	**1,492,351**

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 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

€ thousand	2017	2016
Accident	69,865	73,261
Liability	197,218	263,240
Motor liability	178,627	151,505
Other motor	133,359	117,490
Fire and property:	300,576	319,322
Of which		
Fire	54,324	76,039
Comprehensive householders	31,321	35,389
Comprehensive homeowners	105,291	97,602
Other property	109,641	110,292
Marine and aviation	30,659	37,471
Other insurance	86,466	46,284
Direct insurance business	996,771	1,008,573
Reinsurance business assumed	117,536	115,923
Total	**1,114,308**	**1,124,496**

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 10.3 % of the reserve at the beginning of the period.

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

€ thousand	2017	2016
Performance-related	164	0
Non-performance-related	2,919	3,538
Direct insurance business	3,083	3,538
Reinsurance business assumed	73	–10
Total	**3,156**	**3,528**

Gross underwriting expenses

€ thousand	2017	2016
Accident	47,993	46,949
Liability	124,872	119,744
Motor liability	38,309	35,317
Other motor	25,491	23,504
Fire and property:	186,688	177,005
Of which		
Fire	25,164	24,192
Comprehensive householders	30,069	28,547
Comprehensive homeowners	50,692	49,518
Other property	80,763	74,749
Marine and aviation	15,682	15,611
Other insurance	34,394	34,834
Direct insurance business	473,429	452,965
Reinsurance business assumed	54,655	51,988
Total	**528,084**	**504,953**

Gross underwriting expenses include acquisition expenses of € 237,118 thousand and administrative expenses of € 290,966 thousand.

Net for reinsurance business
(– = credit to reinsurers)

€ thousand	2017	2016
Accident	–784	–167
Liability	–13,297	9,226
Motor liability	73	–7,713
Other motor	–2,988	–3,212
Fire and property	–25,593	–29,574
Marine and aviation	–1,180	–1,265
Other insurance	–438	–15,616
Direct insurance business	–44,207	–48,322
Reinsurance business assumed	–4,344	–14,941
Total	**–48,551**	**–63,263**

Underwriting result net of reinsurance

		€ thousand
	2017	2016
Accident	17,266	17,008
Liability	13,205	12,609
Motor liability	28,639	15,074
Other motor	−5,461	−1,535
Fire and property:	14,116	−15,150
Of which		
Fire	−14,604	−21,704
Comprehensive householders	24,328	16,389
Comprehensive homeowners	−15,059	−33,798
Other property	19,452	23,963
Marine and aviation	−3,996	−2,801
Other insurance	−6,314	14,062
Direct insurance business	57,454	39,266
Reinsurance business assumed	7,344	−7,349
Total	**64,799**	**31,917**

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

		PIF
	2017	2016
Accident	710,524	677,046
Liability	1,668,515	1,418,634
Motor liability	885,558	817,315
Other motor	687,773	630,804
Fire and property:	1,661,226	1,550,569
Of which		
Fire	103,958	101,463
Comprehensive householders	773,177	700,889
Comprehensive homeowners	336,334	328,628
Other property	447,757	419,589
Marine and aviation	23,280	22,670
Other insurance	600,388	576,616
Total	**6,237,264**	**5,693,654**

Investment expenses

Amortization of investments includes non-scheduled depreciation of € 12,729 thousand (PY: € 18,277 thousand).

Other income

Other income includes € 475 thousand (PY: € 1,743 thousand) resulting from currency translations.

Other expenses

Other expenses include € 2,704 thousand (PY: € 631 thousand) resulting from compounding of other reserves and € 4,125 thousand (PY: € 567 thousand) from currency translations.

Offsetting of income and expenses

In line with the offsetting of retirement pension commitments and the corresponding plan assets, related expenses of € 3,549 thousand (PY: € 3,183 thousand) were offset against related income of € 3,483 thousand (PY: € 3,183 thousand) as stipulated in section 246 (2) sent. 2 HGB.

Other disclosures

List of holdings

€ thousand				
Name	**Registered office**	**Interest in %**	**Shareholders' equity**	**Year result**
Aberdeen Asia Pacific II, L. P.	George Town, KY	5.26	153,650	7,180
Accession Mezzanine Capital III L. P.	St. Helier, JE	3.39	136,588	15,177
Achmea B. V.	Zeist, NL	0.48	9,774,000	– 383,000
Advanced Laser Separation International N. V. (i. L.)	Beuningen, NL	5.61	n/a	n/a
Aquila Capital Wasserkraft Invest GmbH	Hamburg	25.64	10,273	1,424
Aquila GAM Funds S. A.	Senningerberg, LU	25.64	77,995	– 2,036
Behrman Capital PEP L. P.	Wilmington, US	1.01	441,796	146,003
Behrman Capital IV, L. P.	Wilmington, US	4.80	137,498	11,019
Bioceuticals Arzneimittel AG	Bad Vilbel	4.98	42,108	6,193
Brockton Capital Fund II, L. P.	George Town, KY	2.01	497,331	23,732
Carlyle Infrastructure (Non-U.S.) L. P.	George Town, KY	3.98	n/a	n/a
City Asia Feeder GmbH & Co. KG	Frankfurt a.M.	20.00	5,486	– 1,119
CPI Capital Partners Asia Pacific, L. P.	George Town, KY	0.77	82,885	– 24,667
Curzon Capital Partners II L. P.	London, GB	5.60	17,336	– 2,691
Curzon Capital Partners III L. P.	London, GB	2.40	288,803	36,056
Curzon Capital Partners IV L. P.	London, GB	4.89	252,802	1,946
Doughty Hanson & Co. European Real Estate II, L. P.	London, GB	5.08	27,578	3,059
EMF NEIF I (A) L. P.	London, GB	6.67	29,709	8,603
EPISO III, L. P.	London, GB	1.32	912,124	117,135
EPISO IV, L. P.	London, GB	1.52	252,000	1,991
European Property Investors, L. P.	London, GB	14.30	6,429	926
European Property Investors Special Opportunities, L. P.	Edinburgh, GB	1.27	345,506	16,645
Falcon Strategic Partners V (Cayman), L. P.	George Town, KY	13.79	42,251	1,324
FirstMark Capital III L. P.	Wilmington, US	3.33	126,371	18,591
FirstMark II L. P.	Wilmington, US	13.33	256,458	30,968
GDV Dienstleistungs-GmbH	Hamburg	2.25	21,773	1,215
GG-Grundfonds Vermittlungs GmbH	Cologne	100.00	– 16,925	– 23
Goldpoint Partners Co-Investment V, L. P.	Wilmington, US	4.44	549,119	84,696
Gothaer Erste Kapitalbeteiligungsgesellschaft mbH	Cologne	20.35	39,938	4,362
Gothaer Vierte Kapitalbeteiligungsgesellschaft mbH	Cologne	19.93	10,781	4,603
Gotham City Residential Partners I, L. P.	Dover, US	9.35	53,918	93,963
HSBC NF China Real Estate GmbH & Co. KG	Düsseldorf	8.33	22,890	– 3,628
InfraRed NF China Real Estate Fund, L. P.	St Peter Port, GG	1.41	102,116	– 53,180
INVESCO Beteiligungsverwaltungs-GmbH & Co. KG	Munich	4.80	8,452	– 339
Janitos Versicherung AG	Heidelberg	100.00	16,244	0
KILOS Beteiligungs GmbH & Co. Vermietungs-KG	Pöcking	93.06	60,572	3,039

				€ thousand
Name	**Registered office**	**Interest in %**	**Shareholders' equity**	**Year result**
Munich Carlyle Productions GmbH & Co. KG	Grünwald	93.93	−64,791	−54
Nuveen Immobilien GmbH & Co. GB I KG	Frankfurt a. M.	3.35	18,129	3,049
NYLCAP 2010 Co-Invest L. P.	New York, US	39.60	29,246	7,809
NYLCap Mezzanine Partners III 2012 Co-Invest, L. P.	Wilmington, US	38.00	39,565	7,378
PE Holding USD GmbH	Cologne	40.00	201,232	24,749
PineBridge Secondary Partners III L. P.	Wilmington, US	4.54	116,764	11,482
PineBridge Secondary Partners IV Feeder S. C. Sp	Luxemburg, LU	5.28	n/a	n/a
PLA Residential Fund III Green, L. P.	Ontario, US	3.04	53,191	−16,339
Praesidian Capital Bridge Fund, L. P.	Wilmington, US	7.96	37,652	1,104
Praesidian Capital Opportunity Fund III-A, L. P.	Wilmington, US	13.06	50,059	6,460
RE Brockton Capital Fund II Feeder GmbH & Co. KG	Cologne	24.94	28,262	8,046
RE Carlyle Infrastructure Feeder GmbH & Co. KG	Cologne	13.99	25,664	7,801
RE Gothaer PLA Residential Fund III Green Feeder GmbH & Co. KG	Cologne	19.96	8,529	−1,691
RE Red Fort India Real Estate Fund I Feeder GmbH & Co. KG	Cologne	19.97	12,702	−24,381
Red Fort India Real Estate Fund I, L. P.	St Peter Port, GG	3.99	62,861	−114,712
Rocket Internet Capital Partners SCS	Luxemburg, LU	2.64	37,806	5,002
ROLAND Rechtsschutz Beteiligung GmbH	Cologne	10.00	20,285	−9
RREEF European Feeder GmbH & Co. Value Added Fund I KG	Eschborn	6.45	29,907	2,753
SIGNA Real Estate Capital Partners Development I Beteiligungs GmbH & Co. KG	Munich	4.84	11,431	27,195
SilkRoad Asia Value Parallel Fund, SICAV-SIF	Luxemburg, LU	6.29	123,188	−5,620
Surface Technologies GmbH & Co. KG	Potsdam	6.69	14,993	410
Tishman Speyer China Feeder (Scots/C), L. P.	Edinburgh, GB	15.15	35,608	−2,382
Tishman Speyer China Fund L. P.	George Town, KY	1.13	446,676	−29,716
Tristan Capital Partners Holdings Ltd.	London, GB	15.00	18,432	8,931
W. Classen GmbH & Co. KG	Kaisersesch	10.00	84,771	12,707
WAI S. C. A., SICAV- FIS	Luxemburg, LU	4.49	62,546	−2,857
Zippel Communications GmbH	Elsdorf-Heppendorf	9.16	−30,372	−157
Zippel Netmarket GmbH	Elsdorf-Heppendorf	25.86	−6,165	997

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
	2017	**2016**
1. Commissions of insurance agents within the meaning of section 92 HGB in connection with direct insurance business	333,608	321,113
2. Other remuneration of insurance agents within the meaning of section 92 HGB	632	665
3. Wages and salaries	132,143	121,967
4. Social security contributions and employee benefits	19,416	19,546
5. Post retirement benefits	6,798	4,958
6. Total expenses	**492,596**	**468,250**

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 € 609 thousand. Provisions for pension benefits for this group of individuals total € 9,133 thousand.

Remuneration paid to the Supervisory Board came to € 537 thousand; remuneration for the Advisory Board totalled € 9 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 1,852 employees in the financial year. Of these, 1,312 were employed in-house and 404 in the field. In addition, the Company had an average of 136 trainees in the course of the year.

Contingent liabilities and other financial commitments

In compliance with section 28 (1) EGHGB, accruals of € 1,538 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 € 60,613 thousand for post-retirement benefits of employees and executive officers and former employees and executive officers disclosed by Gothaer Finanzholding AG. From the present vantage there is no perceived risk of the Company having to fulfil this obligation instead of Gothaer Finanzholding AG.

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 € 1,521 thousand.

At year-end, contributions totalling € 141,435 thousand (€ 50,408 thousand of which due to affiliated companies, € 11,928 thousand of which due to associated companies) were outstanding for shares held by the Company in affiliated companies and associates as well as for other investments.

Contingent liabilities not shown in the balance sheet exist for one subsidiary and total € 61,425 thousand.

Guarantees of € 9,041 thousand were given under the bonds insurance operated in the framework of our business plan.

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

No events of special significance occurred after the conclusion of the financial year 2017.

Cologne, 27 March 2018

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 2017, the income statement for the financial year from 1 January to 31 December 2017 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 for the financial year from 1 January to 31 December 2017. In line with the requirements of German law, we have not audited the content of the corporate governance statement (proportion of women) contained in the gender quota section of the management report.

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 2017 as well as the results of its operations from 1 January to 31 December 2017 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 corporate governance statement referred to above.

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 Article 10 (2) f of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 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 2017. 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 € 2,342.2 million at balance sheet date. This was 60.3 % 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 they fail to be taken 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 launched the process for calculating reserves, identified key controls and tested them for adequacy and efficacy. 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 audited 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 on the basis of settlement results.

OUR CONCLUSIONS

The methods used and the assumptions made to value the gross reserve for reported and unreported losses in direct written business are, as a whole, appropriate.

Other Information

The legal representatives are responsible for the other information. The other information comprises the corporate governance statement and the remaining parts of the annual report, with the exception of the audited financial statements, the audited management report and our auditor's report.

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 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 23 May 2017. We were appointed by the Supervisory Board on 1 September 2017. We have been the auditor of Gothaer Allgemeine Versicherung AG without interruption, in compliance with the transitional provisions set out in Article 41 (2) of the EU Audit Regulation, 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 controlled companies, audit reviews of the financial statements of controlled companies, tax advisory services for controlled companies and certifications for foreign authorities.

Responsible Auditor

The auditor responsible for the audit is Roland Hansen.

Cologne, 23 April 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Hansen	Stümper
Wirtschaftsprüfer	Wirtschaftsprüferin

Report of the Supervisory Board

The Supervisory Board continuously monitored the conduct of business by Management in the course of the 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. In addition, the Board received detailed information at two special meetings about the consequences of the continuing low-interest phase as well as the digitalization strategy and its implementation status in the Group. The committees of the Board were also involved in informational and oversight activities. The Investment Committee, the Audit Committee and Executive Committee met three times each. 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.

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 and the results of benchmarking comparisons with similarly structured companies. Attention also centred on the solvency situation under Solvency II. Furthermore, Management reported to the Board on the status of all major strategic programmes and projects. Reporting particularly focused on the merger of Asstel Sachversicherung AG and Gothaer Allgemeine Versicherung AG, the further development of the new portfolio management system for commercial business (GoSMART), strategic gearing in the motor lines as well as the successful launch of the new product Gothaer Gewerbe Protect.

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. The key performance indicators in the separate financial statements were discussed in detail with Management and auditors, taking benchmarks of comparable companies into account. There were no objections. The Audit Committee therefore proposed to the Supervisory Board that the financial statements for the financial year 2017 should be formally adopted in accordance with section 172 AktG.

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.

Thanks to moderate claims experience, the Company again demonstrated its profitability with positive net earnings and also maintained its financial strength with an investment result that was good in comparison to the competition. This is reflected in sustained good rating results. The performance of Gothaer Allgemeine Versicherung AG was again confirmed by the ratings of Standard & Poor's (A-) and Fitch (A).

The Supervisory Board discharged its statutory duty to examine HR issues relating to Management. Dr. Christopher Lohmann, as successor to Mr. Leicht, who chose not to renew his contract for personal reasons and left the Management with effect from 31 May 2017, became chairman of the Management Board on 1 May 2017. In the course of the implementation of the current Gothaer 2020 strategy, a reassignment of executive responsibilities ensued with effect from 1 June 2017. Against this backdrop, Messrs. Michael Kurtenbach and Oliver Schoeller resigned from the Management Board of Gothaer Allgemeine Versicherung AG with effect from 31 May 2017.

The Supervisory Board also monitored the development of the proportion of women on the Management Board and Supervisory Board in 2017.

The financial statements and accompanying management report presented for the financial year 2017 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 2017, the Supervisory Board has no objections to raise. It endorses the 2017 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 extremely difficult environment.

Cologne, 8 May 2018

The Supervisory Board

Prof. Dr. Werner Görg	Peter-Josef Schützeichel	Dieter Bick
Florian Knackstedt	Carl Graf von Hardenberg	Dr. Judith Kerschbaumer
Dr. Dirk Niedermeyer	Gesine Rades	Dr. Hans-Werner Rhein
Georg Rokitzki	Thorsten Schlack	Edgar Schoenen

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