Gothaer Group
Extract from the Annual Report 2017

Key Figures
(consolidated in accordance with IFRS)

Five-Year Summary					€ million
	Financial Year				
	2017	2016	2015	2014	2013
Gross premiums written	4,423.9	4,410.9	4,516.5	4,510.7	4,301.2
Net premiums earned	3,553.3	3,708.9	3,749.6	3,687.4	3,575.1
Policyholder benefits (net)	3,434.2	4,181.5	3,910.2	3,905.0	3,835.5
Underwriting expenses (net)	1,127.6	759.4	772.8	761.5	751.9
Consolidated profit for the year	164.7	155.9	137.6	117.0	107.5
Investments	30,069.5	29,213.0	28,484.7	28,249.0	26,034.0
Investment result	1,331.2	1,591.3	1,214.0	1,106.4	1,163.4
Underwriting reserves (net)	27,168.5	26,923.7	25,194.8	25,139.5	23,363.6
Group equity	2,154.3	1,995.0	1,842.3	1,780.9	1,520.0
Employees (average number)	5,589	5,704	5,815	5,910	5,979

The Gothaer Group

With over 4.1 million members and premium income of 4.42 billion euros, the Gothaer Group is one of Germany's major insurance groups and one of the country's largest mutual insurance associations.

Thanks to first-class risk and financial concepts, our customers receive comprehensive solutions that go beyond straight insurance and financial planning. We make the handling of insurance and asset questions as agreeable and easy as possible for our customers. Our staff are committed to relieving them of hassle and finding best-fit solutions. This and our qualified advice set us apart from the competition. The result is perceptible added value for our customers and marketing partners.

Gothaer customers essentially comprise private clients and small and medium-sized businesses. For both of these groups – as well as for freelance professionals and the self-employed – we offer a wide range of cover concepts.

The Business Units

The Group parent is **Gothaer Versicherungsbank VVaG,** a mutual insurance association. The Group's financial activities are managed by Gothaer Finanzholding AG. Operational activities are handled mainly by the companies listed below:

Gothaer Allgemeine Versicherung AG is the largest risk-bearing entity in property and casualty insurance within the Gothaer Group. This company has ranked among the largest German property insurance companies ever since its foundation in the year 1820. Classical single-line products aside, its focus is primarily on combined insurance concepts and multiple-risk products. Custom solutions that take into account the specific requirements of different branches of business and industry make Gothaer a reliable partner not only for private clients, but also for commercial customers from mid-sized companies and industry. To ensure this requirement is met, products are continually refined and innovative product solutions placed in the market. Even during the product development process, the utmost importance is attached to simple, easy-to-understand products and process automation systems so that response times can be kept short for the customer. The issue of digitalization and the development of relevant concepts are given high priority. The very good product positioning in private-customer business is regularly confirmed by the corresponding product ratings of renowned institutes, like Germany's Finanztest and Ökotest magazines. In hunting-liability insurance and in the insurance of onshore wind farms, Gothaer Allgemeine Versicherung AG has positioned itself as market leader with its product solutions and experience. Regional contacts and on-site specialists ensure the necessary professional competence for customized solutions, especially in the corporate client segment.

Gothaer Lebensversicherung AG has been a partner for insurance protection, financial planning strategies and in-vestment advice for nearly 200 years. The company focuses systematically on biometrics and capital-efficient products, which are strategic business fields, as well as on company pension schemes. In recent years, the percentage of new business generated within these fields has been steadily increased. This strategic gearing takes account of the current low-interest situation and addresses the requirements of Solvency II. Gothaer optimizes and upgrades its solutions portfolio on a continuous basis. In autumn 2017, an important basis for further growth in the coming years was created with the successful launch of the new capital-efficient single premium product Gothaer Index Protect. In 2017 Gothaer Lebensversicherung AG implemented a number of digitalization initiatives, such as the Blue Postbox insurance folder and self-services for its customers. In the company pension scheme sector, considerable growth stimuli are anticipated in the coming year. With the introduction of the Act Strengthening Occupational Pensions, the German legislature further improved the environment for employers and employees. In the direct policy GarantieRente Performance, Gothaer offers attractive easy-to-implement pension solutions for employers of all sizes.

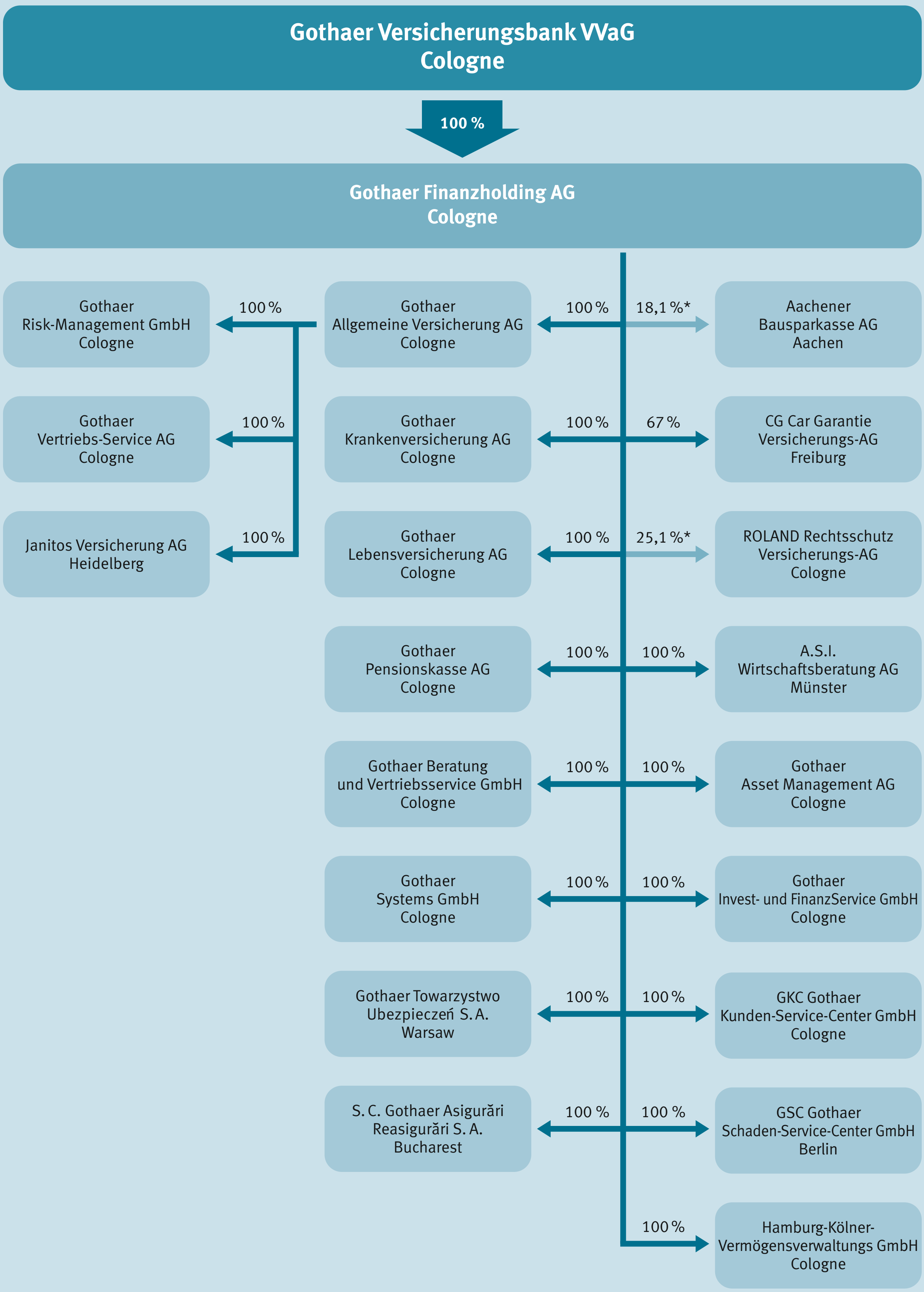
Gothaer Krankenversicherung AG is the partner for modern health insurance cover. The company caters for the trend towards greater health awareness as well as public demand for healthcare services and increasingly develops services that permit access to high-quality, effective care. Top priority here is given to protecting the health of the client. Gothaer Krankenversicherung AG has thus embarked on the journey to positioning itself as a health service provider and underlined the fact by launching a new health app for digital health services and authoritative health advice. Comprehensive health insurance thus remains a major pillar of business for Gothaer Krankenversicherung AG because, with an eye on the future, it is the only insurance that guarantees a stable level of health protection benefits. At the same time, the public financing challenges faced in the German health system are heightening the significance of policies that supplement statutory health insurance.

Gothaer continues to see considerable growth potential here because not only private clients see the value of private insurance; employers also increasingly acknowledge healthcare services for employees, and thus company health insurance schemes, as a motivating and binding argument. Here too, Gothaer Krankenversicherung AG is extending its lead in the market and extending its corporate product range with the addition of far-reaching company health management services.

Janitos Versicherung AG has been the broker insurer for the private client business in the Gothaer Group since 2005. Janitos stands for the best-possible coverage of health and assets. Its products, processes and services are systematically geared toward the primary customer 'broker' and his target market. The Janitos product portfolio is geared mainly to the Property / Casualty lines accident, private liability and comprehensive householders. The Janitos Multi-Rente policy insures clients against the financial consequences of illness and accidents and is thus the ideal alternative or supplement to occupational disability insurance. With the Janitos supplemental dental and hospitalization policies, patients with statutory health insurance can extend their medical cover beyond the basic services covered by statutory health insurance. In product ratings and broker surveys, Janitos regularly scores successes and occupies a very good position as an established broker brand in Germany and Austria.

The focus of the Gothaer Group's business activity is on the German insurance market. Through foreign subsidiaries in Poland – **Gothaer Towarzystwo Ubezpieczeń S. A.** – and Romania – **S. C. Gothaer Asigurări Reasigurări S. A.** – the Group also participates in the Eastern European property and casualty insurance market. In addition, drawing on international networks and its own branch operations in France and Austria, Gothaer supports German corporate customers in this area of business in their international activities worldwide.

The Gothaer Group



* Total Group interest
For purposes of clarity, shareholding structure simplified

July 2017

Gothaer Versicherungsbank VVaG
Extract from:
Group Annual Report for 2017 in accordance with International Financial Reporting Standards (IFRS)

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

Registered Office of the Company
Arnoldiplatz 1
50969 Cologne/Germany

Cologne Local Court, HRB 660

Table of Contents

Foreword
Letter from the Chairman of the Supervisory Board 4
Letter from the Chief Executive Officer 6

Management Report

General Economic Situation 10
Situation in the Insurance Industry 12
Group Management Report 16
Capital Management 24
Segmental Performance 27
Non-Financial Performance Indicators 34
Non-Financial Statement 39
Risk Report 44
Outlook 72

Consolidated Financial Statements

Consolidated Statement of Financial Position 82
Consolidated Statement of Comprehensive Income 84
Statement of Changes in Equity 85
Statement of Cash Flows 86
Segmental Report 88

Independant Auditor's Report 96

Report of the Supervisory Board 107

Solvency II is Basis for Value-Driven Group Management

Prof. Dr. Werner Görg,
Chairman of the Supervisory Board
of the Gothaer Group

For years now, the Group has placed great emphasis on value-driven Group management and thus also on the value-oriented underwriting of insurance business. This refers to both our capital requirements and the profitability of our products. For this is the foundation of sound profitability at Group level and ensures the maintenance of our long-term competitiveness. The Group has already achieved a great deal in this area in recent years and has seen a sustained strengthening of our position.

In this context, the Supervisory Board considers the Europe-wide uniform set of rules for European insurance companies – Solvency II – which came into force on 1 January 2016 – to be crucial. In May 2017, the ratios under Solvency II were presented to the public for the first time. Solvency II is an important component in our overall corporate planning and is explicitly identified by Management and the Supervisory Board not as a regulatory burden, but as a decisive information provider and decision-making basis for product design and the overall management of the Group. All risk carriers of the Gothaer Group meet the solvency requirements even without transitional regulations and are thus well placed to cope with extreme events as well. The Group's structure and the strong weighting of its Property/Casualty segment, with pronounced diversification, go to explain the Solvency II results, the rating results and the sound market position.

Digitalization has been the buzzword in the industry for years now, and it remains a central topic for the Gothaer Group. The Group sees digitalization as the fourth industrial revolution. It provides new, previously unknown and still-to-be-processed business fields and at the same time makes a significant contribution to a far-reaching automation and streamlining of business processes. The Group is working to meet increased customer expectations in terms of technical options, responsiveness and user-friendliness. The Group's digitalization strategy as well as the closely related multi-channel strategy in sales must continue to be consistently geared to changing customer behaviour.

The Supervisory Board welcomes the significant stepping up of cooperation with other groups, in particular with those in the legal form of mutual insurance associations (VVaG). With LM+, the insurers involved are creating an insurance network for private patients. The aim is to improve the quality of care for the insured. This is achieved by pooling expertise, exchanging know-how and strengthening negotiating positions with healthcare providers. With the "Rentenwer" pension fund, large mutual insurers are designing a needs-driven solution for company-pension schemes in accordance with Germany's Act on Strengthening Company Pension Schemes (BRSG). They are thus joint contacts for the parties to collective bargaining agreements.

With regard to investments, the Supervisory Board welcomes the decision to meet these special requirements for large institutional investors in the long term from the perspective of environment, social and governance (ESG). In this way, sustainability criteria are even better integrated into the investment process. In addition, Gothaer also supports various initiatives that improve the conditions for sustainable financing and at the same time bring more clarity and transparency to the discussion.

On behalf of the entire Supervisory Board, I would like to take this opportunity to thank all employees and executives for the positive development of the Gothaer Group in 2017. My thanks also go to the firms in the independent sales force, which once again delivered outstanding sales performance in 2017.

Yours,

The power of the community

Dr. Karsten Eichmann
Chief Executive Officer of the Gothaer Group

The Gothaer Group reports good figures for 2017 despite an ongoing challenging market environment: consolidated net income rose 5.6 % to € 164.7 million. This will further strengthen the Group's capital base: Group equity grew 8.0 % to € 2.15 billion. Gross premiums written at Group level rose by 0.3 % to € 4.42 billion. Gross premiums of the Property/Casualty segment grew 1.6 % to € 2.18 billion, while those of Gothaer Allgemeine Versicherung AG, the Group's largest Property/Casualty insurer, even rose 5.8 %. In the health insurance segment, premiums earned were up 3.4 %. The life insurance segment posted a decline by 3.9 %.

These figures are further proof that we are on the right track in implementing our Gothaer 2020 strategy. One element of this strategy is a return to our origins. Gothaer was founded in 1820 as a VVaG on the basis of the community idea. We have retained this business form down to this very day. It ensures a high degree of independence and enables us to act in the interests of our customers on a long-term and sustainable basis. To make this community idea even more visible and tangible both internally and externally, we formulated an overarching guideline in 2017 on what constitutes the core of Gothaer: Unser Antrieb – In der Gemeinschaft Werte schützen (Our aspiration – Protecting values in the community). For almost 200 years, Gothaer has been protecting everything that is important to its customers – their family, their assets, their homes, their health, their working power, in short, all that is near and dear to them.

This guideline serves on the one hand as a basic idea for our employees and executives in the Group to make community perceptible. On the other, it is also the basis for a revision of our brand positioning under the watchword "Mehr Wert durch Gemeinschaft" (Added value through community). We want our customers to feel the positive power of the community. Current results from market research confirm that customers clearly prefer this service promise as the basis for a long-term contractual relationship.

The development of the new positioning is also based on the cornerstones of the 2020 strategy with the concrete characteristics of "Kundenfokussierter Versicherungsverein" (Customer-focused insurance association) and "Digitalisiertes Geschäftsmodell" (Digitalized business model). With the new brand positioning „More value through community", the Gothaer brand is positioned vis-à-vis customers, partners and the public.

The community idea is also the basis of our strategy of bundling forces through cooperation with other companies. In 2017, for example, Gothaer founded the Rentenwerk for pensions together with four other insurance associations in order to develop a joint offer within the framework of the BRSG. Gothaer was also one of the founding members of InsurLab Germany, a platform for in-depth exchange and cooperation with start-ups. And outside this platform, too, Gothaer cooperates with different Insurtechs, which provides valuable findings and experience for both sides. For many years now, the Gothaer Group has also been cultivating an in-depth exchange of experience in European associations like Eurapco or AMICE and promoting joint product and service offerings at this level as well.

That Gothaer is a reliable and sound partner was confirmed once again in 2017 by the international rating agencies S&P Global Ratings and Fitch Ratings with good results for Gothaer's core companies. The companies are still rated "A–" and/or "A" and the outlook remains "stable". The analysts praised the strong competitive position of the Gothaer Group, which is supported by its well-diversified product and sales portfolio. Furthermore, the fact is positively emphasized that the Group is actively working on the development of even more profitable products as part of its value-driven Company management. The confirmation of its results also reflects Gothaer's strong and resilient capital base.

The main pillars of our shared success are our employees, our multi-channel organization in sales and our cooperation partners: with them, we have been mastering all challenges for almost 200 years now – jointly and successfully. Their knowledge and commitment have also contributed to the Gothaer Group being able to present a very sound financial year in 2017. Also on behalf of the entire Management, I would like to express my sincere thanks for this.

Yours,

Management Report

General Economic Situation

General economic developments in 2017

From a macroeconomic perspective, 2017 was marked by a simultaneous economic upswing in both the industrialized world and the emerging economies. Global macroeconomic activity increased by 3.6 % in 2017 (status: 9 January 2018). The rate of expansion was thus 0.2 percentage points higher than in 2015 and 0.4 percentage points up on 2016.

Against the backdrop of an expansive global macroeconomic environment, the eurozone economy continued to recover. In terms of real gross domestic product, macroeconomic activity in the eurozone is likely to have grown by 2.3 % in 2017, which again pushed up the utilization of macroeconomic production capacities.

Despite the worldwide economic upswing, general inflationary pressure remained weak in the industrial nations and even in a number of emerging economies. In the eurozone, the rise in the level of prices based on the harmonized consumer price index was significantly below 2.0 %.

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 raised key lending rates – in three stages of 25 basis points each – and thus started shrinking its balance sheet in Q4 2017 by slowing the reinvestment of maturing securities. Japan's central bank and the ECB, on the other hand, continued to expand their balance sheets by buying securities. From April onwards, however, the ECB reduced the monthly volume of additional securities it takes onto its balance sheet from € 80 billion to € 60 billion.

Capital market developments in 2017

Developments in the capital markets in the year under review 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 (Bunds) with a remaining period to maturity of 10 years mostly hovered between 0.2 % and 0.5 % in 2017. It only briefly fell below this range in February and April against the backdrop of parliamentary elections in the Netherlands and the presidential elections in France. Apart from that, the yield of 10-year Bunds edged above 0.5 % in July after remarks made by ECB President Mario Draghi at an ECB conference in Sintra, Portugal, were misinterpreted as signalling a swifter end to the bank's unconventional monetary measures.

10-year US Treasuries yielded 2.4 % at the end of 2017, which was the same as at the beginning of the year. A brief peak in yield (2.6 %) was seen in March against the backdrop of higher inflation rates and higher expectations of inflation. A subsequent fall in inflation rates and expectations, coupled with doubts about the US Federal Reserve's policy and the prospect of further interest rate hikes, caused yields to fall back by July to around 2.0 %.

Despite (geo)political risks such as the North Korea conflict and the presidential elections in France, 2017 proved to be an extremely successful year for stocks. The good performance of stocks was particularly due to the synchronous global economic growth that simultaneously boosted company profits and stock prices despite historically above-average valuations. 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.

Situation in the Insurance Industry

Developments in the insurance industry

GDP is expected to have grown by 2.5 % in 2017, which means that the economic upswing in Germany was more vigorous than anticipated. The reasons for the strength of the economy are high global demand for German exports and increasing investment by German companies. The difficulties forming a government in Germany do not pose a threat to economic development. However, more and more bottlenecks in the labour market might occur, which could limit the present sharp growth of employment. Even though consumer spending stagnated and the savings rate increased for the first time in 2017, no long-term propensity to save is anticipated because of the low level of interest rates. The economic situation of private households continues to be marked by rising disposable incomes.

Against this backdrop, figures published by the German Insurance Association (Gesamtverband der deutschen Versicherungswirtschaft e. V. [GDV]) in March 2018 – on which the following statements are based – indicate that premium income from Property/Casualty insurance is likely to carry on growing at a stable 3.0 % in 2017. In life insurance, the development of premiums was modest in 2017, edging down by 0.1 % overall. Even though growth stimuli were noted at the beginning of the year, they were outweighed during the rest of the year by the challenging low-interest phase. The downturn in premium revenues was due to weak demand for annuity policies in single premium business and for classical and even unit-linked endowment policies in regular premium business. Premium revenues from private health insurance increased sharply by around 4.3 % in 2017. In compulsory long-term care insurance, in particular, premium revenues rose vigorously as a result of the increase in benefits due to the reform of the long-term care system. Other reasons include a moderate improvement in new business and premium adjustments due to the low-interest environment. Overall, premium growth is expected to remain stable for the insurance industry at 1.8 %.

Property/Casualty

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 positive 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, at around € 4.1 billion, should exceed the prior-year figure.

Owing to a marked increase in average premiums in the motor liability and collision & comprehensive lines, premium growth in motor insurance as a whole is expected to be 4.1 % in 2017. On the other hand, claims expenses are also expected to rise steeply, by 4.1 %. This is due to a sharp upturn in the price of insurance-relevant spare parts. As a result, motor insurance business will only just produce an underwriting profit. Overall, the combined ratio will stand at 98 %.

Premiums from property insurance business are expected to grow by 3.2 %, driven particularly by the private lines. Claims expenses in comprehensive homeowners insurance were significantly higher than in the prior year, up by 10.0 %, while the combined ratio, at 100 %, still shows a balanced underwriting result. This effect was compensated by lower claims in the burglary and theft area of comprehensive householders insurance. For property insurance as a whole, claims expenses are expected to remain unchanged against 2016 and a combined ratio of 94 % is anticipated.

In general liability insurance, premium revenues are expected to rise by 1.5 % as a result of increased payroll and turnover figures in 2017. With current year claims predicted to increase by the same amount, an upturn of 2.1 percentage points is anticipated for the combined ratio, raising it to 93 %.

Premiums from personal accident insurance increased moderately in 2017, growing by 0.5 % to € 6.5 billion. The continuing downward trend in the number of policies in force was offset by indexed accident policies. Claims expenditure is expected to rise by 4.0 %, resulting in a further upturn in the combined ratio. At 79 %, however, it continues to indicate a profitable line of insurance.

Premium revenues from marine insurance are expected to be on a par with the prior year, at € 1.8 billion. With current year claims moderately higher, up by 0.5 %, and run-off results back to normal, the combined ratio should nevertheless improve significantly to 100 %.

2017 was another positive year for credit, surety and fidelity insurance. The number of policies in force is expected to have grown by 5.0 % and premium revenues by 2.0 %. With claims expenditure remaining at the prior-year level, the combined ratio will show a moderate 0.6 percentage point improvement to 67 %.

Life

2017 was a year of extreme challenges for German life insurers. The ongoing difficult low-interest environment, high transfers to additional interest reserves (Zinszusatzreserve) and the Solvency II regime in place since the beginning of 2016 require massive efforts by life insurers to strengthen their resistance. In response to this, many companies strengthened their equity base and again reduced surplus bonuses on a broad front at the beginning of the year, although the recessive trend slowed down. Furthermore, a growing number of life insurers are replacing classical guarantee products with products offering modern, reduced guarantees.

With the passage of the Act Strengthening Occupational Pensions (BRSG) in summer 2017, the framework for occupational retirement pension provision was extended by policymakers to include defined contribution schemes without guarantees. The aim is to extend the scope of company pension schemes, especially to include smaller enterprises and low earners. The legislature has adopted a two-pronged approach to the pursuit of this goal. Firstly, it has significantly extended the framework for support within existing implementation channels. Secondly, the targeted new no-guarantee pension ("Nahles pension"), recognized in collective bargaining agreements, will provide new impetus for company pension provision. This will open up new perspectives for the insurance industry.

The life insurance industry in the narrower sense (excluding pension trusts and pension funds) registered a further moderate downturn in premium revenues in 2017 (–0.2 % against the prior year). New regular premium business contracted by 4.0 % while new single premium business edged down by only 0.3 % against 2016. The number of new policies across the industry was also recessive, decreasing by 3.2 % to 4.9 million.

Life insurers' earnings also came under considerable pressure last year as a result of the sustained low-interest phase. For one thing, low interest rates reduce the profitability of investments. For another, when interest rates are low, life insurers are required by the German Commercial Code to transfer funds to additional interest reserves (Zinszusatzreserve) on their balance sheets for tariffs with high guaranteed interest and thus strengthen and secure the fulfillment of guarantee commitments under existing polices. Allocations to these policy reserves depress gross margins industry-wide and impact on profitability and the financial basis of life insurers. Additional interest reserves need to be formed for all tariff generations with actuarial interest rates above a so-called reference rate. This was reduced from 2.54 % in 2016 to 2.21 % in 2017. The year under review thus saw another tariff generation (with 2.25 % actuarial interest) become subject to the additional interest reserving requirement.

Health

The market environment for private health insurance in Germany was again heterogeneous in 2017. While comprehensive health insurance remained a focus of political discussion and thus continued to seek a stable footing in health policy, supplemental health insurance again proved a growth market.

The future of the German health system lay at the heart of the political debate in 2017. As expected, the SPD included the citizens insurance model – and thus the desire to abolish the dual health system – in its election manifesto. However, this was only moderately propagated as a core position in the election campaign. Nevertheless, after the failure of exploratory talks between CDU/CSU, FDP and the Greens and the start of talks between CDU/CSU and SPD, the future of the health system in Germany became one of the core issues of the political debate. The resulting uncertainty had a marked impact on the market, significantly undermining growth in the private health insurance sector for yet another year.

Against the backdrop of the politicized market environment, comprehensive private health insurance in force continued to decline in 2017, albeit by only a moderate 0.2 % as in the previous year. The number of persons comprehensively insured fell by 19 thousand during the course of the year to a total of 8.75 million. However, the market has significantly recovered against the low of 2013 (minus 66 thousand comprehensively insured persons).

In terms of premium revenues, the association of private health insurers PKV-Verband reports that the market for comprehensive insurance grew by 3.7 % to € 27.1 billion in 2017. Growth was particularly driven by the second law strengthening long-term care provision (Zweites Pflegestärkungsgesetz – PSG II), which came into effect on 1 January 2017 and, by introducing new degrees of care, generated a 19.6 % upturn in monthly premiums written in compulsory long-term care insurance. The lowering of the actuarial interest rate in response to the protracted low-interest environment also impacted significantly on premium increases and thus premium income across the sector, with the result that the volume of monthly premiums written in comprehensive medical expenses insurance rose by 4.1 %.

In supplemental insurance, private health insurance again showed strong growth in 2017. The number of persons insured rose by 1.7 % to a total of 25.5 million. The trend thus continues towards private provision to top up the benefits receivable under statutory health insurance. Company health insurance plans, in particular, enjoy growing popularity and still offer considerable potential in the collective policy segment both as employer-funded and as employee-funded schemes.

The major drivers of growth in supplemental insurance in 2017 again included supplemental long-term care insurance and partial medical expenses insurance, which generated 15.8 % and 4.2 % more written monthly premiums respectively. Altogether, premium revenues from supplemental insurance increased by € 343.5 million. The PKV-Verband estimates that premium income across the market as a whole grew by 4.7 % to € 39.0 billion. Insurance benefits in 2017 rose by 2.2 % to € 27.2 billion.

Group Management Report

Business developments and position of the Group

At € 4.42 billion, the premium income of the Group in the financial year 2017 was moderately higher than in the previous year. In life insurance, in particular, deliberate caution was exercised in single premium business prior to the launch of our new capital-efficient single premium product Gothaer Index Protect.

Against the backdrop of Solvency II and for tactical portfolio management reasons, reclassifications were made in the prior year within our investment portfolios. Such reclassifications also have a positive impact on the financial year, although to a minor extent. The net return on investments, at 4.5 %, is at a very good level.

For the first time, special write-downs needed to be made on deferred acquisition costs in the financial year owing to the sustained low level of interest rates. Through reserves for premium refunds, those write-downs and the recessive investment income had the effect of reducing policyholder benefits. Despite these effects, consolidated net profit for the year improved to € 164.7 million.

Premiums

The premiums written by our insurance companies, at € 4.42 billion, were better than anticipated and moderately stronger than the € 4.41 billion registered in the prior year. Primary insurance, which is our core business, accounted for an unchanged € 4.33 billion. Premiums written in reinsurance assumed from extra-group insurers – which is of only minor significance for the Gothaer Group – accounted for € 96.9 million (PY: € 83.3 million).

In the Property/Casualty segment, written premiums increased in both private and corporate client business. The upturn, at € 2.18 billion, is a 1.6 % improvement, which is better than anticipated. In the Life segment, a significant downturn of –3.9 % or € –52.1 million was noted in the financial year 2017. The fall in premiums was spread evenly over single and regular premium products. 2017 saw the launch of a new single premium product with index participation. We thus continued to replace classical pension plan products systematically with solvency-supporting capital-efficient products. This deliberate switch to biometric products and capital-efficient pension plans, which are strategically important segments, is evident in new business and thus also in the savings components. Premium income in the Health segment increased, as projected, by 3.4 % or € 31.3 million due to the fact that significantly larger amounts needed to be withdrawn from reserves for premium refunds for compulsory long-term care insurance in the financial year. Excluding the amounts withdrawn from reserves for premium refunds as well as the direct credit, gross written premiums in the Health segment increased by € 9.6 million.

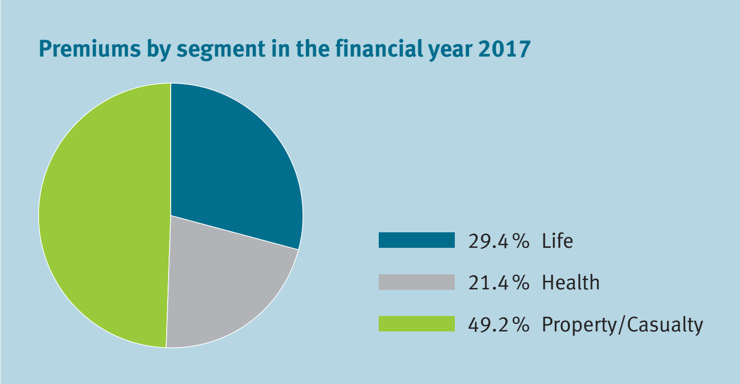
The total number of persons insured remained stable at 587 thousand. The downturn in the number of persons holding comprehensive insurance was offset by the increase in the number of persons with supplemental insurance. Low-price supplemental business – especially in collective business with corporate clients (company health insurance schemes) plays an important role in our strategy for the Health segment.

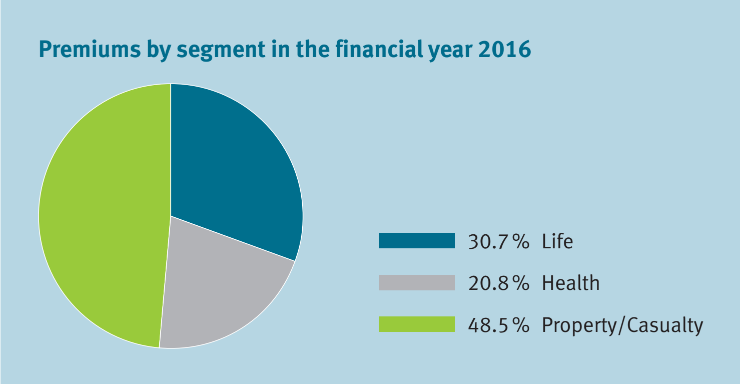
To determine the volume of net earned premiums, the reinsurance premiums ceded and the change in net unearned premiums are deducted from the gross premiums written. In addition, premium income is reduced by amount of savings components for unit-linked life insurance. However, this deduction had no effect on the consolidated net profit for the year because a reduction of the same amount was made for the allocation to policy reserves. In line with our strategy for the future in the Life segment, savings components increased by € 193.5 million to € 492.1 million. Accordingly, earned net premiums, at € 3.55 billion, were significantly lower than the prior-year figure of € 3.71 billion.

Gross written premiums

Breakdown by line of insurance		€ million
	2017	**2016**
Automotive Liability	321.7	309.7
Comprehensive Homeowners	166.8	161.2
Comprehensive Householders	108.1	107.3
Fire	93.7	90.9
General Liability	381.1	379.9
Life	1,300.2	1,352.3
Health	947.8	915.8
of which modelled on Property/Casualty insurance by Janitos AG	*9.0*	*8.3*
Marine	48.9	53.3
Other Automotive	192.7	193.4
Other Lines of Insurance	332.8	334.7
Other Lines of Property Insurance	246.1	243.7
Personal Accident	187.1	185.4
Gross premiums written in primary business	**4,327.1**	**4,327.5**
Gross premiums written in assumed business	96.9	83.3
Total	**4,423.9**	**4,410.9**

Gross written premiums





Breakdown by region € million	2017	2016
Domestic	4,054.8	4,065.8
Foreign	272.2	261.7
Gross premiums written in primary business	**4,327.1**	**4,327.5**

Our business has traditionally been concentrated in Germany. 94 % of premium income from primary insurance business is generated in the domestic market. The Group's foreign business is confined largely to countries within the European Union.

Investments

The primary goal of the Gothaer Group investment policy is to generate a robust and sustainable return in a competitive environment while taking account of the regulatory requirements relating to investment earnings, liquidity and security as well as observing the solvency requirements of Solvency II. This is ensured by the systematic use of performance management that is adjusted for risk, tailored to risk-bearing capacity and aimed at optimizing the return/risk ratio of the investment portfolio. Current investment strategy and the resulting strategic asset allocation are therefore to be seen as the outcome of a continuous and comprehensive asset liability management process that particularly takes account of the underwriting requirements. In 2017, the Gothaer Group again 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 in the current low-interest market environment and to ensure that risks are reduced overall by being spread as broadly as possible over the different types of investment.

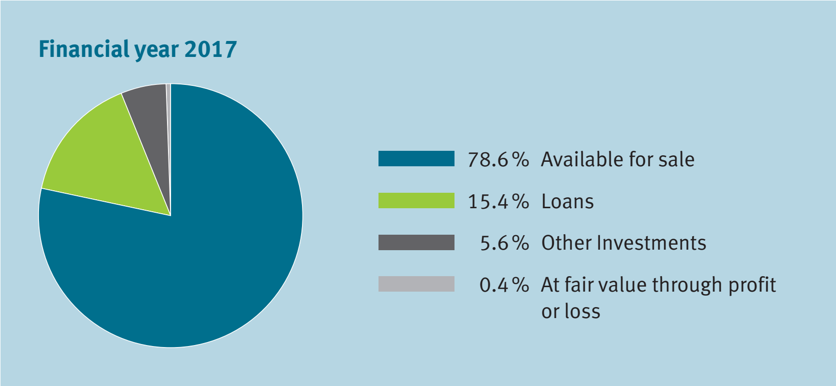
For details of developments in capital markets and the economic environment in 2017, please refer to the remarks at the beginning of this report.

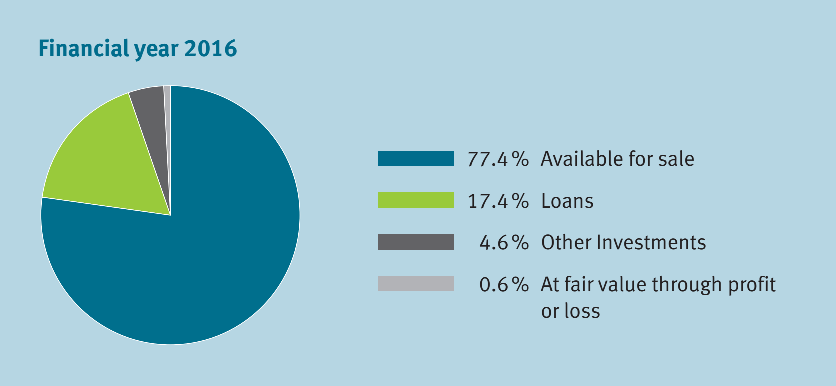
The investment volume of the Gothaer Group grew by € 0.86 billion to € 30.07 billion in the financial year. Available-for-sale financial instruments, at € 23.64 billion (PY: € 22.61 billion) accounted for more than three-quarters of total investment. After allowance for maturities and sales of around € 1.22 billion, they also made up a large percentage of new investment. The fair value reserve decreased by € 0.17 billion as a result of the movement of interest rates.

The carrying value of loans was further recessive at € 4.62 billion (PY: € 5.10 billion). Little change was seen in the carrying value of joint ventures and associated companies (FY: € 302.0 million; PY: € 301.9 million) or that of real estate held for investment (FY: € 627.1 million; PY: € 628.6 million). Other investments ended the year significantly higher than in the prior year, at € 748.3 million (PY: € 401.7 million). They essentially comprise money at call, which temporarily increased by € 358.9 million at balance sheet date. Investments carried at fair value through profit or loss, which were again held to only a limited extent, included derivative financial instruments of € 31.6 million (PY: € 49.5 million) and structured securities of € 102.6 million (PY: € 128.2 million) that were mostly not separated into host contract and derivative.

Optimization of returns and – against the backdrop of Solvency II – optimization of risk in the investment portfolio continued to be a major focus of investment activity last year. Current income totalled € 0.90 billion in 2017 (PY: € 0.98 billion). This made for a steady current interest return of 3.0 % (PY: 3.4 %) on the average volume of investment. The overall result was again influenced by extraordinary income in the financial year. Tactical portfolio management involved further reclassifications in the bond portfolio, although not on the same scale as in the prior year. The investment result – after continued systematic observance of a restrictive depreciation policy – decreased, as expected, from € 1.59 billion to € 1.33 billion. The net return on the moderately increased average volume of investment was 4.5 %, (PY: 5.5 %).

Composition of the investment portfolio





The carrying value of investments held to cover unit- or index-linked life insurance policies was € 2.25 billion in the financial year (PY: € 2.02 billion). The change in value of these investments – € 147.3 million (PY: € 71.2 million) – is recognized in the statement of income. Accordingly, the total investment result – including the result from investments for the account and risk of life insurance policyholders – totalled € 1.48 billion (PY: € 1.66 billion).

Policyholder benefits

Policyholder benefits include all expenses incurred for insureds and other claimants by the insurance companies of the Gothaer Group. In addition to claims paid, this includes changes in all underwriting reserves that the Group has formed to meet actual and potential customer claims. These changes involve, in particular, changes in the policy reserves and reserves for premium refunds of the life and health insurance carriers as well as changes in the loss reserves of the Property/Casualty and Health insurers.

Gross benefits paid to customers by the insurance companies of the Group decreased by € 842.0 million to € 3.61 billion. The relief afforded by corresponding reinsurance, at € 175.8 million, was € 94.7 million lower than in the prior year. Net benefits paid fell to € 3.43 billion (PY: € 4.18 billion) in line with our expectations. Developments differed widely here from one value driver and segment to another.

Net claims paid decreased by € 186.8 million to € 3.09 billion. In the Property/Casualty and Health segments, a marginal rise was registered in net claims paid. At the same time, net claims paid in the Life segment fell by € 227.5 million because the financial year was marked by significantly lower maturities than the prior year.

In the Life and Health segments, allocations to reserves for premium refunds amounted to € 411.9 million in the financial year, after totalling € 918.8 million in the prior year. While the transfer to reserves for premium refunds under national law, at € 321.9 million, was moderately higher than the prior-year figure of € 317.8 million, the allocation to the deferred premium refund reserve was sharply recessive at € 90.0 million (PY: € 601.0 million). Client participation in the valuation differences between IFRS and HGB needs to be taken into account in the deferred premium refund reserve. In the financial year 2017, this was influenced by lower revaluation effects in investment business as well as the special write-downs that had to be taken for the first time on deferred acquisition costs.

In the Life segment, the sum of € 304.8 million (PY: € 249.3 million) needed to be withdrawn from policy reserves in the financial year. The withdrawal was partly due to the reclassification of savings components. Set against the income reportable here from the reversal of policy reserves was an expense resulting from the reduction of savings components from net earned premiums. The withdrawal also includes the change in unit-linked life insurance. Set against the expense of the transfer to policy reserves for unit-linked life insurance, however, was income due to a change in the value of investments for the account and risk of life insurance policyholders. In the Health segment the sum of € 183.0 million (PY: € 139.7 million) needed to be transferred to policy reserves.

Total net loss reserves increased by € 38.8 million to € 2.18 billion. This was essentially due to reserves for Property/Casualty insurance. Net policy reserves rose from € 19.55 billion to € 19.70 billion at year-end, while reserves for premium refunds changed to € 4.68 billion (PY: € 4.65 billion). The net underwriting reserves of the Gothaer Group, at a total of € 27.17 billion (PY: € 26.92 billion), amounted to more than 7 times net earned premiums.

Underwriting expenses

Gross underwriting expenses include all HR and material expenses incurred for the acquisition and management of insurance policies. Apart from acquisition costs paid, which fell by € 9.0 million to € 474.5 million, acquisition expenses also include the change in deferred acquisition costs. The change in deferred acquisition costs resulted in an expense of € 375.7 million in 2017 (PY: € 8.9 million). Owing to the ongoing low level of interest rates, application of the loss recognition test in both Life and Health segments showed for the first time that a strengthening of reserves was needed. Under the rules of US-GAAP, however, deferred acquisition costs first need to be written down. Consequently, an impairment loss of € 345.0 million (PY: € 0.0 million) was recognized. Accordingly, the total carrying value of acquisition costs increased to € 850.3 million (PY: € 492.3 million). Administrative expenses rose moderately, from € 352.4 million to € 366.4 million. We continue to pursue the goal of cutting costs by raising productivity. At the same time, however, we wish to strengthen the service mentality of our office and field force staff to meet rising customer expectations.

Reinsurers' share of underwriting expenses totalled € 89.1 million, after € 85.3 million in the prior year. Net underwriting expenses were thus somewhat higher than anticipated at € 1.13 billion (PY: € 759.4 million).

Consolidated profit

Net profit for the year before taxes totalled € 305.6 million, up from € 267.6 million in the prior year. This was due not only to high investment income but also to the development of underwriting business, in particular, that of deferred reserves for premium refunds. After deduction of taxes of € 138.1 million (PY: € 109.5 million), the income statement showed a significantly improved consolidated profit for the year of € 164.7 million (PY: € 155.9 million), which exceeded our expectations.

The net profit for the year attributable to non-controlling interests amounted to € 2.9 million (PY: € 2.2 million).

Return on equity is the ratio of consolidated profit for the year to average equity excluding non-controlling interests. With average equity moderately increased, the return on equity stood at 7.9 % in the year under review (PY: 8.1 %).

Capital management

For insurance groups, capitalization is a key parameter for the assessment of risk-bearing capacity and thus an important performance indicator. Capital management enables us to ensure that adequate capital is always available to meet the operational needs of our companies and achieve optimal deployment and use of funds within the Group. This allows us to comply with legal provisions as well as with the requirements of regulatory authorities, rating agencies, analysts and clients, all of which have become significantly more exigent in recent years. Major constituents of capital management within the Gothaer Group are risk-oriented controls, asset liability management (ALM) and the treasury concept.

Capitalization

Group equity totalled € 2.15 billion (PY: € 1.99 billion) at the end of the financial year. As a mutual insurance association, the Gothaer Group has no subscribed capital. We generate equity exclusively by retention of earnings. In addition to the revenue reserves of the Group parent, Gothaer Versicherungsbank VVaG, the equity shown in the consolidated financial statements also includes the earnings of Group companies generated after initial consolidation as well as the actuarial profits and losses from defined benefit pension plans. Also taken into account in the equity of the Gothaer Group are unrealized gains and losses on investments available for sale. Changes in equity are shown on the page after the Consolidated Statement of Financial Position and the Consolidated Statement of Comprehensive Income.

As well as Group equity, Gothaer capital management also covers so-called equity surrogates. Equity surrogates include participation certificates issued by Gothaer as well as subordinate liabilities. In the year under review, equity surrogates totalled € 299.7 million (PY: € 334.3 million). In September 2017, we repaid on schedule the € 14.7 million members bond issued in May 2007; other maturing participation certificates totalling € 20.0 million will be redeemed according to contract in May 2018.

Management of debt financing in the form of bonds and loans also forms part of capital management. The carrying value of Gothaer Group bonds and loans decreased by € 17.1 million against the prior year to € 138.6 million.

The Group debt ratio is the ratio of debt capital, i.e. bonds and loans including non-eligible hybrid capital, to Group equity including eligible hybrid capital. The eligibility of hybrid capital conforms to the directive for eligibility under Solvency II. The debt ratio fell to 5.6 %, down from 6.7 % in the prior year.

Capitalization

Breakdown by type of capital	2017	2016*
€ million		
Equity	2,202.6	2,051.8
Equity surrogates		
Participation certificates	0.0	20.0
Subordinate liabilities	299.7	314.3
Bonds and loans	138.6	155.7
Total	**2,640.9**	**2,541.8**

* Comparatives after restatement

Solvency

As the parent company of a German insurance group, Gothaer Versicherungsbank VVaG is required to demonstrate to the Federal Financial Supervisory Authority (BaFin) that the solvency of the Group is sufficient to meet the requirements of Solvency II. Solvency is calculated by comparing own funds with the solvency capital requirement based on a Solvency II formula for the relevant business volume.

Fulfilment of the regulatory solvency requirements set out in the German Insurance Supervision Act (VAG) is disclosed in the Solvency and Financial Condition Report (solvency requirements and own funds), which is also published on the Gothaer website (www.gothaer.de).

Rating

Rating agencies use insurer financial strength ratings to rate an insurer's capacity to meet its obligations in connection with policies. The aim of our capital management is to ensure that we are judged at all times to be a financially strong insurer. That goal has so far been successfully achieved. The international rating agency Standard & Poor's gives the Gothaer Group and its core companies Gothaer Allgemeine Versicherung AG, Gothaer Lebensversicherung AG and Gothaer Krankenversicherung AG an A– rating. The companies' financial stability is rated "good". Gothaer Allgemeine Versicherung AG and Gothaer Lebensversicherung AG have also been given an A rating by FitchRatings, which is a "strong" rating for financial strength.

Risk-oriented control

The Gothaer Group strives for profitable growth. It thus takes a two-pronged approach to risk management. On the one hand, we set out to optimize our risk capital requirements through highly developed and integrated risk management. On the other hand, we focus on continually improving our capital base in order to increase our risk-bearing capacity. Attaining these goals secures both the continued existence and the sustainability of the Group.

The entire Gothaer Group is managed on the basis of value-oriented management principles. Taking simultaneous account of risk and return makes it possible for Management to identify value-enhancing and value-eroding areas of business.

Asset Liability Management

Asset liability management (ALM) is another core constituent of corporate management. The principal ALM activity is the annual derivation of a strategic asset allocation plan for all insurance companies.

Strategic asset allocation is underpinned by various ALM techniques (multi-year stochastic ALM projections, scenario analysis, portfolio optimization, risk budgeting) and alternative courses of action are considered. The deductive basis for strategic asset allocation is formed by company-specific target figures and performance indicators as well as the insurance companies' individual underwriting liabilities. It is developed by ALM committees at company level and approved by the relevant bodies (Management, Supervisory Board). Strategic asset allocation includes setting targets and limits for strategic asset class quotas and for the duration of the investment portfolio.

Asset allocation is verified on the basis of both market values and book values, naturally taking account of all applicable restrictions on investments (section 124ff of the German Insurance Supervision Act (VAG), Investment Ordinance (AnlV), BaFin circulars, Solvency II Guidelines).

Segmental Performance

Gothaer Group activities are divided into segments reflecting Group and reporting structure: Property/Casualty, Life, Health and Other Activities. Developments in these segments are described below.

Property/Casualty segment

The Property/Casualty segment spans the Group parent Gothaer Versicherungsbank VVaG, Gothaer Allgemeine Versicherung AG, Janitos Versicherung AG and CG Car-Garantie Versicherungs-AG. Also included are the East European companies Gothaer Towarzystwo Ubezpieczeń S. A. and S. C. Gothaer Asigurări Reasigurări S. A. 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 the largest property insurer in the Gothaer Group, Gothaer Allgemeine Versicherung AG is responsible for all significant lines and coverages in the area of property insurance, catering to the needs of both private and commercial clients. CG Car-Garantie Versicherungs-AG operates as a provider of motor repair and warranty insurance. Janitos Versicherung AG specializes in broker business and addresses the core target group of high-end private clients in property insurance.

Performance in the Property/Casualty segment

In the Property/Casualty segment, which profited from the vigorous economic upswing and the good economic situation of private households in 2017, gross premium income grew by 1.6 % to € 2.18 billion. This growth stemmed from premium increases in both primary and indirect business. As for insurance lines, the major drivers of growth in primary business were motor liability and comprehensive homeowners. With retention moderately higher than in the prior year, earned net premiums in the segment rose by 2.9 % to € 1.85 billion.

The volume of investments for the Property/Casualty segment totalled € 5.28 billion at year-end, against € 5.08 billion in the prior year. As in previous years, the lion's share of investment was in available-for-sale financial instruments, which had a carrying value of € 3.01 billion (PY; € 2.80 billion). Investment income totalled € 214.8 million in 2017, up on the prior-year figure of € 204.0 million largely as a result of gains on disposals.

Net policyholder benefits, at € 1.20 billion, remained on a par with the prior year, although both gross benefits and benefits attributable to reinsurers decreased. The financial year was marked by significantly more storm and hail losses than the prior year. As for major losses, however, an improvement was noted, with both the number of major claims reported and major loss expenses lower than in the financial year 2016. Net benefits paid decreased to € 1.09 billion (PY: € 1.13 billion). Net loss reserves were increased from € 1.73 billion to € 1.84 billion. After allowance for the higher net premium income generated, the net loss ratio of the Property/Casualty segment fell significantly to a satisfactory 64.1 % (PY: 65.5 %).

Net underwriting expenses increased from € 541.7 million in the prior year to € 573.6 million in the year under review. This upturn was due to both higher administrative expenses, which increased to € 319.3 million from the prior-year figure of € 303.9 million, and lower income from the deferral of acquisition costs. The net cost ratio stood at 31.0 % (PY: 30.1 %). As a result, the net combined ratio for the segment improved by 0.6 percentage points overall, thus ending below plan again at a satisfying 95.0 %.

The developments described above resulted in a pre-tax net profit for the year of € 208.8 million in the Property/Casualty segment, which was significantly better than in 2016 (PY: € 158.3 million). With the financial year marked by special tax effects, tax expenses were higher at € 133.0 million (PY: € 65.8 million), resulting in a reduced net profit for the year after taxes of € 75.8 million (PY: € 92.5 million).

Life segment

The Life segment includes the activities of Gothaer Lebensversicherung AG and Gothaer Pensionskasse AG. At the core of the business activities of Gothaer Lebensversicherung AG is the direct and indirect provision of all forms of life and annuity insurance as well as related supplemental insurance. The latter also includes insurance investment products as well as occupational disability and invalidity insurance. High-performance, easily communicable life and annuity insurance products are also marketed direct. Gothaer Pensionskasse AG operates as an intercompany pension scheme. It caters for companies that wish to operate a promissory pension scheme for their employees through a pension trust.

Performance in the Life segment

Gross premium income in the Life segment decreased significantly, as anticipated, by – 3.9 % or € 52.1 million. Prior to the launch of the new capital-efficient single premium product Gothaer Index Protect in September 2017, we adopted deliberately cautious approach to single premium business. Despite the fact that the volume of new business acquired in 2017, at € 330.9 million, was down on the prior year, new business continued to grow satisfactorily in the strategically important areas of biometric products and capital-efficient pension plans. Net earned premiums are gross premiums less reinsurance premiums ceded and savings components. The deduction of savings components had no effect on the net profit for the year in the segment because the allocation to policy reserves was reduced by the same amount. Savings components increased by € 193.5 million to € 492.1 million. Accordingly, net earned premiums were significantly lower than in the prior year at € 0.75 billion (PY: € 0.99 billion).

The carrying value of the Life segment investment portfolio moderately increased in the financial year, growing by € 0.26 billion to € 17.95 billion. Available-for-sale financial instruments, at € 14.07 billion, continued to account for more than three-quarters of all investment. The fair value reserve decreased by € 134.3 million as a result of interest rate movements.

In line with expectations, investment income fell back significantly to € 732.7 million (PY: € 1.02 billion). This development was due to two reasons: firstly, current income, at € 491.2 million, was lower than the prior-year figure of € 578.8 million; secondly, the disposal result took an anticipated downturn in the year under review, falling by € 175.1 million to € 378.4 million because the prior year was more significantly affected than the year under review by the special effects of the sale of part of a major shareholding and reclassifications in the bond portfolio. Investments held to cover unit- or index-linked life insurance policies generated income of € 147.3 million in the financial year, down from the prior-year total of € 71.2 million because of changes in the value of the investments.

Net policyholder benefits, which include both benefits paid and changes in underwriting reserves, decreased significantly from € 1.79 billion in the prior year to € 1.17 billion in the year under review. Net benefits paid fell sharply against the prior year, depressed from € 1.53 billion to € 1.30 billion by lower maturities. A sum of € 158.0 million (PY: € 469.3 million) was transferred to reserves for premium refunds in the financial year. The transfer to reserves for premium refunds under national law, at € 131.5 million, was moderately higher than the sum of € 110.8 million transferred in the prior year. The sharp fall in the total reserves was due to the reserves for deferred premium refunds, by which clients participate in the valuation differences between IFRS and HGB. Owing to the ongoing low level of interest rates, an impairment loss on deferred acquisition costs needed to be recognized for the first time in 2017. There were also lower revaluation effects in investments.

Policy reserves also include the change in the carrying value of unit-linked life insurance policies and the revaluation of savings components. Set against the expense of the transfer to policy reserves for unit-linked life policies recognized here, however, was income from the performance of investments for the account and risk of life insurance policyholders. A total of € 323.8 million (PY: € 263.3 million) was withdrawn from net policy reserves. The carrying value of net underwriting reserves as a whole fell to € 16.98 billion Euro (PY: € 17.08 billion).

Net acquisition expenses increased from € 123.5 million in the prior year to € 365.0 million in the year under review. This development, too, was due to the ongoing low level of interest rates, as a result of which the loss recognition test in the Life segment showed for the first time that a strengthening of reserves was needed. Under US-GAAP, deferred acquisition costs first need to be written down. The impairment loss recognized in the Life segment totalled € 251.0 million. Administrative expenses, at € 22.9 million, were moderately lower than in the prior year, as projected. We continue to pursue the goal of cutting costs by raising productivity. Overall, net underwriting expenses amounted to € 387.8 million (PY: € 148.0 million).

Owing to the developments described above, the Life segment registered a significantly lower pre-tax net profit for the year of € 31.8 million (PY: € 107.5 million). This resulted in a tax expense of € 17.7 million (PY: € 52.9 million). The statement of income for 2017 showed a reduced net profit for the year of € 14.1 million (PY: € 54.6 million).

Health segment

The Gothaer Group is represented in the Health segment exclusively by Gothaer Krankenversicherung AG. The supplemental health insurance offered by Janitos Versicherung AG is recognized in the Property/Casualty segment. As a health service provider, Gothaer Krankenversicherung AG offers insurance cover tailored to requirements, reimbursement of costs and comprehensive support in the event of illness. Aside from engaging in the classical business of comprehensive health insurance, we are also well positioned in the field of supplemental insurance. Gothaer Krankenversicherung AG markets its products primarily through the Gothaer field force. It also operates increasingly in the direct insurance market. Our focus in the Health segment is on the steady implementation of a strategy to offer high-performance, reasonably priced collective rates together with company healthcare management and numerous services to companies and their employees.

Performance in the Health segment

Gross premiums written increased by 3.4 % in 2017, as projected, climbing to € 938.7 million. The upturn in premium income was due to the fact that the volume of premiums that needed to be withdrawn from the premium refund reserve for long-term care insurance was higher than in the prior year. With net production totalling € 1.2 million (PY: € 1.3 million), new business was moderately recessive in comparison to the prior year. A further decrease was noted in the number of comprehensively insured persons in the Health segment. This development was compensated by an increase in the number of persons with supplemental insurance, so the total number of persons insured in the Health segment, at 587,075 (PY: 587,060) remained at the prior-year level. Premiums ceded to reinsurers in 2017, at € 1.7 million, were on a par with the prior year. Net earned premiums totalled € 937.1 million (PY: € 905.9 million).

The carrying value of the Health segment investment portfolio grew from € 7.34 billion to € 7.77 billion in 2017. The fair value reserve decreased by € 17.6 million, essentially as a result of interest rate movements. We systematically adhered to a long-term investment policy designed to generate stable current income. Current income moderately decreased, as anticipated, from € 238.1 million in the prior year to € 230.4 million. Furthermore, the investment result in the financial year 2017 was negatively influenced by exchange rate effects of € –62.0 million. Investment income thus remained at a good level at € 324.3 million (PY: € 366.0 million).

Net policyholder benefits decreased as anticipated from € 1.09 billion in the prior year to € 1.02 billion in the year under review. Claims paid and changes in underwriting reserves increased by a total of € 21.2 million. Transfers to policy reserves rose by € 43.3 million. Reserves for premium refunds fell by € 135.8 million. The transfer to reserves for premium refunds under national law, at € 190.4 million, was moderately lower than the prior-year figure of € 207.0 million. The sharp fall in total reserves was due to reserves for deferred premium refunds, by which clients participate in the valuation differences between IFRS and HGB. Owing to the ongoing low level of interest rates, an impairment loss on deferred acquisition costs also needed to be recognized for the first time in the Health segment in 2017. There were also lower revaluation effects in investments.

Acquisition expenses rose to € 141.6 million (PY: € 45.5 million). This was another development due to the ongoing low level of interest rates, as a result of which the loss recognition test in the Health segment showed for the first time that a strengthening of reserves was needed. Under the rules of US-GAAP, deferred acquisition costs first need to be written down. The impairment loss in the Health segment amounted to € 94.0 million. Administrative expenses, at € 22.3 million, remained at the prior-year level. As a result of the impairment loss, net claims expenses increased from € 68.3 million in the prior year to € 163.9 million in the year under review.

The developments described on deferred acquisition cost front resulted in a lower pretax net profit for the year of € 49.0 million, as compared with € 96.0 million in the prior year. After deduction of the tax expense of € 21.1 million (PY: € 34.9 million), the net profit for the year in the Health segment was thus significantly lower at € 27.9 million (PY: € 61.1 million).

Other Activities segment

Companies operating in the Other Activities segment include Gothaer Finanzholding AG and the Group's service providers. Gothaer Finanzholding AG, as the holding company of the Gothaer Group, holds all the shares in the main insurance companies and many other Group companies. As of the financial year 2004, the portfolio run-off of the former Gothaer Rückversicherung AG is handled by Gothaer Finanzholding AG. Gothaer Finanzholding AG is included in the Other Activities segment and not the Property/Casualty segment because its primary function is as a holding company.

Among the main service providers is Gothaer Asset Management AG, which invests and manages financial assets for Group companies and third parties.

Gothaer Systems GmbH is the Gothaer Group's data centre and network operator and a provider of other services in the area of information technology and software programming, including applications development.

Other important services that are needed to maintain Group companies' operations are provided by Hamburg-Kölner-Vermögensverwaltung GmbH. The company purchases office furnishings and supplies for Group companies, rents office space and performs other services in the areas of facility management, company catering services, printing and advertising.

Performance in the Other Activities segment

The operations of Gothaer Finanzholding AG in the Other Activities segment consist of handling the residual insurance run-off of the former Gothaer Rückversicherung AG. In 2016, Gothaer Finanzholding AG also wrote life reinsurance business within the Gothaer Group. Net earned premiums, at € 18.3 million, were on a par with the prior-year figure of € 19.0 million.

Run-off of the former Gothaer Re reinsurance portfolio continues to proceed on target. For a large part of the run-off portfolio – in preparation for a portfolio transfer – a loss portfolio transfer was concluded. In addition, intra-Group reinsurance in the non-life division was commuted. This resulted in high run-off gains. As a consequence, total net loss reserves decreased significantly, falling from € 171.3 million in the prior year to € 65.9 million in the year under review. Life reinsurance business resulted in the recognition of net policy reserves totalling € 258.5 million (PY: € 239.5 million). Overall, net policyholder benefit expenses responded by falling to € 11.5 million (PY: € 16.2 million). The underwriting result for the segment, at € 4.5 million (PY: € 1.4 million), was again positive. The insurance business transacted in the segment continued to be of minor significance.

Investments in the Other Activities segment – which include, in particular, the shares held by Gothaer Finanzholding AG in the insurance companies of the Group as well as other participations – had a carrying value of € 3.21 billion, which was moderately lower than the prior-year figure of € 3.30 billion. In line with the structure of the investment portfolio, the investment result was also shaped by income from holdings – either in the form of dividend payouts or under profit transfer agreements. With regard to the insurance company holdings, that income also indirectly reflects the companies' underwriting results, which may naturally be subject to fluctuation. Income received under profit transfer agreements increased to € 124.0 million in the year under review (PY: € 89.9 million). Our systematic depreciation policy resulted in increased write-downs on shareholdings totalling € 103.2 million (PY: € 78.4 million) in 2017. Total investment income in the segment thus rose to € 193.0 million (PY: € 144.8 million).

The result from Other Activities – which is the balance of all other income and other expenses of the service providers in the Gothaer Group – was € –28.6 million in the financial year (PY: € –21.1 million). Financing expenses, at € 19.2 million, were higher than in the prior year (PY: € 18.4 million). Overall, this made for a significantly improved net profit for the year of € 149.8 million before taxes (PY: € 106.7 million). With tax expenses totalling € 14.3 million (PY: € 4.6 million tax income), the net profit for the year after taxes increased to € 135.4 million (PY: € 111.3 million).

Non-Financial Performance Indicators

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.

The Gothaer 2020 Strategy clearly defines cornerstones and core objectives for the years ahead, establishing a basic reference framework for HR action within the Group. The goal of "Increasing Agility and Strengthening Identification Among Employees" is a particular focus. The Gothaer Group adopted a new HR strategy at the end of 2016 based on the Gothaer 2020 Strategy and started implementing it in 2017. Aimed at laying HR foundations for the implementation of corporate strategy, it sets out the guidelines for HR work at Gothaer The focus is on helping the Group address changes that typically need to be made in the industry. Particular emphasis is on action in the areas "mobile and flexible working", "capacity for innovation and change" and "transformational management". The new HR strategy thus has a direct influence on the present and future working environment of our employees.

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 healthcare 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 present efforts are particularly geared to preparing Gothaer for demographic change, maintaining staff performance and heightening job satisfaction.

In the coming years, our employees will play an increasingly important role in helping Gothaer steadily strengthen its competitive capacity, especially in the light of the changes taking place in business processes and the working world as a result of digitalization.

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 fellowship. That fact should be emphasized more strongly – and the Gothaer brand positioned clearly and appropriately as a symbol of "Added Value through Community".

Code of conduct for sales and distribution

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

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

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.

Tariff change guideline

Freedom of choice and customized insurance cover are distinguishing features of private comprehensive health insurance. To help every customer choose the tariff that meets his or her needs more accurately, the association of private health insurers PKV has developed a tariff change guideline setting out clear and binding rules. The guideline supplements the statutory regulations that are currently contained in section 204 of the German Insurance Contracts Act (VVG).

Gothaer Krankenversicherung AG has systematically implemented the guideline for two years now. Our policyholders can avail themselves of personal, needs-based, objective customer service together with analysis of the best tariff options.

The implemented compliance management system ensures observance of the guidelines for a transparent, customer-oriented tariff change and is certified by an independent auditor every two years. It is thus confirmed that Gothaer Krankenversicherung AG ensures a high degree of tariff transparency and objective advice on changing tariffs.

Gender diversity

The "Law for Equal Participation of Women and Men in Leadership Positions within the Private and Public Sector" entered into force in 2015. Five companies in the Gothaer Group are regulated by the Codetermination Act or the One-Third Participation Act (DrittelbG) and thus required to set out target quotas. These companies were required to set 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:

Gothaer Finanzholding AG			as %
	Target value 30.06.2017*	Actual value 30.06.2017	Target value 30.06.2020
Supervisory board	33.3	33.3	33.3
– Shareholders' side	16.7	16.7	16.7
– Employees' side	16.7	16.7	16.7
Management board	0.0	0.0	0.0
Executives			
– Management level 1	15.4	11.8	15.4
– Management level 2	29.4	29.4	29.4

*Target value 30.06.2017 is equal to actual value 30.06.2015

Gothaer Allgemeine Versicherung AG			as %
	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

Gothaer Krankenversicherung AG			as %
	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	16.7	16.7
– Employees' side	16.7	0.0	16.7
Management board	0.0	0.0	0.0
Executives			
– Management level 1	0.0	0.0	20.0
– Management level 2	10.0	20.0	20.0

*Target value 30.06.2017 is equal to actual value 30.06.2015

Gothaer Lebensversicherung AG			as %
	Target value 30.06.2017*	Actual value 30.06.2017	Target value 30.06.2020
Supervisory board	33.3	0.0	33.3
– Shareholders' side	16.7	0.0	16.7
– Employees' side	16.7	0.0	16.7
Management board	0.0	0.0	0.0
Executives			
– Management level 1	12.5	14.3	20.0
– Management level 2	33.3	29.4	29.4

*Target value 30.06.2017 is equal to actual value 30.06.2015

Gothaer Systems GmbH			as %
	Target value 30.06.2017*	Actual value 30.06.2017	Target value 30.06.2020
Supervisory board	33.3	33.3	33.3
– Shareholders' side	16.7	16.7	16.7
– Employees' side	16.7	16.7	16.7
Management board	0.0	50.0	0.0
Führungskräfte			
– Führungsebene 1	12.5	16.7	16.7
– Führungsebene 2	4.0	0.0	30.0

*Target value 30.06.2017 is equal to actual value 30.06.2015

Vacancies at Gothaer are filled by choosing applicants with the most appropriate professional and personal skills, regardless of gender. Positions cannot be awarded on the basis of gender alone.

The targets for the percentage of women on the supervisory board of Gothaer Finanzholding AG and Gothaer Systems GmbH were met.

The Supervisory Board of Gothaer Allgemeine Versicherung AG, which has 12 members, currently includes two women: one 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 supervisory board of Gothaer Krankenversicherung AG is composed of six members. The gender diversity target set for the percentage of women on the shareholder side was met. The target set on the staff side failed to be achieved because two male employees were reappointed to the board in the election of employee representatives in April 2017.

The supervisory board of Gothaer Lebensversicherung AG is composed of six members. All places are filled by men. The gender diversity targets set failed to be met on either the shareholder or the staff side. In the election of employee representatives in April 2017, two men were reappointed. The shareholder, exercising its right of determination and appointment, appointed a man to the supervisory board in place of a woman.

The gender diversity targets set by the insurance companies for their management boards were met and the target for the management of Gothaer Systems GmbH was exceeded.

The failure to achieve the targets set for the first tier of management at Gothaer Finanzholding AG and for the second tier of management at Gothaer Lebensversicherung AG and Gothaer Systems GmbH was due to changes in organizational structures and management level assignments. The other companies met their targets for the first two tiers of management.

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 315d of the German Commercial Code (HGB) in conjunction with section 289a (4) HGB.

Non-Financial Statement

Fundamental principle

The business relationship between an insurance company and its customers is based on a promise. In return for payment of a premium, the customer receives the assurance of an agreed amount of financial support in the event of loss or damage. So, at the core of our business activities is the promise of a financial benefit. This distinguishes us from many other industries. We see responsible and sustainable management of all resources as an integral part of our corporate identity and a core value. We have enshrined this in our risk strategy and, in particular, in the Gothaer Group code of conduct as a mandatory behavioural yardstick for all directors, executives, managers and employees, regardless of their position or function. However, we have not acceded to a recognized set of sustainability reporting rules and have not defined any rigid system of targets.

Environmental matters

A responsible attitude to the environment is fundamental to our corporate identity. We respect environmental law and seek at all times to ensure that our operations protect natural resources and constitute sustainable, environmentally sound solutions.

As long ago as 2003, in line with this commitment, Gothaer introduced a system of environmental management focused on preparing an annual environmental assessment. That assessment presents a breakdown and year-on-year comparison of environmentally relevant consumption indicators (e. g. electricity and water consumption, waste generation and carbon dioxide emissions) for the building space at Gothaer Group headquarters, i. e. the Zollstock campus in Cologne. Since the introduction of environmental management, electricity consumption has been reduced by 47 % to 7 million kWh and water consumption by 22 % to 38 thousand cubic metres. In 2016, as part of our constant effort to ensure sustainable business operations, the industrial dishwashers were replaced to reduce electricity and water consumption and corridor lighting was switched to 5 W LED spots to achieve further cuts in power consumption.

In addition, we support the future-proofing, climate-friendly solutions offered by renewable energies. More than 20 years ago, for instance, we developed special insurance concepts in collaboration with manufacturers and operators of wind turbines. Today we have insured more than 17,000 wind turbines and 12,000 photovoltaic systems worldwide. As an investor, we have also invested more than € 700 million in renewable energy projects, i. e. indirectly in wind farms, solar parks and hydropower plants.

Environmental assessment

Environmantal assesment 2016*	Unit	2016	2015	Change 2016/2015
Building space	m^2	100,783	100,783	0.0 %
Employees	Number	3,017	3,053	–1.2 %
Thermal energy consumption	kWh	30,218,588	22,818,603	32.4 %
Electricity consumption	kWh	6,956,081	7,726,582	–10.0 %
Water consumption	m^3	38,001	35,097	8.3 %
Waste disposal	kg	610,702	598,127	2.1 %
Residual waste	kg	141,100	132,150	6.8 %
Paper	kg	304,016	302,666	0.4 %
Wet waste – company restaurant	kg	165,586	163,311	1.4 %
Copier and printer paper	kg	263,361	236,580	11.3 %
Net carbon dioxide emissions	kg	10,195,691	8,960,649	13.8 %

* latest available environmental assessment

Employee matters

Company health management

The aim of company health management is to maintain and promote the health, well-being and motivation of employees across all age groups throughout their working life. It is thus a major element of contemporary, forward-looking HR work and is firmly established within the Gothaer Group. “Employee health” has been entrenched for years as a goal of our corporate vision and HR strategy. An effective health management system depends crucially on a systematic combination of analysis, project conception/implementation and evaluation within the framework of a continuous improvement process. That process is managed by the Company Health Steering Committee, which meets regularly under the leadership of the HR director. In terms of the content of the measures taken, the strategic focus is on positively influencing both working conditions (conditional prevention) and individual employee behaviour (behavioural prevention). The main thrusts of our work cover areas such as management, workplace ergonomics, medical services, sport and exercise, diet, stress prevention in the workplace, smoking cessation and many more. On the Zollstock campus premises in Cologne and at the Göttingen location, for example, a varied programme of courses is offered with the emphasis on back exercise, relaxation techniques, cardio training and ergo coaching. At the same time, we make increasing use of digital, location-independent solutions such as a stress support hotline, e-learning modules and interactive motivational and coaching apps. We have repeatedly won awards for our company health management services. Most recently, in 2016, Gothaer received its fourth Corporate Health Award as the strongest contender in the insurance industry. In addition, the sick rate of the Gothaer core companies – Gothaer Allgemeine Versicherung AG, Gothaer Krankenversicherung AG, Gothaer Lebensversicherung AG and Gothaer Finanzholding AG – at 5.7 %, is significantly lower than the insurance industry average of 6.5 %.

Gender balance

The gender ratio of the Gothaer core company workforce is relatively balanced at 51.2 % female to 48.8 % male employees (as of 31 December 2016). At management level, women hold only one in five (20.1 %) managerial positions. In 2009, we introduced a mentoring programme designed specifically to promote career advancement for women. That programme entered its fourth cycle in 2016. Mentoring is designed to give mentees the opportunity to develop an individual career plan and network within the Gothaer management. This is done within the framework of a trusting, tailored mentoring relationship with experienced first- and second-tier managerial staff.

Mobile and flexible working

To facilitate the reconciliation of family and career, we successfully introduced teleworking for core company inhouse staff in 2016. After a new company agreement was concluded, early 2016 saw the rollout commence for alternating telework. At the end of 2016, 245 employees – 9.9 % of the target group – had concluded a supplemental agreement. Nearly all supplemental agreements were extended indefinitely after the agreed 6-month trial phase. In this connection, another company agreement is currently being developed with the focus on mobile device management. It will give inhouse staff with high mobility requirements the opportunity, with the agreement of their line manager, to use smart phones or tablets for work.

Work safety

Gothaer employees receive annual training in occupational health and safety. Emergency plans and the names of first aiders are required to be kept at every workplace. In addition, a self-instruction guide was produced on fire safety and comprehensive new fire safety rules were developed providing information on fire prevention, fire fighting and how to behave in the event of a fire or accident. Furthermore, a guide was published for extraordinary hazards.

Social matters

The Gothaer Group supports education and science, art and culture as well as social or other generally recognized causes. However, donations to political parties or political office-holders are excluded.

Gothaer is a long-standing cooperation partner of the blood cancer foundation DKMS. In conjunction with DKMS, we offer regular internal registration events for employees. Gothaer shoulders the registration costs. To date, a total of 1,200 employees have registered as donors and 22 have already donated stem cells.

Support is also provided for the non-profit organization “Kunst hilft geben”. Artworks and prints by noted artists – either made available by the artists themselves or from private collections – were exhibited in our foyer. The entire proceeds from the sale of the works went to the charitable project “Casa Colonia”.

Gothaer employees also regularly demonstrate their generosity and willingness to help in diverse fund-raising activities such as the charity Christmas tree event or the book exchange in aid of orphans.

Respect for human rights

Respect for human dignity, prohibition of discrimination and a commitment to equal opportunity are mandatory tenets of our code of conduct. To underline the importance of upholding these values even more, a training measure (e-learning module) on the code of conduct was developed and has been compulsory for all employees since 2017.

Anti-corruption and anti-bribery matters

Neither active (bribe-giving) nor passive (bribe-taking) corruption are tolerated by Gothaer. No one at Gothaer may offer or grant inadmissible advantages to business partners, their employees, other third parties or themselves. This is also a mandatory tenet of our code of conduct. To underline the importance of upholding these values even more, a training measure (e-learning module) on the prevention of corruption was developed and has been compulsory for all employees since 2017.

Trust

The business model of an insurance company is essentially based on trust. Our overriding concern is to maintain that trust. Hence the stipulation in our risk strategy that the values for which Gothaer and its name have stood for nearly 200 years must be upheld at all times by the insurance products we offer. Furthermore, we maintain business relationships only with partners whose credentials we consider impeccable.

We are entrusted with highly sensitive personal information by our customers. Ensuring that data protection is guaranteed is therefore a primary and fundamental obligation. The insurance industry was the first to develop rules of conduct in this regard. Generated by the German Insurance Association (Gesamtverband der deutschen Versicherungswirtschaft e. V. [GDV]) in consultation with the data protection authorities, those rules were formally accepted by the latter in November 2012. The Gothaer insurance companies acceded to the rules of conduct – known as the "Code of Conduct for Data Processing in the Insurance Industry" – with effect from 1 January 2014. A training measure (e-learning module) on data protection and IT security has also been developed and has been compulsory for all employees since 2015.

Aside from the obligations of data protection and confidentiality, we have also made a commitment in our code of conduct to comply with the rules of competition and antitrust law. At the same time, sensitization for matters of relevance to antitrust law is supported by an e-learning module. Furthermore, as explained above in the section Non-financial Performance Indicators, Gothaer has undertaken to comply with the "Code of Conduct for the Sale and Distribution of Insurance Products", which is observed by members of the GDV on the basis of a voluntary commitment.

Opportunity and Risk Report

Risk management principles

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 companies accept risks and do 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

Responsibility for risk management at Group level resides with the central risk management unit at Gothaer Finanzholding AG. In discharging that responsibility, the group risk management unit liaises closely with subsidiaries, which have decentralized risk management units of their own, for the performance of support and monitoring tasks. Risk management 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 departments of the other Group companies and the Middle/Back Office of Gothaer Asset Management AG.

Members of the major Group companies and Gothaer Asset Management AG are also represented in the risk committee established at Group level. Its responsibilities include monitoring risks from a Group perspective by means of an indicator-based early warning system as well as further developing uniform cross-Group risk assessment and management methods and processes. Risk management principles, methods, processes and responsibilities are documented in accordance with the Risk Management Guideline.

The risk management process implemented operates an annual systematic inventory of risks, a qualitative and quantitative risk assessment, various risk management measures, 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 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 of the Gothaer Group 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.

Underwriting opportunities and risks

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

As a general rule, the Gothaer Group companies counter underwriting risks with rates and reserves based on actuarial principles and with underwriting guidelines commensurate with risk. Compliance is systematically monitored through the use of controlling instruments and early-warning systems that identify trends and negative developments in good time.

The adequacy of underwriting reserves is also subject to annual actuarial verification. In addition, appropriate reinsurance treaties are in place to limit the risks arising from major and accumulation losses.

For the individual Group segments, this means:

Property/Casualty segment

General opportunities and risks

The Gothaer Group 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 attach primary importance to qualitatively and quantitatively substantial 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 and 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.

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. The professionalism of our underwriters is thus particularly valued. 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

2017 saw further moderate growth in the traditional capital of the reinsurance industry. So-called alternative capital (e.g. cat bonds) also increased. Despite the consolidation process among primary insurers and reinsurers with international operations, which continued through 2017, the capacity available in the reinsurance market remains plentiful.

After an initial phase of uncertainty about the price-driving impact that the year's high level of natural disaster claims in North America might have on the renewal of European reinsurance treaties, the renewal process went relatively smoothly. Owing to the undiminished high supply of reinsurance capacity and the swift replacement of – alternative capital-backed – capacity during the renewal process itself, reinsurance prices in Europe were essentially driven by local loss events. Price rises could not normally be ruled out for reinsurance treaties impacted by losses. Claim-free reinsurance treaties were generally renewed on unchanged terms.

Cessions by the Gothaer companies were again placed well before 31 December 2017 on terms that Gothaer regarded as satisfactory. At the same time, the structure of the Gothaer reinsurance operation in 2018 has changed only marginally in comparison to 2017.

Gothaer has closely examined the opportunities and options offered by alternative risk transfer for a number of years. At present, the price of conventional reinsurance is still lower than that of an 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 Eurapco partners that already practise alternative risk transfer. Eurapco is an alliance of eight European mutual insurance companies operating in 18 countries across Europe.

Overall, we see a possible but very unlikely risk of a temporal mismatch between primary insurance and reinsurance protection. This stems from the fact that negotiation of a reinsurance treaty does not normally begin until the primary insurer has already confirmed cover to policyholders for the coming year. 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. Owing to the aforementioned state of the reinsurance market, this scenario – as in previous years – is very unlikely.

As regards the concentration of insurance risks, Gothaer makes a distinction between different scenarios:

• **Low frequency loss events involving major losses**
This loss category reports major losses in the area of motor liability insurance because a percentage of the policies in force were written on the basis of unlimited coverage or, in the case of policies written after April 2005, with a limited but very high cover sum of € 100 million. This potential liability is taken into account in our reinsurance treaties.

Major losses could also conceivably result from a terrorist attack. In the case of high-coverage policies (insured sums in excess of € 25 million), terrorism is originally excluded and the risk assumed by EXTREMUS Versicherungs-AG if the customer requires insurance against terrorism. For risks where coverage is below the critical limit, our reinsurance treaties provide limited but adequate reinsurance protection. Together with the operative units, an annual review is carried out to establish whether this reinsurance cover is adequate.

• **Cross-segment loss events**
This loss category primarily relates to natural hazard events that would cut across Gothaer segments. These include, in descending order, flood, storm, earthquake and – of significantly less importance (mostly motor own damage) – hail risks. Decisions on the scope of reinsurance protection acquired are based on extensive analyses of our entire portfolio. Those analyses are conducted by leading international reinsurance brokers and carriers and are performed on the basis of generally accepted methods of modelling exposure to natural catastrophes. The models in question include estimates of probability of occurrence and assessments of recurrence intervals. The combined use of RMS, Corelogic (precursor: EQECAT) and AIR tools as well as reinsurers' internal models provides us with a secure basis for findings.

• Geographic or line-based concentration risks
Owing to the good geographic distribution of the Gothaer portfolio, geographic concentration risk is negligible. Line-based concentration is perceptible only in engineering insurance for wind power facilities. Here too, precautions have been taken against both accumulation and major losses through a combination of proportional and non-proportional reinsurance protection.

• Risk dependency
Major loss events, in particular those which have a massive financial impact on the reinsurance market, can lead to insolvencies on the part of reinsurers and thus result in default. We seek to minimize the possible impacts on the Gothaer net account by selecting our reinsurers with care (see loss of receivables risks) and spreading our placements. In the case of natural hazard events in particular, it has been observed that high losses translate into high claim payments fairly rapidly and therefore result in an outflow of funds. By keeping the cash loss limits for our proportional treaties relatively low and agreeing adequate reinstatements for non-proportional cessions, we have made sure that Gothaer is not affected in such events by liquidity or reinsurance capacity shortages.

Development		as %
	Loss ratio after run-off	Run-off results of initial reserves
2008	59.5	10.0
2009	65.6	3.3
2010	66.8	6.4
2011	68.4	1.8
2012	66.7	4.1
2013	68.7	4.6
2014	68.0	1.7
2015	65.7	4.2
2016	66.6	2.5
2017	64.7	2.8

A detailed year-by-year review of the run-off of our gross primary business by year of occurrence, without allowance for annuity reserves, is provided in the notes to the consolidated financial statements.

Risks arising from reinsurance assumed

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

Risks arising from fronting agreements

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

Risk management methods in the Property/Casualty segment

• **Forecast and change risk in the estimation of reserves**

Wherever a model is used, there is a risk that actual results will deviate from projections. In the case of reserves, however, underestimation needs to be avoided. To enable the appropriateness of the IFRS reserve to be assessed, the variability of the estimate is established by bootstrapping. This provides a basis for quantifying the certainty of the IFRS reserve being enough to cover possible losses, expenses and annuity payments. Any payments that are lower than estimated generate run-off gains that help improve the earnings forecast.

Factors that cannot be adequately assessed by the models used to calculate reserves are taken into account separately as follows:

- individual major loss analysis: where necessary, individual major loss reserves are included in the reserve calculation results
- detailed analysis of accumulation loss events, taking account of time of occurrence and previous run-off and comparing them with such events in the past
- detailed analysis of sub-lines in areas where portfolio shifts have occurred.

• **Natural catastrophe, accumulation loss and major loss risk**
The effects of natural disasters, accumulation losses and major losses are largely mitigated by the structure of Gothaer reinsurance. Apart from this, other measures are taken to keep the impacts on the gross side as low as possible. Rates are thus set as far as possible on the basis of actuarial methods. In addition, underwriting policy provides for targeted use of instruments such as self-insurance, sublimit and coverage limitation agreements.

• **Reinsurance risk**
Even a balanced reinsurance structure designed to mitigate the effects of extreme events entails risk – the risk of possible default by reinsurers. At Gothaer, this risk is taken into account in the selection of reinsurers (A rating) and is quantified by DFA modelling.

• **Discounted reserve risk**
If reserves are discounted, the choice of discount rate and the underlying payment schedule are critical parameters. As loss reserves are not currently discounted – with the exception of annuity reserves, which are of minor importance – this risk is irrelevant in the Property/Casualty segment.

Against this backdrop, reserving policy can be described as adequate and appropriate.

Life segment

General opportunities and risks

Despite moderate improvement, the general risk situation for life insurers in 2017 was characterized by the ongoing low level of interest rates. A protracted low-interest phase has major impacts on the income generated by interest-bearing assets and presents risks to growth as a result of the potential change in consumer demand.

Despite the challenging situation in the capital market, a new opportunity to generate sustainable earnings is presented by the successful upgrading of the Gothaer product portfolio through the addition of capital-efficient pension products with reduced guarantees. The most recent example was the launch of the capital-efficient single premium product Gothaer Index Protect. Despite the late release of the product in September 2017, premium income totalling more than € 50 million was generated during the year under review. The new product line is specifically designed to meet Solvency II requirements. At the same time, its development also takes account of market and consumer perspectives to permit continued success in the company pension scheme segment. The planned establishment of a new “Life innovation” department will ensure that specific attention is paid here to preferences from market and consumer perspectives. It will also address current trends in digitalization.

Apart from new reduced-guarantee products, another focus of product development is biometrics. The need for product adjustments is analysed and acted upon in the light of market requirements. Against this backdrop, further opportunities are presented by gearing to unit-linked products, which offer higher potential returns for the consumer.

The new Solvency II supervisory regime came into force on 1 January 2016. One consequence of the new legislation is a more market-based, stochastic view of liabilities and risks. For the insurance industry as a whole – and therefore also for Gothaer – a sustained low-interest environment means higher capital requirements and lower capital resources, especially under Solvency II. The decision to lower the ultimate forward rate in 2018 is also expected to have a significant effect on the level of risk capital required. The switch to the new Solvency regime is facilitated by taking advantage of the transitional rules.

Legal risks may arise in future as a result of changes in case law, tighter regulation and differing case law in Austria.

Biometric risks – Adequacy of biometric actuarial assumptions

Policy reserves are calculated on the basis of decrement tables deemed adequate by the supervisory authority and the German Association of Actuaries (DAV). Particular importance here is attached to assessing longevity risk. In the estimation of the Responsible Actuary, the current policy reserves provide sufficient safety margins.

With regard to the (supplemental) occupational disability policy portfolio, reviews focus particularly on verifying that policy reserves are at least equal to the reference reserve mandated by the Federal Financial Supervisory Authority (BaFin). It was found that moderate replenishment was required and policy reserves were increased by the relevant amount.

New bases for the calculation of reserves for (supplemental) long-term care annuity policies were published by the DAV at the end of 2008. We have analyzed our portfolios accordingly and see no risks at present. However, we will monitor the portfolios continuously. If necessary, the policy reserves will be increased.

In the case of policy reserves for unisex policies, regular checks are conducted to establish whether actual gender breakdown is in line with the breakdown anticipated. In the estimation of the Responsible Actuary, the individual rates calculated provide sufficient safety margins. If that perception were to change in the future, additional reserves would need to be formed.

Cancellation risk – Adequacy of cancellation probability assumptions

As a matter of principle, cancellation probability is not taken into account in the calculation of premiums. In recent years, cancellation behaviour has tended to be unremarkable. Cancellation figures continue to be critically monitored. There is also a risk of increased liquidity being required for the cancellation of major contracts. We counter this risk with selective key account management for major clients.

Interest rate guarantee risk

Because of the low interest phase, the German life insurance industry – and thus also Gothaer – may be exposed to risks inherent in high interest rate guarantees, which generally extend over several decades in the case of life insurance products. This exposure exists particularly if interest rates persist at historically low levels.

The maximum actuarial interest rate since 1 January 2017 has been 0.9 %. In new business, Gothaer applies actuarial interest rates lower than 0.9 %. Despite this lowered ceiling, the unchangeable nature of figures guaranteed in policies in force results in inertia in the reduction of this risk. The average actuarial interest rate across the portfolio is thus still significantly higher than the current maximum actuarial interest rate.

Growth risk

There is a risk of demand for insurance products with conventional savings components waning as a result of the prolonged low-interest phase coupled with the current renewed rise in inflation. Evidence of this was already seen in the year under review, in which a contraction of production volume was registered in comparison to the prior year.

Demographic change presents an opportunity. The ageing population is creating additional markets: demand for provision for old age is rising. Furthermore, the Act Strengthening Occupational Pensions (Betriebsrentenstärkungsgesetz) is expected to create additional growth stimuli for company pension schemes both for Gothaer itself and for “Das Rentenwerk”, a consortium of five mutual insurance companies focusing on solutions for the new “social partner pension” (Sozialpartnerrente).

Risk management methods in the Life segment

Risks associated with life insurance policies stem mainly from the guarantee of the basic data used to calculate premiums (for interest, biometrics and costs) and the surrender values over the whole term of the policy. Since it is generally not possible to adjust life insurance premiums at a later date, these risks are lessened by appropriate safety margins in the bases for calculations.

Gothaer employs a variety of instruments to establish the nature and extent of risks arising from life insurance policies. The main risk connected with a life insurance policy is interest rate guarantee risk, which increases in low interest rate phases in particular. The acceptability and financeability of Gothaer’s interest rate guarantees are verified by application of the two DAV models “Verification of Actuarial Interest for Life Insurance Portfolios” and “Risk Assessment of Long-term Guarantees”, the GDV model used to determine the viability of future actuarial interest rates, our own model for determining the maximum actuarial interest rate that can be financed as well as stochastic performance analyses. Furthermore, interest rate risk is regularly assessed within the framework of the risk inventory and Solvency II (SCR, ORSA calculations). It should be noted that the interest rate guarantee risk is normally lower for unit-linked life policies.

Other risks associated with life insurance policies result from adverse changes in mortality, longevity, invalidity and expenses as well as from a change in cancellation behaviour. These risks are reduced, amongst other things, by appropriate reinsurance treaties and maximized reserving at the level of guaranteed surrender values. The risks associated with life insurance policies are identified at least once a year in the risk inventory. The extent of Gothaer's exposure to these risks is established using traditional embedded value sensitivity analyses and Solvency II stress scenarios for calculating capital requirements. The adequacy of cost and biometric assumptions is also regularly verified in the course of profit source analysis.

Gothaer life insurance policies are mostly long-term contracts with discretionary surplus bonuses. Owing to the conservative selection of the bases of calculation, surpluses are generated which are shared with members. Surplus bonuses can be adjusted, subject to the minimum bonus for members required under supervisory regulations. Because of this adjustment option, the impact of a change in the risk, cost or interest situation on life insurers' income is reduced.

On the whole, the aforesaid analyses confirm the financeability and acceptability of the risks identified here for Gothaer.

However, the strategy of sharpening the focus on biometric products in life insurance presents more than just the adverse change risk described above; it also presents special opportunities. Focusing on biometrics leads to a partial decoupling of results from the capital market, which could make for stable surpluses because risk results are generally less volatile than investment results.

The revision of the product range with a focus on capital-efficient products to mitigate interest rate risks also continued last year with the launch of the capital-efficient single premium product Gothaer Index Protect. Despite the challenging situation in the capital market, new opportunities are presented here to generate sustainable earnings.

Health segment

General opportunities and risks

The market and prospects of development for private health insurance are defined to a large extent by the political and legal regulatory environment. The growth prospects for supplemental insurance remain good. The challenge for companies is to adjust appropriately in terms of sales channels, cooperations and administrative processes. Gothaer is particularly successful in collective business. Customized contracts and intensive customer care are prioritized here to achieve further portfolio expansion.

With interest rates for safe investments still at a very low level, the situation in the capital markets remains difficult. Because a large portion of the recessive profits from investment drive down the allocation to reserves for premium refunds and thus ultimately affect insureds, significantly higher insurance premiums need to be paid in some instances. The sharply increased premium adjustments seen market-wide are resulting increasingly in acceptance problems among customers and distributors.

Demographic change offers us an opportunity. The ageing population is creating new markets: not only is there growing demand for long-term care insurance but there are also signs of a tendency to privatize state provision.

Underwriting risks

The most significant underwriting risks include the actuarial interest rate and cancellation risk. These risks have a major bearing on the ability to allocate adequate reserves for premium refunds and thus have the funds available to lessen the impact of the development of premiums for those we insure. A particularly important role is played here by the recurrent financing of annually granted premium limits.

We continue to counter these risks with rates based on actuarial principles, selective underwriting and professional benefit and health management as well as by the use of controlling tools and early-warning systems. The adequacy of loss reserves remains subject to regular actuarial verification.

High premium adjustments or political change cause an increased loss of good and mostly young risks with the result that the average age of insureds in portfolios rises. This can itself lead to high premium adjustments. Premium refund reserve policy is the key control measure here. With adequate financial resources, high premium adjustments can be prevented and an increase in cancellations thus avoided. For this reason, special attention is paid to the development of reserves for premium refunds. To ease the pressure on the reserves for premium refunds, the customary long-term premium capping arrangements in place were supplemented by the deployment of funds for payment of the tariff bonus, a premium limit that is re-set each year.

The actuarial interest rate, one of the most important bases for calculation in private health insurance, is dependent upon developments in the capital markets. This fact is taken into account through the use of professional tools for analyzing investments and harnessing the findings for a more focused investment strategy as well as by the regular performance of extrapolations. In view of developments in the capital markets, however, the probability that the net target yield will not be achieved still exists. Investment strategy is therefore focused on a reasonable risk-return ratio coupled with a high probability of guaranteed actuarial interest being achieved.

Financial risks in health insurance can result from the occurrence of major and accumulation losses. These risks are taken into account by a comprehensive reinsurance policy.

Risk management methods in the Health segment

• Portfolio composition, premiums not commensurate with risks, allocations to reserves for premium refunds, recurrent financing of premium limits granted annually

We address this area of risk with professional underwriting, professional benefit and healthcare management and other controlling instruments that make trends and negative developments visible in good time. Incongruities can be promptly evened out by annual comparison of the insurance benefits calculated and actually required, which triggers an adjustment of premiums in the event of significant variance (premium adjustment clause).

Within the framework of planning projections and the premium adjustment process, sensitivity analyses are carried out to examine the impact on the reserve for premium refunds and the financing of annual premium capping. These sensitivity analyses make it possible to portray possible ramifications for the Company and take early action to counter undesirable developments.

In the Health segment, reserving also needs to conform to the principle of prospective unlocking. Where premium adjustments are triggered as a result of changes in the bases of calculation, the assumptions made calculating underwriting reserves are also adjusted. A loss recognition test (LRT) was also performed and not passed. Appropriate impairment losses will be recognized on deferred acquisition costs. Against this backdrop and given the controlling instruments described, reserving policy is adequate and appropriate.

• Cancellation probability

The aforementioned sensitivity analyses are also used to evaluate exposure to cancellation probability risk. They can be used to examine the impact of a reduction in cancellations, for example, or to study the pro rata portability of ageing reserves anticipated on termination. In the event of identifiable endangerment of key financial ratios, countermeasures are taken, such as lowering the cancellation probability used in the calculations.

• Mortality rates

Sensitivity analyses based on various mortality tables as well as on the Company's latest actual mortality figures are performed to evaluate the mortality rate risk. The mortality figures used to calculate premiums are chosen so that a sufficient safety margin is ensured even after allowance for mortality trends.

As in the case of insurance benefits, changes in mortality can trigger premium adjustments and thus promptly eliminate any imbalance between actual and calculated figures.

• Actuarial interest

Actuarial interest rate risk is addressed at the investment level with professional analytical tools and the results obtained are systematically harnessed to optimize investment strategy. The focus of investment activities is on achieving a secure current average yield. This also applies to the "actuarial company yield" (Aktuarieller Unternehmenszins, AUZ), an actuarial interest verification procedure developed by the DAV that is carried out annually by Gothaer. The yield of investments is also regularly subjected to extrapolations as well as stochastic sensitivity analyses. Apart from gearing investment strategy, the purpose of the analyses is to verify the actuarial interest used for costing and to lower it – promptly – if necessary.

• Major and accumulation losses

Exposure to major and accumulation loss risk in the area of health insurance is managed by a comprehensive reinsurance strategy tailored to the specific requirements of the Company. The adequacy of insurance protection is reviewed quarterly on the basis of detailed reinsurance accounts, after which appropriate adjustments are made as required.

Loss of receivables risk

Outstanding receivables

Loss of receivables risk has a major significance for the Gothaer Group because of the issue of non-payers, which affects the entire private health insurance sector. Insurers cannot terminate a comprehensive insurance policy on grounds of non-payment of premium. They are required to switch policyholders defaulting on premiums to the emergency tariff. The monthly premium payable for the benefits covered by the emergency tariff is significantly lower than the regular tariff.

Accounts receivable from policyholders and insurance agents in connection with direct written insurance business at Gothaer Allgemeine Versicherung AG, Gothaer Lebensversicherung AG and Gothaer Krankenversicherung AG totalled € 114.4 million at balance sheet date. This figure includes valuation allowances that take adequate account of the risk of possible loss of receivables. € 26.2 million of the receivables handled by our central collection systems is outstanding for more than 90 days. The average collection loss (unsuccessful court orders) in the last three years was € 7.8 million, which is an average of 2.1 ‰ of the gross premiums written.

Receivables on ceded reinsurance business

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 reinsurance partners by rating class was as follows:

Breakdown by rating category	€ million
AA	29.7
A	20.6
BBB	0.6
Non-rated	0.2

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

Investment risks

The investment portfolio is designed to meet all of the Gothaer Group's current and future payment obligations. The risks associated with it are limited by effective risk management, using modern controlling systems to ensure, on the one hand, compliance with regulatory requirements and, on the other, observance of additional – and in some cases restrictive – self-imposed risk limits. To improve its risk/earnings ratio, the Gothaer Group continues to attach great importance to the decorrelation of investments in terms of mix and spread. For this reason, the goal of investment activity is to achieve broad diversification within and across the different asset classes and at the same time avoid excessive risk concentration.

The prime focus of this investment management is risk-bearing capacity, which is established on the basis of internal models and asset liability management (ALM). The wide range of ALM concepts employed at Gothaer includes stochastic risk models such as ALM projections, asset-only analyses as a module of the early-warning system within the Group as well as stochastic support for net target yield and surplus statement planning. These analyses from different perspectives form the basis for the regular verification and adjustment of strategic asset allocation.

In addition, key business ratios are analyzed with the help of empirical distributions and shortfall probabilities. These ratios show, among other things, net and market value yield, hidden asset-side net reserves, uncommitted reserves for premium refunds and the own funds ratio. Regularly defined individual scenarios are also examined. The basis is formed by a scenario that is deemed highly likely to occur. Furthermore, analysis is extended to critical scenarios that are identified in the course of the stochastic evaluation of results.

Stochastic indicator-based risk measurements are also used to establish probabilities of failure to achieve investment result targets at the end of the year (shortfall probability). The probabilities are the result of a simulation of market value development and earnings generated by the major investment classes based on the Group's own performance expectations for the year ahead. Other models such as our internal capital requirement model are also used.

Systematic further development of the risk models used also promotes a sustainable increase in risk-bearing capacity. In addition to risk restrictions required by the supervisory authority, the Gothaer Group investment framework guideline limit system is used to monitor internal risk limits.

The following three types of risk are monitored and managed within the investment management system described.

Market change risks

Market change risk is the risk of financial loss due to changes in market prices. Market change risk can be influenced, for example, by changes in prices, spreads, volatilities, correlations or even illiquidity in the market. Market change risk management is supported by regular computations based on the use of stochastic and deterministic models. Sensitivity analyses are developed to measure risk potential. The investment portfolio, which is particularly susceptible to market change risk, is also subjected to stress scenarios. The results of the individual sensitivity analyses are shown in the Stress Scenario Impacts on Equity table.

- **Interest change risk**

Interest change risk is the risk of a change in the risk-free interest rate and any consequent negative impacts on the market value of interest-bearing instruments. As a result of systematic gearing to Asset Liability Management, market value is ensured by the fact that interest change risks for the Gothaer Group are primarily viewed against the backdrop of the life of liability-side obligations. The internal (target) limits for asset-side duration are established on the basis of this. Another tool used is tactical duration management, which allows portfolio management – within a defined context – to exploit short-term opportunities arising from changes in interest rates.

Interest change risk is measured and reported by Investment Controlling in the form of modified duration calculations performed on portfolios and individual securities within the framework of internal duration reporting.

• Reinvestment risk
When interest rates fall, there is a risk that funds can only be reinvested at a lower rate of interest. At Gothaer, this reinvestment risk is monitored by the use of ALM and duration analyses. In ALM analyses, reinvestment risk is taken into account in the stochastic models. Possible impacts can be identified in the attainment probabilities of the target variables (e. g. net yield, solvency). Gothaer counters reinvestment risk by active portfolio management. The primary focus here is on careful selection of the maturity structure of the bond portfolio, which is managed by taking into account derivatives, interest structures and quantitative approaches (e. g. trend-following models).

• Price risk
Price risk is the risk of market value being lost as a result of adverse changes in share, stake, alternative investment, property and renewable energy prices. Price risk management involves, amongst other things, continuous intensive observation of concentrations at industry, regional and issuer level. It also involves limiting and monitoring exposure in the individual asset classes on the basis of internal (target) limits which reflect the results of the annual ALM analyses for the personal insurance companies in the Group and the DFA analyses for the Property/Casualty insurers and which, when observed, guarantee the risk-bearing capacity of the companies. Asset classes exposed to a heightened price risk are not only subjected to sensitivity analysis; they are also monitored in stress tests.

For unexpected developments, individual company hedging concepts (e. g. share options) can be implemented to ensure a risk-adequate response to short-term fluctuations and, in extreme cases, limitation of the losses that occur. These hedging concepts are constantly reviewed in the light of market developments and adjusted as required.

Because of limited portfolio volume, share price risk was minimal in the Gothaer Group at balance sheet date. The market value of the equity portfolio is expected to remain stable in the coming year. Against the backdrop of attractive long-term investment opportunities, commitments were entered into in the real estate asset class in order to progress towards strategic targets. In renewable energies, more capital calls were made on existing commitments. The hedge fund portfolio was also downscaled further.

Real estate markets continued to develop well in 2017, largely producing high transaction volumes. The valuation method for the entire portfolio was switched to net asset value last year. Owing to consistent valuation on the basis of market prices and the broad spread of the portfolio, we anticipate no need for non-scheduled depreciation in the medium term.

• Exchange rate risk

Exchange rate risk is the risk presented by adverse changes in currency exchange rates. The existing exchange rate risk is almost entirely hedged at company level by foreign exchange forward contracts. Hedging is performed in a rolling programme for each currency. The following chart shows exposure per currency in euros and the relevant market value in foreign currency at the end of the year. Set against the latter but not shown in the table are more or less equal volumes of foreign exchange forward contracts concluded as hedges.

Breakdown by foreign currency				€ million
	Market values in €		Market values in nominal currency	
	2017	2016	2017	2016
US dollar	1,934.2	1,614.2	2,325.3	1,702.5
Pound sterling	125.2	124.0	111.3	106.0
Danish kroner	1,058.8	1,024.9	7,881.8	7,620.1
Polish zloty	55.5	93.8	231.7	413.2
Swiss franc	11.4	13.6	13.3	14.6
Other currencies	52.7	83.3	various	various

Considering the hedges in place, a change of 1 % in the individual exchange rates would thus result in only insignificant changes in the market values of the aggregate foreign currency positions. For further information about derivative financial instruments, see also number 8 in the Notes to the Consolidated Statement of Financial Position.

Credit/solvency risks

Credit/solvency risk covers the risk of insolvency and default as well as the risk of a negative change in a debtor's or issuer's creditworthiness.

For risk management purposes, the acquisition of investment vehicles is permissible only if a qualified and cross-checked assessment of creditworthiness by an external agency such as Standard & Poor's, Moody's or Fitch Ratings or a qualified internal rating is available. Credit risks are also broadly spread to avoid concentration risks. In addition to supervisory requirements, more restrictive internal limits are in place to keep credit and concentration risk within reasonable bounds at individual loan, issuer and portfolio level.

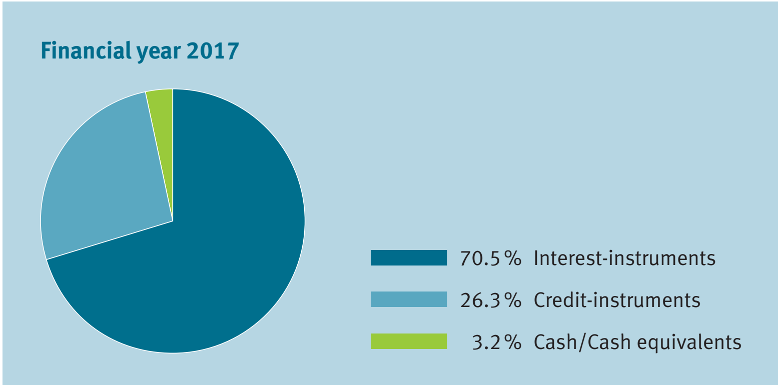
The interest-bearing financial instruments held by the insurance carriers in the Gothaer Group are divided into three categories for risk management purposes: “interest rate instruments”, “credit instruments” and “cash/cash equivalents”. The distinction here is whether an instrument presents only an interest risk or whether an additional credit risk exists because of the solvency of the issuer. So where a financial instrument entails no or only a minimal credit/solvency risk, it is assigned to the “interest rate instrument” category. This is the case, for example, with German government bonds (Bunds) and senior secured covered bonds (Pfandbriefe). The table below shows the market value of interest-bearing financial instruments assigned to the interest rate instrument, credit instrument and cash/cash equivalent categories by rating class, as managed and monitored in the Gothaer Group. Retail funds are not included.

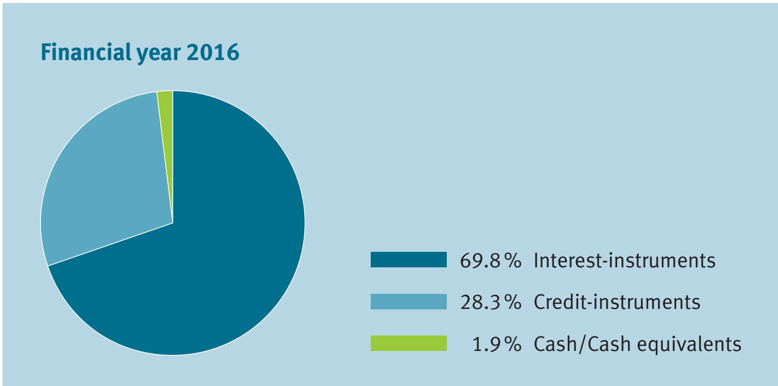
Interest-bearing financial instruments

Breakdown by rating category		as %
	2017	2016
AAA	20.5	20.1
AA+	12.2	9.6
AA	11.4	9.4
AA–	5.8	5.3
A+	8.2	4.9
A	5.5	6.2
A–	9.3	9.2
BBB+	7.7	10.8
BBB	10.0	13.2
BBB–	5.0	6.0
Speculative Grade (BB+ to D)	1.8	2.9
Non-rated	2.6	2.4

The diagram below shows the market value of the financial instruments assigned to the interest rate instrument, credit instrument and cash/cash equivalent categories.

Breakdown of interest-bearing financial instruments





Fixed-interest securities accounted for around 79.8 % of the market value of the investment portfolio at the end of the year. In the area of bearer bonds, financials (unsecured/subordinated bonds issued by banks, insurers or financial service providers) accounted for around 8.0 % of total investment and corporates (unsecured/subordinated bonds issued by companies) for around 13.5 %.

There was no significant credit risk discernible at year-end. The market value of all subordinated financial bonds remained at the prior-year level of € 0.7 billion. In the coming financial year, too, further defaults on interest – perhaps even on principal – cannot be ruled out in the case of individual subordinated financial bonds. A (partial) default on principal in the case of PIIS government bonds (Portugal, Italy, Ireland, Spain) is considered unlikely. The total market value of investment in PIIS government bonds was around € 2.1 billion (PY: € 2.8 billion). The breakdown by country was as follows: Portugal 6.5 % (PY: 4.1 %), Spain 20.1 % (PY: 28.8 %), Ireland 35.1 % (PY: 19.6 %) and Italy 38.3 % (PY: 47.5 %). Credit risks also existed in the case of externally managed high-yield and emerging market clients. During the lending process, all critical names are constantly monitored in both the Front and Middle Office of Gothaer Asset Management AG. In addition, 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, write-downs are performed at individual bond level to fair or market values. These revaluations were negligible.

• Risk concentrations

The Gothaer Group manages concentration risks in line with BaFin Circular 4/2011 by ensuring a broad mix and spread of investment. It also monitors concentrations of risk in accordance with Sec. 104i of the German Insurance Supervision Act (VAG). Alongside supervisory regulation, concentration risk is additionally contained by our internal limit system, which ensures that concentrations at issuer level cannot occur on a significant scale. The tables below show the financial risk concentrations in the form in which they are monitored and managed in the Gothaer Group. Distinctions are made between rating class (see table under Counterparty default risk), sector, country and issuer concentrations. In aggregating risk concentrations, we adopt the same segmentation practices as independent data providers such as iBoxx.

Shares

Breakdown by sector	2017	2016
Share in %		
Automobiles & Parts	6.0	5.9
Banks	11.4	9.8
Chemicals	2.2	3.8
Clothing & Accessories	2.9	2.4
Commodities	3.2	3.3
Communications	6.7	6.8
Construction & Materials	3.1	2.5
Financial Services	2.8	1.3
Food Products	5.5	5.3
Industrial Goods & Services	9.3	8.3
Industrial Machinery	0.3	0.3
Insurance	4.0	3.2
Media	0.3	0.2
Oil & Gas	6.3	6.3
Personal & Household Goods	7.1	6.0
Pharmaceuticals	7.6	4.9
Retail	0.7	0.4
Software	3.4	3.2
Technology	2.4	1.2
Travel & Leisure	0.2	0.2
Utilities	6.2	5.3
Other	1.5	1.2
No sectoral assignment	6.9	18.2

Breakdown by country	2017	2016
Share in %		
Belgium	3.5	3.6
Denmark	0.2	0.3
Finland	0.8	0.9
France	30.1	26.2
Germany	33.2	43.3
Great Britain	3.5	3.2
Ireland	2.3	0.7
Italy	5.3	5.0
Japan	0.5	0.3
Luxembourg	4.1	2.8
Netherlands	5.7	4.2
Singapore	0.3	0.0
South Korea	0.2	0.0
Spain	9.2	8.1
Sweden	0.2	0.3
Switzerland	0.9	1.1

Liquidity risk

Liquidity risk is the risk of being unable to fulfil its financial obligations entirely or on time because of a lack of adequate funds. A viable liquidity planning and management system is a prime requirement for effective investment management. Comprehensive liquidity planning at risk carrier level, encompassing 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. The liquidity risk management concept implemented in 2017 permits regular analysis of liquidity sources and coverage ratios and, in particular, the performance of liquidity stress tests.

There were no liquidity bottlenecks in 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.

The residual terms of liabilities are shown at number 23 in the Notes to the Consolidated Financial Statements.

Scenario analysis

In scenario analysis, the risks defined above are quantified and aggregated on the basis of the year-end value of the portfolio. Sensitivity analysis pursuant to the German accounting standard DRS 20 A2.14 produced the following figures for the Gothaer Group: An increase of 100 basis points in the interest curve and a modified duration of 8.9 reduced the market value of fixed-income securities by € 2,408.6 million in comparison to the year-end value of the portfolio. An isolated parallel 100-basis-point rise in the spread curve reduced the market value of the bond portfolio susceptible to credit risk by € 453.0 million. Taking into account hedging measures, a decrease of 20 % in trading prices resulted in a fall in market value of € 328.7 million in the case of shares and other non-fixed-income financial instruments. A decrease of 10 % in the market value of the property investments of the Gothaer Group represents € 218.3 million. The following table shows the possible change in equity assuming the above sensitivities. It is also assumed that the appropriated reserve for premium refunds is the minimum required. For an assessment of the impact on equity, please refer to the section on accounting policies, especially the rules on impairment testing.

Scenario analysis

Impact on equity						€ million
	Decrease in market value		Change in equity not recognized in statement of income		Change in equity recognized in statement of income	
	2017	2016	2017	2016	2017	2016
Fixed-income securities (interest change risk)	2,408.6	2,184.5	316.4	273.5	0.0	0.0
Fixed-income securities susceptible to credit risk (credit/solvency risk)	453.0	480.8	68.1	76.1	0.0	0.0
Shares and other non-fixed-income financial instruments (price risk)	328.7	378.5	0.0	0.0	151.5	164.3
Property (price risk)	218.3	225.5	30.9	33.1	0.0	0.0
Total	**3,408.6**	**3,269.3**	**415.4**	**382.7**	**151.5**	**164.3**

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. Owing to growing 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.

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 the various elements is performed by the Internal Auditing unit. The challenges presented by changes in accounting rules are also met by constant further development and training of employees.

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 specific company circumstances.

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 Group companies, 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 those 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.

For insurance companies in particular, demographic change presents major challenges 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.

Money laundering

Internal guidelines and checks have been adopted to prevent life insurance, refund-of-premium accident insurance or insurance company loans being used to launder money or finance terrorism.

Summary of the risk situation

In the Property/Casualty segment, the Gothaer Group is both 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 in this segment comes from natural catastrophes. We hedge that risk by the targeted purchase of reinsurance.

In the area of life insurance, the focus of the Gothaer Group encompasses not only modern capital-efficient products but also biometric and unit-linked life products as well as company pension schemes. In an ageing society, the Gothaer Group can thus profit from increased demand for these products.

The principal risk identified in the Life segment is interest guarantee risk. Because of the long-term guarantees given, it is imperative that an appropriate yield should be achieved in the capital market. A protracted low-interest phase has a major impact on the income generated by interest-bearing assets. The risk result helps reduce dependence on investment income.

Private health insurance is very dependent on the political environment. Accordingly, Gothaer will mainly focus here on growing its supplemental health insurance business.

As in the Life segment, the main risk perceived in health insurance is also interest change risk. A fall in investment income would lead to premium adjustments, which could in turn have negative impacts on new business.

Risk management is performed on the basis of quantitative and qualitative analysis, which creates a stable risk profile with an appropriate time horizon. This assessment is supported, amongst other things, by the following factors:

Fulfilment of the regulatory solvency requirements set out in the German Insurance Supervision Act (VAG) is disclosed in the Solvency and Financial Condition Report (solvency requirements and own funds), which is also published on the Gothaer website (www.gothaer.de).

In 2017, Standard and Poor's confirmed its A– financial strength ratings for Gothaer Allgemeine Versicherung AG, Gothaer Krankenversicherung AG and Gothaer Lebensversicherung AG and FitchRatings gave follow-up A ratings (strong) for Gothaer Allgemeine Versicherung AG and Gothaer Lebensversicherung AG.

The control mechanisms, instruments and analytical processes described above ensure effective risk management. At the present time the financial statements were prepared, nothing was seen in the risk situation of the individual Group companies that might jeopardize the fulfilment of commitments assumed under insurance contracts.

Outlook

General economic outlook for 2018

Despite the existing (geo)political risks, the synchronized upswing of the global economy is currently expected to continue through 2018. A further increase in the utilization of macroeconomic production capacities in the industrial nations 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 in their actions.

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 synchronized 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 can benefit from the robust economic environment in the form of rising profits.

Developments in the insurance industry

Developments in the insurance industry were also supported by the vigorous economic upswing. After a phase of extremely low growth, 2017 is expected to produce a rise of around 1.8 % in premium revenues. In the near term, however, the extreme interest rate environment and high regulatory intensity will remain major challenges. Nonetheless, the rapid advance of digitalization in business and society will also create new business opportunities for insurers. The insurance sector is therefore forecast to benefit from an upturn of around 1.4 % in premium revenues in 2018. As regards business prospects, expectations have marginally improved. This is the net result of contrasting perceptions in the main areas of insurance: in life insurance the mood is subdued; in private health insurance the business climate has further improved, and in Property/Casualty insurance expectations have dipped slightly but are still high.

(Note: 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 the Gothaer Group

The future development of the Gothaer Group will be largely defined by its core fields of business, i. e. the Property/Casualty, Life and Health segments. Because these segments have both shared and separate environments, the prognosis of future development is made on the basis of these segments.

As of the financial year 2018, the Gothaer Group will prepare and publish its consolidated financial statements in accordance with the provisions of the German Commercial Code (HGB). The following forecasts are based on HGB accounting.

Major differences in accounting standards exist particularly with regard to the principle of prudence, which is considered a secondary principle in IFRS accounting. In HGB accounting, however, creditor protection is a matter of paramount importance. The implications of this play an important role in the following positions.

Underwriting reserves are developed on a best estimate basis in IFRS accounting, whereas they are calculated more conservatively under HGB. Furthermore, equalization provisions are not classed as liabilities towards third parties in IFRS accounting and are thus not admissible under IFRS 4.14(a). The additional interest reserve (Zinszusatzreserve) required under HGB rules is also not formed in IFRS accounting. These differences have an effect on Group equity.

Under IFRS, a considerable amount of investment is recognized at fair value in accordance with IAS 39. In HGB accounting, amortized cost is the upper limit for valuation. This results in lower estimates and a lower but more stable result.

In the case of pension obligations in HGB accounting, changes in actuarial interest normally have a direct effect on results, whereas under IFRS it is recognized in equity with no effect on the income statement. In addition, different underlying interest rates are applied: IFRS stipulates the use of the current market interest rate, HGB requires the application of an average market interest rate.

Owing to the valuation differences between HGB and IFRS accounting, deferred taxes and deferred reserves for premium refunds have different effects.

The changes in the scope of consolidation are primarily due to special funds, which needed to be consolidated under IFRS for compliance with IFRS 10 but are not required to be consolidated under section 290 (2) no. 4 HGB.

Property/Casualty segment

Environment

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.

Outlook

Our 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 will be extended in 2018 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.

For private clients, 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.

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.

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.

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

Because of the continuing low level of interest rates forecast and the challenges connected with it, we anticipate a moderate downturn in investment income.

Life segment

Environment

Business in the Life segment is essentially defined by the macroeconomic environment, the prospects for funded provision for old age and its ability to compete with other forms of investment in the light of recessive capital market interest rates. Although the economic situation of private households continues to move in a positive direction, the public's long-term propensity to save is only limited in the sustained low-interest environment. Owing to the continued fall in the overall return on investments across most of the market, the competitive situation of life insurers remains difficult. Nevertheless, there is still private and institutional demand for investment, so premiums are likely to stay at a high level. Market opportunities are seen in new products and in the area of company pension schemes. The financial year 2018 is thus expected to produce a moderate increase in premium revenues of around 0.1 %.

Outlook

Facing the challenges of the market environment, the Gothaer Group initiated a comprehensive programme in 2015 designed to realign the life insurance business model for the future. In the generally difficult environment of the life insurance market, we are confident that we will continue to develop our risk-return-oriented strategy with success over the coming years. Focal areas include active product mix management, stringent cost management and professional underwriting.

Nearly all life insurers are responding to the sustained low-interest phase by progressively and in some cases sharply reducing surplus bonuses. We too thus took appropriate account of the low-interest phases by further lowering surplus bonuses for 2018. Since early 2016, we have successfully completed the necessary transition process, especially with regard to the product portfolio, and largely terminated conventional classical tariffs for new business and launched new capital-efficient products. With the capital-efficient product Gothaer GarantieRente, for instance, we are soundly positioned in the market with an overall yield of 2.9 % on new business.

In the area of private and company pension schemes, a large number of products have been launched with significantly modified guarantees and greater fund orientation. Across the market, many market players, along with us, are focusing on “biometric” lines as a major pillar of risk business as well as capital-intensive pension products.

Our activities thus remain crucially geared to positioning us as a service insurer, especially in the field of biometrics and capital-efficient pension products. In the coming years, changes are expected in the composition of new business (product mix). In particular, there will be a significant reduction in the amount of new business generated by conventional classical products. In this connection, we will endeavour to increase even more the percentage of production in the biometric and capital-efficient pension product segments. Our sights are set on generating more than 90 % of new business in these two segments by 2020.

Another important goal is the readiness and ability to engage in strategic cooperation (“no longer obliged to do everything ourselves”). An initial move was made in 2017 with the initiative to establish “Das Rentenwerk”. The law passed in the middle of 2017 to strengthen company pension schemes promotes and requires a strong occupational pension for Germany. Five long-established mutual insurance companies plan to provide a powerful counterweight to the dominant company pension scheme players in the market by joining forces and bundling their strengths to create a strong and competitive product for the future “social partner pension” market. The work of establishing a joint pension product and creating a joint digital administrative platform for it is progressing apace and a competitive product is scheduled to be launched on the market around the middle of 2018.

Market-aligned operative services designed to boost customer and agent satisfaction as well as digitalization for standardizing and automating processes are increasingly a focus for life insurers seeking to generate growth and enhance efficiency. In 2016 and 2017, numerous measures were initiated in the Gothaer Group to improve digital processes and customer and agent satisfaction. In the coming years, more steps will be taken to optimize customer communication and agent and operational processes within the framework of the digitalization strategy developed for the Life segment. On the private client business front, attention will be paid, inter alia, to new solutions permitting real-time online transactions and to the development of self-services. In 2018, there are plans to introduce a point-of-sale risk analysis system for broker sales operations.

During the transition phase to a business model realigned for the future, temporary sharp downturns in sales were accepted from 2015 to 2017. In 2018, it is envisaged that the Life segment will return to moderate growth.

We anticipate that administrative expenses will remain stable over the present calendar year.

Net yield is expected to increase in the coming year. The mainstays of projected net results will again be stable current income from a carefully selected bond portfolio and the use of valuation reserves.

The increased intrinsic value and earnings power on the liability side of the Life segment in recent years will continue to ensure that the requirements of supervisory regulations are met in full.

Health segment

Environment

The development of private health insurance business is essentially dependent on the environment provided by healthcare policy. The Bundestag elections in 2017 ultimately resulted in another grand coalition government. No significant changes are thus anticipated in 2018. The surge in socially insured employment due to the growth of the economy has negative implications for the comprehensive insurance portfolio. On the whole, however, the favourable economic situation of private households is expected to help support business growth for private health insurers. Given the ongoing low-interest environment, further premium adjustments are anticipated in the comprehensive insurance portfolio in the first half of 2018 because after a phase of largely restrained premium adjustments there may be catch-up effects. As regards long-term care and supplemental insurance business, the dynamic pace of growth is expected to continue undiminished. Company health insurance is seen as an additional source of stimuli. As a result, total premium income from private health insurance is expected to rise by 2.0 % in 2018.

Outlook

The stabilization of portfolio and premium growth will continue to be a priority in 2018. Overall, we anticipate a moderate downturn in premium income this year. In the light of the level of premiums in 2017, our projections show a significant increase in new business in 2018.

The ambitious projections are based on marked revitalization of supplemental insurance across the multi-channel sales system in combination with direct sales and greater mobilization of the broker market in comprehensive insurance. In supplemental insurance, we plan to launch a new product for end-of-year business in 2018. In comprehensive insurance, a new premium relief tariff is in the pipeline. A new product development for the comprehensive portfolio is scheduled for 2019 in response to an anticipated revision of the statutory scale of fees for physicians in Germany (GOÄ). In the company health insurance segment, we expect further appreciable growth thanks to the excellent market positioning of the Gothaer Group.

With benefit expenses moderately increased and premium income only marginally down, the loss ratio is expected to edge up in 2018 to a level significantly below 80 %.

We anticipate a sharp fall in the acquisition cost ratio and a moderate upturn in the administrative cost ratio.

The above developments will result in an underwriting profit ratio for 2018 of at least 13 %. Aside from the underwriting result, earnings also depend to a large extent on investment income. Here, we project a net yield for 2018 at a level moderately below that of the prior year.

Marketing

A new Group strategy has been initiated to enable us effectively to meet environmental challenges such as low interest rates, slow market growth, increasing customer and agent service requirements and rapid developments in digitalization, regulation and demographics. It is a logical development of plans based on present objectives and carries the traditional insurance business model forward into the future. Owing to its independence as a mutual insurance association, Gothaer always acts as a fair, dependable and trustworthy partner for customers. The long-term focus is on systematic, stable and continuous value enhancement to strengthen the foundations of the Group.

Changes in consumer behaviour as a result of digitalization are addressed by the Gothaer Group through multi-channel management at the marketing interface with agents and customers. This is facilitated by closely integrating direct marketing with the independent Gothaer field force. In line with its perception of itself as a solution-oriented service insurer, Gothaer will further develop its brand positioning to meet the new requirements of its customers.

General

The forecasts and assessments of future business development contained in this Annual Report are provided on the basis of what is known at the present time. Economic developments, capital market developments, unanticipated major and accumulation losses, changes in the legal, tax and demographic environment as well as changes in the competitive situation of the Gothaer Group may cause the parameters underlying the forecasts to develop differently.

Consolidated Financial Statements

Consolidated Statement of Financial Position

Assets

	Notes	2017	2016*	Opening balance sheet 2016
				€ million
A. Intangible assets				
I. Goodwill	[1]	82.5	96.6	94.0
II. Other intangible assets	[2]	276.4	253.0	231.6
Total A.		**359.0**	**349.5**	**325.6**
B. Self-occupied property and tangible assets	[3]	**36.5**	**33.9**	**36.7**
C. Investments				
I. Investment property	[4]	627.1	628.6	387.1
of which in disposal groups		*6.1*	*0.0*	*0.0*
II. Shares in joint ventures and associated companies – consolidated at equitiy	[5]	302.0	301.9	658.1
of which in disposal groups		*0.0*	*16.3*	*0.0*
III. Loans	[6]	4,623.3	5,097.3	5,276.4
of which companies over which a significant influence is exercised as a result of profit-sharing rights		*136.6*	*78.4*	*0.0*
IV. Investments available for sale	[7]	23,634.6	22,605.7	21,326.0
of which companies over which a significant influence is exercised as a result of profit-sharing rights		*460.4*	*469.9*	*0.0*
V. Investments measured at fair value through profit or loss	[8]			
1. Held for trading		31.6	49.5	105.3
2. By designation		102.6	128.2	83.3
of which companies over which a significant influence is exercised as a result of profit-sharing rights		*49.4*	*48.3*	*0.0*
Total V.		**134.1**	**177.7**	**188.6**
VI. Other investments	[9]	748.3	401.7	648.6
Total C.		**30,069.5**	**29,213.0**	**28,484.7**
D. Investments held for unit-linked life insurance policies		**2,248.0**	**2,023.5**	**1,935.4**
E. Receivables				
I. Receivables from primary insurance business				
1. from policyholders		105.3	108.3	127.6
2. from intermediaries		66.7	69.7	62.8
Total I.		**172.0**	**178.0**	**190.4**
II. Other receivables		342.3	608.6	494.2
Total E.	[10]	**514.2**	**786.6**	**684.6**
F. Cash and cash equivalents		**394.3**	**327.6**	**296.3**
G. Reinsurers' share of underwriting reserves				
I. Unearned premiums		105.2	115.7	123.0
II. Policy reserves		189.0	189.0	1,067.3
III. Reserves for unpaid claims		408.3	424.3	439.7
IV. Other underwriting reserves		−2.3	−5.7	−4.6
Total G.		**700.3**	**723.4**	**1,625.3**
H. Reinsurers' share of underwriting reserves for unit-linked life insurance policies		**0.0**	**0.0**	**0.0**
I. Deferred acquisition costs				
I. Gross		541.5	914.0	923.2
II. Reinsurers' share		43.9	25.6	26.7
Total I.	[11]	**497.7**	**888.3**	**896.5**
J. Tax assets				
I. from current taxation		68.7	84.6	106.8
II. from deferred taxes		578.0	656.7	595.3
Total J.	[12]	**646.7**	**741.3**	**702.1**
K. Other assets	[13]	**3.9**	**4.2**	**6.1**
Total assets		**35,470.1**	**35,091.4**	**34,993.4**

* Comparatives after restatement

Equity and liabilities

€ million

	Notes	2017	2016*	Opening balance sheet 2016
A. Equity				
I. Revenue reserves		1,647.1	1,468.1	1,385.7
II. Other reserves	[14]			
1. Unrealized gains and losses		347.6	376.9	323.7
2. Currency translation reserve		−5.1	−5.9	−4.6
Total II.		**342.5**	**371.0**	**319.0**
III. Consolidated net profit for the year attributable to shareholders of the parent company		164.7	155.9	137.6
Total I.–III. (Group equity)		**2,154.3**	**1,995.0**	**1,842.3**
IV. Minority interests	[15]	48.3	56.8	46.9
Total A.		**2,202.6**	**2,051.8**	**1,889.2**
B. Gross underwriting reserves	[16]			
I. Unearned premiums	[17]	668.0	656.0	658.6
II. Policy reserves	[18]	19,889.5	19,742.1	19,656.6
III. Reserves for unpaid claims	[19]	2,592.2	2,569.5	2,551.0
IV. Other underwriting reserves	[20]	4,719.1	4,679.5	3,953.8
Total B.		**27,868.8**	**27,647.1**	**26,820.1**
C. Gross underwriting reserves for unit-linked life insurance policies		**2,248.0**	**2,023.5**	**1,935.4**
D. Other accruals				
I. Provisions for pension benefits and similar obligations	[21]	636.6	660.4	579.0
II. Other accruals	[22]	81.0	69.0	67.7
Total D.		**717.6**	**729.4**	**646.7**
E. Liabilities				
I. Participation certificates		0.0	20.0	20.0
II. Subordinate liabilities		299.7	314.3	504.8
III. Bonds and loans		138.6	155.7	155.7
IV. Liabilities from primary insurance business				
1. towards policyholders		487.1	535.2	580.5
2. towards intermediaries		31.1	32.8	37.0
Total IV.		**518.2**	**568.0**	**617.5**
V. Other liabilities		570.0	609.3	1,552.1
Total E.	[23]	**1,526.5**	**1,667.4**	**2,850.2**
F. Tax debts				
I. for current taxation		213.7	241.4	158.3
II. for deferred taxes		692.9	730.8	693.4
of which in disposal groups		*0.0*	*0.8*	*0.0*
Total F.	[24]	**906.6**	**972.2**	**851.7**
Total equity and liabilities		**35,470.1**	**35,091.4**	**34,993.4**

* Comparatives after restatement

Consolidated Statement of Comprehensive Income

€ million			
	Notes	2017	2016*
I. Statement of income (recognized through profit or loss)			
1. Premiums written			
a) Gross		4,423.9	4,410.9
b) Reinsurers' share		358.0	383.8
	[25]	**4,065.9**	**4,027.0**
2. Change in unearned premiums			
a) Gross		−8.1	0.3
b) Reinsurers' share		12.5	19.9
	[25]	**−20.5**	**−19.5**
3. Savings components			
a) Gross		492.2	298.6
b) Reinsurers' share		0.1	0.0
	[25]	**492.1**	**298.6**
4. Net premiums earned (1+2−3)	[25]	**3,553.3**	**3,708.9**
5. Investment result	[26]	**1,331.2**	**1,591.3**
of which income from joint ventures and associated companies – consolidated at equitiy		*166.5*	*165.9*
6. Income from investments held for unit-linked life insurance policies	[26]	**147.3**	**71.2**
7. Other income	[27]	**145.1**	**142.1**
Total income		**5,176.9**	**5,513.5**
8. Policyholder benefits			
a) Gross		3,610.0	4,452.0
b) Reinsurers' share		175.8	270.5
	[28]	**3,434.2**	**4,181.5**
9. Underwriting expenses			
a) Gross		1,216.7	844.7
b) Reinsurers' share		89.1	85.3
	[29]	**1,127.6**	**759.4**
10. Other expenses	[30]	**283.4**	**273.1**
Total expenses		**4,845.1**	**5,214.0**
11. Operating result		**331.8**	**299.5**
12. Financing expenses		**26.1**	**31.9**
13. Net profit for the year before taxes		**305.6**	**267.6**
14. Taxes on income	[31]	**138.1**	**109.5**
15. Net profit for the year		**167.5**	**158.1**
of which attributable to shareholders of the parent company		*164.7*	*155.9*
of which attributable to minority interests		*2.9*	*2.2*
II. Other comprehensive income (recognized directly in equity)			
16. Unrealized gains and losses	[32]	**−37.1**	**61.6**
17. Actuarial gains and losses relating to defined benefit pension plans		**23.2**	**−50.4**
18. Change in valuation at equity		**2.6**	**−0.9**
19. Currency translation		**0.9**	**−1.3**
20. Other comprehensive income (total)		**−10.5**	**9.0**
of which attributable to shareholders of the parent company		*−5.4*	*1.0*
of which attributable to minority interests		*−5.1*	*7.9*
III. Comprehensive income		**157.1**	**167.1**
of which attributable to shareholders of the parent company		*159.3*	*156.9*
of which attributable to minority interests		*−2.2*	*10.1*

* Comparatives after restatement

Statement of Changes in Equity

€ million

	Group equity				Minority interests	Total**
	Revenue reserves**	Other reserves*		Net profit for the year**		
		Unrealized gains and losses**	Currency translation reserve			
Balance as of 1 January 2016	**1,385.7**	**323.7**	**–4.6**	**137.6**	**46.9**	**1,889.2**
Change in consolidated group	–4.3	0.0	0.0	0.0	5.7	1.5
Allocation to revenue reserves	137.6	0.0	0.0	–137.6	0.0	0.0
Comprehensive income	–50.9	53.2	–1.3	155.9	10.1	167.1
Net profit for the year	0.0	0.0	0.0	155.9	2.2	158.1
Other comprehensive income	–50.9	53.2	–1.3	0.0	7.9	9.0
Unrealized gains and losses	0.0	53.5	0.0	0.0	8.0	61.6
Actuarial gains and losses relating to defined benefit pension plans	–50.3	0.0	0.0	0.0	–0.1	–50.4
Change in valuation at equity	–0.6	–0.3	0.0	0.0	0.0	–0.9
Currency translation	0.0	0.0	–1.3	0.0	0.0	–1.3
Dividend	0.0	0.0	0.0	0.0	–4.6	–4.6
Other	0.0	0.0	0.0	0.0	–1.4	–1.4
Balance as of 31 December 2016	**1,468.1**	**376.9**	**–5.9**	**155.9**	**56.8**	**2,051.8**
Allocation to revenue reserves	155.9	0.0	0.0	–155.9	0.0	0.0
Comprehensive income	23.1	–29.3	0.9	164.7	–2.2	157.1
Net profit for the year	0.0	0.0	0.0	164.7	2.9	167.5
Other comprehensive income	23.1	–29.3	0.9	0.0	–5.1	–10.5
Unrealized gains and losses	0.0	–31.9	0.0	0.0	–5.2	–37.1
Actuarial gains and losses relating to defined benefit pension plans	23.1	0.0	0.0	0.0	0.1	23.2
Change in valuation at equity	0.0	2.6	0.0	0.0	0.0	2.6
Currency translation	0.0	0.0	0.9	0.0	0.0	0.9
Dividend	0.0	0.0	0.0	0.0	–3.9	–3.9
Other	0.0	0.0	0.0	0.0	–2.3	–2.3
Balance as of 31 December 2017	**1,647.1**	**347.6**	**–5.1**	**164.7**	**48.3**	**2,202.6**

* See also table 14 Other reserves
** Comparatives after restatement

As a mutual insurance association, the Group parent, Gothaer Versicherungsbank VVaG, has no subscribed capital. Equity is generated exclusively through retention of earnings.

Statement of Cash Flows

€ million	2017	2016**
Net profit for the year*	167.5	158.1
Change in underwriting reserves	338.4	1,656.4
Change in underwriting reserves for unit-linked life insurance policies	224.3	87.9
Change in deferred acquisition costs	391.1	8.0
Change in deposits retained on assumed business/received from reinsurers and receivables/liabilities in connection with reinsurance business	−2.2	−893.5
Change in investments measured at fair value through profit or loss	172.8	51.8
Change in other receivables and liabilities	297.2	43.1
Change in deferred tax assets and deferred tax liabilities	51.8	−24.1
Change in other balance sheet items	27.9	116.9
Gains and losses on disposal of tangible assets and investments	−741.3	−880.1
Correction for investment income and expenses without cash inflows/outflows	96.7	111.8
Correction for other income and expenses without cash inflows/outflows and other correction of net profit for the year	90.0	86.0
Cash flow from operating activities	**1,114.3**	**522.4**
Cash outflows for the acquisition of consolidated companies	0.0	−108.4
Cash inflows from the disposal of consolidated companies	131.7	35.0
Cash outflows for the acquisition of other investments	−9,099.1	−9,074.1
Cash inflows from the disposal of other investments	8,073.6	8,947.6
Change in investments for unit-linked life insurance policies	0.2	8.9
Other cash inflows	1.9	1.9
Other cash outflows	−77.3	−74.9
Cash flow from investing activities	**−969.1**	**−264.0**
Cash inflows from increase of capital	0.0	−0.3
Cash outflows from decrease of capital	−2.3	−1.7
Dividend	−3.9	−4.6
Change in participation certificates and subordinate liabilities	−14.7	−190.5
Change from other financing activities	−63.2	−29.3
Cash flow from financing activities	**−84.2**	**−226.4**
Change in cash and cash equivalents with cash inflows/ outflows	**61.1**	**31.9**
Cash and cash equivalents at the beginning of financial year	327.6	296.3
Change in cash and cash equivalents due to change of currency exchange rates	5.7	−1.7
Change in cash and cash equivalents due to change in consolidated group	0.0	1.1
Cash and cash equivalents at the end of financial year	**394.3**	**327.6**

* Including minority interests
** Comparatives after restatement

Other information on statement of cash flows

€ million	2017	2016*
Operating activities		
Taxes on income paid (net)	–96.1	–30.3
Interest paid	–24.3	–71.7
Interest received	686.0	750.0
Dividend received	204.4	195.3
Financing activities		
Interest paid	–26.1	–29.2

* Comparatives after restatement

Sales and acquisitions of subsidiaries

In the year under review, shares in DKV Mobility Services Holding GmbH & Co. KG were sold. For more information about this, please refer to the chapter on Scope of Consolidation.

For the impacts of these sales and acquisitions on cash flows, please see the table below.

Effects on the cash flow statement € million	2017	2016
Cash outflow for the acquisition of companies	0.0	–106.4
Cash inflow from the disposal of companies	131.7	34.1
Total acquisition price	0.0	–108.4
of which paid in cash and cash equivalents	0.0	–108.4
Total disposal price	131.7	294.0
of which received in cash and cash equivalents	131.7	35.0
Cash and cash equivalents acquired through acquisition	0.0	2.0
Cash and cash equivalents transferred through disposal	0.0	–0.9

For the reconciliation of the movement of liabilities with cash flows from financing activities, please refer to the notes to the consolidated financial statements 23 Liabilities.

Segmental Report

The Segmental Report is part of the notes to the consolidated financial statements and is prepared in line with IFRS 8 "Operating Segments".

Segment assets

	Property/Casualty		Life	
	2017	2016*	2017	2016*
A. Other intangible assets	**151.6**	**134.7**	**35.2**	**30.3**
B. Self-occupied property and tangible assets	**18.8**	**16.3**	**3.2**	**3.4**
C. Investments				
I. Investment property	0.0	0.0	0.0	0.0
of which in disposal groups	*0.0*	*0.0*	*0.0*	*0.0*
II. Shares in subsidiaries, joint ventures and associated companies				
– consolidated at equitiy	0.0	0.0	0.0	0.0
of which in disposal groups	*0.0*	*0.0*	*0.0*	*0.0*
– not consolidated	1,197.5	1,197.3	573.7	562.6
III. Loans	779.1	860.2	3,038.4	3,366.4
of which companies over which a significant influence is exercised as a result of profit-sharing rights	*10.1*	*0.0*	*70.0*	*47.7*
IV. Investments available for sale	3,011.6	2,802.5	14,070.7	13,661.6
of which companies over which a significant influence is exercised as a result of profit-sharing rights	*11.9*	*11.5*	*403.4*	*409.9*
V. Investments measured at fair value through profit or loss				
1. Held for trading	1.5	1.2	13.0	28.1
2. By designation	17.7	20.0	37.9	39.0
of which companies over which a significant influence is exercised as a result of profit-sharing rights	*0.0*	*0.0*	*37.9*	*37.1*
Total V.	**19.1**	**21.2**	**50.8**	**67.1**
VI. Other investments	272.8	201.1	214.3	32.6
Total C.	**5,280.1**	**5,082.4**	**17,947.9**	**17,690.4**
D. Investments held for unit-linked life insurance policies	**0.0**	**0.0**	**2,248.0**	**2,023.5**
E. Reinsurers' share of underwriting reserves	**495.7**	**584.1**	**432.8**	**415.8**
F. Reinsurers' share of underwriting reserves for unit-linked life insurance policies	**0.0**	**0.0**	**6.3**	**5.6**
G. Deferred acquisition costs	**101.8**	**102.5**	**339.6**	**630.2**
H. Other segment assets	**827.8**	**950.9**	**539.2**	**733.8**
Total segment assets	**6,875.7**	**6,871.0**	**21,552.3**	**21,533.0**

* Comparatives after restatement

€ million

Health 2017	Health 2016*	Other Activities 2017	Other Activities 2016*	Consolidation 2017	Consolidation 2016*	Total 2017	Total 2016*
40.1	**43.1**	**49.5**	**44.9**	**0.0**	**0.0**	**276.4**	**253.0**
2.0	**2.1**	**12.8**	**12.4**	**−0.3**	**−0.3**	**36.5**	**33.9**
0.0	0.0	654.6	656.3	−27.5	−27.7	627.1	628.6
0.0	*0.0*	*6.1*	*0.0*	*0.0*	*0.0*	*6.1*	*0.0*
0.0	0.0	197.6	234.4	104.4	67.5	302.0	301.9
0.0	*0.0*	*0.0*	*60.1*	*0.0*	*−43.8*	*0.0*	*16.3*
230.9	230.6	1,078.4	1,147.1	−3,080.5	−3,137.6	0.0	0.0
1,429.6	1,470.6	231.3	232.4	−855.1	−832.4	4,623.3	5,097.3
56.5	*30.6*	*0.0*	*0.0*	*0.0*	*0.0*	*136.6*	*78.4*
5,945.1	5,537.2	623.8	625.2	−16.6	−20.8	23,634.6	22,605.7
45.1	*48.5*	*0.0*	*0.0*	*0.0*	*0.0*	*460.4*	*469.9*
17.2	20.0	0.0	0.1	0.0	0.0	31.6	49.5
17.3	29.9	29.7	39.4	0.0	0.0	102.6	128.2
11.5	*11.3*	*0.0*	*0.0*	*0.0*	*0.0*	*49.4*	*48.3*
34.5	**49.9**	**29.7**	**39.5**	**0.0**	**0.0**	**134.1**	**177.7**
130.5	46.9	398.5	368.2	−267.8	−247.1	748.3	401.7
7,770.5	**7,335.2**	**3,213.9**	**3,303.1**	**−4,143.0**	**−4,198.0**	**30,069.5**	**29,213.0**
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2,248.0**	**2,023.5**
0.0	**0.0**	**24.1**	**0.2**	**−252.3**	**−276.7**	**700.3**	**723.4**
0.0	**0.0**	**0.0**	**0.0**	**−6.3**	**−5.6**	**0.0**	**0.0**
56.3	**155.6**	**0.0**	**0.0**	**0.0**	**0.0**	**497.7**	**888.3**
272.4	**362.5**	**335.9**	**302.1**	**−416.2**	**−489.6**	**1,559.1**	**1,859.7**
8,141.4	**7,898.5**	**3,636.2**	**3,662.6**	**−4,818.1**	**−4,970.3**	**35,387.5**	**34,994.8**

Segment liabilities

	Property/Casualty		Life	
	2017	2016*	2017	2016*
A. Gross underwriting reserves				
I. Unearned premiums	668.0	656.0	0.0	0.0
II. Policy reserves	45.6	47.3	14,746.9	14,783.1
III. Reserves for unpaid claims	2,224.1	2,191.9	101.5	80.5
IV. Other gross underwriting reserves	30.9	26.3	2,560.0	2,628.3
Total A.	**2,968.6**	**2,921.5**	**17,408.4**	**17,491.9**
B. Gross underwriting reserves for unit-linked life insurance policies	**0.0**	**0.0**	**2,248.0**	**2,023.5**
C. Other accruals	**378.1**	**391.7**	**93.7**	**92.5**
D. Other segment liabilities	**1,179.4**	**1,218.6**	**1,149.7**	**1,268.2**
Total segment liabilities	**4,526.1**	**4,531.9**	**20,899.7**	**20,876.1**

* Comparatives after restatement

€ million							
Health		Other Activities		Consolidation		Total	
2017	2016*	2017	2016	2017	2016*	2017	2016*
0.0	0.0	0.0	0.0	0.0	0.0	668.0	656.0
5,117.8	4,934.8	252.2	233.9	−273.1	−256.9	19,889.5	19,742.1
176.6	168.5	90.0	171.5	0.0	−42.9	2,592.2	2,569.5
2,142.2	2,066.9	0.0	0.1	−13.9	−42.1	4,719.1	4,679.5
7,436.6	**7,170.1**	**342.2**	**405.5**	**−287.0**	**−341.8**	**27,868.8**	**27,647.1**
0.0	**0.0**	**6.3**	**5.6**	**−6.3**	**−5.6**	**2,248.0**	**2,023.5**
61.4	**62.7**	**184.4**	**182.4**	**0.0**	**0.0**	**717.6**	**729.4**
264.2	**285.9**	**1,331.0**	**1,416.6**	**−1,491.2**	**−1,549.8**	**2,433.1**	**2,639.6**
7,762.3	**7,518.8**	**1,863.9**	**2,010.1**	**−1,784.4**	**−1,897.3**	**33,267.5**	**33,039.6**

Segment statement of income

	Property/Casualty		Life	
	2017	2016*	2017	2016*
1. Gross premiums written from insurance business with other segments	0.0	0.0	0.0	0.0
from insurance business with non-related third parties	2,184.9	2,151.1	1,300.2	1,352.3
	2,184.9	**2,151.1**	**1,300.2**	**1,352.3**
2. Net premiums earned	**1,851.5**	**1,798.6**	**746.5**	**985.5**
3. Investment result	**214.8**	**204.0**	**732.7**	**1,021.6**
of which income from joint ventures and associated companies – consolidated at equitiy	*0.0*	*0.0*	*0.0*	*0.0*
4. Income from investments held for unit-linked life insurance policies	**0.0**	**0.0**	**147.3**	**71.2**
5. Other income	**125.3**	**119.3**	**28.3**	**30.2**
Total income	**2,191.6**	**2,121.9**	**1,654.8**	**2,108.5**
6. Policyholder benefits (net)	**1,204.8**	**1,201.8**	**1,170.4**	**1,787.5**
7. Underwriting expenses (net)	**573.6**	**541.7**	**387.8**	**148.0**
8. Other expenses	**185.3**	**195.2**	**61.4**	**62.3**
Total expenses	**1,963.7**	**1,938.6**	**1,619.7**	**1,997.9**
9. Operating result	**227.9**	**183.3**	**35.1**	**110.6**
10. Financing expenses	**19.1**	**25.0**	**3.3**	**3.1**
11. Net profit for the year before taxes	**208.8**	**158.3**	**31.8**	**107.5**
12. Taxes on income	**133.0**	**65.8**	**17.7**	**52.9**
13. Net profit for the year	**75.8**	**92.5**	**14.1**	**54.6**
14. Minority interests in net profit for the year				
15. Consolidated profit for the year attributable to shareholders of the parent company**				

* Comparatives after restatement
**The consolidated profit for the year is shown only for the Group as a whole. Segmentation would result in an inaccurate presentation due to interlocking intersegmental arrangements.

€ million

Health		Other Activities		Consolidation		Total	
2017	2016*	2017	2016	2017	2016	2017	2016*
0.0	0.0	18.2	18.9	−18.2	−18.9	0.0	0.0
938.7	907.4	0.0	0.1	0.0	0.0	4,423.9	4,410.9
938.7	**907.4**	**18.3**	**19.0**	**−18.2**	**−18.9**	**4,423.9**	**4,410.9**
937.1	**905.9**	**18.3**	**19.0**	**0.0**	**0.0**	**3,553.3**	**3,708.9**
324.3	**366.0**	**193.0**	**144.8**	**−133.7**	**−145.1**	**1,331.2**	**1,591.3**
0.0	*0.0*	*88.6*	*22.1*	*77.9*	*143.8*	*166.5*	*165.9*
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**147.3**	**71.2**
7.5	**8.2**	**309.7**	**316.0**	**−325.7**	**−331.8**	**145.1**	**142.1**
1,268.9	**1,280.1**	**521.0**	**479.8**	**−459.4**	**−476.9**	**5,176.9**	**5,513.5**
1,024.6	**1,093.3**	**11.5**	**16.2**	**22.9**	**82.7**	**3,434.2**	**4,181.5**
163.9	**68.3**	**2.3**	**1.4**	**0.0**	**0.0**	**1,127.6**	**759.4**
31.5	**22.5**	**338.2**	**337.1**	**−333.1**	**−344.0**	**283.4**	**273.1**
1,219.9	**1,184.1**	**352.0**	**354.7**	**−310.2**	**−261.4**	**4,845.1**	**5,214.0**
49.0	**96.0**	**168.9**	**125.1**	**−149.2**	**−215.5**	**331.8**	**299.5**
0.0	**0.0**	**19.2**	**18.4**	**−15.5**	**−14.6**	**26.1**	**31.9**
49.0	**96.0**	**149.8**	**106.7**	**−133.8**	**−200.9**	**305.6**	**267.6**
21.1	**34.9**	**14.3**	**−4.6**	**−48.1**	**−39.5**	**138.1**	**109.5**
27.9	**61.1**	**135.4**	**111.3**	**−85.7**	**−161.4**	**167.5**	**158.1**
						2.9	**2.2**
						164.7	**155.9**

Other information on the segmental reports

€ million	Property/ Casualty		Life		Health		Other Activities	
	2017	2016*	2017	2016*	2017	2016*	2017	2016
Interest income	80.8	85.5	386.7	427.6	177.3	179.0	22.9	23.5
Interest expense	27.2	43.8	20.2	50.3	1.7	2.1	48.7	48.5
Scheduled depreciation and amortization	22.2	19.7	5.2	4.2	8.0	7.8	26.5	31.2
Substantive income (+) and expenses (–) without cash inflows/outflows**	−274.8	−90.0	−412.0	−1,056.3	−435.9	−432.3	25.5	−250.3

* Comparatives after restatement
** Excluding scheduled depreciation and amortization

In the Property/Casualty, Life and Health segments, the figures stated for scheduled depreciation and amortization as well as substantive income and expenses without cash inflows/outflows do not include depreciation or write-ups on intangible assets or fixed assets. In the case of insurance companies, these expenses and income are spread over investment expenses, policyholder benefits and underwriting expenses within the framework of cost unit accounting.

Notes to the consolidated financial statements:

With the exception of the following section "Post-balance sheet events", the notes to the financial statements (including accounting and valuation principles) have been published only in German.

Post-balance sheet events

No events occurred that would require separate disclosure.

The Management of Gothaer Versicherungsbank VVaG approved the consolidated financial statements for submission to the Supervisory Board on 17 April 2018. The Supervisory Board is responsible for examining the consolidated financial statements and issuing a statement as to whether or not it approves the consolidated financial statements.

Cologne, 17 April 2018

Management

Dr. Karsten Eichmann	Oliver Brüß	Dr. Mathias Bühring-Uhle
Harald Epple	Michael Kurtenbach	Dr. Christopher Lohmann
Oliver Schoeller		

Independent Auditors' Report

GOTHAER Versicherungsbank VVaG, Cologne

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

Audit Opinions

We have audited the consolidated financial statements of Gothaer Versicherungsbank VVaG, Cologne, and its (Group) subsidiaries – which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income for the financial year from 1 January to 31 December 2017, the statement of changes in equity and the statement of cash flows for the financial year from 1 January to 31 December 2017 as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the Group management report of GOTHAER Versicherungsbank VVaG 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 non-financial statement or the corporate governance statement contained in the non-financial statement and corporate governance statement (gender diversity) sections of the Group management report.

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

- the accompanying consolidated financial statements comply in all material respects with the IFRS rules adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) of the German Commercial code (HGB) and, in conformity with these regulations, present a true and fair picture of the net assets and financial position of the Group as at 31 December 2017 and the results of its operations from 1 January to 31 December 2017 and

- the accompanying Group management report as a whole provides an accurate view of the situation of the Group. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development. Our audit opinion on the Group management report does not cover the content of the non-financial statement and 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 consolidated financial statements or the Group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and the Group 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 consolidated financial statements and Group 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 consolidated 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 consolidated 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.

Impairment of goodwill of the insurance and service companies in the Group

With regard to the accounting and valuation policies, please refer to the intangible assets section of the chapter on accounting and valuation policies in the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK

Goodwill totalled € 82.5 million at 31 December 2017, € 78.9 million of which related to the insurance and service companies of the Group.

Impairment of goodwill is reviewed annually at cash-generating unit level.

Impairment of goodwill is a complex matter and is based on a number of discretionary assumptions. They include, inter alia, the anticipated future business development and performance of the cash-generating units, the assumed long-term growth rates and the discount rate applied.

There is a risk for the consolidated financial statements that an impairment present at balance sheet date failed to be recognized. There is also a risk that the disclosures associated with it in the notes to the consolidated financial statements are incorrect.

OUR AUDIT APPROACH

In the course of our audit we assessed the adequacy of the key assumptions as well as the Group valuation policy. For this purpose, we consulted those responsible for the valuation of holdings and discussed with them the anticipated development of business and earnings as well as the assumed long-term rates of growth. We also performed a reconciliation against the corporate plan approved by the supervisory board.

In addition, we assessed the current standard of Group forecasting by comparing previous financial years' projections with actual outcomes and analysing deviations. We compared the assumptions and parameters on which the capitalization interest rate was based – especially the risk-free interest rate, market risk premium and beta factor – with our own assumptions and data in the public domain.

To ensure the mathematical accuracy of the valuation model used, we traced the calculations performed by the Group on the basis of a risk-based selection of elements.

Finally, we assessed the adequacy of the disclosures on impairment of goodwill in the notes to the consolidated financial statements. This also included assessing the adequacy of disclosures in the notes pursuant to IAS 36. 134(f) regarding sensitivity to a reasonably possible change in the key assumptions on which valuation was based.

OUR CONCLUSIONS

The calculation method on which impairment of goodwill is based is adequate and compliant with the valuation policies applied. The assumptions and Group parameters on which valuation is based are within acceptable bandwidths and, on the whole, balanced. The relevant disclosures in the notes to the consolidated financial statements are adequate.

Valuation of policy reserves as well as deferred acquisition costs in life and health insurance

With regard to the accounting and valuation policies, please refer to the underwriting reserves, policy reserves and deferred acquisition cost sections of the chapter on accounting and valuation policies in the notes to the consolidated financial statements. Risk disclosures are contained in the biometric risk (Life segment) and underwriting risk (Health segment) sections of the opportunity and risk report in the Group management report.

THE FINANCIAL STATEMENT RISK

The underwriting reserves in the Life and Health segments essentially comprise policy reserves. Policy reserves excluding unit-linked life insurance totalled € 14,746.9 million (gross) in the Life segment and € 5,117.8 million (gross) in the Health segment. This is equivalent to 41.6 % and 14.4 % of the balance sheet total respectively.

Deferred acquisition costs amounted to € 339.6 million (gross) for the Life segment and € 56.3 million (gross) for the Health segment. This is equivalent to 1.0 % and 0.2 % of the balance sheet total respectively.

The valuation of policy reserves is inevitably dependent on a large number of assumptions. These include, in particular, discount factors, mortality and invalidity assumptions, acquisition and administrative costs, and cancellation probabilities. In accordance with generally accepted accounting principles, these assumptions are defined at the commencement of a policy and adjusted only in the event of significant deterioration. Since the assumptions are mostly not observable in the market, defining or adapting them is subject to uncertainty and a matter for discretion.

The deferred acquisition costs in the Life segment are amortized over the scheduled life of the policies. Depending on the type of policy, depreciation is typically proportional to premium income. In the Health segment, deferred acquisition cost depreciation is applied at an amount calculated on the same basis as policy reserves. In the case of short-term health insurance policies with unearned premiums, depreciation is proportional to the premiums recognized in income.

An annual adequacy test is performed at the level of uniformly managed portfolios to establish whether policy reserves are sufficient or deferred acquisition costs impaired. The test is based on future anticipated gross margins, calculated on the basis of currently realistic accounting rules and is thus dependent on the same assumptions as policy reserves. In the event of a deficit being identified during impairment testing, acquisition costs first need to be written down. If a deficit still persists, policy reserves need to be increased accordingly.

OUR AUDIT APPROACH

Actuaries were used in the audit team to audit the reserves in the Life and Health segments. In particular, the following key audit procedures were performed:

– We launched the process for calculating reserves, identified key controls and tested them for adequacy and efficacy. Particularly close attention was paid to controls which ensure that changes in assumptions are correctly implemented in systems.

– We assessed the adequacy of key assumptions by analysing the actuarial methods used for derivation. We particularly ensured that discount rates were used appropriately and in compliance with standards.

- We assessed the derivation and adequacy of interest rate assumptions used for calculating policy reserves or the adequacy test. At the same time, we took account of relevant capital market data.

- We analysed the development of policy reserves and deferred acquisition costs in comparison to the prior year and considered the results in the light of the current development of business and our expectations based on market observation.

- We assessed the adequacy test to establish whether the accounting rules and policies used for it were applied properly. If market interest rates were used for valuation, we verified the appropriateness of the discount rates applied by running comparisons with parameters observed in the market.

- In life and health insurance, we calculated policy reserves separately on the basis of a risk-based selection of tariffs and compared the results with those of the Company.

- We assessed whether the extraordinary write-downs on acquisition costs required after adequacy testing in the Health and Life segments were performed correctly.

OUR CONCLUSIONS

The procedure adopted for the valuation of policy reserves and deferred acquisition costs in the Life and health segments is adequate. The valuation assumptions used are, as a whole, appropriate and balanced. The explanations and disclosures contained in the notes to the consolidated financial statements are complete and adequate.

Valuation of gross reserves for outstanding claims in the Property/Casualty segment

With regard to the accounting and valuation policies, please refer to the underwriting reserves and reserves for outstanding claims sections of the chapter on accounting and valuation policies in the notes to the consolidated financial statements. Risk disclosures are contained in the underwriting risk section/Property/Casualty segment of the opportunity and risk report in the Group management report.

THE FINANCIAL STATEMENT RISK

Gross reserves for outstanding claims in the Property/Casualty segment totalled € 2,224.1 million at balance sheet date. That is equivalent to 6.3 % of the balance sheet total.

Loss reserves are recognized on the basis of an expected value calculated by applying actuarial and statistical methods. This involves assumptions about premiums, ultimate loss ratios, settlement periods, settlement factors and settlement speed based on past experience. The use of these assumptions is, in some cases, discretionary.

The risk for the consolidated financial statements is that, owing to the complexity of the calculations, insufficient reserves for outstanding claims may be formed.

OUR AUDIT APPROACH

We used our own actuaries to audit the gross reserves for outstanding claims in the Property/Casualty segment and performed the following key audit procedures:

– We launched the process for calculating reserves, identified key controls and tested them for adequacy and efficacy. The controls encompassed both the completeness and the correctness of data used as well as the qualitative and quantitative elements of valuation.

– We assessed the plausibility of the key assumptions used, including those relating to loss ratios and the frequency and size of claims. One focus here was the calculation of reserves for losses incurred but not yet reported.

– In the case of major subsidiaries, we performed independent reserve calculations for selected segments chosen on the basis of risk considerations. In each case, a point estimate and appropriate bandwidth were determined using statistical probabilities.

– The level of reserving at balance sheet date was compared with that in previous years. Adjustments of the actuarial expected value were checked for plausibility by examining the documentation on the underlying calculations or qualitative explanations.

OUR CONCLUSIONS

The methods used and the assumptions made to value the gross reserves for outstanding losses are, as a whole, appropriate.

Other Information

The legal representatives are responsible for the other information. The other information comprises:

– the non-financial statement

– the corporate governance statement and

– the remaining parts of the annual report, with the exception of the audited consolidated financial statements, the audited Group management report and our auditor’s report.

Our audit opinions on the consolidated financial statements and Group 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 consolidated financial statements, the Group 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 consolidated financial statements and Group management report

The legal representatives are responsible for the preparation of consolidated financial statements that comply, in all material respects, with the IFRS rules adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) of the German Commercial code (HGB) and for ensuring that the consolidated financial statements, in conformity with these regulations, present a true and fair picture of the net assets, financial position and results of the operations of the Group. In addition, the legal representatives are responsible for such internal control as they have determined necessary to permit the preparation of consolidated financial statements that are free from material misstatement, whether deliberate or unintentional.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group'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, under accounting standards, to draw up consolidated financial statements based on the going concern assumption unless there is an intention to liquidate the Group or cease operations or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for preparing a Group management report that, as a whole, provides an accurate view of the Group'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 Group management report in accordance with the relevant German legal requirements and to enable sufficient appropriate evidence to be provided for the assertions in the Group management report.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether deliberate or unintentional, and whether the Group management report as a whole provides an accurate view of the Group's position and, in all material respects, is consistent with the consolidated 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 consolidated financial statements and Group 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 consolidated financial statements and this Group 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 consolidated financial statements and Group 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 consolidated financial statements and the arrangements and measures relevant to the audit of the Group 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 Group'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 consolidated financial statements and Group 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 Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and assess whether the consolidated 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 Group in compliance with the IFRS rules adopted by the EU and the additional requirements of German commercial law pursuant to section 315e (1) of the German Commercial code (HGB).

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

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

- Perform audit procedures on the prospective information presented by the legal representatives in the Group 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 24 May 2017. We were appointed by the Supervisory Board on 1 September 2017. We have been the auditor of Gothaer Versicherungsbank VVaG 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 Group companies, we provided the following services that were not disclosed in the consolidated financial statements or Group management report:

We audited the solo solvency overview and group solvency overview and prepared a business report for GOTHAER Versicherungsbank VVaG.

For controlled companies, we audited financial statements, solvency overviews and dependency reports, performed WpHG and FinVermV audits, provided certificates for foreign authorities, audited notifications of contributions pursuant to section 7 (5) SichLVFinV, performed audits pursuant to section 75 sentence 2 EEG, verified compliance with the procedure in accordance with sections 1–4 of the declaration of 29 July 2014 in which the managements of Gothaer Lebensversicherung AG and Asstel Lebensversicherung AG undertook to merge the two companies, performed reviews of financial statements and provided tax consultancy services, business reports and general advice.

Responsible Auditor

The auditor responsible for the audit is Roland Hansen.

Cologne, 9 May 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 reporting period 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 and reported orally to the Board at three meetings. 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 Board was involved in all decisions of fundamental importance for the Association. The committees of the Board were also involved in informational and oversight activities. The Investment Committee, the Audit Committee and the Executive Committee each met three times. The progress and outcomes of the committee meetings were reported and discussed at the meetings of the Supervisory Board.

The issues addressed regularly by the Supervisory Board included developments in premiums, claims and costs, the performance of major Group holdings and the impact of such developments on the financial statements. Special attention was also paid to the issues of competition, product design, distribution and the development of the sales volume, costs and earnings of the Group companies. In addition, the Board focused intensely on the solvency situation under Solvency II in the Gothaer Group. It also received information from Management on the medium-term corporate planning, risk strategy and risk situation of the Association.

Furthermore, the Board monitored the development of membership figures and received detailed reports on the measures taken to raise the standard of service and advice for the exclusive organization. The Board also regularly met with Management to discuss basic strategic issues for the future gearing of the Group and its national and international subsidiaries. A major focus here was on the Polish and Romanian property insurance subsidiaries Gothaer Towarzystwo Ubezpieczeń S.A. and S.C. Gothaer Asigurări Reasigurări S.A. as well as on Janitos Versicherung AG.

Special attention was also paid by the Board to the impacts of the low-interest environment on the personal insurance companies in the Group. The Board continued to receive regular reports on the programme for realigning Gothaer Lebensversicherung AG and Gothaer Pensionskasse AG in 2017 – a programme designed to ensure that appropriate account is taken of the challenges presented by the low-interest phase, the need to form additional interest reserves (Zinszusatzreserve) and Solvency II. Attention focused on the solvency margin required and the resulting consequences for product and pricing strategy in new business as well as the different interest rate scenarios and their implications for Gothaer Lebensversicherung AG and Gothaer Pensionskasse AG. The Board received detailed updates on the repositioning measures taken and the measures designed to allow the financial requirements of additional interest reserving to be met primarily from internal funding resources.

The Audit Committee established by the Supervisory Board in line with section 107(3) AktG monitored the accounting process and verified the effectiveness of the internal control system, risk management system, compliance organization and internal auditing system. Key performance indicators in the separate and consolidated financial statements were discussed in detail with Management and the auditors of the financial statements, taking comparable company benchmarks 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 extensively to the Board on developments in the capital markets and the resulting impacts on Group companies' investments, development of hidden reserves/hidden charges and investment income, and discussed the possible implications of general economic developments, especially the development of interest rates, for the insurance industry and the Company.

The market environment has changed fundamentally for insurers in many respects, presenting major challenges for them particularly as a result of increasing regulatory requirements. In mid-2015, Management started to develop Strategy 2020. Based on the five strategic cornerstones identified, it will gear future action to 12 core objectives in the areas of market and customer, products, organization and processes. The concretization, communication and implementation of those objectives figured prominently in Management reporting to the Supervisory Board in 2017.

The financial strength ratings carried out for Group companies in 2017 also resulted in positive findings, documenting the continued security and financial strength of the Group despite the more difficult market environment. Gothaer Allgemeine Versicherung AG and Gothaer Lebensversicherung AG again confirmed the ratings received in the past from Standard & Poor's (A–) and FitchRatings (A). Gothaer Krankenversicherung AG also retained its prior-year rating (A–) from Standard & Poor's.

The Supervisory Board performed its statutory duty to examine Management personnel matters. Mr. Oliver Schoeller's appointment to Management was extended. In addition, Dr. Christopher Lohmann was appointed to Management with effect from 1 April 2017. Mr. Thomas Leicht chose not to renew his Management contract for personal reasons and left the Management with effect from 28 February 2017.

The Supervisory Board continued to monitor the development of female membership of Management and the Supervisory Board in 2017.

The financial statements for the 2017 financial year with the management report and the consolidated financial statements for 2017 prepared in accordance with IFRS and the Group management report were audited, including in each case assessment of the early risk warning system, by the auditor appointed pursuant to section 341k HGB, KPMG AG Wirtschaftsprüfungsgesellschaft, Cologne.

Both sets of financial statements received an unqualified audit opinion from the audit firm pursuant to section 322 HGB. The auditors attended the Supervisory Board meeting on the financial statements and reported on the key results of the audits.

The Supervisory Board received the audit reports submitted and took note of and approved the results of the audits.

After examination of the presented financial statements and management report for the 2017 financial year and the consolidated financial statements and Group management report for the 2017 financial year, the Supervisory Board raised no objections. The Supervisory Board approved the financial statements and the consolidated financial statements for the year 2017. The financial statements are therefore adopted pursuant to section 172 of the German Stock Corporation Act (AktG).

The Supervisory Board approves Management's proposal for the use of retained profit.

The Supervisory Board wishes to express its special appreciation and heart-felt thanks to Management and to the staff, directors and executives of the Gothaer Group companies for the work they performed last year in an extremely difficult environment.

Cologne, 9 May 2018

The Supervisory Board

Prof. Dr. Werner Görg	Carl Graf von Hardenberg	Urs Berger
Gabriele Eick	Prof. Dr. Johanna Hey	Jürgen Wolfgang Kirchhoff

Gothaer

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