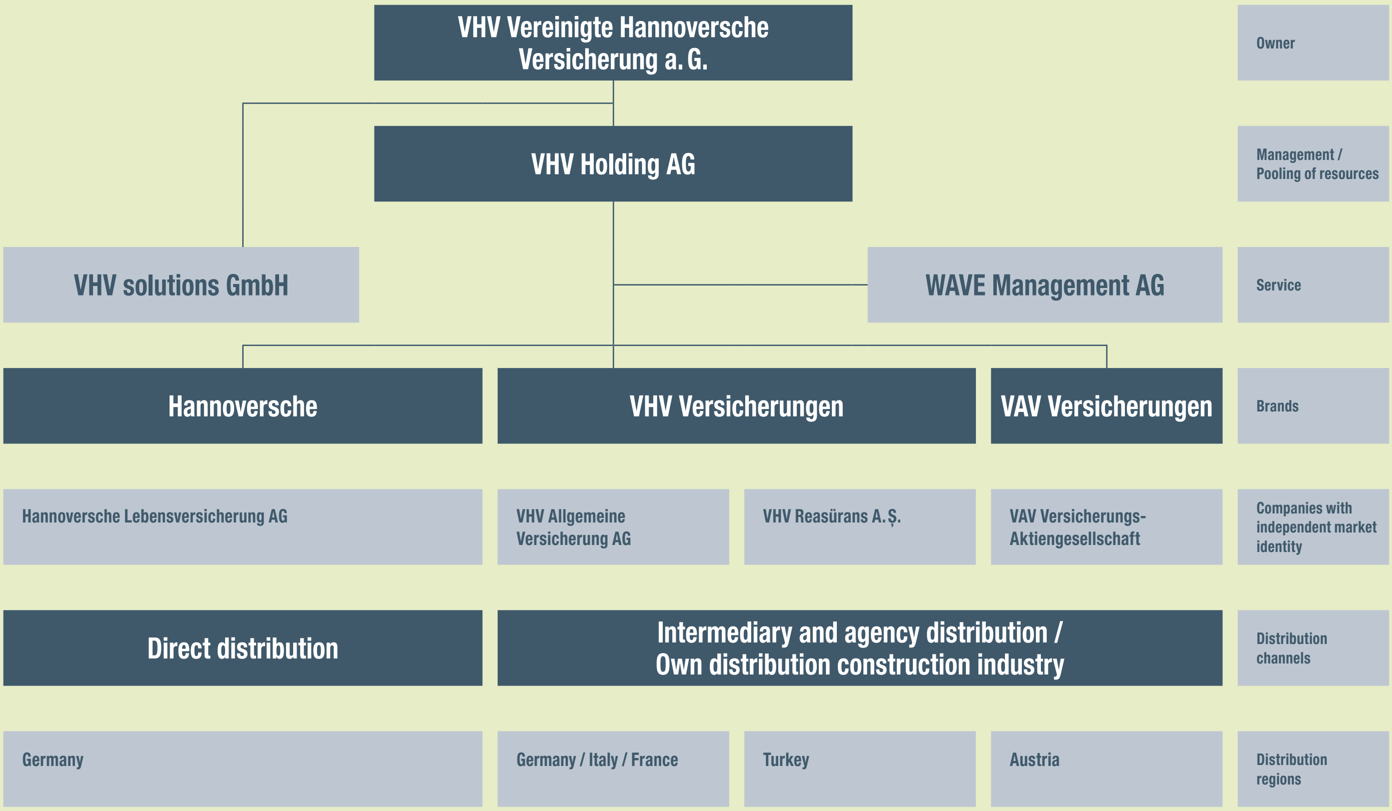
ANNUAL REPORT 2018

VHV GROUP /

Translation from the German language

GROUP STRUCTURE

KEY COMPANIES AS AT 31 DECEMBER 2018



ANNUAL REPORT 2018

VHV GROUP /

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The annual report of the VHV Group is also available in German. The German version applies.

LIST OF ABBREVIATIONS

ABS	Asset-backed securities
AG	Aktiengesellschaft (stock corporation)
AGV	Arbeitgeberverband der Versicherungsunternehmen in Deutschland e.V.
AIRR	Additional interest rate reserve
AktG	German Stock Corporation Act
ALM	Asset liability management
AltZertG	Annuity insurance in accordance with Pension Plan Certification Act (Pension Plan Certification Act – PPCA)
BaFin	Federal Financial Supervisory Authority, Bonn and Frankfurt am Main
BDSG	Federal Data Protection Act
CRO	Chief Risk Officer
DAV	Deutsche Aktuarvereinigung e.V., Cologne
DAX	German stock index
DeckRV	Ordinance on the calculation basis for actuarial reserves (German Actuarial Reserve Ordinance – DeckRV) dated 18 April 2016
DSMS	Data protection management system
EC	Extended coverage
ECB	European Central Bank, Frankfurt am Main
EEC	European Economic Community
e.g.	example given
EGHGB	Introductory Act to the German Commercial Code
EIOPA	European Insurance and Occupational Pensions Authority, Frankfurt am Main
EStG	Income Tax Act
EU	European Union
EU-GDPR	European General Data Protection Regulation
EuGH	European Court of Justice, Luxembourg
EUR	Euro

LIST OF ABBREVIATIONS

EUR'000	Thousand euros
e.V.	Registered association
Fed	Federal Reserve System
GDP	Gross domestic product
GDV	Overall Association of German Insurance Companies, Berlin
GmbH	Gesellschaft mit beschränkter Haftung (limited liability company)
HD	Hannoversche Direktversicherung AG, Hanover
HGB	German Commercial Code
HL	Hannoversche Lebensversicherung AG, Hanover
HRB	Commercial register section B
ICS	Internal control system
IDD	Insurance Distribution Directive
IDW	Institut der Wirtschaftprüfer (Institute of Public Auditors in Germany)
IDW PS	IDW Audit Standards
IORP II	Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs)
IRCF	Independent Risk Controlling Function
IT	Information technology
JARP II	Corsair Finance (Ireland) No. 6 Ltd., Dublin/Ireland
KfW	Kreditanstalt für Wiederaufbau, Frankfurt am Main
KRITIS	Critical infrastructure
No.	Number
OHM	Occupational health management
ORSA	Own Risk and Solvency Assessment
PE	Private equity
Pensionskasse	Pensionskasse der VHV-Versicherungen, Hanover

LIST OF ABBREVIATIONS

PIIGS	Portugal, Italy, Ireland, Greece, Spain
PPCA	Pension Plan Certification Act
R.C. Décennale	Responsabilité Civil Décennale
RechVersV	Ordinance on accounting by insurance companies (German Insurance Companies Accounts Regulations – RechVersV)
RfB	Reserves for premium refunds
S&P	Standard & Poor’s
Securess Versicherungsmakler	Securess Versicherungsmakler GmbH, Essen
SPE	Special purpose entity
UK	United Kingdom
US	United States
USA	United States of America
USD	US dollar
VAG	Act on the supervision of insurance companies (Insurance Oversight Act)
VAIT	Supervisory Requirements for IT in Insurance Undertakings
VAV	VAV Versicherungs-Aktiengesellschaft, Vienna/Austria
VHV a.G.	VHV Vereinigte Hannoversche Versicherung a.G., Hanover
VHV Allgemeine	VHV Allgemeine Versicherung AG, Hanover
VHV Group	VHV Vereinigte Hannoversche Versicherung a.G./Group, Hanover
VHV Holding	VHV Holding AG, Hanover
VHV Re	VHV Reasürans A.Ş., Istanbul/Turkey
VHV solutions	VHV solutions GmbH, Hanover
VHV-Stiftung	VHV-Stiftung, Hanover
VHV Vermögen	VHV Vermögensanlage AG, Hanover
VMF	Actuarial Function
WAVE	WAVE Management AG, Hanover

GLOSSARY *)

A

Actuarial interest rate
The actuarial interest rate is a calculation basis for calculating premiums and the actuarial reserves in life insurance. The maximum permissible actuarial interest rate for actuarial reserves in new business is established in the DeckRV.

Actuarial reserve
Actuarial reserves are the obligations resulting from the life assurance contract or another contract offering long-term insurance protection.

Add-on product
Add-on product contracts are sold only in conjunction with a contract from another segment (for example transportation service insurance in conjunction with motor vehicle liability insurance).

Additional interest rate reserve
Additional reserve prescribed by law for life insurers that provides for a forward-looking increase in reserves with regard to periods of low interest income. The amount of the additional interest rate reserve depends on a reference interest rate. If the reference interest rate falls below a contract's actuarial interest rate, an additional interest rate reserve is created. If the reference interest rate increases, the additional interest rate reserve is gradually reversed. The method for calculating the reference interest rate is stipulated by the German Actuarial Reserve Ordinance (DeckRV). In 2018, the corridor method was introduced here, which attenuates the change in the reference interest rate and thus both the creation and the later reversal of the additional interest rate reserve.

Annual Premium Equivalent
Total of continuous new business premiums and a tenth of the new business one-off premiums.

Availability by phone
Availability by phone is the ratio of telephone calls answered to incoming calls.

Average claims expenditure
The average claims expenditure is the ratio of claims expenses to the claims registered.

Average premium
The average premium is the ratio of premiums earned to the number of contracts at the year-end.

B

Basic participation
The surplus allocation for policy holders in life insurance consists of current surpluses, final surplus shares and the participation in the valuation reserves. The basic participation is the declared minimum participation in the valuation reserve.

Business-year claims expenditure
The business-year claims expenditure is the total claims expenses including claims settlement expenses for claims incurred in the financial year including unknown late claims.

Business-year claims ratio
The business-year claims ratio is the ratio of business-year claims expenditure to premiums earned expressed as a percentage.

C

Cancellation rate
The cancellation rate indicates the percentage of insurance companies' contracts cancelled or exempted from payment of premiums before the end of the contract.

Claims frequency
Ratio of the number of business-year claims reported to the average number of contracts as at 1 January and as at 31 December of the financial year.

Claims ratio
Ratio of expenses for insurance claims to premiums earned. The claims ratio is expressed as a percentage.

*) The glossary applies to all the annual reports produced by the German insurance companies of the VHV Group including the consolidated annual report and is a component of the respective management report.

Combined ratio
The combined ratio is the ratio of expenses for insurance operations and claims expenses (including processing) to premiums earned.

Cover ratio
Cover ratio provides information on the relationship between own funds and the risk capital needed to cover risks.

Current average interest
Current average interest is defined as the ratio of current income from investments less current expenses for investments to the average investments at the beginning of the year and at the year-end.

Current income from investments
Current income from investments is understood to be ordinary earnings such as dividends, coupon payments and interest. Other income from investments, which is realised through reversals or the sale of securities, is not covered by this definition.

D

Deposit accounts receivable/payable
Deposit of collateral with the primary insurer by the reinsurer.

Direct deposit
Form of surplus allocation for policy holders where the amounts are paid out directly from the net profit for the year and allocated to policy holders without their being previously allocated to the reserve for premium refunds.

Direct-written insurance transactions
Insurance transactions concluded directly with the policy holder.

Discounted cash flow models
Discounted cash flow models are methods for evaluating companies, where the primarily future payment surpluses including interest on the company's borrowings capital are discounted at the weighted cost of capital of the funds tied up in the company.

E

Effective interest rate method
Discounting the expected cash flows over the entire lifecycle of a financial asset or a financial liability at the effective interest rate.

Equalisation reserve
Technical reserve in property-casualty insurance and in reinsurance, which is created to offset volatilities in the development of claims in the annual financial statements prepared in accordance with German commercial law.

Equity exposure
Equity exposure is the ratio of equities held taking into account any equity derivatives and the total portfolio of investments at market value.

Expense ratio
The expense ratio corresponds to the ratio of the personnel and non-labour costs to the gross premiums.

Expenses for insurance claims
Expenses for insurance claims comprises the payments made in the financial year for insurance claims and the change in the reserve for insurance claims not yet processed.

Expenses for insurance operations
Expenses that an insurance company incurs in connection with the operation of its insurance business. The expenses shown relate either to the conclusion or administration of insurance transactions.

F

Final surplus share
The surplus allocation for policy holders in life insurance consists of current surpluses, final surplus shares and the participation in the valuation reserves. The final surplus share is understood as policy holders' surplus allocation, which is not granted until the end of the term of the insurance contract. The final amount is not definite until the year in which the contract ends and may be subject to considerable fluctuation in the previous years.

GLOSSARY

G

Gross domestic product (GDP)
The gross domestic product shows the total value of all goods and services, which were produced in one year within the boundaries of a national economy and are used for final consumption. Goods, that are not used directly but are warehoused, are taken into account in the calculation as changes in inventories.

Gross new investment
The total additions to a balance sheet item within a financial year are described as gross new investment.

Guarantee assets
Portion of an insurance company's assets that serves to secure policy holders' claims in the event of insolvency.

H

Hidden reserves
Components of companies' equity that are not visible from the balance sheet and which can arise from assets being undervalued and liabilities being overvalued.

I

Insurance transactions assumed in reinsurance coverage
Insurance transactions assumed from a primary insurer or reinsurer in reinsurance coverage.

M

Management expense ratio
Ratio of expenses for the management of insurance contracts to premiums earned.

Management expenses
All expenses incurred for the ongoing management of the insurance portfolio.

N

Net asset value (NAV)
Value of all the tangible and intangible assets of a company or investment fund less all liabilities.

Net interest
Net interest is defined as the ratio of all income from investments less expenses for investments and the average investments at the beginning of the year and at the year-end.

Net result from investments
Income from investments less expenses for investments produces the net result.

Non-technical result
The balance of income and expenses that cannot be directly attributed to insurance transactions.

O

Operating costs ratio
The operating costs ratio is the ratio of gross operating expenses (expenses for insurance operations) to gross premiums earned expressed as a percentage.

P

Premiums
Premiums written represent gross sales in premium business and contain customers' premiums for the corresponding insurance products. Premiums earned contains the premiums attributable to the financial year plus premiums carried forward from the previous year and less premiums carried forward to subsequent years.

Processed/reported claims ratio
The processed/reported claims ratio is the ratio of the expenses incurred in the financial year for insurance claims, including expenses arising from the processing of insurance claims that accrued in previous years to premiums earned expressed as a percentage.

Productivity
Productivity corresponds to the ratio of processed contracts to internal and external employment levels.

Profit segmentation
In the profit segmentation unadjusted earnings are allocated according to their sources. Consequently, the profit segmentation provides information as to the source of the surplus as part of a product costing analysis. Here, the actual business development is compared with the input variables used to set the premium for each source of earnings.

Projected unit credit method
This is an actuarial measurement method for obligations from occupational pensions where only the part of the obligation that has already accrued at each measurement date is measured.

R

Real estate ratio
The real estate ratio is the ratio of all real estate investments to the total volume of investments.

Reinsurance
Contract or contracts which have the object of transferring technical risk and which a (primary) insurance company concludes with another insurance company.

Reserve for insurance claims not yet processed
This is a technical reserve. It is created for claims that have occurred by the balance sheet closing date but which have not yet been processed.

Reserves for premium refunds
This is a technical reserve, which shows policy holders' claims to future surplus allocations, if sufficient surpluses have already arisen or the company has legal obligations irrespective of whether surpluses have arisen or not.

Retention ratio
Ratio of net premiums written to gross premiums written.

Risk-bearing capacity
Risk-bearing capacity is a company's ability to cover unexpected losses resulting from risks assumed with the defined level of security. If own funds exceed the risk capital required, the company has the necessary risk-bearing capacity. Risk-bearing capacity is defined via the coverage of the risk capital required by own funds.

S

Settlement
Settlement is the difference between the claims reserves created in previous years and the claim payments to be covered therefrom as well as new claims reserves created in the current reporting year.

Solvency
Solvency is an insurance company's endowment of resources that serve to cover the risks of insurance transactions and consequently to secure policy holders' claims even in the event of unfavourable developments.

Solvency II
Solvency II is the current supervisory regime that among other things defines enhanced solvency requirements for insurance companies/groups based on a comprehensive risk assessment. The starting point is the solvency balance sheet, in which assets and liabilities must be recognised at fair value. In addition, Solvency II comprises extensive qualitative requirements for the governance system and enhanced reporting obligations for insurance companies/groups.

Strategic asset allocation
The target weighting of the individual investment categories is understood with strategic asset allocation. The strategic asset allocation ensures that sufficient account is taken of the long-term objectives for the specific structure of the portfolio.

T

Target amount of the equalisation reserve
The target amount of the equalisation reserve is the upper limit for the creation of or allocation to an equalisation reserve.

Technical result
The technical result is the difference between income and expenses solely from insurance transactions.

Transaction costs ratio
The transaction costs ratio is the ratio of transaction costs to the total premium of new business.

Transaction expenses
Transaction expenses are expenses that arise directly or indirectly from the conclusion of an insurance contract.

Turnover rate
The turnover rate calculates the proportion of employees who leave the company each year compared with the average headcount.

U

Unadjusted earnings
Surplus of income over expenses before allocation to the reserve for premium refunds and the direct deposits as well as the reserves and dividends in life insurance.

Unearned premiums
Unearned premiums are premiums for a specific period after the balance sheet closing date. A technical reserve is created for these in the annual financial statements.

Unisex
Insurance rate, which disregards the gender of the policy holder in the risk assessment.

Unit costs
Unit costs correspond to the ratio of the personnel and non-labour costs incurred to the contracts processed.

V

Vacancy rate
The vacancy rate indicates the ratio of unlet to let space within a property.

Value-at-risk (VaR)
Specific measure of risk with applications in the area of financial risks (risk), particularly insurance sector risks. Starting from a fixed time interval and a specified probability of default (confidence level), the VaR of a financial item is the amount of the loss that will not be exceeded with the specified probability.

CONSOLIDATED MANAGEMENT REPORT VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

As group parent company, VHV a.G. hereby presents the consolidated financial statements and the consolidated management report dated 31 December 2018.

GROUP'S BUSINESS MODEL

The VHV Group is an established group of specialists for insurance policies, provisions and assets. Its customers and sales partners are at the centre of the VHV Group's strategy. The parent company of the VHV Group is organised as a mutual insurance association. This form of organisation allows the company to think and act strategically over the long term and not to focus its entrepreneurial activities on short-term shareholder value.

Through a constant process of improvement, the VHV Group aims to operate more flexibly and in a more customer-focused manner on the market than the competition. Modern structures, clearly defined business segments, efficient cost management and customer-focused, high-performance products characterize the Group. Customers and sales partners benefit from products and advice with a very good cost/performance ratio.

The VHV Group is an association of companies that operate independently as specialised experts in clearly defined sub-markets. **VHV Holding AG** controls the Group's strategic development and direction.

The individual companies operate under the "VHV Versicherungen" and "Hannoversche" brands in Germany, the "VAV Versicherungen" brand in Austria and the "VHV Versicherungen" brand in Turkey with VHV Reasürans A.Ș.

"VHV solutions GmbH" and "WAVE Management AG" are the Group's internal service providers.

As a special insurer of the construction industry and an important car and liability insurer, **VHV Versicherungen** is one of the major German providers of property-casualty insurance. The more than 14,000 intermediaries offer customers optimum, tailored insurance solutions at a competitive price.

Hannoversche is Germany's most experienced direct insurer. Since 1875, Hannoversche Lebensversicherung has been an expert specialist for insurance policies, provisions and assets on the market. Good products at competitive prices have always been Hannoversche's strategy and the basis of its success.

VAV Versicherungen is the VHV Group's property-casualty insurer on the Austrian market. VAV sells its products via independent intermediaries and has a high profile as a construction insurer and car insurer.

VHV solutions GmbH, the Group's central service company, bundles all the processes of contract processing and claims handling as well as responsibility for all aspects of information technology. The VHV Group can therefore design these processes with expertise and more quickly and efficiently than most of its rivals.

WAVE Management AG primarily manages the VHV Group's investments. WAVE is distinguished by excellent expertise in stability- and security-oriented investment.

VHV Reasürans A.Ș. primarily conducts facultative reinsurance business in Turkey.

CONSOLIDATED MANAGEMENT REPORT

WE ENGAGE IN THE FOLLOWING BRANCHES AND TYPES OF INSURANCE BUSINESS:

1. In property-casualty insurance:

ACCIDENT INSURANCE
General accident insurance
Individual accident insurance without premium refund
Complete accident insurance
Insurance for non-work accidents
Aviation accident insurance
Functional disability insurance
Group accident insurance without premium refund
Complete group accident insurance
Partial group accident insurance
Motor vehicle accident insurance
LIABILITY INSURANCE
Personal liability insurance
Business and professional liability insurance
Construction (including architects and structural engineers) Industry, trade and other business operations
Environmental liability insurance/Environmental damage insurance
Financial losses liability insurance
Radiation and nuclear facility liability insurance
Fire liability insurance
Construction guarantee insurance
Construction completion insurance
R. C. Décennale
Other liability insurance, and liability insurance not classified
MOTOR VEHICLE LIABILITY INSURANCE
OTHER MOTOR VEHICLE INSURANCE
Full motor vehicle insurance
Partial motor vehicle insurance
FIRE AND PROPERTY INSURANCE
Fire insurance
Industrial fire insurance
Other fire insurance
Associated household contents insurance
Associated residential building insurance
Other property insurance
Burglary and theft insurance
Water mains insurance
Glass insurance
Storm insurance
Hail insurance*)
Technical insurance
Machinery breakdown insurance
Assembly insurance
Construction services insurance
Electronics insurance
Weather risk insurance
Extended coverage (EC) insurance
TRANSPORTATION INSURANCE
LOAN AND SURETY INSURANCE
Surety insurance
Commercial credit insurance
LEGAL EXPENSES INSURANCE
TRANSPORTATION SERVICE INSURANCE
OTHER INSURANCE
Business interruption insurance
Business interruption fire insurance
Other business interruption insurance
Other indemnity insurance
Exhibition insurance
Frozen goods insurance
Luggage insurance
Camping insurance
Insurance for loss of rents
Dynamic property insurance
All risks insurance
Nuclear facility property insurance
LIFE INSURANCE*)
AVIATION INSURANCE*)

*) only in insurance transactions assumed in reinsurance coverage

Legal expenses insurance is passed on to Neue Rechtsschutz-Versicherungsgesellschaft AG, Mannheim.

2. In life insurance:
INDIVIDUAL CAPITAL INSURANCE
Endowment insurance on death and survival
Term insurance (Classic, Plus, Exclusive) with fixed sum insured
Partner term insurance (Classic, Plus) with fixed sum insured
Term insurance (Classic, Plus, Exclusive) with decreasing sum insured
Term insurance (Classic, Plus, Exclusive) with redemption plan
Funeral expenses insurance (Classic, Plus)
INDIVIDUAL ANNUITY INSURANCE
Immediately commencing and deferred annuity insurance
Immediately commencing and deferred basic annuity in accordance with section 10 paragraph 1 no. 2 b of the Income Tax Act
Annuity insurance as private pension plan according to AltZertG
GROUP INSURANCE
Group term insurance (Classic, Plus) with fixed sum insured
Deferred group annuity insurance
Group annuity insurance as private pension plan according to AltZertG
FUND-LINKED ANNUITY INSURANCE AS INDIVIDUAL INSURANCE
Deferred fund-linked annuity insurance with guaranteed protection in case of death
CAPITALISATION TRANSACTIONS
INSURANCES FOR INCOME GUARANTEES
Occupational disability insurance for payment of an annuity at the time the occupational disability occurs
Work incapacity insurance for payment of an annuity at the time the work incapacity occurs
SUPPLEMENTARY INSURANCE
Supplementary accident insurance for capital benefit in the case of death by accident
Supplementary occupational disability insurance for exemption from premium payment at the time the occupational disability occurs
Supplementary insurance for survivors' annuity in the case of death of the primary insured person

CONSOLIDATED MANAGEMENT REPORT

REPORT ON ECONOMIC POSITION

Macroeconomic trends

The momentum of global economic growth declined in 2018. Export-dependent regions, such as the EU and China, suffered under the USA's more protectionist economic policy. The euro area was put under additional strain by political developments. In Italy, a government coalition of eurosceptic parties formed that weakened the previous government's course of reform. In the UK, the consequences of the planned exit from the EU (Brexit) are fraught with uncertainty. Alongside currency devaluation, the Turkish economy was put under strain by a current account deficit and high inflation rate. Only the US economy managed to brace itself against the predominant downward trend, assisted chiefly by the tax reform adopted at the end of 2017. In 2018, the USA recorded GDP growth of 2.9 %, while the euro area reported a growth contribution of 2.1 %. The economic output in Germany grew by 1.7 % in 2018 and was therefore below the average for the euro area. Austrian GDP grew by 2.7 % and therefore exceeded the average for the euro area.

The two leading Asian economies, Japan and China, saw GDP growth of 1.1 % and 6.6 % respectively.

In Germany, increasing commodity prices in 2018 resulted in inflation rates to values above the ECB target of 2.0 %. The euro area reported an inflation rate of 1.8 % for 2018 as a whole. The US inflation rate was 2.5 %. The core inflation rate in the euro area – not including food and energy – did not follow this development and amounted to 1.0 % at the end of the year.

Capital markets

The divergence of the monetary policy of the relevant global central banks continued in 2018. While the US central bank, the Fed, became steadily more restrictive and raised the interest rate to 2.5 % in four stages, the ECB left the interest rate for the euro area unchanged at 0.0 % and the deposit rate at –0.4 %. The European monetary authority only took steps toward renouncing expansive monetary policy in the form of a reduction of the bond-buying programme. This was reduced from EUR 30 billion to just EUR 15 billion a month from October and finally discontinued at the end of 2018.

In 2018, the European bond markets were again generally influenced by low yield levels due to the ECB's ongoing expansive monetary policy. However, geopolitical and economic developments resulted in volatile and disparate value performance on the part of the various bond classes.

Yields on 10-year German government bonds fluctuated in a volatile manner between a high of 0.77 % and a low of 0.23 % over the course of the year. An upward phase at the start of the year in expectation of rising inflation rates was followed by a continuous decline in reaction to geopolitical and economic stresses. At the end of 2018, the yield on 10-year German government bonds of 0.24 % was down 19 basis points compared to the end of 2017 (0.43 %). Government bonds with maturities of up to eight years had negative yields at the end of the year.

Among the bond segments, asset classes with credit risk mostly made losses. Driven by market participants' high risk aversion, there were some significant increases in risk premiums versus German government bonds.

The global stock markets closed 2018 with substantial losses in some cases. The DAX lost 18.3 %, while the EuroStoxx50 dropped 14.3 %. The US indices, Dow Jones and S&P500, lost 5.6 % and 6.2 % respectively. At the same time, volatility on the stock markets increased significantly.

The euro depreciated continuously against the US dollar, starting at USD 1.20 at the beginning of the year and ending the year at USD 1.15.

Insurance sector environment

According to the projection by the German Insurance Association (GDV) from November 2018, premium growth of 3.3 % and an increase in business-year claims expenditure of 6.8 % can be expected in direct property-casualty insurance transactions in Germany in the 2018 financial year.

The combined ratio will be around 96 % for the 2018 financial year and thus slightly higher than in the previous year.

In motor vehicle insurance, the GDV forecasts emergent growth in premium revenues of 3.2 % and an increase in business-year claims expenditure of 2.7 %. In the 2018 financial year, the average claim in motor vehicle liability insurance will continue to increase due in particular to the increase in the price of spare parts. Spare parts relevant for insurance became 4 % more expensive on average by August 2018 compared to the same month of the previous year. A considerable increase in expenses for insurance claims of 3.0 % is expected in fully comprehensive insurance. However, this increase is smaller than previously assumed, as only relatively few natural hazards occurred in the third quarter. As a result, a reduction in claims of 4.0 % can even be expected in partially comprehensive insurance.

Assuming a virtually unchanged settlement result and a constant expense ratio, the GDV forecasts that motor vehicle insurance would close the year with a somewhat higher technical gain compared to the previous year of around EUR 700 million (previous year: EUR 500 million) overall.

In property insurance and general liability insurance, the GDV expects an increase in premium revenues of probably 4.4 % and 2.0 % respectively; premium revenues are expected to increase by 1.5 % in general accident insurance. Due to rising wage and sales totals, an increase in premiums in liability insurance is expected.

In loan, surety and fidelity insurance, moderate growth of 2.0 % in premium revenues is assumed for 2018 and a combined ratio of around 64 % is expected.

As a special insurer of the construction industry, VHV Allgemeine has a keen interest in the economic situation and development of the construction industry. According to their statistical forecast from December 2018, the German construction industry and German construction trades are assuming growth in sales of 6.0 % in 2019. As a result, total sales of over EUR 128 billion are expected in the German construction industry. In residential construction, sales are expected to increase by 6.5 % overall. Sales are expected to increase by 7.0 % in commercial construction and by 5.0 % year on year in public sector construction.

According to preliminary figures from the GDV, the life insurance market saw growth in gross premiums written in 2018. In contrast, the downward trend in contracts continued again.

Gross premiums written increased by 2.4 % compared with 2017 to EUR 88.6 billion, of which EUR 61.7 billion related to regular premiums (+0.2 %) and EUR 26.9 billion to one-off premiums (+8.0 %). The number of new insurance contracts decreased year on year by 5.2 % to EUR 4.7 million. The regular premiums for one year for these new contracts was EUR 5.3 billion (+2.1 %). One-off premiums paid rose by 7.0 % to EUR 26.5 billion.

Group performance

- Net income considerably higher than expected
- Contract and premium growth above market level in property-casualty insurance and business-year claims expenditure lower than market level
- In life insurance, development in new business up on the strong previous year in terms of contract numbers and – taking the reduced immediate credit in term life insurance into account – regular premiums; and premiums and contract numbers higher than in the previous year with growth in the number of contracts significantly higher than the market level
- Much higher growth in earnings on investments than forecast
- The first sub-projects of our “goDIGITAL” digitalisation programme in property-casualty and life implemented according to plan
- Other major projects mostly implemented as planned

The Group reported a positive net income for the year of EUR 233.3 million (previous year: EUR 156.1 million). This meant that the company’s financial resources were also strengthened further in the interests of our policy holders.

In property-casualty insurance business, a technical result for own account of EUR 162.2 million (previous year: EUR 60.5 million) was achieved. The technical result improved primarily because of a lower allocation to the equalisation reserve.

The life insurance business closed with a technical result of EUR 54.8 million (previous year: EUR 38.8 million). The improvement in the technical result is primarily attributable to a lower allocation to the actuarial reserve in the Pensionskasse.

In total, the technical result for own account was EUR 216.9 million (previous year: EUR 99.3 million).

CONSOLIDATED MANAGEMENT REPORT

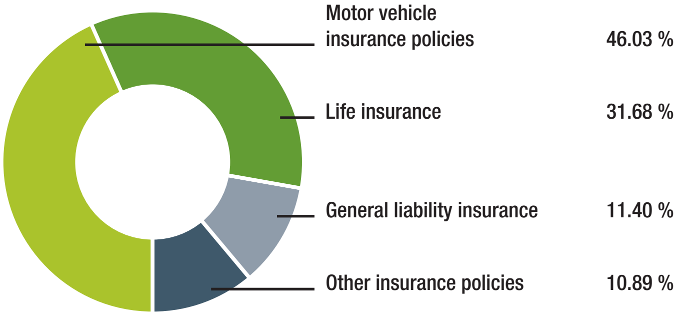
PORTFOLIO DEVELOPMENT FOR DIRECT-WRITTEN INSURANCE TRANSACTIONS

	NUMBER OF CONTRACTS			GROSS PREMIUMS EARNED		
	31.12.2018 Number	31.12.2017 Number	Change	2018 EUR'000	2017 EUR'000	Change
Accident insurance	533,222	495,782	7.6 %	42,855	38,433	11.5 %
Liability insurance	1,568,082	1,511,043	3.8 %	352,758	335,217	5.2 %
Motor vehicle liability insurance	3,141,917	3,058,321	2.7 %	856,695	832,136	3.0 %
Other motor vehicle insurance	2,419,105	2,331,530	3.8 %	569,593	539,891	5.5 %
Fire and property insurance	935,089	918,688	1.8 %	172,897	166,569	3.8 %
of which:						
Associated household contents insurance	458,244	450,843	1.6 %	47,114	45,994	2.4 %
Associated residential building insurance	133,177	135,402	–1.6 %	47,297	44,519	6.2 %
Other property insurance	297,712	292,830	1.7 %	65,687	63,112	4.1 %
of which: Technical insurance	65,025	62,985	3.2 %	44,488	43,079	3.3 %
Loan and surety insurance	53,350	50,913	4.8 %	88,364	82,357	7.3 %
Legal expenses insurance	28,027	25,446	10.1 %	3,151	2,534	24.3 %
Transportation service insurance	1,146,762	1,120,298	2.4 %	10,618	9,888	7.4 %
Other insurance	61,826	59,416	4.1 %	10,567	8,355	26.5 %
Total property-casualty	**9,887,380**	**9,571,437**	**3.3 %**	**2,107,498**	**2,015,380**	**4.6 %**
Total life insurance	**1,021,204**	**993,195**	**2.8 %**	**998,371**	**979,280**	**1.9 %**
Total for the VHV Group	**10,908,584**	**10,564,632**	**3.3 %**	**3,105,869**	**2,994,660**	**3.7 %**

RESULTS OF OPERATIONS

Gross premiums earned for the Group amounted to a total of EUR 3,151.2 million (previous year: EUR 3,041.9 million).

PREMIUMS EARNED
(share in %)



Premiums earned of EUR 3,105.2 million (previous year: EUR 2,994.0 million) were generated in direct-written insurance transactions and of EUR 46.0 million (previous year: EUR 47.9 million) in insurance transactions assumed in reinsurance coverage. Including the reinsurance premiums ceded of EUR 142.3 million (previous year: EUR 135.2 million), the premiums for own account amounted to EUR 3,008.9 million (previous year: EUR 2,906.7 million). This corresponds to a retention ratio of 95.5 % (previous year: 95.6 %).

Expenses for the Group's insurance operations amounted to 16.4 % of gross premiums earned (previous year: 16.4 %).

The net result from investments amounted to EUR 554.5 million (previous year: EUR 636.1 million), resulting in a net interest of 3.4 % (previous year: 4.0 %).

Current income from investments in the amount of EUR 489.7 million was down 12.8 % on the previous year (EUR 561.9 million).

Gains from the divestiture of investments increased in comparison to the previous year, from EUR 106.3 million to EUR 116.9 million.

At EUR 11.2 million, losses from the divestiture of investments were EUR 9.5 million higher than in the previous year. Write-downs increased by EUR 12.3 million to EUR 20.2 million.

Appreciation increased by EUR 3.7 million to EUR 4.0 million.

PERFORMANCE IN PROPERTY-CASUALTY INSURANCE TRANSACTIONS

The figures on the business development are based on gross amounts (before reinsurance) unless stated otherwise.

Premiums earned in property-casualty insurance transactions totalled EUR 2,153.0 million (previous year: EUR 2,062.8 million). Of this figure, EUR 2,107.0 million was attributable to direct-written insurance transactions and EUR 46.0 million to transactions assumed in reinsurance coverage.

Net premiums earned for own account for the overall business increased by 4.2 % year on year to EUR 2,017.5 million (previous year: EUR 1,935.7 million).

The business-year claims ratio in direct-written insurance transactions decreased from 80.5 % in the previous year to 80.0 % in the financial year due to lower natural hazard expense. Including the lower settlement result, the reported claims ratio in direct-written insurance transactions nevertheless increased from 70.0 % in the previous year to 70.7 % in the financial year.

In the financial year, the operating costs ratio of direct-written insurance transactions rose slightly from 20.6 % in the previous year to 20.7 %. This was due to the rise in costs relating to investments in our IT systems ("goDIGITAL") at the same time as lower current management expenses.

The settlement result decreased year on year. At the same time as a slight increase in the operating costs ratio, the combined ratio increased from 90.6 % in the previous year to 91.4 % in the financial year.

Regarding the individual classes and types of insurance for direct-written insurance transactions, the following is reported (not including the investment income generated in the division or any consolidation effects that are negligible here):

CONSOLIDATED MANAGEMENT REPORT

Accident insurance
In general accident insurance, the number of risks insured increased by 7.6 % to 533,222 (previous year: 495,782). In addition, the positive premium growth of previous years continued due to the still competitive products and the simplified acceptance policy. Premiums earned increased by 11.5 % (previous year: 16.3 %) to EUR 42.9 million (previous year: EUR 38.4 million), slightly exceeding our expectations.

With average claims expenditure at the previous year's level, the increase in expenditure for business-year claims was smaller than the increase in premiums at 8.3 %. Accordingly, the business-year claims ratio improved by 2.4 percentage points to 80.0 % (previous year: 82.4 %). Taking the smaller settlement result and the lower operating costs ratio year on year into account, the combined ratio came to 89.4 % (previous year: 89.6 %).

Following an allocation to the equalisation reserve in the amount of EUR 2.1 million (previous year: EUR 0.8 million), a technical result for own account of EUR 3.6 million (previous year: EUR 2.8 million) was recorded.

Liability insurance
The number of contracts for general liability insurance increased by 3.8 % year on year from 1,511,043 in the previous year to 1,568,082 in the financial year.

Premiums earned were again increased by a total of 5.2 % (previous year: 5.9 %) to EUR 352.8 million (previous year: EUR 335.2 million), which matched our expectations. This was due to rising sales, wage and fee totals due to buoyant construction in business and professional liability insurance and targeted portfolio-related measures, especially in professional liability insurance. In addition, the sustained growth in personal liability continued, supported by a price improvement.

At 11.6 %, the increase in expenditure for business-year claims was greater than the growth in premiums. The business-year claims ratio increased by 4.5 percentage points to 78.2 % (previous year: 73.7 %). In order to account for the longer settlement period in this segment and to bring the level of reserves into line with updated, company-specific reserve standards, the claims reserve for previous years was strengthened again in the financial year. Despite a slightly improved operating costs ratio, the combined ratio increased by 2.6 percentage points to 123.6 % (previous year: 121.0 %).

Following a withdrawal from the equalisation reserve in the amount of EUR 14.6 million (previous year: EUR 21.9 million), a technical result for own account was recorded of EUR –43.0 million (previous year: EUR –45.0 million).

Motor vehicle insurance
The number of insurance contracts in the motor vehicle segment (including motor vehicle accident and transportation service insurance) rose by 3.3 % year on year.

Premiums earned increased by 4.0 % to EUR 1,441.0 million. The growth was therefore slightly higher than the market level. Average premiums increased slightly year on year, which was in line with our forecasts.

The consistent enhancement of risk selection and claims management again made a significant contribution to profitability in motor vehicle insurance in 2018.

Motor vehicle liability insurance
In motor vehicle liability insurance, the number of risks insured increased by 2.7 % (previous year: 4.7 %) from 3,058,321 to 3,141,917.

In motor vehicle liability insurance, the positive premium growth of previous years continued with a rise in premiums earned of 3.0 % (previous year: 6.5 %) from EUR 832.1 million in the previous year to EUR 856.7 million during the financial year. The increase was driven by good development in new business and roughly stable average premiums compared to the previous year.

Despite a lower number of claims reported year on year, expenditure for business-year claims increased by 2.3 %, a lower rate than the premium growth, due to higher average claims expenditure. The business-year claims ratio decreased by 0.6 percentage points to 87.7 % (previous year: 88.3 %). Taking a positive settlement result at below the previous year's level and a global discount on the individual claims reserves recognised at VHV Allgemeine for the first time (reduction of the claims ratio by 5.4 % percentage points) into account, the combined ratio amounted to 80.2 % (previous year: 78.6 %).

Following a withdrawal from the equalisation reserve of EUR 26.5 million (previous year: allocation of EUR 51.7 million), the technical result for own account amounted to EUR 183.3 million (previous year: EUR 111.2 million).

Other motor vehicle insurance

In other motor vehicle insurance, the number of risks insured increased by 3.8 % year on year from 2,331,530 to 2,419,105 contracts.

The premium growth continued with a rise in premiums earned of 5.5 % (previous year: 8.7 %) to EUR 569.6 million (previous year: EUR 539.9 million). 6.2 % of the increase related to full motor vehicle insurance and 1.6 % to partial motor vehicle insurance.

As a result of the declining number of claims reported year on year, driven by reduced claims resulting to natural hazards, expenditure for business-year claims was outpaced by premium growth despite increased average claims expenditure and declined by 1.1 %. Accordingly, the business-year claims ratio fell by 5.4 percentage points to 80.7 % (previous year: 86.1 %). Despite a lower settlement result and an operating costs ratio at the previous year's level, the combined ratio improved from 99.5 % to 94.9 %.

As a result of the above developments and an allocation to the equalisation reserve of EUR 7.6 million (previous year: EUR 3.8 million), the technical result for own account amounted to EUR 15.3 million (previous year: EUR –2.5 million).

Fire and property insurance

Included under direct-written transactions for fire and property insurance are policies for fire, industrial fire, associated household contents, associated residential buildings, technology, burglary and theft, water mains, storm, glass and extended coverage (EC). Details on associated household contents insurance, associated residential building insurance and technical insurance policies are reported separately.

For the insurance segments not listed separately, premiums earned increased by 3.1 % (previous year: –4.3 %).

Expenditure for business-year claims increased by 34.8 % year on year due to several major claims. The business-year claims ratio amounted to 91.0 % (previous year: 69.6 %). With the operating costs ratio above the previous year's level, the combined ratio came to 137.8 % (previous year: 107.7 %).

Following a withdrawal from the equalisation reserve of EUR 3.8 million (previous year: allocation of EUR 2.8 million), a technical result for own account of EUR –9.0 million (previous year: EUR –7.7 million) was recorded.

Associated household contents insurance

The number of contracts for associated household contents insurance increased by 1.6 % year on year to 458,244 (previous year: 450,843). Premiums earned were again increased by 2.4 % (previous year: 5.2 %) from EUR 46.0 million to EUR 47.1 million, which did not quite match our expectations.

Expenditure for business-year claims increased by 5.5 % compared with the low-claims previous year. This was due to the higher number of major claims as well as increased expenses for water mains claims and natural hazards. Accordingly, the business-year claims ratio increased by 1.2 percentage points to 43.5 % (previous year: 42.3 %). With a slightly improved settlement result and the operating costs ratio slightly above the previous year's level, the combined ratio came to 79.6 % (previous year: 78.5 %).

Following a withdrawal from the equalisation reserve of EUR 2.0 million (previous year: allocation of EUR 0.8 million), a technical result for own account of EUR 9.0 million (previous year: EUR 6.4 million) was recorded.

Associated residential building insurance

The number of contracts for associated residential building insurance fell by 1.6 % from 135,402 in the previous year to 133,177.

The positive premium growth of previous years continued due to targeted portfolio-related measures with a rise in premiums earned of 6.2 % (previous year: 11.3 %) from EUR 44.5 million in the previous year to EUR 47.3 million during the financial year, which was in line with our forecasts.

Due to a lower number of reported claims compared to the previous year, expenditure for business-year claims declined by 4.3 %. As a result, the business-year claims ratio improved by 7.1 percentage points to 65.1 % (previous year: 72.2 %). Taking the improved settlement result and the operating costs ratio at the previous year's level into account, the combined ratio significantly improved to 91.3 % (previous year: 100.2 %).

Following an allocation to the equalisation reserve in the amount of EUR 1.9 million (previous year: EUR 5.2 million), a technical result for own account was recorded of EUR 0.1 million (previous year: EUR –8.5 million).

CONSOLIDATED MANAGEMENT REPORT

Technical insurance
The positive development in technical insurance policies was continued in 2018, with insurance contract numbers increasing by 3.2 % to 65,025 (previous year: 62,985). Premiums earned in technical insurance again increased by 3.3 % (previous year: 5.5 %) to EUR 44.5 million, which matched our expectations.

Expenditure for business-year claims increased by 25.6 % as a result of major claims. The business-year claims ratio worsened to 87.1 % (previous year: 71.6 %). With a slightly worse operating costs ratio and a settlement result that was down slightly year on year, the combined ratio worsened from 70.5 % in the previous year to 90.8 % in the financial year.

Following an allocation to the equalisation reserve of EUR 3.3 million (previous year: EUR 9.1 million) a technical result of EUR 0.2 million (previous year: EUR –0.1 million) remained.

Loan and surety insurance
In loan and surety insurance, the number of insurance contracts increased by 4.8 % to 53,350 (previous year: 50,913). This positive development likewise continued in premium growth with a rise in premiums earned of 7.3 % (previous year: 8.9 %) to EUR 88.4 million (previous year: EUR 82.4 million), which was in line with our expectations. Here, the insurance segment benefited from the positive economic environment, especially growth in the construction industry and the good positioning of products tailored to the various areas of the main and ancillary construction trades.

The liability under the guarantees issued during the financial year rose by 6.8 % to EUR 2,424.9 million. The business-year claims ratio decreased by 4.8 percentage points to 24.4 % (previous year: 29.2 %). Taking the improved settlement result and the slightly lower operating costs ratio into account, the combined ratio came to 31.7 % (previous year: 37.9 %).

Following an allocation to the equalisation reserve in the amount of EUR 6.9 million (previous year: EUR 8.6 million), a technical result for own account totalling EUR 53.4 million (previous year: EUR 42.5 million) was recorded.

Transportation service insurance
For transportation service insurance, the number of contracts increased by 2.4 % year on year to 1,146,762 (previous year: 1,120,298). Like in motor vehicle insurance, the positive premium growth continued with a rise in premiums earned of 7.4 % (previous year: 14.7 %) from EUR 9.9 million to EUR 10.6 million.

Expenditure for business-year claims increased by 3.7 % year on year. Due to the disproportionately high premium growth, the business-year claims ratio improved by 3.0 percentage points to 82.9 % (previous year: 85.9 %). With a higher settlement result and a lower operating costs ratio, the combined ratio was considerably improved at 92.3 % (previous year: 102.1 %).

Taking account of an allocation to the equalisation reserve of EUR 2.6 million (previous year: EUR 1.6 million), the technical result for own account amounted to EUR –1.8 million (previous year: EUR –1.8 million).

Other insurance
Transportation insurance (predominantly automobile contents insurance), business interruption insurance, other indemnity insurance and legal expenses insurance are included here in summary form.

In the insurance segments considered, the positive premium growth continued with a rise in premiums earned of 26.0 % (previous year: 19.5 %) from EUR 10.9 million in the previous year to EUR 13.7 million during the financial year.

Expenditure for business-year claims increased considerably compared with the low-claims previous year. The business-year claims ratio amounted to 92.4 % (previous year: 45.0 %). Taking the considerably worsened settlement result and a lower operating costs ratio into account, the combined ratio came to 99.7 % (previous year: 39.1 %).

Following an allocation to the equalisation reserve of EUR 0.2 million (previous year: EUR 3.0 million), the technical result for own account amounted to EUR –3.5 million (previous year: EUR –0.1 million).

Insurance transactions assumed in reinsurance coverage
In insurance transactions assumed in reinsurance coverage, which is carried out in the accident, liability, vehicle, fire and property, legal pro-

tection, life, air travel, transportation and technical insurance classes, there was a technical result for own account of EUR –46.7 million in 2018 (previous year: EUR –32.7 million). This was essentially due to an allocation to the equalisation reserve of EUR 35.8 million.

PERFORMANCE IN LIFE INSURANCE TRANSACTIONS

The number of new insurance contracts amounted to 80,002 (previous year: 78,275). 73.7 % or 58,923 of these contracts relate to individual term life (previous year: 61,892).

Overall, premiums from new acquisitions increased slightly from EUR 277.1 million in 2017 to EUR 277.7 million in 2018. EUR 61.1 million of this was attributable to regular premiums and EUR 216.6 million to one-off premiums. Not including capitalisation business, savings products with one-off premiums impacted the portfolio in the amount of EUR 71.1 million.

Measured in terms of the sum insured, the insurance portfolio grew by 8.2 % to EUR 103.1 billion (previous year: EUR 95.3 billion). Total new contracts of EUR 12,911.5 million insured (previous year: EUR 12,291.7 million) were partially offset by disposals in the amount of EUR 5,123.2 million insured (previous year: EUR 4,714.8 million). Premature disposal by repurchasing, conversion to non-premium contracts and other premature disposal amounted to a sum insured of EUR 1,261.3 million (previous year: EUR 1,162.3 million).

Measured in terms of the regular premium, the insurance portfolio increased by 2.1 % from EUR 747.7 million to EUR 763.2 million. Contrary to the trend in the market, the insurance portfolio increased by 28,009 contracts from 993,195 contracts to 1,021,204 contracts.

Gross premiums written increased by 1.9 % from EUR 974.3 million to EUR 993.2 million. The majority of gross premiums related to regular premiums received of EUR 757.9 million (previous year: EUR 739.9 million). Premiums from one-off payments of EUR 235.3 million (previous year: EUR 234.4 million) include premiums from capitalisation transactions of EUR 145.5 million (previous year: EUR 142.1 million).

At 1.9 %, the cancellation ratio (based on the average regular premium) remained almost constant and remains noticeably below the sector-wide average of 4.2 % in 2018.

Payouts to policy holders for insurance benefits and profit shares increased from EUR 1,243.2 million to EUR 1,251.2 million in the financial year. Of this amount, EUR 870.3 million was attributable to expirations, annuities, deaths and surrenders and EUR 380.9 to profit balances and profit shares. HL increased its technical reserves and liabilities for future payments to policy holders by EUR 2.1 million to EUR 10,434.9 million in the financial year.

Unadjusted earnings after taxes amounted to EUR 307.8 million (previous year: EUR 283.5 million). Of this amount, HL allocated EUR 179.2 million to the reserve for premium refunds, and EUR 113.6 million was distributed as direct deposit. EUR 15.0 million was attributable to net income (previous year: EUR 15.0 million). The significantly increased unadjusted earnings after taxes were achieved despite further allocations to the additional interest reserve of EUR 71.1 million (previous year: EUR 138.1 million), with the year-on-year decline in allocations to the additional interest reserve being primarily attributable to the introduction of the corridor method.

PERFORMANCE IN VHV SOLUTIONS

Continued positive trend in productivity and unit costs

Business performance was again characterised by a considerable increase in productivity alongside sinking unit costs, especially with regard to operations and overheads. The positive trend in productivity and unit costs therefore continued. This was due in particular to operational process optimisations in all areas and further optimisations of the new operating model with regard to contracts introduced in the previous year. Average claims expenditure in motor vehicle insurance performed better than the market in the comprehensive segment and slightly higher than market level in the motor vehicle liability segment. The lead on the market gained in recent years was thus secured for the long term as a result of the “active claims management” programme (reduction of expenses for insurance claims through processing claims more intensively). In the property and liability insurance segments, average claims expenditure likewise developed positively.

In the financial year, IT focused on the “goDIGITAL” programme as the basis for future digitalisation initiatives within the VHV Group. IT system response times also developed positively again.

The quality parameters in the back-office areas contracts and claims largely developed better than planned.

CONSOLIDATED MANAGEMENT REPORT

ASSETS

For the VHV Group as an insurance group, the net assets and structure of the balance sheet are largely characterised by insurance transactions even though the Group includes service companies. Assets on the balance sheet are dominated by investments, while under liabilities and shareholders' equity net insurance technical reserves and liabilities make up the largest share of the balance sheet total.

Investments

Investments increased by 1.8 % to EUR 16,255.9 million in the financial year. Gross new investment (not including real property) amounted to EUR 3,506.1 million.

INVESTMENTS
in million EUR

*) Equity exposure to fair value 1,0 %

The majority of investments were invested subject to a fixed interest rate. Bearer bonds, other securities with fixed interest rates and registered debentures formed the focus for investments in the portfolio with an overall share of EUR 8,295.5 (51.0 %). They were followed by equities, shares or equities in investment assets and other non-fixed interest securities at EUR 4,408.4 million (27.1 %), promissory notes and loans at EUR 1,115.6 million (6.9 %) and mortgages at EUR 1,045.3 million (6.4 %).

The asset-backed securities (ABS) portfolio reduced considerably as a result of repayments. The carrying amount as at the balance sheet closing date was EUR 0.1 million (previous year: EUR 9.6 million).

As at 31 December 2018, the Group reported a PE portfolio with a carrying amount of EUR 869.8 million (previous year: EUR 744.6 million). The market value of the private equity investments totalled EUR 1,286.4 million (previous year: EUR 1,019.9 million). Related to total investments, the private equity share was approximately 5.3 % (previous year: 4.7 %) overall.

In the area of real estate investments, selective additional purchases and sales were made in 2018. As at 31 December 2018, the Group cumulatively held real estate investment units with a carrying amount of EUR 1,142.8 million (previous year: EUR 1,063.6 million).

Due to the classification of securities in the balance-sheet items "equities, shares or equities in investment assets and other non-fixed interest securities" and "bearer bonds and other securities with fixed interest rates" with a total carrying amount of EUR 8,063.8 million (previous year: EUR 7,106.8 million) as non-current assets in accordance with section 341b article 2 HGB in conjunction with section 253 article 3 sentence 5 HGB (moderate lower of cost or market principle), depreciation in the amount of EUR 13.5 million (previous year: EUR 10.5 million) has been avoided.

Funds for indemnification

The Group's funds for indemnification increased by 2.5 % and consist of:

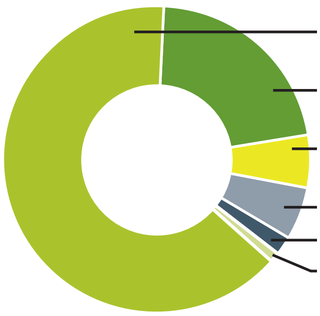
FUNDS FOR INDEMNIFICATION

	2018 EUR million	2017 EUR million
Equity	1,645.1	1,415.4
Net technical reserves	14,438.0	14,277.9
Funds for indemnification for own account	**16,083.1**	**15,693.3**

Net technical reserves

The net technical reserves were composed of the following items as at the balance sheet closing date:

NET TECHNICAL RESERVES
in million EUR



The majority of net technical reserves, at 63.4 %, relate to the actuarial reserve.

Of actuarial reserves shown, the majority, at 48.2 %, relate to individual capital insurance policies of the VHV Group's life insurance company. Group insurance policies account for a share of 21.1 %, followed by individual annuity insurance policies with a share of 19.1 % of the total actuarial reserve. To fulfil future interest obligations, the actuarial reserve includes an additional interest rate reserve of EUR 824.3 million.

FINANCIAL POSITION

Liquidity

The financial and liquidity situation and changes in cash flows are affected by insurance and investment transactions.

Active liquidity management is carried out to satisfy ongoing obligations.

Premiums received and repayments from investments are considered for this purpose, which are compared with ongoing insurance benefits, reinvestment in investments and ongoing payments resulting from insurance operations. As a result, it is ensured that we can meet our payment obligations at any time both in the previous financial year and in the future.

ITEM	2018 EUR'000	2017 EUR'000
Cash flow from operating activities	69,546	–26,096
Cash flow from investment activities	–26,005	–13,814
Cash flow from financing activities	1,490	4,423
Change in cash and cash equivalents	**45,031**	**–35,487**
Change in cash equivalents due to exchange rate movements, changes in the scope of consolidation and measurement	3,173	3,110
Cash at the beginning of the period	148,664	181,041
Cash at the end of the period	**196,868**	**148,664**

Cash flow from operating activity, which is determined in accordance with the indirect method, includes in particular incoming and outgoing payments from actuarial practice and other investments. This reports a balance that has increased year on year.

In the past financial year, outgoing payments exceeded incoming payments from other investments. Investment was concentrated in investment certificates and other fixed-interest securities.

Cash flow from investment activity is mainly determined by payments and receipts from investments for fund-linked annuity insurance, participating interests and intangible assets.

Cash flow from financing activity includes loans taken out with KfW, which are passed through to final borrowers in the mortgage loan business.

Please see the cash flow statement for additional details.

Investments

The VHV Group mainly invested in investments in the 2018 financial year.

In addition, investments were made as part of the "goDIGITAL" programme (modernising of the IT application landscapes property-casualty and life) as a basis for future digitalisation initiatives.

CONSOLIDATED MANAGEMENT REPORT

MISCELLANEOUS

In 2018, the rating agency Standard & Poor's (S&P) once again confirmed the rating of VHV a.G. and its core companies VHV Allgemeine and HL of "A+" with a stable outlook.

The decisive factors behind this rating are the capital and earnings strength of the VHV Group with the top "AAA" rating. According to S&P, the strong profitability of VHV Allgemeine which is above market average and the favourable risk/return profile in the life segment make a significant contribution to this.

HL received the top rating "excellent A++" from the customer-focused Cologne-based rating agency ASSEKURATA for the seventh time in a row and as the only life insurance company rated by the agency in 2018. HL was again given the top "excellent" grade in all four subcategories.

HL again passed the stress test by the analysts Morgen & Morgen with an "excellent" mark in 2018.

HUMAN RESOURCES REPORT

The basis for the VHV Group's good result is provided by the expertise and commitment of its employees and executives and constructive cooperation with employee representatives (including the Representative Committee of Executive Employees) focused on good business results in the interests of our customers in combination with fair participation therein for the workforce.

On average 3,182 employees (2017: 3,082 employees) worked for the VHV Group in 2018. The recruitment of significant numbers of new employees in certain areas (e.g. contracts, claims and IT) as well as reductions in the number of employees working in other functions (e.g. administrative tasks) contributed to this development. The increase in gross premiums earned (+3.6 %) and the number of contracts (+3.3 %) achieved in 2018 combined with a simultaneous improvement in key parameters relating to processing quality demonstrated that our staff also further increased their productivity in 2018.

Human resources activities in 2018 focused on advising employees on strategic change processes, further developing executive qualification, and ongoing specialised and methodological qualification of employees.

Despite the slight increase to 4.5 %, the sickness rate continues to be lower than comparative figures on the insurance market (around 6.3 %). Together with the positive results of the regular employee survey carried out in 2018 and low employee resignation rate of 2.8 %, this is evidence of a good working environment with high employee motivation.

We now take this opportunity to extend our thanks to all employees who through their individual dedication, expertise and experience contributed significantly to mastering the challenges faced in 2018 successfully. The Board of Directors would also like to thank the Representative Committee of Executive Employees, the company-wide Works Council and the local Works Councils for their constructive and trust-based cooperation.

PERSONNEL OF THE VHV GROUP*)

	2018	2017
Average number of employees for the year**)	3,182	3,082
Number of employees at end of year**)	3,202	3,129
Average number of office-based employees**)	2,964	2,862
Average age of employees (years)	44.7	44.5
Average length of employment with the company (years)	16.0	16.0
Proportion of university graduates (%)	28.1	27.1

*) not including apprentices, including temporary employees

**) People on maternity leave, the chronically ill and workers in minor employment were included in the calculation for the first time. The previous year's figures were adjusted accordingly.

GENERAL STATEMENT OF THE BOARD OF DIRECTORS

VHV Allgemeine is one of the largest motor vehicle insurers in Germany. In this segment, VHV Allgemeine continued to improve its position in the market. Another focus last year was the strengthening of the non-motor vehicle business. This was particularly successful in liability insurance, accident insurance and loan and surety insurance. As a special insurer of the construction industry, VHV Allgemeine benefited from the positive economic situation, which led to rising wage, sales and fee totals. These form the basis for assessing premiums.

The 2018 financial year was very successful for VHV Allgemeine taking all aspects into account.

HL also succeeded in achieving below-average transaction and management expense ratios and taking a top position in the cancellation ratio in the German life insurance market in the past financial year. The low cancellation rate expresses both customer satisfaction and the high quality of the advice provided. HL attained a top position in the market with the very low management expense ratio compared to the market, which demonstrates the company's high productivity and its responsible and efficient handling of customers' funds. HL generated a very good result, which slightly exceeded the expectations from the previous year.

In the past financial year, a net result from investments of EUR 554.5 million (previous year: EUR 636.1 million) was generated, which led as expected to lower net interest year on year.

The 2018 financial year went positively by and large, allowing the VHV Group to achieve significantly higher consolidated net income than in the previous year, which exceeded our expectations.

OPPORTUNITY AND RISK REPORT

RISK REPORT

The following remarks are formulated from the Group perspective. In deviation from this, the perspective is expanded in individual cases to include individual entities.

Targets

The VHV Group attaches major importance to professional risk management. The risk management methods are continuously developed and improved. Risk management serves to secure the appropriate risk-bearing capacity and therefore the long-term and sustainable continued existence of the VHV Group and the individual insurance companies. The primary goals of risk management are to:

- consistently establish the risk culture within the VHV Group,
- support and secure the business strategy,
- create transparency regarding all material risks and appropriate risk management,
- meet legal and supervisory requirements for risk management.

In all quarters of 2018, the eligible own funds of the VHV Group and its insurance companies regulated under Solvency II comfortably exceeded the legal solvency requirements. The Pensionskasse meets the legal solvency requirements (Solvency I) on the basis of the balance sheet equalisation method.

Without utilisation of the instruments of the transitional measures subject to approval and without volatility adjustments, HL's excess is well above the market average and particularly expresses HL's security position in the Solvency II supervisory system through the risk-oriented measurement approach. The independent rating agency ASSEKURATA also assessed HL's security position as excellent.

The opportunity and risk assessment in the Opportunity and Risk Report relates to a forecast period of one year.

Risk strategy

The VHV Group's risk strategy, which is derived from the business strategy and provides rules for dealing with the resulting risks, forms the starting point for an appropriate management of risks. The risk strategy is reviewed and adopted by the Board of Directors every year. The risk strategy documents the risks that were deliberately entered into in pursuing the business strategy and how these are to be managed. It also serves to create a comprehensive understanding of risk and the establishment of a Group-wide risk culture.

Organisation

Overall responsibility for Group-wide effective risk management is the responsibility of the **Board of Directors** of VHV a.G. and the respective boards of the individual companies, which play an active role in the company's own risk and solvency assessment (ORSA). In particular, the responsibility is in:

- Approving the methods used,
- Discussing and critically reviewing the results of the ORSA process,
- Approving the Group's risk management policy and the ORSA report.

In response to the increased significance in solvency and risk management, the additional "Risk & Solvency" department of the Board of Directors was established effective 1 January 2019. The new department is responsible for the following business segments:

- Group data protection and information security
- Anti-money laundering/financial crime
- Group business management
- Group risk management
- Actuarial Function of the VHV Group

CONSOLIDATED MANAGEMENT REPORT

Because of the large number of Group companies, a Risk Committee is established as a Group-wide risk management body in the VHV Group. The key task of the Risk Committee is to ensure the uniform development of risk management systems, methods and procedures throughout the Group on behalf of the Board of Directors. The Risk Committee also provides a platform for Group-wide discussion of the risk situation and can initiate decisions. The Boards of VHV a.G., VHV Holding, representatives of subsidiaries, the Chief Risk Officer (CRO), the Chief Compliance Officer and the Head of Internal Audit are members of the Risk Committee.

In addition, a subcommittee of the Risk Committee is established to offer assistance on technical and operational questions regarding the risk models.

In accordance with the principle of the **separation of functions**, the responsibility for managing and independently monitoring risks in the VHV Group is separated within the organisational structure up to Board level. If the separation of functions is excessive, accompanying measures (e.g. separate reporting channels) are taken instead.

In the **business units**, Risk Officers, who are responsible for the operational management of risks and compliance with limits, are appointed in the strict separation of functions from the Independent Risk-Controlling Function (IRCF). The Group pursues the aim of encouraging the risk culture in the company, in particular, by clearly allocating responsibility for risk internally.

To do justice to the increased significance of risk management at **Supervisory Board level** as well, risk committees for key affiliates have been established by the Supervisory Board. At the meetings of the risk committees, the risk strategy and the reports of key functions under Solvency II (IRCF, Actuarial Function, Compliance Function and Internal Audit) are discussed with the Board of Directors and the people responsible for the key functions. This includes the discussion of the ORSA report, the report on solvency and the financial position and the effectiveness of the internal control system. In addition, the methods and tools of the key functions and changes in the organisation are also discussed.

The **IRCF**'s task is to guarantee a consistent and efficient risk management system. The IRCF is exercised centrally in an organisational unit led by the CRO as the responsible person of the IRCF. The CRO reports directly to the respective Board of Directors of the insurance companies.

The **Actuarial Function** (VMF) at Group level is performed in the central area of Group risk management led by the CRO. The VMF at Group level is responsible among other things for technical risks and the VHV Group's solvency. In addition, the Group VMF coordinates the timing of the VMF reports. The solo VMF of the individual insurance companies is exercised by a different responsible person for each company. Their main tasks include coordinating the calculation of the technical reserves and guaranteeing the appropriateness of the methods and basic models used. In addition, the solo VMF submits an opinion on the general underwriting and acceptance policy. The solo VMF also presents the VMF report to the Board of Directors at least once a year, detailing all the VMF's activities, the results achieved and recommendations.

Compliance Function is responsible for guaranteeing compliance with legal and supervisory provisions. The four core tasks of Compliance Function include the advisory role, the early warning role, the risk controlling role and the monitoring for the reduction of legal risk. In addition to the Chief Compliance Officer, Compliance Function also includes other employees, who in particular cover topics supervisory and antitrust law, distribution law, insurance contract law, money-laundering law, financial sanctions and embargoes, data-protection law and antifraud management.

A tax compliance management system was introduced in the reporting year, the appropriateness of which was confirmed by an audit firm in accordance with IDW PS 980. The objective of this internal control system is the complete and timely fulfilment of tax obligations. The tax compliance management system contributes to the early recognition of tax risks and risk minimisation. The Group's tax guideline describes the organisation of the tax compliance management system, stipulates the roles and responsibilities of all organisational units involved and standardises tax-relevant processes.

The topic of data protection is handled together with the information and IT security management system in its own department.
The department is headed by the company Data Protection Officer appointed for the VHV Group's domestic insurance companies.

From 1 January 2019, anti-money laundering and financial crime (including financial sanctions and embargo, anti-fraud management) is performed in its own organisational unit head by the Anti-Money-Laundering Officer.

Internal Audit audits all business segments, processes, procedures and systems within the VHV Group independently and independent of the process on the basis of a risk-oriented audit plan to be updated annually. Internal Audit is subject only to instructions of the Board of Directors. Risk Management is regularly audited by Internal Audit on the basis of a risk-oriented audit plan.

The VHV Group has a governance system appropriate to its business model and risk situation. The general control framework and regulatory system for reviewing the internal control system is also appropriate and effective. This overall assessment results from the internal review of the governance system initiated by the Board of Directors in the reporting year. All key functions have provided opinions on the internal assessment of the governance system in line with the supervisory definition.

In the reporting year, the internal review of the governance system likewise included new regulatory requirements such as in particular the new supervisory requirements for pension funds (IORP II directive including reporting), the Supervisory Requirements for IT in Insurance Undertakings (VAIT) and requirements for critical infrastructures (KRITIS). The status of the implementation of updated circulars from the supervisory authority was also included in the review. Detailed results were reported by the Board of Directors and the Supervisory Board committees. Opinions on the key functions were provided by a documented resolution of the Board of Directors with the final assessment.

Risk management process

We understand the risk management process as all the organisational regulations and measures from risk identification to risk management in their entirety.

The aim of **risk identification** is to record and document all key risks. Risk inventories are regularly carried out for this purpose. Relative to reference dates, a company-wide risk assessment is carried out, in which all risks are queried and updated systematically every six months by the Risk Officers in all divisions and projects of the VHV Group. Individual risks identified are checked for plausibility by the IRCF and then aggregated to determine the overall solvency needs. Process-oriented risks are also identified on the basis of an IT-based system of documenting business processes.

There are also wide-ranging ad hoc reporting requirements to ensure risks or material changes are identified during the year. In addition, risk analyses on an ad hoc basis are prepared for projects relevant to risks, the results of which are taken into account in the decision by the Board of Directors.

Risk assessment is understood as all methods and processes that serve to measure and assess identified risks. Operational, strategic and reputation risks are evaluated in the semi-annual risk assessment via an expert assessment of the Risk Officers using the probability of occurrence and the potential economic loss as criteria. In addition to this quantitative assessment, there is an opinion in accordance with qualitative criteria (appropriateness and reputation). Appropriate procedures are used to aggregate the overall solvency needs for operational risks. Findings from the regular review of the ICS are also taken into account when assessing operational risks. The model calculations of the standard formula provided for the quantitative assessment of the risks under Solvency II and the determination of eligible own funds are conducted both on an annual basis as at 31 December and on a quarterly basis. To determine the overall solvency needs anually, company-specific circumstances are included in the risk models. The assumptions of the standard formula and risks not shown in the standard formula are assessed for their appropriateness for the insurance companies of the VHV Group.

Risk monitoring is ensured at aggregate level through the IRCF. To this end, a comprehensive limit system has been implemented to apply the risk strategy operationally, which is permanently refined and adapted to environmental changes. The limit system ensures that the risk tolerance variables defined in the risk-bearing capacity concept are monitored through a number of risk parameters. Various escalation processes ensure that there is an early warning in the event of material deviation from targets and that an ad hoc report is given to the Board of Directors.

Reporting on the company's own risk and solvency assessment is determined on a regular basis and on an ad hoc basis. Standard reporting takes place in particular via the annual ORSA report and during the year via the monthly limit reports. The ORSA report is approved by

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the Board of Directors and made available to the members of the Risk Committees of the Supervisory Boards and the supervisory authority. In addition, the IRCF's annual standard reporting includes the results and recommendations of the HGB projections carried out in asset/liability management system and the internal ICS report. Ad-hoc risk analyses are also prepared where necessary. In addition, the results of the risk analyses relevant to the decision and on an ad hoc basis are reported to the Board of Directors.

Taking risk-strategy targets into account, **risk management** is understood as the taking of decisions and the implementation of measures to deal with a risk situation. This includes the conscious acceptance of risk, risk avoidance, risk reduction and risk transfer. In particular, new business segments, capital market and insurance products as well as outsourcing projects are subjected to a risk assessment by the IRCF before any resolution, meaning that the Board of Directors can take risk-orientated decisions that build on this process.

Internal control system
The VHV Group has determined mandatory standardised requirements for all major companies in the Group guideline for the internal control system. The Group guideline is available to all employees. The ICS of the VHV Group consists of all of the internal requirements, organisational measures and controls.

Material business processes, including the risks involved and the associated controls, are assessed and documented according to standardised requirements by the Risk Officers of the respective organisational units. Risks related to business processes are assessed based on financial criteria (quantitative risks) and qualitative criteria (qualitative risks).

The ICS is systematically reviewed and evaluated across the Group at least once a year according to a standardised procedure on the basis of a control process (ICS control process). The ICS control process is coordinated by the IRCF. The ICS control process is primarily geared towards an assessment of the key controls and a comprehensive confirmation of the functionality of the ICS by all executives of the VHV Group. In addition, findings of the key functions (e.g. Internal Audit audit results, IRCF risk analyses, compliance activities) are taken into account in the assessment. The results of ICS control processes are reported by the IRCF to the Board of Directors and the Risk Committee of the Supervisory Board at least once a year.

The ICS particularly ensures the completeness and accuracy of accounting and thus of the respective annual financial statements and consolidated financial statement.

Material risks
The risk categories are described below. According to risk-management measures, they are ranked as follows in terms of importance for the VHV Group, derived from Solvency II calculations:

1. Technical risk in property-casualty insurance
2. Market risk
3. Credit/default risk
4. Technical risk in life insurance
5. Operational risk
6. Strategic risk and reputation risk
7. Liquidity risk

Technical risk is one of the material risks to which the VHV Group is exposed. It describes the risk that, due to chance, error or change, the actual expense for claims and benefits differs from the forecast expense.

Technical risk in property-casualty insurance
The technical risk in property-casualty insurance arises predominantly from the underwritten motor vehicle liability, general liability and comprehensive motor vehicle insurance segments. Technical risk from property-casualty insurance is divided into premium, reserve and disaster risk below.

Premium risk is understood as the risk that (apart from disasters) the insurance premiums are not sufficient to cover future claim payments, commissions and other costs. In addition to reinsurance, the premium risk is reduced through the use of actuarial procedures when calculating rates and taking reasonable surcharges into account. The premiums are rated on the basis of applicable actuarial methods. The Actuarial Function reviews these regularly. In addition, compliance with major underwriting and acceptance guidelines is monitored independently by an established controlling system. In addition, the underwriting and acceptance policy is regularly assessed by the Actuarial Function. Changes in the development of claims are recognised promptly by continuously monitoring claims expenses, so that measures can be introduced where necessary. The premium risk is also reduced through the targeted use of reinsurance. Every year, premium risk is investigated together with disaster risk by the IRCF in stochastic analyses of asset/liability management. The pooling of risks and risk diversification between the segments resulted in some random diversification in the claims ratios at aggregate level. There are also substantial equalisation reserves through which technical fluctuations can be offset over time.

The table below shows the consolidated reported claims ratios for the property-casualty insurance companies included in the consolidated financial statement as a percentage of premiums earned for own account for the financial years 2009 to 2018.

CLAIMS RATIO PROPERTY-CASUALTY

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
84.0	82.2	81.3	77.8	79.1	73.8	68.9	71.3	71.6	71.5

Reserve risk is understood as the risk that insurance technical reserves will not be sufficient to meet future claim payments for claims that have not yet been processed or are not yet known. Reserve risks may emerge in particular from unforeseeable claim trends resulting from changes to conditions, changes to medical care and macroeconomic factors, such as inflation, which may have a considerable impact on the settlement result. Reserve risk is limited and the probability of settlement losses reduced by a conservative reservation policy.

Reserves for late claims are also created for unknown claims. In addition, the settlement is continuously monitored, and the insights gained in this process are taken into account in the calculation of required reserves (including the required reserves for late claims). The settlement potential of the claims reserves is also monitored by the Actuarial Function. The settlement results from direct-written insurance transactions shown below (as a percentage of the initial reserves for own account) are proof of the conservative reservation policy.

SETTLEMENT RESULTS

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
7.0	6.3	4.7	5.1	4.5	4.6	7.0	6.3	7.0	7.0

The presentation of the settlement results shows a consistently positive settlement result. The risk of settlement losses is assessed as low.

Disaster risk describes the risk resulting from the fact that actual expenditure for disaster-related claims differs from the percentage calculated in the insurance premium. Here, disaster risk may occur in the form of natural disasters and "man-made" disasters. With regard to disaster risks in property-casualty insurance, in essence the risk from natural disasters for the VHV Group results in particular from hail, storms, flooding and earthquakes (especially Turkey) and from man-made disasters in the surety insurance and liability insurance segments. There are natural disaster risk concentrations in the insurance transactions conducted due to the risk of earthquakes in Turkey and cumulative risks in Germany. These are analysed on a regular basis and reduced by purchasing reinsurance. The VHV Group predominantly underwrites technical risks in Germany. The VHV Group's fleet of vehicles and the sum insured in its property business is largely distributed across Germany because of sales by intermediaries nationwide. The geographical dispersion results in very good diversification with regard to natural hazards. In addition to taking appropriate account of this when calculating rates, disaster risk is also countered in particular by ensuring reinsurance coverage against natural disasters mentioned above, which safeguards against accumulation risk from natural hazards. The calculation of the requisite reinsurance is based in principle on a 200-year event. The Actuarial Function provides an opinion on the appropriateness of the reinsurance agreements at least once a year. In addition, the IRCF provides an opinion on the reinsurance programme. With regard to reinsurance partners, the VHV Group defines requirements for solidity and takes care to avoid concentrations in individual reinsurance groups.

Technical risk in life insurance

The insurance technical risk in life insurance includes biometric risks and interest rate guarantee, cost, cancellation and disaster risk. An explanation of the calculation basis used is provided in the notes to the financial statements of the life insurance company in the presentation of the accounting and valuation methods.

Biometric risks are understood as all risks directly linked to the life of an insured person. These include the mortality risk, the longevity risk and the invalidity risk. In the calculation, tables (in some cases company-specific) are used to determine the probabilities of death or disability, which are based on the probability tables of the Federal Statistical Office or the DAV and include company-specific experiences. Fluctuation charges and change risks are calculated in line with DAV derivation. For annuity insurance, the mortality tables published by the DAV are used. From 21 December 2012, rates may only be offered where the premiums and benefits no longer differ on a gender specific basis. Company-specific findings about the gender mix to which security margins have been added are used to derive the corresponding unisex calculation basis. With regard to longevity risk, there could be an erroneous estimation of death probabilities. Should the gender mix of the unisex contracts written differ significantly from the assumptions made in the calculation despite the security margins included, it might be that an additional reserve will have to be created in future. To verify the appropriateness of the calculation, portfolio statistics are continuously evaluated and further examinations are performed based on profit segmentation and, if necessary, countermeasures are initiated. Starting at a pre-defined range, biometric risks arising from death and disability are limited by way of reinsurance solutions.

Interest guarantee risk describes the risk that net income generated from investments is not sufficient to fulfil the interest guarantees provided at the beginning of the policy. The interest guarantee risk is constantly controlled and assessed with the aid of analyses of asset/liability management, portfolio projections, internal profit segmentation and stress tests. In this context, the scenario of a period of persistently low-interest rates is also analysed in particular. The investigations show that even a long period of low interest rates is manageable although additional measures – such as a further reduction in the profit participation and increased utilisation of valuation reserves – may be necessary in this case. The additional interest reserve, which had to be established for the first time in 2011 as a consequence of the change to German Actuarial Reserve Ordinance (DeckRV), will also be built up further. The likelihood of cancellation and lump-sum options as well as reduced security margins in the biometric calculation basis were recognised when calculating the additional interest reserve. The reference interest rate for allocation to the additional interest rate reserve continued to fall, amounting to 2.09 % at the end of 2018. As a result of the amendment to DeckRV with regard to the method for calculating the relevant reference interest rate, a more modest decline in the reference interest rate compared with the previous method is to be expected in the future. If the reference interest rate continues to fall, allocations are spread over a longer period, so the annual allocation requirement declines.

Due to the measures taken in recent years, the comparatively low remaining terms of the endowment policies and the high proportion of biometric products in the portfolio, the VHV Group can expect lower allocations to the additional interest reserve compared to the market in the future.

The **cost risk** is the risk that actual costs may exceed expected costs. The cost risk is monitored continuously (including in connection with profit segmentation) and managed via efficient cost management.

The **cancellation risk** represents a shock event in which a high proportion of the contracts are cancelled. A mass-cancellation scenario in the biometrics segment would have significant effects on the VHV Group. The VHV Group's life insurance portfolio has a high proportion of term life insurance. This serves to hedge biometric risks and therefore offers no economic incentive for the cancellation of such contracts by policyholders even in the event of an interest rate rise. In addition, the cancellation rate is well below the market average and is monitored and reported continuously using portfolio movement and performance statistics and via the limit system.

The **disaster risk** in life insurance is mainly the risk of a possible pandemic occurring and the associated increase in mortality rates. This could result in an unexpectedly large number of insurance claims exceeding the percentage calculated in the premiums. Disaster risk in life insurance is not material after risk-minimisation effects.

Market risk

Market risk is one of the material risks to which the VHV Group is exposed. It describes the risks of a loss or an adverse change in the net assets and financial position arising directly or indirectly from fluctuations in the level and volatility of market prices for assets, liabilities and off-balance sheet financial instruments.

Because of the high proportion of bonds, market risks mainly result from fluctuations in market interest rates.

In the insurance companies of the VHV Group, a risk-conscious allocation of investments is ensured via regular value-at-risk analyses and within the framework of the company's own risk and solvency assessment. Strategic investment allocation is developed taking into account the risk-bearing capacity and involving Risk Management and the responsible actuary in Life. The core element of this strategic allocation is the fixing of minimum revenues with corresponding safety. Compliance with these is verified via scenario calculations. Compliance with the strategic investment allocation is monitored continuously.

The following charts show examples of the effects of simulated market changes on the value of investments which are sensitive in terms of interest rates and equity prices.

EQUITIES AND OTHER NON-FIXED INTEREST SECURITIES		
Change in equity price*)		Change in market value of investments sensitive to equity
Decrease of 20 %	EUR	–37 million
Market value on 31.12.2017	EUR	186 million

*) Change in equity price taking account of possible equity derivatives. Private equity and participating interests were not taken into account.

SECURITIES WITH FIXED INTEREST AND LOANS		
Interest-rate changes		Change in market value of investments sensitive to interest
Change of + 1 % point	EUR	–1,186 million
Change of – 1 % point	EUR	1,300 million
Market value on 31.12.2018	EUR	14,820 million

There are also risks from private equity investments, which are mainly executed via various umbrella funds. Risk management is pursued through a long-term strategy with a high degree of diversification (managers, regions, years, segments, industries).

To a material extent, the VHV Group also bears market risks arising from participating interests. However, this is monitored continuously in the context of actively managing and controlling participating interests, which covers material risks.

Real estate held via funds is also exposed to additional market risks from falls in market values resulting from the property crisis and from vacancies. These risks are monitored by regular observation of the funds' performance and critical key data such as vacancy rates, for example. Investment is deliberately focused on the German real estate market. Due to intra-Group leasing and high hidden reserves, there is no material risk from the direct real estate portfolio.

There is also an exchange rate risk for investments in foreign currency. This is limited through fixed foreign currency rates and monitored on an ongoing basis. In addition, the foreign currency risk is reduced via hedging transactions.

Credit/default risk

Credit/default risk is a material risk for the VHV Group. It describes the risk of a loss or an adverse change in net assets and the results of operations that results because of a default or because of a change in the creditworthiness or the assessment of creditworthiness of securities issuers, counterparties and other debtors (e.g. reinsurers, policy holders and insurance agents) that are liable to the company.

Only 0.3 % (previous year: 0.7 %) of total investment relates to low exposure vis-à-vis the PIIGS countries, and this relates predominantly to Spain and Italy. In light of the rating downgrade as a result of debt policy, the portfolio in Italy continues to be monitored intensively and was reduced further in the reporting period.

Ratings of the bond portfolio are continuously monitored for corresponding negative changes using a credit limit system. Ratings are also validated internally using a credit analysis tool.

The following charts show the composition of the fixed-interest securities and loans at their carrying amounts, along with the respective rating class allocation.

COMPOSITION OF THE SECURITIES WITH FIXED INTEREST AND LOANS	
	EUR million
Fixed-interest securities	9,452
of which bank bonds	2,948
of which debentures	2,799
of which loans and treasury bonds	1,731
of which Corporates	1,974
of which others	0
Mortgages	1,045
Loans and advance payments on insurance policies	18
Total	**10,515**

SHARES OF THE RATING CLASSES IN %						
	AAA	AA	A	BBB	< BBB	NR
Fixed-interest securities	50.0	22.5	11.7	5.1	0.1	0.5
Mortgages	–	–	–	–	–	9.9
Loans and advance payments on insurance policies	–	–	0.2	–	–	–
Total	**50.0**	**22.5**	**11.9**	**5.1**	**0.1**	**10.4**

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There are risks involved in subordinate loans and participation certificates which are greater than for non-subordinate securities due to the subordinate character of these accounts receivable.

Given the full repayment of a significant portion of the asset-backed securities (ABS) portfolios, there are no material issuer default risks in this asset class.

Default risks from receivables from policy holders and insurance agents are reduced by corresponding organisational and technical measures. The value of the receivables portfolio has also been adjusted sufficiently to provide for these losses. Taking account of these value adjustments, receivables from insurance policy holders that are more than 90 days past due amounted to EUR 29.6 million on the balance sheet closing date (previous year: EUR 31.7 million). There are no material balance sheet risks from possible defaults of receivables from policy holders and insurance agents.

On the balance sheet closing date, there are settlement receivables from the reinsurance business amounting to EUR 42.8 million. In the ceded reinsurance business, the receivables are almost exclusively due from reinsurers with a Standard & Poor's rating of at least A–. With regard to solidity, a minimum rating is defined when selecting reinsurers. In addition, credit rating analyses of the main reinsurance partners are based on key data. Compliance with the defined criteria is monitored continuously in the limit system.

There is a risk of impairment on deferred tax assets in the event of sharply declining or negative consolidated net income. The development of consolidated net income is monitored intensively as part of our multi-year planning. The risk of impairment is estimated as low in the planning period.

Concentration risk is understood to be the risk that results from the company assuming individual risks or closely correlated risks that have a significant default potential.

The VHV Group attaches great importance to concentration risk management regarding investments. In accordance with the prudent person principle, a broad mix and diversification of investments is ensured. The appropriate requirements are defined in an internal investment catalogue. It also aims to achieve an even greater degree of diversification of issuers in the long term. To ensure this development in operational terms, a comprehensive issuer limit system and a loan portfolio model are used for managing risk.

Liquidity risk

Liquidity risk describes the risk that a company is not in a position to fulfil its financial obligations when they fall due because assets cannot be easily converted into cash. The realisation of assets may be necessary if the benefits to be paid and the costs exceed the premiums earned and the income from investments. In 2018, the VHV Group was able to meet its financial obligations at all times.

The VHV Group reduces this risk through active liquidity management. To this end, liquidity planning takes place on a monthly basis and any deviations are analysed subsequently. It also monitors liquidity classes. In the process, investments are classified into different classes according to their convertibility into cash, and sufficient highly liquid investments are kept available. The minimum amount of highly liquid investments is guided by the identified stress events and is enshrined in the limit system. Long-term liquidity risks are also monitored via our asset/liability management system. Aside from liquidity risks relating to the capital markets, the VHV Group (particularly its insurance companies) is not subject to a significant liquidity risk. This is due to the business model of insurance companies, which usually have sufficient liquidity because they receive regular premium income.

Operational risk

Operational risk describes the loss risk arising from inadequacy or failure of internal processes, employees or systems or from external events.

The VHV Group is exposed to the following operational risk, which are identified and evaluated in the semi-annual risk assessment.

Legal risk describes the risk of disadvantages due to insufficient observance of the current legal situation and the incorrect application of a possibly unclear legal situation. Legal risk also includes the risk of legal change arising from a change in legal bases. Legal risk is minimised by employing qualified personnel as well as by obtaining external advice when necessary. In this context, it is ensured that changes in existing legal bases and prevailing jurisprudence are promptly taken into account. To reduce legal risk, a compliance management system has also been established that performs the advisory role, the early warning role, the risk controlling role and the monitoring for the reduction of legal risk. Data protection risk is also reduced by the work of the Data Protection Officer within the framework of his or her legal duties and responsibilities. The employees of the VHV Group receive regular training on data protection regulations, and there are established procedures for reporting and eliminating risks under data protection law. In addition, money laundering risk and fraud risk are explicitly included in the risk management system and reduced via the controls established in the compliance management system. The roles of the Anti-Money-Laundering Officer and the Anti-Fraud Manager have been established in the VHV Group for this purpose. The employees of the companies of the VHV Group that are bound by the German Money Laundering Act receive training on the prevention of money laundering annually and when they join the company. A procedure has been established for the internal and external reporting of suspected cases of money laundering. The same applies to the internal reporting and prosecution of criminal offences.

Organisational risk can arise from the organisational structure of the company, e.g. from complex business processes, high coordination complexity or inadequately defined interfaces. In order to reduce this risk, the VHV Group has an appropriate and transparent business organisation, which is reviewed regularly, and an ICS in which all material business processes including the risks contained therein and the controls associated therewith have been mapped using uniform process modelling software. Working guidelines are made available to employees via the intranet.

The risk selection processes are generally exposed to operational risks, particularly with regard to individual property-casualty insurance transactions and to life insurance transactions. This risk is minimised as far as possible by painstaking risk assessment and corresponding underwriting guidelines. Compliance with underwriting guidelines is monitored via a controlling system.

The **risk from IT systems** describes the risk of the realisation of losses that could arise from the IT systems' failure to meet one or more protection targets (confidentiality, integrity, availability, authenticity). IT risks result from steadily increasing demands on IT architecture and IT applications caused by changing market requirements and escalating regulatory requirements. This increases the complexity and susceptibility to error of the IT landscape. In addition to operational risks in the event of non-functioning IT, there is also a reputation risk if the IT is not available to our customers and business partners. To secure the long-term future viability of the IT application landscape and modernise IT operations, the "goDIGITAL" programme launched in August 2017 was continued at a high priority in the reporting year. The "goDIGITAL" programme forms the basis of future digitalisation initiatives within the VHV Group. Reports on the status of IT and the "goDIGITAL" programme are provided on a regular basis in the meetings of the Board of Directors and the Supervisory Board. The existing IT risks are monitored intensively. For the purpose of risk reduction, in particular an online reflection of the most important systems is established at two locations. The effectiveness of security measures is reviewed and documented on a regular basis as part of the IT emergency drills. The risks associated with the implementation of the "goDIGITAL" programme and the challenges of the upcoming transformation (including appropriate migration of portfolios and new staff requirements) are managed according to a cross-programme governance structure. The personnel risk resulting from the transformation is managed via human resources management in IT. In addition to the prevention of failures of data processing systems, service providers, buildings and staff, information security and especially protection against attacks on computer systems are playing a growing role. For this reason, the VHV Group has implemented appropriate precautionary measures and is monitoring their effectiveness.

The **risk from outsourcing** describes risks of wrong decisions, flawed contracts or the incorrect implementation of an outsourcing process and other operational risks that could arise from outsourcing. The companies affiliated with the VHV Group have outsourced their processes to a certain extent to internal and external service providers. Key functions and activities are exclusively outsourced within the Group. These companies are fully integrated in the management mechanisms of the VHV Group. The Group's outsourcing policy defines binding minimum requirements for the outsourcing process. Risk analyses are prepared for any material outsourcing, which are reviewed in the event of material changes and updated if necessary. Due to the careful selection of partners and the corresponding controlling mechanisms, there is no disproportionate increase in operational risk.

Personnel risk describes risks relating to the employee capacities of the company divisions, employee qualification, any irreplaceable staff members and employee turnover. To address this risk, training and continuing education measures are executed to ensure a high level of specialised qualification of employees. Rules on representation and succession minimise the risk of disruptions in work processes.

In addition to the operational risks described, the **data quality risk**, the **risk from external events and infrastructure** and the **project risk** are systematically identified, evaluated, reported and managed.

The VHV Group also has access to comprehensive protection requirements analyses and carries out regular business impact analyses, such as a default in IT or buildings, in which extreme scenarios are modelled in order to control operational risk. The findings of these analyses are

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used to derive emergency plans, which are updated regularly. The VHV Group therefore retains its ability to act if the availability of resources such as employees, buildings or IT systems is limited, ensuring that business operations can be maintained even in emergencies.

Strategic risk

Strategic risk is the risk that results from strategic business decisions. Strategic risk also includes the risk resulting from business decisions not being adapted to changes in the economic environment.

The key markets of the VHV Group are already saturated. They are characterised by low growth rates, strong price competition and extreme competition to avoid being squeezed out of the market. The VHV Group counters this risk by consistent cost management and by renouncing growth in the number of contracts if rates are not adequate.

Due to its traditionally low level of internationalisation, the VHV Group is also highly dependent on the economic development in Germany. In order to reduce this dependency and participate in a growth market, VHV Allgemeine has conducted insurance business in Turkey via the Turkish subsidiary VHV Re since 2016. Risks result from the future political, regulatory and economic developments in Turkey. Developments in Turkey – in particular in the construction industry and in the energy segment – are closely monitored.

In property-casualty insurance, the Sales division focuses on the broker segment. In addition, there is a high level of dependency on the motor vehicle sector. Based on the gross premium, the VHV Group's dependency on the motor vehicle segments including transportation service insurance currently amounts to 46.0 %. The traditional alignment as a specialist insurer in the construction industry means a high degree of dependence on the development in construction activity.

Against the backdrop of the continuing low level of interest rates and the legal solvency requirements of Solvency II, various market participants are withdrawing from the conventional life insurance business with long-term guarantees. As an alternative, products for insuring against biometric risks with lower capital commitment have been identified in particular. As one of the leading providers of term life insurance, HL is therefore at risk of losing market share to competitors.

For the management of strategic risks, meetings of the Board of Directors, board meetings as well as meetings of the project review board on the largest projects are held on a regular basis with the involvement of the Board of Directors.

The current strategic concentrations of the VHV Group are constantly analysed and are consciously initiated in line with the current business strategy. In particular, those opportunities arising from strong market positions that are intrinsically linked to the existing strategic risk concentrations should also be utilised.

Reputation risk

Reputation risk is the risk that results from possible damage to the company's reputation as a result of negative perceptions among the general public.

The VHV Group performs as a solid and reliable partner in the market with its brands. The risk of negative perception by customers, brokers or other stakeholders is countered for example by means of intensive quality management, short handling times in contract and claims processing, and high availability by phone. Service level agreements with internal and external service providers of the VHV Group ensure continuous controlling of essential key data.

Current studies and test results confirm the good service to customers and brokers. Diverse communication activities are also aimed at improving the reputation. At present there are no indications of significant risks to our reputation. Reputation risk is continuously monitored by the central Corporate Communication department.

To counter potential reputation risks, the VHV Group has undertaken to comply with the Code of Conduct for insurance sales and the Code of Conduct for data protection.

Emerging risks

Emerging risks are new types of risk where the danger can either not be estimated at all or only with difficulty (these include nanotechnology and climate change). They are distinguished by having considerable potential for substantial losses, meaning that identification of these risks at an early stage is of major importance. Emerging risks are therefore explicitly identified and assessed as part of the Risk Officers' risk assessment.

Risk-bearing capacity

The risk-bearing capacity of the VHV Group was guaranteed in full at all times throughout the reporting period and in line with risk-strategy targets. The VHV Group's financial strength is proving a greater advantage thanks to the risk-oriented measurement approach.

As at 31 December 2018, the VHV Group clearly exceeded the legal solvency requirements with eligible own funds even without the instruments of the transitional measures subject to approval or volatility adjustments.

In the stress tests and scenario analyses performed, the Group proves robust in terms of both actuarial practice and investments. Risk-bearing capacity is not at risk even in the stress situations analysed (extreme events) such as an economic crisis.

Please see the report on economic position and the forecast report for information on the market developments in the financial year and expected development in 2019.

OPPORTUNITY REPORT

The identification of opportunities is a significant component of future-oriented corporate governance. In the context of strategic planning, current conditions are analysed to identify emerging opportunities at an early stage and to act accordingly.

Property-casualty insurance

Competitive products are based in particular on market observation in order to identify trends and developments early in a market environment characterised by intense competition. VHV Allgemeine has positioned itself as a partner of intermediaries/brokers and as a special insurer of the construction industry. As a leading broker insurer, VHV Allgemeine introduced a new, web-based broker management program in 2018. In addition, the offer was expanded by the new products "VHV-Kaution-Start" and "VHV FIRMENPROTECT-Forderungsausfall Basis". The VHV Group also provides protection against the danger of cyberattacks with the new product "VHV CYBERPROTECT".

The Turkish subsidiary VHV Re is developing according to plan and has further potential for growth. The Turkish construction sector is a promising business segment within a challenging market economy and offers the opportunity to use VHV Allgemeine's know-how as a special insurer for the construction industry. This is assisted by a high level of market and supervisory acceptance of a local Turkish reinsurer with a German parent company.

Improvements in profitability and productivity via improved unit costs can also contribute to the competitiveness of our products. The measures already introduced to increase productivity are to be continued for this purpose and the management of external service providers is to become more professional.

Consistent implementation of risk differentiation in all segments of personal and corporate business will result in additional opportunities on the Austrian market. To achieve the strategic target of above-average growth in the non-motor vehicle segments, the broker-base is also to be expanded and the offer for small and medium-sized enterprises emphasized. Our sales success is also to be supported by retaining the high levels of service, raising awareness through television advertising and increasing the degree of automation involved in processing business among other factors.

With regard to the technical result, the expansion of claims management and the development of methods for processing claims offer opportunities to reduce claims costs still further.

Life insurance

Demographic change and the associated risks of increasing poverty in old age offer new growth opportunities, especially for subsidised products and occupational pensions.

Against the backdrop of low interest rates and the capital requirements under Solvency II, products to insure against biometric risks are increasingly gaining in importance, as they are largely independent of the capital market environment and have a positive effect on solvency requirements under Solvency II. As one of the leading providers of term life insurance, we see further opportunities for growth in this segment. Due especially to its cost-efficient and lean organisation, the VHV Group can either set or react quickly to market trends.

Insuring employees against disability is seen as another growth area.

Investments

Alternative investments have become increasingly important against the background of persistently low interest rates. The VHV Group has furthermore invested in private equity and real estate funds in 2018. There were also minor investments in infrastructure. In addition to portfolio diversification, which is positive in principle, there are also opportunities to achieve better returns than those offered by the market and the option of participating in positive market trends.

CONSOLIDATED MANAGEMENT REPORT

Miscellaneous
The VHV Group's corporate structure with a mutual insurance association as the ultimate parent company provides opportunities in the current market environment. Its corporate structure allows the VHV Group to act quickly and efficiently and thus prevail in a dynamic market environment with changing internal and external conditions.

In addition, corporate profits strengthen the capital base and do not have to be distributed to any shareholders. Advancing digitalisation as a result of changing customer behaviour and technical innovation will be decisive for the future of the insurance industry. Especially for a medium-sized mutual insurance association with a long-term strategy and the flexible organisation of the VHV Group (specialist expertise in the insurance companies VHV Allgemeine and HL, process and IT expertise in the back office of VHV solutions, investment expertise at WAVE, cross-divisional functions at VHV Holding), this offers considerable opportunities in future competition following the implementation of the digitalisation strategy developed.

As a result of digital advancement and the associated shift in customer requirements, the adjustment of brand presence and advertising strategies will be of central importance in the future. On this basis, HL has initiated extensive programmes to modernise brand positioning and advertising strategies. In addition, there is a growing customer requirement for the use of modern communication channels such as social media and chat functions. The speed at which questions can be answered will be a key success factor in the future. For this purpose, HL has set up a comprehensive programme that includes the further development of its website and the implementation of a social media concept. The VHV Group believes it is in a good position. This is also demonstrated by VHV Allgemeine's multi-award-winning website.

Boosting the VHV Group's appeal as an attractive employer also provides opportunities in light of demographic change. Motivated and qualified employees are the basis for competent and high-quality cooperation with customers, brokers and other business associates. Internal continuing education measures, ongoing training and systematic succession management ensure that employees are highly qualified for their roles. In addition, a great deal of importance is ascribed to work-life balance and occupational health management.

The satisfaction of customers and brokers is a central factor for the future market position and profitability of the VHV Group. Therefore, the VHV Group sets great store by an above-average service focus that is seen to be different from the market. Various test results and awards underscore this. Service quality is monitored continuously via external reviews.

SUMMARY

On the basis of the information currently available, current findings and the assessment of the future development do not indicate any sustained material impairment in the net assets, financial position and results of operations of the VHV Group at present. The VHV Group's continuity is not under jeopardy even in extreme scenarios. All material risks are recognised early, measured and managed.

FORECAST REPORT

Macroeconomic development and the capital market
For 2019, global economic growth is expected to continue weakening overall. Economic policy decisions are an influencing factor that is difficult to calculate in this context. If there is further escalation in the trade dispute between the USA and its trade partners, strong export countries such as Germany and diverse emerging economies could come under pressure. Further political developments within the euro area also have the potential to prove economically relevant. The materialisation of the UK's exit from the EU is a particular focus here. The elections to the European Parliament in May 2019 are also likely to send a signal regarding integration within the EU. An evaporation of political stress factors would have the potential to positively affect economic development.

Inflation rates are initially expected to decline in 2019. The marked correction of oil prices since the final quarter of 2018 is likely to dampen inflation via the base effect.

Convergence in monetary policy can be expected in 2019. The US Fed will probably continue its more restrictive monetary policy through continued reduction of the balance sheet total and a gradual, further rise in interest rates, but make its specific actions conditional on economic development. For its part, the ECB has announced initial steps towards monetary policy normalisation. For example, the bond-buying programme will not continue in 2019. However, a first interest rate move is not expected until summer 2019.

Given the declining economic momentum and the ECB's circumspect approach, the European bond markets will probably continue to be generally influenced by below-average yield levels in 2019. However, equal development in the various bond classes cannot be automatically assumed. For example, political decisions have the potential to be a significant influence. The decline in demand due to the termination of the ECB's purchase programme could also lead to a further increase in risk premiums on bond classes with credit risks.

In 2019, equities will be caught between companies' declining profit growth and the correction of valuations that has now occurred. High sensitivity to geopolitical and monetary policy developments can be assumed. Accordingly, increased volatility must be expected.

Property-casualty insurance

The construction industry will continue to perform positively in 2019 thanks to the favourable investment environment in all construction segments and, in particular, the low level of interest rates. Sales are expected to grow by 6.0 %.

In private residential construction, it is assumed that booming apartment complex construction will continue to grow in 2019. By contrast, traditional private residential construction will stagnate at the previous year's level. The historically low level of mortgage rates and minimal returns on alternative secure investments will lead to favourable financing conditions for private households.

Rising sales are also anticipated in commercial construction in 2019. With a high and increasing occupancy rate in the industry, the expansion of corporate investments will continue. A marked increase in investment in public-sector construction and therefore significant growth is expected in 2019 thanks to the higher budget.

The VHV Group is in a strong position in its core business areas and, as things stand, will maintain the capacity to hold its own in a difficult market environment with competitive rates and products in future as well.

The VHV Group's investment strategy will remain unchanged for 2019. Therefore, investments will continue to focus on annuity investments with good credit ratings. A slight increase in the real estate ratio and PE investments is also planned. Equity allocations are actively aligned to market conditions and implemented in line with total-return investment approaches. For 2019, the VHV Group is planning for a slight increase in investment portfolios. On the basis of the situation on the capital market we have described and the investment structure, it is assumed that the net interest return on investments will be below the level of 2018.

In motor vehicle insurance, the VHV Group has been focused on increasing its income for many years. This strategy was continued in 2018 and will also be decisive for the coming years.

In addition to premium adjustments and restructuring in commercial business, this strategy primarily comprises extensive measures in claims management. The VHV Group will in future focus even more on settling claims in partner garages and on constructive cooperation with customers and sales partners in order to positively influence expenses for insurance claims. The VHV Group also intends to further improve its overall competitiveness by continuing consistently with the successful, comprehensive fitness programme carried out in recent years covering issues ranging from service quality, the costs offensive through to risk selection.

Liability business for business customers will also be influenced by intensive price and performance competition in 2019. As a result of risk exposure, a trend toward market hardening is expected in individual sub-markets only.

As an industry insurer specialising in the construction target group, the VHV Group remains in a strong position. Despite global risks such as Brexit and US trade policy, economic indicators are also positive for 2019, which means that increases in wages, fees and sales totals in the business and professional liability insurance segment are also expected in the coming year and thus an increase in premium volume. Despite the sustained competitive pressure, the development in new business is also expected to remain stable in 2019. Further positive effects on the development of portfolio and earnings are expected from the continuation of the active management of the portfolio of professional liability insurance for architects and engineers.

In personal liability insurance, prices were reduced in June 2018 in order to secure the important price advantage over competitors. This also provided new impetus for growth towards new business for 2019.

In accident insurance, positive premium growth with new business at a constantly good level is expected again in 2019. The optimisation of the acceptance processes continues to have a particularly positive effect. The launch of a new product in commercial (Group) accident insurance and the associated intensified market activities are expected to provide additional impetus for new business and portfolio development.

CONSOLIDATED MANAGEMENT REPORT

In the segment of technical insurance, a positive development is also still anticipated across all segments in terms of the number of contracts and the premium.

Both an increase in premium revenues and in the number of contracts is expected for loan and surety insurance in 2019 because demand for these products remains stable. A positive trend in loan and surety insurance can also be assumed in the longer term because of the increasing demand for surety bonds and hedging against accounts receivable insurance.

In fire and property insurance, positive growth rates will result from our competitive products in terms of the number of individual contracts respectively the amount of premiums. This applies particularly to the commercial segment. Here, the product “FIRMENPROTECT Sach” for the commercial segment is being updated and made available to connected sales partners for targeted fulfilment of demand in the business customer segment with numerous enhancements and extras.

For the Austrian insurance industry, the insurance association forecasts premium growth of 1.4 % for 2019. The Board of Directors of VAV expects the company to develop stably and anticipates growth above the industry average, which will result in higher market shares in the years to come.

The Board of Directors of the Turkish subsidiary VHV Re also expects premium revenues to increase significantly in the coming year. The construction industry has particular growth potential and is seen as a stable and promising business segment.

Overall, in the coming years the VHV Group assumes predominantly stable average premiums in its portfolio and new business. In 2019, expenses for insurance claims are expected to increase moderately. With a planned higher level of contracts in 2019 and an associated moderate increase in premiums received, claims management measures, primarily in the motor vehicle segment, and measures to reduce management expenses will be a high priority in order to ensure its competitive position in the future, too. After exceptionally good results in 2018 with very gratifying growth, the VHV Group expects results to decline to the level of the years before 2018 in the coming year 2019 after an allocation to the equalisation reserve.

The goDIGITAL.KOMPOSIT programme will continue as planned in 2019. It will focus on reforming the motor vehicle contract system. The programme will entail major challenges, as the transformation affects not only IT applications and processes but also all employees who work with the affected systems. As the VHV Group primarily works with independent intermediaries, the work environment for this target group will also change significantly.

Life insurance

The period of low interest rates, which has lasted years, and the resulting challenges are expected to persist in 2019. HL believes it is in a good position within these general conditions.

To be able to meet future interest obligations in the current low interest rate environment, life insurers have created reserves in the form of the additional interest rate reserve (AIRR) since 2011. The AIRR therefore constitutes a forward-looking reinforcement of our reserves. The introduction of the new AIRR calculation method (corridor method) in 2018 has attenuated both the creation and the later reversal of the AIRR. As a result, fewer valuation reserves have to be recognised to finance the creation of the AIRR throughout the sector in the short term, which ultimately also benefits policy holders in the form of surplus allocations. In 2019, the new arrangement also provides relief for HL, so only small allocations to the AIRR are still required if the interest rate level does not change. Because of the targeted duration management and the extremely low proportion of annuity insurance in the portfolio, HL believes it is well positioned in the market environment. The effects of low interest rate scenarios continue to be constantly reviewed with the aid of ALM studies to be able to focus the investment policy in line with the requirements of liabilities and shareholders’ equity in future too.

In investments, the investment strategy will remain virtually unchanged for 2019. Therefore, investments will continue to focus on long-term annuity investments with good credit ratings. A slight increase in alternative investments (especially real estate and private equity) is also planned. For 2019, HL is planning for a slight decline in the volume of investments. On the basis of the situation on the capital market we have described and the investment structure, it is assumed that the net interest return on investments will be below the level of 2018.

In 2019, the development of biometric products will remain a focus in order to continue the success story in the insurance of biometric risks – particularly in term life insurance. HL is well-positioned on the market with innovative products, such as the Plus components for various products, the Exclusive component for term life insurance, and needs-based products insuring against occupational disability and incapacity, and due to its high marketing and service quality. The Group's market share in new term insurance business has been expanded continually in recent years. This share is to be maintained and expanded in an increasingly competitive environment.

The state pension will remain under pressure in 2019, so the need for the general population to take measures for retirement provisions on their own initiative is expected to increase. There is therefore continued high potential, particularly for subsidised pension products. However, negative media reporting has led to a perceptible reluctance to purchase in this product group. One of the challenges facing HL will be to perform well in this rather adverse environment in 2019. HL is accommodating the tendency of certain customer groups to prefer short-term or medium-term investments with corresponding offers. This product strategy has already proved its worth in recent years.

Because consumers are still uncertain with regard to future economic development, the mind-set of market participants is shaped by their aversion to risky investments and to long-term capital commitment. Accordingly, in the case of one-off premiums, business is expected to be dominated by demand for products with short terms. One-off premiums will continue to be highly significant for the sector's new business in 2019.

Overall, HL is expecting stable premium revenues in the year to come. The expected gross profit in 2019 will decline slightly compared to 2018.

The stable development of premium revenues is also supported by the continuation of the "fitness programme" carried out in recent years covering issues ranging from product innovation, service quality, the costs offensive through to risk selection. By systematically working through the individual issues of the "fitness programme", among other things, the excellent levels of customer satisfaction are to be further improved and the low expense ratios are to be maintained at the respective level.

In addition, the "goDIGITAL" programme will be continued, in which we are modernising the IT application landscape and laying a foundation for future digitalisation initiatives within the VHV Group.

Miscellaneous

WAVE operates mainly as the VHV Group's Group asset management company, which also offers selected asset management services for institutional third parties and private customers.

Overall, WAVE is in a good position and prepared for changed conditions. For 2019, the operating result is expected to remain constant, without taking account of performance-based remuneration. Net income is expected to increase slightly in subsequent years.

No significant changes to VHV solutions' business objective are planned in the 2019 financial year. The strategy pursued in recent years to increase productivity and reduce unit costs while improving quality parameters with regard to contracts and claims is to be continued in 2019. The implementation of various measures to realise automation potential is just as important here as the continuous review of the processes and organisational structure in the individual operations in order to sustainably reduce costs. Moreover, with regard to contracts there is a sharp focus on "goDIGITAL" with the start of the second phase. With regard to claims, the continuation and expansion of the "active claims management" (reduction of expenses for insurance claims through processing claims more intensively) successfully carried out in recent years continue to be of material importance for the reduction of average claims expenditure.

IT is focusing on the continuation of the "goDIGITAL" digitalisation programme. Furthermore, the regulatory project "KRITIS" to implement the requirements for critical infrastructure is supported by appropriate IT security. In addition, IT will continue to play a key role in implementing the digitalisation strategy for the VHV Group.

For VHV solutions, in which the back-office and IT activities of the VHV Group companies are combined, a key objective for the 2019 financial year remains the continuation of the measures pursued continuously for years as part of the "fitness programme" to improve costs and quality as well as additional measures relating to various projects.

Taking account of the planning of the risk-bearing companies, stable earnings before taxes are expected with a slight decrease in sales revenues.

VHV Holding will continue to manage the extensive major projects in the coming year. The focus will be on the continuation of the "goDIGITAL" programme. Furthermore, the regulatory project "KRITIS" to implement the requirements for critical infrastructure is being supported. Under the leadership of Operations/IT, the VHV Group will also concentrate in 2019 on implementing the digitalisation strategy developed for the VHV Group in 2015.

CONSOLIDATED MANAGEMENT REPORT

After the extraordinarily positive financial year 2018 overall, with some positive extraordinary effects (e.g. in investments and regarding natural hazards), the VHV Group anticipates a "normalisation" of consolidated net income at the level of the years before 2018 in the coming year 2019. This is due to higher allocation to the equalisation reserve and the possible lapse of positive non-recurring effects from 2018.

Proviso regarding statements about the future
The present forecast contains estimates of the company's future development. Considering all known opportunities and risks and on the basis of plans and projections, assumptions are reached, which may not occur or may not occur in full because of unknown risks and uncertainties.

Hanover, 8 March 2019

THE BOARD OF DIRECTORS

Reuter	Hilbert	Rainer
Scharrer	Schneider	
Stark	Voigt	

NON-FINANCIAL STATEMENT

PART 1: BUSINESS MODEL

I. MATERIAL EFFECTS

The VHV Group is a group for insurance policies, provisions and assets. The parent company of the VHV Group is organised as a mutual insurance association. This legal form allows the company to think and act strategically over the long term and not to focus its entrepreneurial activities on short-term market value. The VHV Group is an association of companies that operate independently in clearly defined submarkets.

Please see the opening sections of this management report (page 11 of the 2018 annual report) for further details regarding the business model.

The VHV Group identified the following topics as significant in a workshop with representatives from different areas of the company in line with a non-financial statement:

- Products
- Investments
- Regulation: data protection, anti-corruption, money laundering, fair marketing
- Employee matters: training and continuing education, occupational safety and health protection, employee satisfaction, diversity

Sustainability in the VHV Group is not only understood to include long-term financial orientation and insurance against risks in the long term, but also ecological and social concerns.

Sustainability is an important topic for the VHV Group. As a Group of insurance companies, especially through their insurance products, the VHV Group monitors and facilitates social changes with regard to environmental and health aspects. This applies primarily to the insurance of renewable energy plants. The offering also includes motor vehicle insurance policies, that reward environmentally friendly driving and special additional offers that especially protect life and limb. Most recently, sustainability in terms of long-term customer loyalty is reflected in the life segment through a traditionally low cancellation rate compared to the industry average.

Investments undertake the prudent person principle. This precludes investment in high-risk products and requires forward-looking and responsible investment management.

Protection of the personal data of policy holders is of particular importance. Handling personal data with care is therefore the basis of a trusting and lasting customer relationship with policy holders. Therefore, the VHV Group attaches particular importance to the protection of personal data.

Preventing corruption and money laundering and considering embargo and sanction regulations are a given for the VHV Group. This is not only in the interest of the VHV Group, but equally in the interest of insurance policy holders, intermediaries and other business partners of the VHV Group.

The insurance policy holders' needs are the focus of the actions of VHV Allgemeine and HL. At VHV Allgemeine, as a broker insurer, the particular importance of customer needs is taken into account by accession of the GDV Code of Conduct for the distribution of insurance products.

The employees are key to the success of the VHV Group. Therefore, the consideration of employee interests is of central importance. In addition to the legal requirements, the VHV Group always strives for a fair balance between corporate interests and their social responsibility. The main focus is on occupational safety and health, training and continuing education, employee satisfaction, and diversity in the company.

Within the framework of the VHV Group's existing risk management process, non-financial topics taken into account are equally subject to the risk assessment (see page 25 of the 2018 annual report). With regard to the non-financial topics described in the second part of the declaration, the business activities of the VHV Group do not result in any significant risks, which are likely to have a negative impact on these areas.

When preparing the non-financial declaration, the VHV Group focused on the presentation of concepts and key data that already available in the VHV Group and were developed independently of a framework for sustainability reporting. Therefore, an external framework was not used for the non-financial statement.

CONSOLIDATED MANAGEMENT REPORT

II. STAKEHOLDERS

The stakeholders of the VHV Group are the policy holders, the employees, the intermediaries and other business partners of the VHV Group and civil society. Due to the organisational structure of the parent company of the VHV Group as a mutual insurance association, further investor interests shall not be considered.

PART 2: ISSUES

A. PRODUCTS

I. Organisation

Insurance transactions in the VHV Group are divided into the insurance classes of property-casualty insurance and life insurance.

In Germany, property-casualty insurance is carried out by VHV Allgemeine and life insurance by HL. For the product management at VHV Allgemeine, the departments of the Board of Directors property-casualty, motor vehicle and surety are responsible and the department of the spokesman for the Board of Directors at HL. The responsibilities for product design at VHV Allgemeine are divided into specific areas at department level. The life fundamental department is responsible for product design at HL. The segment-specific product development processes are defined and documented in each of the responsible departments of the Board of Directors.

Product development is understood as the development and change process of insurance products. This includes all planned product or business area expansions and significant tariff and condition adjustments.

The product development process includes the following five steps across companies:

- Generating ideas/definition of target market
- Pilot study/evaluation of ideas/product test
- Design
- Implementation
- Monitoring (product/distribution channels)

The independent risk controlling function (IRCF) and the Actuarial Function (VMF) are integrated into the product development process at an early stage by the responsible departments. Participating interests in the product development process ensures that all key information on opportunities and risks is available to the Board of Directors before product launch.

The specialised department responsible must carry out a risk analysis for all planned new developments and significant product adjustments in accordance with the minimum requirements of the IRCF.

Risks of compliance with regulations and reputation risks are explicitly assessed. IRCF and VMF provide an independent opinion prior to the Board of Directors' resolution on market launch.

However, there was not a product development that explicitly focused on environmental and social issues. Thus, no internal key data is available.

However, the VHV Group takes current social and technological trends into account when generating ideas to be successful on the market in the future. The sustainability aspects of the product portfolio described below are a component of the developments identified by the VHV Group in the motor vehicle, technical insurance, private liability insurance, private and commercial property insurance and life insurance segments.

II. Motor vehicle

The creation of the insurance tariff Telematik-Garant is a new development in the motor insurance segment. With this tariff, modern data transmission technology is used with the aid of a telematics connector to generate various added values. By voluntarily disclosing driving data, the customer can receive a discount on his insurance premium, as he actively proves the insurance company that he is sticking particularly well to speed limits or driving at low-risk times of the day. In this way, VHV Allgemeine products also indirectly reward environmentally friendly behaviour.

In addition, the telematics connector as a complementary hardware for one's own car allows automated localisation in case of an accident including notifying appropriate rescue services. As a result, vehicles that do not have a permanently installed so-called "e-Call" system can simply be upgraded for safety reasons. It is also possible to manually activate the emergency call function using the telematics connector. This is an additional benefit which serves the protection of health.

VHV Allgemeine actively handles the topic electromobility. The aim here is to determine the specific risks and opportunities of this drive technology through in-house research and development, also in exchange with specialist committees and universities. On this basis, there may be separate areas of activity, such as an expansion of breakdown recovery insurance services with regard to specific features of electric cars. This group of topics is therefore actively supported by a comprehensive group of product developers across specialised departments, actuaries and claims experts.

III. Technical insurance

As one of the major property-casualty insurers in Germany, VHV Allgemeine also insures plants for the production of renewable energies and therefore believes it is supporting the energy transition. For 2019, the internal strategy provides for an increase in market shares in the technical insurance and renewable energies segment. These include the insurance of biogas plants, photovoltaic systems and near-surface geothermal energy. These are own damage all risk insurance policies, which are initially intended to protect the insured person's own risk. At the same time, in the event of a claim, the insurance results that the quick and professional elimination of own damage will prevent or reduce the following possible negative environmental effects caused by loss minimising measures.

IV. Liability insurance

Under liability insurance, there is a general insurance cover for environmental damage as well as for claims under the Environmental Damage Act. This includes the duty to implement safety precautions for renewable energy plants and environmental damage caused due to leaking heating oil.

V. Property insurance

As extreme weather events increase significantly as a result of climate change and public authorities often provide no assistance in the event of a claim, insurance for natural hazards is becoming increasingly important. Household and residential building insurance for private customers and content and building insurance for commercial customers insure the property of the policy holder in the event of damage by fire, burglary and theft, water mains, storm, hail and any possible resulting interruption of the operation. Additional natural hazards can also be insured. VHV Allgemeine provides different levels of additional cover here which provide financial compensation in claims e.g. from flooding and backwater.

In residential building insurance, VHV Allgemeine allows to expand the coverage via special eco-components. These include extended cover for risks regarding sustainable and renewable energies, e.g. insurance for photovoltaics and wind turbines.

VI. Life insurance

HL focuses on the financial insurance against risks from the personal field or for the long-term generation of assets in pensions. HL is an insurer that primarily focuses on insuring against biometric risks in the life and annuity insurance segment and occupational disability insurance policies.

CONSOLIDATED MANAGEMENT REPORT

Health conscious behaviour of customers (e.g. a price reduction for non-smokers compared to tariffs for smokers) is taken into account in the term-life insurance segment.

B. INVESTMENTS

Investment management operates on an investment policy tailored to the companies within the VHV Group and is thus an essential component of the comprehensive corporate governance.

Investments undertake the principle of sustainability as per a reliable, long-term investment policy based on the prudent person principle. This is supported by structural and operational organisational measures and established control procedures. In particular, this is documented in the internal investment guidelines of the VHV Group. In addition to the outsourcing agreements with which the investment of the VHV Group was outsourced to WAVE and mandate agreements, this forms the basis of the described investment management of the VHV Group.

In particular, investment management takes into account the requirements of technical obligations via an asset-liability management concept and capital requirements. The risk capital provided within the corporate strategy for investments represents the key management in terms of asset structuring. Due to the importance of investment income for the VHV Group, the priority in the investment policy is on efficient risk management and long-term, profitable investments.

The ultimate objective is to create a reliable and profitable investment policy that ensures long-term profitability of the VHV Group. Caught between security, current interest, returns, liquidity and the risk capital provided, the safety aspect always takes precedence. Investments are only made in securities or asset classes where the financial risks can be recognised and assessed at any time. As a rule, the VHV Group invests in investments that provide full transparency regarding their contents and the related economic risks in this context. With regard to investments in companies, the VHV Group prefers those that ensure adequate security for the future and meet the requirements to remain in their markets over the long term.

C. REGULATION

The Rules of Conduct of the VHV Group serves in particular to protect human rights, social interests and employee interests and to combat corruption. The Rules of Conduct includes material rules and principles and sets the framework for the correct and responsible conduct of the employees within the VHV Group among one another, with business partners and with the public. Thus, it reflects values that are binding for the VHV Group.

I. Data protection and information security

Ensuring data protection and information security constitutes an important factor for the VHV Group. Affiliates of the VHV Group process a large amount of data on a daily basis, in particular from policy holders, wronged parties, intermediaries, other business partners and employees. Carefully and safely handling data is therefore essential for trusting, long-term cooperation and customer relationships.

The VHV Group's objective is to avoid data breaches and to guarantee an appropriate level of data protection and information security in the VHV Group. For this purpose, the VHV Group operates a data protection and information security management system. Both systems help identify, assess and appropriately handle risks at an early stage as part of control processes. This results in a continuous improvement process.

Due to the particular importance that the VHV Group attaches to data protection and information security, since July 2017 there is a company-wide Group Data Protection and Information Security department that promotes compliance with internal and external data protection and information security requirements in the VHV Group.

In a separate chapter, the Rules of Conduct set out how employees deal with personal data; further data protection rules are specified in the Group's policy on Data Protection. All employees are required to comply with data protection provisions and, in particular, to actively contribute to the reliable protection of information from improper and inappropriate use and from abuse, loss, disclosure, destruction and manipulation.

Affiliates of the VHV Group have also acceded to a voluntary commitment to handle personal data in the insurance industry (Code of Conduct). The regulations from the BDSG are specified within it regarding the insurance industry. In addition to compliance with general and sector-specific data protection provisions, affiliated insurance companies within the VHV Group have made a commitment to the data protection Supervisory Authorities to especially comply with the principles of transparency, the need for processed data, data avoidance and data economy.

To ensure responsible and lawful use of the data, mandatory training is provided on privacy and information security. In addition, on-site training specific to the target group and activities to raise awareness on both topics are conducted with the employees. To underline the importance of the topic, data protection and information security are an integral part of the introductory events for new employees.

The internal preparations for the implementation of the European General Data Protection Regulation (EU-GDPR) were completed as planned by May 2018.

In the 2019 financial year, a challenge for the VHV Group will be to adopt the ongoing adjustments to data protection law arising from the application of the law and supervisory practice in its internal processes. In information security, the focus in 2019 will be on the implementation of the KRITIS regulation, which is relevant for VHV Allgemeine.

II. Anti-corruption (anti-fraud, money laundering, financial sanctions and embargoes)

The VHV Group has implemented comprehensive measures for combating corruption and bribery. Fundamental legal issues, such as preventing corruption, accepting and granting benefits and invitations to interact with customers and business partners, and avoiding conflicts of interest, are included in the Rules of Conduct. The Rules of Conduct are explained in a catalogue of questions and answers.

Anti-fraud management and prevention of money laundering are also key issues within the VHV Group's compliance management system.

The Group's compliance management system policy describes the duties and responsibilities of the Anti-Fraud Manager, who is responsible in particular for preventing and detecting fraud, bribery, corruption and related offences. However, pursuing specific suspected cases is the responsibility of Internal Audit.

To detect signs of possible violations at an early stage, the Anti-Fraud Manager conducts supervisory measures both on a specific and an ad-hoc basis.

In addition, there is a whistle-blower system which provides for all communication channels (notification form, telephone, fax, e-mail, personal address). This allows employees of the VHV Group to submit notifications for potential or actual violations of legal requirements while maintaining the confidentiality of their identity.

With regard to the prevention of money laundering, in addition to the regulations in the Rules of Conduct, the prevention of money laundering and terrorist financing is specified in the Group's policy on anti-money laundering and terrorist financing. It implements the provision of preventing money laundering and terrorist financing in the companies concerned.

All employees are required to prevent the companies within the VHV Group from being misused for money laundering or for other illegal purposes (in particular terrorist financing). Existing trade and financial sanctions are to be taken into account. Where there are grounds for suspicion of illegal acts and doubts concerning the application and range of legal provisions and sanctions, the Money Laundering Officer should be consulted.

In order to avoid payments to persons who are on EU sanction lists, there are work instructions and regulations on financial sanctions/embargoes, especially in company divisions with a foreign dimension. Furthermore, the status of policy holders' is checked daily against EU sanction lists.

In the 2018 financial year, sector-specific measures to raise awareness were undertaken in the anti-fraud management segment. These were undertaken on an ad hoc basis with employees from HL and VHV solutions. In addition, the introductory event for all new employees of all companies with the VHV Group covers the acceptance and granting of benefits.

In the 2018 financial year, mandatory compulsory training on money laundering was held either in person or online in the life insurance, mortgage loans and in WAVE segments.

III. Fair marketing

Insurance distribution is the link between insurance companies and customers. In addition to a high product standard, an important requirement for customer satisfaction is that advice and insurance distribution are of high quality. Compliance with these standards is required for a sustainable customer relationship.

For this reason, VHV Allgemeine acceded to the GDV Code of Conduct on 3 February 2016. The GDV Code of Conduct is a voluntary commitment of the insurance industry, which should ensure a high quality customer advice.

CONSOLIDATED MANAGEMENT REPORT

The GDV Code of Conduct transparently sets the standards of conduct for the distribution of insurance products and sets a framework of standards and values for insurance companies to fulfil their customers' interests. It applies for all forms of insurance sales.

The key goals of the GDV Code of Conduct are:

- Transparent products
- High quality customer advice
- Further training on a regular basis
- Compliance with compliance rules

To implement the Code of Conduct in VHV Allgemeine, a separate description of the compliance management system for complying with the GDV Code of Conduct was produced.

In 2017, VHV Allgemeine received certification by an independent auditor that the requirements required for the GDV Code of Conduct had been met.

Measures to firmly establish the rules of this Code at the company include training for employees.

In the 2018 financial year, the implementation of the requirements of the EU Insurance Distribution Directive (IDD) at VHV Allgemeine and HL continued to be a major focus in the sales compliance division. The IDD is supported by delegated acts of the European Commission, such as the regulations on product oversight and governance requirements and special requirements for insurance-based investment products; guidelines, technical advice and interpretations of the European Insurance and Occupational Pensions Authority (EIOPA) on the implementation of the IDD; and corresponding national acts.

In particular, the IDD focuses on regulations on:

- Customer advice
- Requirements for the qualification and further training of staff involved with distribution on a regular basis
- Product approval process and transparency of insurance products
- Avoiding conflicts of interest and remuneration of insurance distributors

D. EMPLOYEES

The consideration of interests and social concerns of employees are of central importance to the VHV Group. There is a fair balance here between corporate interests and social responsibility which corresponds to the common basic understanding of the management, the employee representatives and the employees.

I. Health and safety

Safety is coordinated by the Facility Management department. The German locations of the VHV Group are overseen by safety specialists and company doctors in accordance with statutory provisions. Physical and psychological risk assessments are conducted on a regular basis.

The VHV Group maintains an occupational health management (OHM) system that is centrally managed by a health manager from the human resources department. In addition, the issue is coordinated in a shared steering committee by various multidisciplinary areas, the company doctor, the representative body for severely disabled employees and the works council. This ensures that the interests of the employees are recognised.

In addition to various company sports programs, the VHV Group focuses primarily on the topic of prevention. The objective is to prevent health risks in the workplace and to support employees in taking responsibility for maintaining their own health. For this purpose, the VHV Group offers incentives including anti-smoking courses, back exercise classes, massages and nutrition programs. In addition, all executives of the VHV Group are trained in the subject of health management to specifically support the health of employees as part of their management work.

As the subject of maintaining health and performance has a major influence on the economic success of the VHV Group, the sickness absence rate is determined on a regular basis. At 4.5 % in 2018, this was roughly on a par with the previous year, which was well below the market average (approximately 6.3 %, source: AGV, turnover survey as at 2017).

II. Training and continuing education

In the VHV Group, the human resources department is primarily responsible for and centrally manages training and continuing education. However, as these issues affect all employees, training and continuing education is also the responsibility of all managers.

The VHV Group has established academies for the development and maintenance of specialist competence, in which the specialised topics are planned and offered depending on the operations. These academies are coordinated by operations and human resources. Higher-level training is organised centrally by human resources. This includes executive development and the identification and promotion of employees with high potential. In 2018, employees completed an average of 3.24 days of further training.

Each employee always undergoes the personnel development process each year, in which, together with management, the achievement of the further training goals for the past year is discussed and the goals for the coming year are defined. In this process, employee potential is also identified.

Education is managed centrally by human resources. Every year, VHV employs young people to train them as part of vocational training or a dual study programme and to allow them to make a start in their professional lives.

III. Employee satisfaction

Recruitment and employee loyalty are coordinated by human resources within the VHV Group. Here, executives are supported by the human resources department, as the satisfaction of their own employees is an important issue for management.

All employees undertake the values of the VHV Group, which the VHV Group together with its staff has developed and integrated into its corporate culture. The five values are a central component of corporate culture and mission statement at the VHV Group:

- Ambition
- Honesty
- Courage
- Humanity/fairness
- Respect

Employees are required to apply the principles of conduct of the VHV Group derived from this to their work. The management principles also derived from the company values are the binding guideline for all executives of the VHV Group.

To remain an attractive employer in the future, the VHV Group faces the challenges of the employment market. For example, current topics include digitalisation, demographic change and the recruitment of specialist staff. Recruitment and employee loyalty are therefore key issues for the VHV Group. Due to the challenges mentioned above, it is important to retain competent employees within the VHV Group in the long term.

Employee satisfaction therefore constitutes an important factor. For this reason, an employee survey takes place every two years in which factors including the implementation of corporate values, the quality of internal cooperation and interfaces and management work are queried. Specific measures are derived between executives and employees based on the results of the employee survey and are implemented and monitored by human resources.

The VHV Group's profit sharing model contributes to employee satisfaction. Consequently, employees of the VHV Group receive a share of the profits in addition to their salary. The amount of the share of the profits depends on two factors: Firstly, the fulfilment of the VHV Group's objectives and secondly, the assessment of the individual performance of the employees.

Overall, the average length of company service was 16 years as at 31 December 2018. Turnover due to staff resignations is 2.8 %. As part of risk management, the staff resignation rate is reviewed on a quarterly basis and measures are taken if necessary.

IV. Diversity

Diversity and equal opportunities in the organisational structure and the internal career opportunities ensure that the VHV Group employs highly motivated employees who use the skills and knowledge gained from their various training and experiences in the interest of the company's success.

Ensuring diversity and equal opportunities is a distinct management issue across all levels. Compliance with the requirements of the General Act on Equal Treatment is a matter of course for the VHV Group.

The VHV Group applies the salary agreement for the private insurance industry, which regulates gender-neutral remuneration. In addition, the VHV Group uses an internal job market where employees can develop or reorient themselves professionally. Recruitment will be based on individual qualification and job profile. To guarantee career opportunities for all employees, the VHV Group offers different working-time models. In addition to a flexitime system, there is the option for teleworking, home office or part-time opportunities. To ensure implementation, there are corresponding company agreements.

VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018
CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018
CASH FLOW STATEMENT
STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018
VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

Assets	EUR	EUR	EUR	31.12.2018 EUR	31.12.2017 EUR
A. Intangible assets					
I. Purchased concessions, industrial and similar rights and assets and licenses in such rights and assets			49,083,345		37,540,408
II. Goodwill			0		32,855
III. Advance payments			437,995		289,389
				49,521,339	37,862,652
B. Investments					
I. Real properties, rights equivalent to real property and buildings, including buildings on third-party real properties			119,847,455		124,667,458
II. Investments in affiliated and associated companies					
1. Shares in affiliated companies		29,808,926			32,759,548
2. Participating interests in associated companies		48,704,396			43,662,196
3. Other participating interests		72,432,208			65,608,560
			150,945,530		142,030,304
III. Other investments					
1. Equities, shares or equities in investment assets and other non-fixed interest securities		4,408,384,768			4,094,643,255
2. Bearer bonds and other securities with fixed interest rates		5,291,375,956			4,796,071,265
3. Mortgages, land charges and annuity charges		1,045,284,495			975,406,894
4. Other loans					
a) Registered debentures	3,004,075,869				3,531,143,582
b) Promissory notes and loans	1,115,554,619				1,243,885,145
c) Loans and advance payments on insurance policies	18,405,377				22,484,712
d) Miscellaneous loans	8,194,499				17,536,035
		4,146,230,364			4,815,049,474
5. Bank deposits		67,956,691			178,273,655
6. Miscellaneous investments		1,025,863,935			840,715,300
			15,985,096,209		15,700,159,843
				16,255,889,194	15,966,857,605
C. Investments for the account and risk of holders of life insurance policies				95,404,268	95,131,740
D. Receivables					
I. Accounts receivable from own insurance transactions with:					
1. Insurance policy holders		52,014,867			58,059,167
2. Insurance agents		2,331,551			5,494,020
			54,346,418		63,553,187
II. Settlement receivables from reinsurance business			42,772,851		43,015,405
thereof from associated companies: EUR 9,410,866 (previous year: EUR 5,039,023)					
III. Other receivables			48,824,047		27,528,737
thereof from affiliated companies: EUR 13,896,998 (previous year: EUR 0)				145,943,316	134,097,329
thereof from associated companies: EUR 216,912 (previous year: EUR 295,458)					
E. Other assets					
I. Tangible fixed assets and inventories			15,371,383		15,864,136
II. Bank balances, cheques and cash on hand			196,868,321		148,663,784
III. Miscellaneous assets			40,842,804		39,843,297
				253,082,508	204,371,217
F. Prepaid expenses					
I. Accrued interest and rent			133,652,364		151,923,139
II. Other prepaid expenses			39,608,883		37,698,642
				173,261,247	189,621,781
G. Deferred tax assets				341,192,548	315,673,786
H. Excess of plan assets over post-employment benefit liability				12,250,867	14,352,940
TOTAL ASSETS				**17,326,545,288**	**16,957,969,050**

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018
VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

Liabilities and shareholders' equity	EUR	EUR	31.12.2018 EUR	31.12.2017 EUR
A. Equity				
I. Retained earnings				
1. Loss reserve in accordance with section 193 of the Insurance Supervision Act (VAG)	68,806,218			68,806,218
2. Other retained earnings	1,574,371,093			1,341,098,939
		1,643,177,311		1,409,905,157
II. Difference in equity from currency translation		1,965,061		5,496,890
			1,645,142,372	1,415,402,047
B. Difference from capital consolidation			62,226	4,266,454
C. Technical reserves				
I. Unearned premiums				
1. Gross	287,829,269			297,743,594
2. Less: Reinsurance ceded	8,883,519			14,233,694
		278,945,750		283,509,900
II. Actuarial reserve				
1. Gross	9,151,816,220			9,085,358,041
2. Less: Reinsurance ceded	2,275,249			0
		9,149,540,971		9,085,358,041
III. Reserve for insurance claims not yet processed				
1. Gross	3,562,308,068			3,443,604,228
2. Less: Reinsurance ceded	311,538,488			306,476,802
		3,250,769,580		3,137,127,426
IV. Reserve for performance-related and non-performance-related premium refunds – gross		761,548,421		776,299,847
V. Claim equalisation reserve and similar reserves		861,219,083		847,532,310
VI. Other technical reserves				
1. Gross	136,522,161			151,256,496
2. Less: Reinsurance ceded	522,687			3,218,906
		135,999,474		148,037,590
			14,438,023,279	14,277,865,114
D. Technical reserves for life insurance policies, to the extent that the investment risk is borne by the policy holder				
I. Actuarial reserve – gross			95,404,268	95,131,740
E. Other reserves				
I. Reserves for pensions and similar liabilities		109,113,401		100,017,903
II. Tax reserves		65,664,332		24,480,644
III. Other reserves		112,353,251		112,073,507
			287,130,984	236,572,054
F. Funds held under reinsurance transactions ceded			7,785,772	5,841,904
G. Other liabilities				
I. Accounts payable from own insurance transactions with:				
1. Insurance policy holders	711,836,624			789,687,861
2. Insurance agents	9,920,812			9,782,162
		721,757,436		799,470,023
II. Accounts receivable from reinsurance transactions		12,916,156		14,210,665
III. Liabilities to banks		9,380,640		7,890,218
IV. Miscellaneous liabilities		105,247,895		97,379,499
thereof due to affiliated companies: EUR 4,986 (previous year: EUR 13,216,779)			849,302,127	918,950,405
thereof due to associated companies: EUR 1,250,905 (previous year: EUR 1,240,360)				
thereof from taxes of: EUR 38,125,090 (previous year: EUR 29,296,731)				
thereof for social security: EUR 253,864 (previous year: EUR 259,484)				
H. Deferred income			3,694,260	3,939,332
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**17,326,545,288**	**16,957,969,050**

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018 VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

Item	EUR	EUR	2018 EUR	2017 EUR
I. TECHNICAL ACCOUNT FOR PROPERTY-CASUALTY INSURANCE TRANSACTIONS				
1. Net premiums earned for own account				
a) Gross premiums written	2,148,081,644			2,069,118,502
b) Reinsurance premiums ceded	–129,335,702			–130,169,659
		2,018,745,942		1,938,948,843
c) Change in gross unearned premiums	4,988,224			–6,271,056
d) Change in the share of the reinsurer in gross unearned premiums	–6,227,872			3,000,388
		–1,239,648		–3,270,668
			2,017,506,294	1,935,678,175
2. Technical interest income for own account			741,494	753,052
3. Other technical earnings for own account			3,870,463	3,929,546
4. Expenses for insurance claims for own account				
a) Payments for insurance claims				
aa) Gross	–1,412,192,823			–1,340,210,059
bb) Share for reinsurers	78,520,593			76,611,172
		–1,333,672,230		–1,263,598,887
b) Change in reserve for insurance claims not yet processed				
aa) Gross	–115,728,427			–107,476,350
bb) Share for reinsurers	6,384,536			–15,359,799
		–109,343,891		–122,836,149
			–1,443,016,121	–1,386,435,036
5. Change in other net technical reserves			–489,374	–2,838,878
6. Expenses for performance-related and non-performance-related premium refund for own account			–5,197,323	–4,228,362
7. Expenses for insurance operations for own account				
a) Gross expenses for underwriting		–446,733,663		–433,547,425
b) Less: commissions and shares of profit received from insurance transactions ceded for reinsurance		52,483,519		41,452,424
			–394,250,144	–392,095,001
8. Other technical expenses for own account			–3,260,697	–3,615,214
9. Subtotal			**175,904,592**	**151,148,282**
10. Change in equalisation reserve and similar reserves			–13,717,550	–90,607,849
11. Technical result for own account in Property-Casualty insurance transactions			**162,187,042**	**60,540,433**

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018
VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

Item	EUR	EUR	2018 EUR	2017 EUR
II. TECHNICAL ACCOUNT FOR LIFE INSURANCE TRANSACTIONS				
1. Net premiums earned for own account				
a) Gross premiums written	993,186,734			974,285,523
b) Reinsurance premiums ceded	–6,772,485			–8,049,797
		986,414,249		966,235,726
c) Change in gross unearned premiums		4,974,624		4,769,696
			991,388,873	971,005,422
2. Premiums from the gross reserve for premium redemption			3,919,586	4,592,151
3. Income from investments				
a) Income from participating interests		3,740,892		0
b) Income from miscellaneous investments				
aa) Income from real properties, rights equivalent to real property and buildings, including buildings on third-party real properties	8,148,995			8,148,995
bb) Income from miscellaneous investments	345,940,866			375,997,662
		354,089,861		384,146,657
c) Income from appreciation		53,008		338,212
d) Gains from the divestiture of investments		54,955,287		103,947,444
			412,839,048	488,432,313
4. Unrealised gains on investments			88,775	7,237,312
5. Other technical earnings for own account			187,484	255,536
6. Expenses for insurance claims for own account				
a) Payments for insurance claims				
aa) Gross	–873,831,705			–874,713,158
bb) Share for reinsurers	2,261,990			1,822,526
		–871,569,715		–872,890,632
b) Change in reserve for insurance claims not yet processed				
aa) Gross	–5,142,156			–202,607
bb) Share for reinsurers	–637,202			–119,952
		–5,779,358		–322,559
			–877,349,073	–873,213,191
7. Change in other net technical reserves				
a) Actuarial reserve				
aa) Gross		–66,730,708		–161,056,926
bb) Share for reinsurers		2,275,249		0
			–64,455,459	–161,056,926
8. Expenses for performance-related premium refunds for own account			–179,243,827	–163,812,753
9. Expenses for insurance operations for own account				
a) Transaction expenses	–58,393,789			–57,465,644
b) Management expenses	–10,122,773			–9,350,440
		–68,516,562		–66,816,084
c) Less: commissions and shares of profit received from insurance transactions ceded for reinsurance		1,578,180		3,762,403
			–66,938,382	–63,053,681
10. Expenses for investments				
a) Expenses for management of investments, interest expense and other expenses for investments		–17,725,961		–16,109,375
b) Depreciation on investments		–10,692,197		–5,585,969
c) Losses from the divestiture of investments		–5,082,307		–143,868
			–33,500,465	–21,839,212
11. Unrealised losses on investments			–11,190,266	–167,054
12. Other technical expenses for own account			–120,989,762	–149,591,098
13. Technical result for own account in life insurance transactions			**54,756,532**	**38,788,819**

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018 VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

Item	EUR	EUR	EUR	2018 EUR	2017 EUR
III. NON-TECHNICAL ACCOUNT					
1. Technical result for own account					
a) In property-casualty insurance transactions			162,187,042		60,540,433
b) In life insurance transactions			54,756,532		38,788,819
				216,943,574	99,329,252
2. Income from investments, unless listed under II.3.					
a) Income from participating interests					
aa) In companies not included in the consolidated financial statements	38,175,866				7,603,505
bb) In associated companies	7,622				1,401,660
		38,183,488			9,005,165
b) Income from miscellaneous investments					
aa) Income from real properties, rights equivalent to real property and buildings, including buildings on third-party real properties	672,130				677,289
bb) Income from miscellaneous investments	93,022,992				168,035,011
		93,695,122			168,712,300
c) Income from appreciation		3,974,219			4,930
d) Gains from the divestiture of investments		61,980,514			2,305,538
e) Income from profit transfer agreements		349,708			358,030
			198,183,051		180,385,963
3. Expenses for investments, unless listed under II.10					
a) Expenses for management of investments, interest expense and other expenses for investments		–7,381,523			–7,079,124
b) Depreciation on investments		–9,497,095			–2,297,773
c) Losses from the divestiture of investments		–6,101,823			–1,516,857
			–22,980,441		–10,893,754
			175,202,610		169,492,209
4. Technical interest income			–950,085		–967,206
				174,252,525	168,525,003
5. Other income			49,396,847		36,129,366
6. Other expenses			–117,755,424		–93,145,555
				–68,358,577	–57,016,189
7. Operating result				**322,837,522**	**210,838,066**
8. Taxes on income and earnings			–89,076,999		–54,240,361
including: Income from deferred taxes: EUR 25,546,732 (previous year: EUR 24,411,045)					
9. Other taxes			–484,792		–475,266
				–89,561,791	–54,715,627
10. Net income				**233,275,731**	**156,122,439**
11. Allocations to retained earnings					
a) to the loss reserve in accordance with section 193 of the Insurance Supervision Act (VAG)				0	–4,702,574
b) to other retained earnings				–233,275,731	–151,419,865
12. CONSOLIDATED NET INCOME				**0**	**0**

CASH FLOW STATEMENT
VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a.G./GROUP

Item	2018 EUR'000	2017 EUR'000
Net profit (consolidated net profit)	**233,276**	**156,122**
Change in technical reserves – net	160,431	378,751
Change in deposit accounts receivable and accounts payable, as well as invoice accounts receivable and accounts payable	892	5,957
Change in other accounts receivable and accounts payable	–84,417	–27,964
Change in investments that are not attributable to investment activities	–217,111	–402,495
Change in other balance sheet items that are not attributable to investment or financing activities	22,507	20,010
Other non-cash expenses and income, as well as adjustments to net profit	41,536	15,651
Gain/loss from the divestiture of investments, tangible fixed assets and intangible assets	–105,713	–110,306
Income tax expense/income	89,077	54,240
Income tax payments	–70,933	–116,062
Cash flow from operating activities	**69,546**	**–26,096**
Receipts from the sale of consolidated companies and other business entities	14,346	17,504
Payments resulting from the acquisition of consolidated companies and other business entities	–234	–8,970
Receipts from the sale of capital investments for fund-linked annuity insurance	4,370	4,793
Payments resulting from the acquisition of capital investments for fund-linked annuity insurance	–15,811	–11,336
Other receipts from the divestiture of tangible fixed assets and intangible assets	242	116
Other payments resulting from additions of tangible fixed assets and intangible assets	–28,918	–15,921
Cash flow from investment activities	**–26,005**	**–13,814**
Receipts and payments from other financing activities	1,490	4,423
Cash flow from financing activities	**1,490**	**4,423**
Change in cash and cash equivalents	**45,031**	**–35,487**
Change in cash equivalents due to exchange rate movements, changes in the scope of consolidation and measurement	**3,173**	**3,110**
Cash at the beginning of the period	148,664	181,041
Cash at the end of the period	196,868	148,664

Cash equals the balance sheet item "bank balances, cheques and cash on hand".

STATEMENT OF CHANGES IN EQUITY
VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a.G./GROUP

EQUITY CAPITAL OF PARENT COMPANY/GROUP EQUITY CAPITAL					
				Difference in equity from currency translation	Total
	Loss reserve in accordance with section 193 of the Insurance Supervision Act (VAG) EUR'000	Other retained earnings EUR'000	Total EUR'000	EUR'000	EUR'000
Status on 31.12.2016	**64,104**	**1,189,679**	**1,253,783**	**12,077**	**1,265,860**
Currency translation	–	–	–	–6,580	–6,580
Consolidated net profit	4,702	151,420	156,122	–	156,122
Status on 31.12.2017	**68,806**	**1,341,099**	**1,409,905**	**5,497**	**1,415,402**
Currency translation	–	–	–	–3,532	–3,532
Changes in the consolidation group	–	–4	–4	–	–4
Consolidated net profit	–	233,276	233,276	–	233,276
Status on 31.12.2018	**68,806**	**1,574,371**	**1,643,177**	**1,965**	**1,645,142**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

GENERAL DISCLOSURES

DISCLOSURES TO IDENTIFY THE PARENT COMPANY

The registered office of VHV Vereinigte Hannoversche Versicherung a.G. is in Hanover. The company is entered in the commercial register of the Local Court of Hanover under the number HRB 3387.

LEGAL FOUNDATIONS FOR CONSOLIDATION

These consolidated financial statements were drawn up in accordance with sections 341i and 341j of the German Commercial Code (HGB) using forms 1 and 4 pursuant to sections 58 ff. of the German Insurance Companies Accounts Regulations (RechVersV).

The consolidated balance sheet closing date is 31 December 2018.

CONSOLIDATION GROUP

In addition to VHV Vereinigte Hannoversche Versicherung a.G., Hanover, as the ultimate parent company, the consolidated financial statements also include 16 subsidiaries, as in the previous year, including two (previous year: three) special purpose entities (SPEs). Changes in the consolidation group resulted in 2018 from the disposal of the securities special purpose entity Corsair Finance (Ireland) No. 6 Ltd. (JARP II) and the first-time consolidation of a subsidiary previously not fully consolidated due to subordinate importance.

The inclusion of the SPEs results from section 290 article 2 no. 4 HGB, as from an economic perspective the Group bears the majority of the risks and opportunities of these SPEs.

The interests held in three associated companies are measured according to the equity method, as in the previous year.

Six (previous year: six) subsidiaries were not fully consolidated in line with section 296 article 2 HGB due to subordinate importance, of which two companies are expected to be liquidated in 2019.

Two associated companies were not measured according to the equity method pursuant to section 311 article 2 HGB. For the sake of clarity and concise presentation, the shares in companies not measured according to the equity method were shown under other participating interests.

The key subsidiaries of VHV Vereinigte Hannoversche Versicherung a.G., Hanover, are:

KEY SUBSIDIARIES

	Group's share of capital
VHV Holding	100.00 %
VHV Allgemeine	100.00 %
HL	100.00 %
VAV	100.00 %
WAVE	100.00 %
VHV Vermögen	100.00 %
VHV solutions	100.00 %

The full listing of share ownership pursuant to section 313 article 2 HGB is reported separately in the notes. The consolidated financial statements are disclosed in the electronic Bundesanzeiger (Federal Gazette).

CONSOLIDATION PRINCIPLES

In the consolidated financial statements, capital consolidation takes place according to the revaluation method pursuant to section 301 article 1 HGB.

Under this method, the investment book value is offset against the revalued equity (fair value of asset and liability items) of the acquired subsidiary at the date of acquisition. Any remaining difference after offsetting is to be disclosed in the consolidated balance sheet, as "Goodwill" if it arises under assets side and as "Difference from capital consolidation" according to the equity method if it arises under liabilities and shareholders' equity. Goodwill is subject to scheduled amortisation over the subsequent years.

The difference from the capital consolidation must be reversed through profit or loss, if the charges anticipated when the subsidiary was acquired have occurred or it is definite on the balance sheet closing date that a gain has been realised.

Any capital consolidation performed according to the book value method before 31 December 2009 remains unchanged pursuant to article 66 paragraph 3 sentence 4 of the Introductory Act to the German Commercial Code (EGHGB).

Investments in associated companies are measured using the equity method. Shares must be measured at the carrying amount at the date of acquisition in the consolidated balance sheet, supplemented by the changes in equity capital attributable to the Group post-acquisition. Profit distributions attributable to the shares must be deducted from them. The difference between the carrying amount and the pro rata equity capital of the associated company at acquisition must be allocated to the company's individual assets and liabilities, if their fair value is higher or lower and continued in subsequent years. Any goodwill remaining thereafter is also subject to scheduled amortisation over subsequent years.

The equity value must be checked for impairment at each Group reporting date. If the equity value exceeds the fair value, an impairment loss is recognised. If the reason for the impairment loss no longer applies, the equity value must be written up.

The valuations performed according to the equity method before 31 December 2009, under which the difference between the carrying amount and the pro rata share of the associated company's equity is offset against retained earnings on acquisition, remain unchanged pursuant to article 66 paragraph 3 sentence 4 EGHGB.

Accounts receivable and accounts payable, expenses and income and intercompany profits between the consolidated companies were eliminated.

The share of the Group in the annual earnings generated by subsidiaries after the initial consolidation was included in the retained earnings and/or removed from this item.

In the consolidated financial statements, the option was utilised pursuant to section 300 article 2 HGB to exercise balance sheet options anew, meaning that pursuant to section 308 article 1 HGB a uniform valuation was performed in the Group.

In accordance with section 294 article 2 HGB, comparability of consecutive consolidated financial statements in the face of material changes to the consolidation group is accommodated by verbal explanation and additional disclosures in the notes.

ACCOUNTING, VALUATION AND CALCULATION METHODS

The assets and liabilities included in the consolidated financial statements, as well as the expenses and income of the companies included, were valued uniformly pursuant to section 308 article 1 HGB.

Balance sheet and valuation entries based on special requirements for foreign insurance companies were included without change pursuant to section 300 article 2 and section 308 article 2 HGB. The asset and liability items of the balance sheet of annual financial statements in a foreign currency were translated at the middle spot exchange rate on the balance sheet closing date, with the exception of equity, which was translated at the historical rate. The income statement items were translated at average rates. Currency translation in the consolidated financial statements was performed under early application of German Accounting Standard 25.

ASSETS

Intangible assets were valued at acquisition cost reduced by scheduled straight-line amortisation in line with their normal useful lives.

Real properties, rights equivalent to real property and buildings were valued at acquisition or production cost less scheduled and extraordinary depreciation.

Investments in affiliated and associated companies are always to be valued at the lower of acquisition cost or fair value as at the balance sheet closing date. The participating interests in associated companies were accounted for in the amount of the pro rata equity without any adjustment to the Group's standard valuation measures according to the book value method or lower fair value.

The **investment assets, bearer bonds and other securities with fixed interest rates** classified as non-current assets are those destined to serve business operations over the long term and were reported at amortised cost. Based on the provisions of section 341b article 2 HGB in conjunction with section 253 article 3 HGB (moderate lower of cost or market principle) applicable to non-current assets, depreciation was recognised on securities in the case of an anticipated long-term reduction in value. The agios and discounts included

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

in bearer bonds and other securities with fixed interest rates will be reversed through profit or loss over the term.

Investment assets and bearer bonds assigned to current assets were valued at the lower of the acquisition cost or current market value on the balance sheet closing date, in accordance with the strict lower of cost or market principle.

The increase in value rule according to section 253 article 5 HGB has been complied with.

The **registered debentures** were entered on the balance sheet at their nominal value. Zero-coupon registered debentures were entered on the balance sheet at acquisition cost while taking into account addition of interest.

The **mortgages, land charges and annuity charges** were entered on the balance sheet at acquisition cost.

Promissory notes and loans were measured at acquisition cost plus or minus the cumulative amortization of a difference between the acquisition cost and the amount repayable using the effective interest rate method in accordance with section 341c HGB.

Loans and advance payments on insurance policies were entered on the balance sheet at nominal value less repayments made.

Miscellaneous loans were recognised at amortised cost.

Bank deposits were capitalised at nominal value.

Miscellaneous investments were recognised at amortised cost.

Investments for the account and risk of holders of life insurance policies were recognised at fair value in accordance with section 341d HGB in conjunction with section 56 RechVersV.

Accounts receivable from direct-written insurance transactions were entered on the balance sheet at nominal value less value adjustments for latent default risk.

Settlement receivables from reinsurance business were calculated on the basis of the reinsurance contracts and valued at nominal value.

Other receivables were recognised at their nominal values.

Tangible fixed assets were valued at acquisition cost reduced by scheduled straight-line depreciation in line with their normal useful lives. For assets of low value with an acquisition cost of more than EUR 250 but less than EUR 1,000, the acquisition costs were recognised in a collective item, then written off at $^1/_5$ in the year of acquisition and in each of the four following financial years. At VAV, assets of low value are written off in full in their year of acquisition.

Inventories were entered on the balance sheet at acquisition cost less a valuation discount. An inventory count was made on 31 December 2018.

The accrued interest and rents reported under **prepaid expenses** were shown at nominal value. These amounts relate to 2018, but were not yet due as at 31 December. The agios on registered debentures included in other prepaid expenses were deferred and allocated over the term.

In contrast to the treatment in the separate balance sheets of the companies included in the consolidated financial statements, at German companies, **deferred tax assets** are created on temporary differences between the consolidated balance sheet and the tax balance sheets of the companies included in the consolidated financial statements. The option under section 274 article 1 HGB was exercised in that the net amount from deferred tax assets and liabilities is recognised on the balance sheet. In addition, all deferred taxes are grouped together in accordance with the option under section 306 HGB. The respective, individual tax rate was used in calculating the future tax burdens and tax benefits. For VAV, a tax rate of 25.00 % was applied and a 22.00 % tax rate for VHV Re. The individual tax rates for the German companies are between 32.35 % and 32.63 %. In the previous year, the average Group tax rate of 32.42 % was used for all German companies. In the reporting year, an average Group tax rate of 32.44 % was applied for consolidation matters. The increase is based on municipal trade tax rate increases.

The **excess of plan assets over post-employment benefit liability**, which results from netting plan assets against the associated pension liabilities, was shown at fair value in accordance with section 246 article 2 sentence 2 HGB.

The **remaining assets** were valued at nominal value.

LIABILITIES AND SHAREHOLDERS' EQUITY

The **unearned premiums** for direct-written insurance transactions in property-casualty insurance were calculated on a pro rata temporis basis in all insurance segments. In surety insurance, the unearned premiums were determined in accordance with the average remaining term of the surety bonds or calculated pro rata temporis for each premium per surety bond. The shares for reinsurers correspond to the quotas ceded for reinsurance. 85 % of commissions from gross premiums and 92.5 % of commissions from reinsurer shares were recognised as portions of revenue not eligible for being carried forward. At VAV, in motor vehicle liability insurance and in the other insurance segments 10 % and 15 % respectively of unearned premiums are recognised as portions of revenue not eligible for being carried forward. The unearned premiums for insurance transactions assumed in reinsurance coverage were calculated pro rata temporis and the shares for reinsurers were recognised in line with their contractual share. 92.5 % of the commissions were recognised as shares not eligible for being carried forward.

For life insurance business, the **unearned premiums** were calculated individually for each insurance contract, with the technical commencement of the contracts used as a basis for the calculation. When determining the portions of premiums eligible for being carried forward, the letter of the Federal Ministry of Finance dated 30 April 1974 was adhered to.

The **actuarial reserve**, with the exception of capitalisation transactions and the prospective entitlement of annuity insurance in accordance with the Pension Plan Certification Act (PPCA), was calculated for the individual contracts using the prospective method, with explicit consideration of the Zillmer costs and implied consideration of other future costs. In doing so, the following probability tables and actuarial interest rates were used (without consideration of syndicated agreements under outside control):

Probability tables	Actuarial interest rates	Share of actuarial reserve
St 1967 M	3.00 % *)	1.3 %
St 1986 M/F	3.50 % *)	15.8 %
Interpol. of DAV 2004 R-B and R-B20 M/F	3.00 % *)	0.4 %
Interpol. of DAV 2004 R-B and R-B20 M/F	3.50 % *)	1.6 %
HL-Table 1994 M/F	4.00 % **)	39.7 %
Interpol. of DAV 2004 R-B and R-B20 M/F	4.00 % **)	2.9 %
HL-Table 2000 T M/F	3.25 % **)	6.1 %
Interpol. of DAV 2004 R-B and R-B20 M/F	3.25 % **)	1.0 %
HL-Table 2000 T M/F	2.75 % **)	2.5 %
HL-Table 2000 T M/F mod.	2.75 % **)	0.5 %
Interpol. of DAV 2004 R-B and R-B20 M/F	2.75 % **)	0.6 %
DAV 2004 R M/F	2.75 % **)	1.1 %
DAV 1994 T M/F	2.75 % **)	0.1 %
HL-Table 2000 T M/F	2.25 % **)	0.4 %
HL-Table 2000 T M/F mod.	2.25 % **)	1.5 %
HL-Table 2008 T M/F	2.25 % **)	1.5 %
DAV 2004 R M/F	2.25 % **)	6.0 %
HL-Table 2011 T M/F mod.	1.75 %	0.6 %
DAV 2004 R M/F	1.75 %	1.0 %
HL-Table 2012 T Unisex	1.75 %	0.1 %
HL-Table 2012 T Unisex mod.	1.75 %	0.9 %
DAV 2004 R Unisex	1.75 %	2.6 %
HL-Table 2012 T Unisex	1.25 %	0.2 %
HL-Table 2012 T Unisex mod.	1.25 %	0.5 %
DAV 2004 R Unisex	1.25 %	1.7 %
HL-Table 2016 T Unisex mod.	0.90 %	0.5 %
DAV 2004 R Unisex	0.90 %	1.5 %

*) In analogy to section 341f article 2 HGB in conjunction with section 5 article 3 and article 4 DeckRV. a reference interest rate of 2.09 % was taken as a basis.

**) In accordance with section 341f article 2 HGB in conjunction with section 5 article 3 and article 4 DeckRV. a reference interest rate of 2.09 % was taken as a basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

On the basis of a ruling by the European Court of Justice on 1 March 2011, only gender-neutral rates have been offered since 21 December 2012.

In the case of fund-linked annuity insurance (dynamic hybrids), where the guaranteed endowment benefit is partly secured through a guarantee fund, only the part of the actuarial reserve, which was not already secured through the guarantee level of the guarantee fund, is included in liability item C.II.

The actuarial reserve for capitalisation transactions and the prospective entitlement of annuity insurance in accordance with the Pension Plan Certification Act (PPCA) was calculated on the basis of the retrospective method for each individual contract (proportion of the actuarial reserve according to Liabilities C.II.: 4.2 %).

The company's own HL table 1994 was developed from the mortality table St 1986, for which the probabilities of death are reduced based on the company's own experience. The company's own HL table 2000 T was developed from the population table 1986, for which the probabilities of death are reduced based on the company's own experience. The company's own HL tables 2008 T and 2011 T were developed from the DAV table 2008 T, for which the probabilities of death are reduced based on the company's own experience. The company's own HL tables 2012 T, 2016 T and 2018 T were developed from the DAV table 2008 T, for which the probabilities of death and gender mix ratio are recognised in accordance with the company's own experience, which in the case of HL table 2018 T is occupation-specific.

The modified association tables 1990 M/F (actuarial interest rate 4 %), the DAV tables 1997 I mod. (actuarial interest rate 3 %) and 1997 I M/F and Unisex with modifications based on occupational groups (actuarial interest rate 2.75 %, 2.25 %, 1.75 % and 1.25 %), and the company's own HL tables 2000 I M/F (actuarial interest rate 3.25 %), 2004 I M/F (actuarial interest rate 2.75 %, 2.25 % and 1.75 %), 2012 I Unisex (actuarial interest rate 1.75 %, 1.25 % and 0.90 %) and 2017 I Unisex (actuarial interest rate 0.90 %) were used for (supplementary) occupational disability insurance policies. The HL tables 2000 I, 2004 I and 2012 I were developed from the table DAV 1997 I, for which the probabilities of disability are reduced based on the company's own experience. The HL table 2017 I is based on occupation-specific individual probabilities of disability.

The DAV tables 1998 E M/F (actuarial interest rate 2.75 %, 2.25 % and 1.75 %) and the company's own HL tables 2000 I M/F (actuarial interest rate 3.25 %), 2004 I M/F (actuarial interest rate 2.75 % and 2.25 %), 2012 E Unisex (actuarial interest rate 1.75 %, 1.25 % and 0.90 %) and 2017 E (actuarial interest rate 0.90 %) were used for (supplementary) work incapacity insurance policies. The HL table 2012 E was developed from the DAV table 1998 E; HL table 2017 E is based on individual probabilities of disability.

The actuarial reserves for contracts concluded between 1960 and 1987 were zillmerised at 5 ‰ of the sum insured or at 5 % of the annuity. VHV tariffs included individual insurance policies with a zillmerisation rate of 4.0 % and 2.5 %, group insurance policies with a zillmerisation rate of 2.0 % and 1.5 % and group insurance policies for large customers with a zillmerisation rate of 1.0 % of the total premium to the portfolio (with a total share in the actuarial reserve of 3.2 %). All other actuarial reserves were not zillmerised.

A management expense reserve is included in the actuarial reserve for insurance years that are exempt from the payment of premiums. In addition, further amounts were added to the actuarial reserve to adjust it to updated bases of calculation in accordance with the principles published by the BaFin, DAV and the legislator (see page 59).

Current studies of mortality for annuity insurance policies have shown that the security margins and trend projections presented in the DAV mortality table 1994 R no longer correspond to actuarial security requirements. In order to maintain an adequate level of security, the actuarial reserve for each individual annuity insurance policy was calculated in the financial year 2018 so that it corresponds at least to the value between the calculation on the basis of DAV 2004 R-B and DAV 2004 R-B20 linearly interpolated by fourteen twentieths, in accordance with the DAV guideline dated 9 June 2004 "Surplus allocation and reserves for annuity insurance policies in the portfolio".

An additional interest reserve was created for the 2018 financial year in accordance with section 341f article 2 HGB in conjunction with section 5 of the German Actuarial Reserve Ordinance (DeckRV). For the new portfolio, this is based on a reference interest rate of 2.09 % (previous year: 2.21 %), which results from anticipated income in accordance with section 5 article 3 DeckRV. In accordance with relevant BaFin publications, company-specific, conservative cancellation probabilities and, in the case of term life policies, a conservative reduction in the biometric calculation basis were considered. A comparative calculation with the calculation bases of the addition to the interest reserves of the year before the first-time application of company-specific cancellation probabilities and the reduction in the biometric calculation basis was also carried out on the basis of the current contract status, and the maximum of the results of both calculations was recognised. The determination rules for the additional interest rate reserve in the new portfolio in accordance with DeckRV were also adopted for the old portfolio, but without a reduction in the biometric calculation basis. The recognition of the likelihood of cancellation and lump sum options and the reduction in the biometric calculation basis resulted in a reduction in the actuarial reserve of 0.7 % compared to the valuation method which is not probability weighted as at 31 December 2018.

The actuarial reserve for fund-linked annuity insurance policies was determined according to Liabilities D.I., whereby the investment risk is borne by the policy holder, as the fair value of the share units available for the individual contract on the balance sheet closing date.

The reinsurance ceded in life insurance is accounted for on a risk premium basis. As a result, deposit accounts receivable do not apply in the receipt of benefits apart from under occupational disability and work incapacity insurance policies, for which the disability reserve is deposited by the reinsurer on a pro rata basis. In the reporting year, this was reported as the reinsurance share in the actuarial reserve for the first time.

The **reserve for insurance claims not yet processed** for direct-written insurance transactions in property-casualty insurance was determined individually for each claim with the necessary commercial care. A discount was recognised on the claims reserve in motor vehicle liability insurance, taking actual claim payments in the past into account. Furthermore, own calculations and analyses were used to examine whether the gross reserves for insurance claims not yet processed including discounts are sufficient in the motor vehicle liability insurance segment. The reserve for expected late claims was calculated on the basis of the requirements for subsequently reported late claims. In addition, a reserve was created for revived claims. The accounts receivable from recourse claims, salvages and sharing agreements were carefully determined on the basis of anticipated receipts, and deducted from the reserve for insurance claims not yet processed. The calculation of the annuity actuarial reserve was carried out individually for each annuity according to actuarial principles on the basis of section 341f and section 341g HGB and the statutory ordinance issued for section 88 article 3 Insurance Supervision Act (VAG). The shares for reinsurers were determined on the basis of the existing reinsurance contracts.

The **reserve for insurance claims not yet processed** for life insurance contains the probable benefits for the insurance claims reported but not yet paid out at the date of the portfolio statement. The benefits were calculated individually for each insurance contract. For expected late claims, a reserve was created with regard to the estimated requirement for subsequently reported late claims.

The reserve for insurance claims not yet processed for insurance transactions assumed in reinsurance coverage was created in accordance with the specifications from the initial insurer taking into account reasonable surcharges. The shares for reinsurers were calculated on the basis of the existing reinsurance contracts.

In life insurance, the reserve for claims settlement expenses was calculated in accordance with the letter of the Federal Ministry of Finance dated 2 February 1973.

In property-casualty insurance, the reserve for claims settlement expenses was previously also calculated in accordance with the letter of the Federal Ministry of Finance dated 2 February 1973. Since the 2018 reporting year, it has been calculated using actuarial methods, which better reflect the segment-specific settlement processes according to cause. Compared with the previous calculation method, the methods result in higher reserves for claims settlement expenses in general liability insurance and in loan and surety insurance and in lower reserves for claims settlement expenses in motor vehicle liability insurance and in total across all segments. At VAV, the calculation is based on section 12 article 7 of the Regulation of the Financial Market Authority (FMA) on Accounting by Insurance and Reinsurance Undertakings (VU-RLV), BGBl. II No. 316/2015 of 21 October 2015, in the amended version of 16 November 2016, BGBl. II No. 323/2016.

In life insurance, the **reserve for premium refunds** was formed in accordance with the articles of association and provisions stipulated in the business plan. The final bonus fund from the old portfolio includes final payments that are 100 % financed, as well as accrued final bonus entitlements that are calculated in accordance with the prospective method without discount. For the new portfolio in question, the final bonus is recognised as a percentage of the balance achieved from annual bonuses. The final bonus fund contains 100 % of the portion obtained as at the balance sheet closing date, and is calculated individually for each contract. Within the final basic participation, a reserve is formed for the declared basic participation in the valuation reserves in the same way as for the main insurance policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

Sums were added to and removed from the **reserve for premium refunds** in direct-written insurance transactions for property-casualty insurance according to contractual agreements.

The **equalisation reserve** was formed in accordance with the annex to section 29 RechVersV. For the surety segment, the claims ratios from the tables published in the annual reports of BaFin or the previous Federal Supervisory Authority for the Insurance Industry were stated for past years. At VAV, the equalisation reserve was formed in accordance with the Regulation of the Financial Market Authority (FMA) on Forming an Equalisation Reserve in Property-Casualty Insurance by Insurance and Reinsurance Undertakings (Equalisation Reserve Regulation – SWRV 2016), BGBl. II No. 315/2015 of 21 October 2015, in the amended version of 16 November 2016, BGBl. II No. 324/2016 and at VHV Re in accordance with the guidelines from the ordinance of the “Directorate General of Insurance” of 7 August 2007, No. 26606/ article 9.

The large risk reserve for insurance against product liability for pharmaceutical risks was calculated in accordance with section 30 article 1 RechVersV, while the nuclear facility reserve and the terrorism risk reserve were calculated in accordance with section 30 article 2 RechVersV and section 30 article 2a RechVersV respectively.

The cancellation reserve for peril cessation and reduction included under the **other technical reserves** was calculated using the cancellation rates established on the basis of a representative sample from the individual insurance branches, in relation to premium revenues. The reserve for aid for road accident victims was formed according to the requirement of the association “Verkehrsopferhilfe e.V.”. The reserve for unused premiums from dormant motor vehicle insurance policies was created individually. At VAV, a reserve for terrorism risks was formed in accordance with their share of the terrorism pool. The share for reinsurers was calculated on the basis of the existing reinsurance contracts. A reserve for replenishment premiums still to be paid was formed in accordance with the contractual agreement in the reinsurance contract for claims caused by natural hazards.

The latent reserves for premium refunds accounted for under other technical reserves are calculated from valuation differences between the accounting book values at Group level and the accounting book values from separate financial statements as well as from the inclusion of a special purpose entity (SPE), which must be allocated to life insurance. They are valued at a reserve for premium refunds ratio (after taxes) of 95.3 % on all valuation differences.

The **reserves for pensions** were measured according to the projected unit credit method in conjunction with section 253 article 1 sentence 2 HGB. They were discounted by the average interest rate of the last ten years with an assumed remaining term of 15 years of 3.21 % in accordance with section 253 article 2 sentence 2 HGB.

For the other actuarial parameters (mortality tables, salary and pension trends), country-specific values for Germany and Austria were used in the valuation.

In Germany, the pension obligations were calculated on the basis of the 2018G mortality tables by Prof. Klaus Heubeck, taking into account the influencing factors of salary growth of 2.25 % and pension growth of 1.75 %.

In Austria, the pension obligations were measured based on the AVÖ (Austrian Actuarial Association) 2018-P Employees generation tables with salary adjustments of 1.75 % and adjustments to the current pension claims of 1.80 %.

Nettable assets that fulfil the requirements of section 246 article 2 sentence 2 HGB (assets from insurance policies covering pension liabilities) were offset against the associated benefit obligations.

VAV’s reserves for severance pay, which are included in the item reserves for pensions and similar liabilities, were also measured according to the projected unit credit method using the AVÖ (Austrian Actuarial Association) 2018-P Employees generation tables, with an interest rate of 3.21 % (average ten-year interest rate in accordance with the Ordinance on Reserves with an assumed remaining term of 15 years) and salary adjustments of 1.75 % for Board members and 2.80 % for employees.

The **tax reserves** were recognised at the necessary settlement amount on the basis of reasonable business judgement in accordance with section 253 article 1 sentence 2 HGB.

The **other reserves** were recognised at the necessary settlement amount on the basis of reasonable business judgement in accordance with section 253 article 1 sentence 2 HGB, taking into account future price and cost increases. Where the remaining term of a reserve was more than one year, it was discounted at the average market interest rate for the past seven years corresponding to the remaining term.

The reserves for anniversary benefits were created on the basis of the actuarial assessment of 31 December 2018. They were calculated according to the projected unit credit method using the 2018G mortality tables by Prof. Klaus Heubeck with an actuarial interest rate of 2.32 %, salary growth of 2.25 % and a turnover rate of 2.75 % for women and 2.75 % for men.

The provisions for partial retirement obligations were established on the basis of the actuarial assessment dated 31 December 2018 in accordance with the projected unit credit method using the 2018G mortality tables by Prof. Klaus Heubeck. These reserves were discounted individually for each obligation at the average interest rates of the last seven years published by the Bundesbank on 30 September 2018. The investment certificates held to collateralise the partial retirement reserves were measured at fair value and offset against the reserves for partial retirement pursuant to section 246 article 2 sentence 2 HGB in conjunction with section 253 article 1 sentence 4 HGB. The current market values of investment funds resulted from the redemption price on the balance sheet closing date.

Funds held under reinsurance transactions ceded are determined according to the calculated bases of reinsurance contracts.

The **other liabilities** were shown at their settlement amount.

The discounts on registered debentures included in **deferred income** were deferred and allocated over the term.

DELAYED DISCLOSURES

The actuarial reserve of a part of the syndicated agreements under external management amounting to EUR 36.7 million was recognised with a delay of one year, as no invoice was yet available from the lead manager as at the reporting date.

In insurance transactions assumed in reinsurance coverage, premiums totalling EUR 88 thousand were recognised in the reporting year with a delay of one year in cases where no information was available from the initial insurer as at the reporting date. In addition, premiums of EUR 8,478 thousand in property-casualty insurance transactions assumed in reinsurance coverage, for which information from the initial insurer was available up to 30 September 2018, were recognised with a delay.

CALCULATION OF CURRENT MARKET VALUE

The current market values of the properties contained in the portfolio in the financial year were calculated according to the present value of future cash flow method as at 31 December 2018.

The current market values of shares in affiliated companies and participations were calculated according to the present value of future cash flow method or net asset value or correspond to the respective carrying amounts or the pro-rata equity capital. For PE investments, the net asset value was applied as the current market value.

The current market values of fixed-interest securities and non-fixed interest securities were based on the market price on the balance sheet closing date. The current market values of investment funds resulted from the redemption price on the balance sheet closing date.

Registered debentures and promissory note loans were valued using a system-supported yield curve evaluation method. In this method, the securities were allocated to yield curves in line with the risk with typical market risk premiums. The yield curves were allocated and differentiated based on securities classes, rating categories and differentiation between first priority and subordinated securities. Any possible cancellation rights were valued here explicitly. Fixed-interest securities for which no market price could be determined on the balance sheet closing date were valued according to the same procedure.

The fair value of derivatives from forward purchases was determined on the basis of the yield curve with appropriate risk premiums.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

ASSETS

RE A., B.I. AND B.II. INTANGIBLE ASSETS AND INVESTMENTS

The development of these asset items is shown in the table below.

RE A., B.I. AND B.II. DEVELOPMENT OF ASSET ITEMS

DEVELOPMENT IN FINANCIAL YEAR 2018

Asset items	Balance sheet values Previous year EUR'000	Additions EUR'000	Reclassi-fications EUR'000	Disposals EUR'000	Appreciation EUR'000	Write-downs EUR'000	Currency translation differences EUR'000	Balance sheet values Financial year EUR'000
A. INTANGIBLE ASSETS								
I. Purchased concessions, industrial and similar rights and assets and licenses in such rights and assets	37,540	21,711	–	38	–	10,092	–38	49,083
II. Goodwill	33	–	–	15	–	18	–	–
III. Advance payments	289	234	–	85	–	–	–	438
Total A.	**37,862**	**21,945**	**–**	**138**	**–**	**10,110**	**–38**	**49,521**
B. INVESTMENTS								
I. Real properties, rights equivalent to real property and buildings, including buildings on third-party real properties	124,667	468	–	–	–	5,288	–	119,847
II. Investments in affiliated and associated companies								
1. Shares in affiliated companies	32,759	107	–	3,057	–	–	–	29,809
2. Participating interests in associated companies	43,662	–	–	–	3,912	–	1,131	48,705
3. Other participating interests	65,609	126	18,360	11,741	89	11	–	72,432
Total B.II.	**142,030**	**233**	**18,360**	**14,798**	**4,001**	**11**	**1,131**	**150,946**
Total	**304,559**	**22,646**	**18,360**	**14,936**	**4,001**	**15,409**	**1,093**	**320,314**

RE A.II. GOODWILL

In the previous year, the goodwill from the capital consolidation related to the securities special purpose entity (SPE) Corsair Finance (Ireland) No. 6 Ltd. (JARP II) disposed of in the financial year.

RE B.I. REAL PROPERTIES, RIGHTS EQUIVALENT TO REAL PROPERTY AND BUILDINGS, INCLUDING BUILDINGS ON THIRD-PARTY REAL PROPERTIES

The balance sheet value of the real properties and buildings primarily used internally by affiliates in the context of their activities is EUR 119.1 million.

RE B.II.1. SHARES IN AFFILIATED COMPANIES

These are firstly two companies that are expected to be liquidated in 2019. Secondly, they are companies that were not included in the consolidation group due to subordinate importance (section 296 article 2 HGB).

RE B.II.2. PARTICIPATING INTERESTS IN ASSOCIATED COMPANIES

The equity method was used in accordance with section 312 article 1 HGB in the case of three associated companies.

RE B.II.3. OTHER PARTICIPATING INTERESTS
For reasons of intelligibility and clarity, one participating interest not valued in accordance with the equity method was shown under other participating interests.

RE B.III.1. EQUITIES, SHARES OR EQUITIES IN INVESTMENT ASSETS AND OTHER NON-FIXED INTEREST SECURITIES
Investments of EUR 2,814.1 million are valued in this item, not in accordance with the strict lower of cost or market principle.

RE B.III.2. BEARER BONDS AND OTHER SECURITIES WITH FIXED INTEREST RATES
The portion of investments not valued in accordance with the strict lower of cost or market principle is EUR 5,249.7 million.

RE C. INVESTMENTS FOR THE ACCOUNT AND RISK OF HOLDERS OF LIFE INSURANCE POLICIES
The total of investments for the account and risk of insurance policy holders is EUR 95.4 million, and relates to HL.

RE F.II. OTHER PREPAID EXPENSES
Other prepaid expenses mainly include agios for registered debentures in the amount of EUR 24.2 million and advance payments for maintenance contracts of EUR 12.6 million.

RE G. DEFERRED TAX ASSETS
Future tax benefits (deferred tax assets) and future tax burdens (deferred tax liabilities) result from differences between the commercial balance sheet and the tax balance sheet.

In accordance with the option under section 274 article 1 HGB in conjunction with section 306 HGB, future tax burdens and tax benefits were offset against one another under deferred tax assets, with a surplus of assets being reported.

RE H. EXCESS OF PLAN ASSETS OVER POST-EMPLOYMENT BENEFIT LIABILITY
The excess of plan assets over the associated pension obligations in the amount of EUR 12.3 million was shown under this item in accordance with section 246 article 2 sentence 2 HGB.

DISCLOSURE PURSUANT TO SECTION 314 ARTICLE 1 NO. 10 HGB
The table below shows the carrying amounts and current market values of the financial instruments whose carrying amounts are higher than their current market values.

	Carrying amount EUR million	Fair value EUR million
Equities, shares or equities in investment assets and other non-fixed interest securities	3.4	3.1
Bearer bonds and other securities with fixed interest rates	684.5	671.2
Mortgages, land charges and annuity charges	49.6	48.9
Other loans	179.0	169.8
Total	**916.5**	**893.0**

Due to the creditworthiness of the issuers or the degree of collateralisation, the losses in value in securities are not considered permanent.

DISCLOSURE PURSUANT TO SECTION 314 ARTICLE 1 NO. 11 HGB
In 2018, two registered debentures with a nominal value totalling EUR 50.0 million and a market value of EUR 51.1 million and a promissory note loan with a nominal value of EUR 15.0 million and a market value of EUR 15.4 million were bought forward in January 2019. As at 31 December 2018, the fair value of the derivatives was less than EUR 0.1 million and was determined on the basis of the yield curve with appropriate risk premiums. As the forward purchases are executory contracts, they are not entered on the balance sheet.

DISCLOSURE PURSUANT TO SECTION 314 ARTICLE 1 NO. 12 HGB
EUR 95.4 million investment funds for the account and risk of holders of life insurance policies and EUR 0.3 million investment certificates held to collateralise the partial retirement reserves were measured at fair value. The current market values of investment funds resulted from the redemption price on the balance sheet closing date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

DISCLOSURE PURSUANT TO SECTION 314 ARTICLE 1 NO. 18 HGB

The table below provides detailed information on the investment funds in which the VHV Group companies hold more than 10 % of the units issued.

Type of fund/ investment objective	Fair value EUR million	Hidden reserves EUR million	Hidden losses*) EUR million	Distribution in 2018 EUR million
Mixed funds	3,499.5	207.0	–0.2	23.0
Property funds	1,246.7	138.1	–	38.8

*) The reductions in value are not considered permanent due to the values held in the funds

The return of units in the real estate fund can be postponed if there are extraordinary circumstances, which make postponement appear necessary taking account of the investors' interests. In the case of the other funds, repurchase of the units can be postponed if there are extraordinary circumstances or an insufficient liquidity situation.

LIABILITIES AND SHAREHOLDERS' EQUITY

RE A.I.2. OTHER RETAINED EARNINGS
The change in other retained earnings consists of the net profit for the year, the capital offsets as well as other consolidation entries made in the Group.

RE B. DIFFERENCE FROM CAPITAL CONSOLIDATION
The difference from capital consolidation is the result of the revaluation of investments on first-time consolidation of the Pensionskasse.

In the financial year, there was a reversal through the income statement as a result of disposals and write-downs on revalued investments.

RE E.I. RESERVES FOR PENSIONS AND SIMILAR LIABILITIES
In accordance with section 246 article 2 sentence 2 HGB, the assets from pledged insurance policies covering pension liabilities of EUR 63.2 million (fair value) were offset against the settlement amount of the associated pension reserves of EUR 63.2 million. The fair value of the offset insurance policies covering pension liabilities also corresponds to their acquisition cost. The income from insurance policies covering pension liabilities was offset with interest expense from pension obligations in the income statement. The offset amount was EUR 2.2 million. The fair value of the insurance policies covering pension liabilities is calculated from the technical reserve including surplus credit.

The difference between the valuation of the reserve for pensions at the ten-year average interest rate and at the seven-year average interest rate according to section 253 article 6 sentence 1 HGB is EUR 26.7 million.

RE E.III. OTHER RESERVES
Reserves for partial retirement were reported net of the investment certificates held to collateralise them.

	31.12.2018 EUR million	31.12.2017 EUR million
Settlement amount from partial retirement obligations	**1.8**	**2.0**
Acquisition costs of investment certificates	0.2	0.2
Difference in comparison to fair value	–	–
Fair value of investment certificates	**0.2**	**0.2**
Provision from partial retirement obligations	**1.6**	**1.8**

An insurance contract covering pension liabilities (carrying amount on 31 December 2018: EUR 0.2 million) and a payment obligation (carrying amount on 31 December 2018: EUR 0.2 million) to a former employee with a guaranteed term until 1 February 2025 were recognised as a valuation unit (micro-hedge), which secured an interest obligation of 2.0 % p.a. The effectiveness of the hedge was determined using the critical-term-match method. As all value-determining factors match between the insurance contract covering pension liabilities and the payment obligation, the valuation unit is effective (perfect micro-hedge). In connection with the valuation unit, other assets were netted against other reserves in the volume shown above.

RE G. OTHER LIABILITIES
As at 31 December 2018, there were other liabilities with a residual term of more than five years amounting to EUR 270.3 million (previous year: EUR 301.4 million).

RE H. DEFERRED INCOME
Primarily discounts from registered debentures are shown in deferred income at a figure of EUR 3.5 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED INCOME STATEMENT

RE I.1.a) AND II.1.a) GROSS PREMIUMS WRITTEN

	Life insurance business EUR million	Property-casualty insurance business EUR million	Total EUR million
Direct-written insurance transactions	993.2	2,110.5	3,103.7
Insurance transactions assumed in resinsurance coverage	–	37.6	37.6
Total	**993.2**	**2,148.1**	**3,141.3**

Of the gross premiums written for direct-written insurance transactions, EUR 2,987.9 million (previous year: EUR 2,892.7 million) relates to Germany and EUR 115.8 million (previous year: EUR 99.1 million) to foreign countries (primarily member states of the EU).

RE I.2. TECHNICAL INTEREST INCOME FOR OWN ACCOUNT

Technical interest income was calculated according to the table below. The share for reinsurers was deducted from that.

Technical interest	Interest rate (%)
Payments before	
31.12.2003*)	3.25
Payments after	
31.12.2003	2.75
31.12.2006	2.25
31.12.2011	1.75
31.12.2014	1.25
31.12.2016	0.90

*) The interest rate for the old portfolio is based on the arithmetic mean for the annuity actuarial reserve.

RE I.7. EXPENSES FOR INSURANCE OPERATIONS FOR OWN ACCOUNT

Transaction expenses in the amount of EUR 303.5 million and management expenses amounting to EUR 143.3 million are included in this item.

RE III.10.b) DEPRECIATION ON INVESTMENTS

Depreciation on investments classified as non-current assets included extraordinary depreciation pursuant to section 253 article 3 sentence 5 HGB (moderate lower of cost or market principle) of EUR 1.0 million (previous year: less than EUR 0.1 million), which was attributable exclusively to private equity investments in the financial year.

RE III.3.b) DEPRECIATION ON INVESTMENTS

Depreciation on investments classified as non-current assets included extraordinary depreciation pursuant to section 277 article 3 HGB in conjunction with section 253 article 3 sentence 5 HGB (moderate lower of cost or market principle) in the amount of EUR 9.0 million (previous year: EUR 1.9 million). Of this figure, EUR 8.0 million was attributable to registered debentures (previous year: EUR 0.1 million), EUR 0.9 million to private equity investments (previous year: EUR 0.2 million). Depreciation on shares or equities in investment assets amounted to EUR 0.1 million (previous year: less than EUR 0.1 million). There was no depreciation on participating interests in the reporting year (previous year: EUR 1.6 million).

RE III.5. OTHER INCOME

Other income contains income from currency translation of EUR 4.8 million.

RE III.6. OTHER EXPENSES

Other expenses contain the interest component (EUR 6.2 million) included in the allocation to the pension, partial retirement and anniversary reserve and expenses from the allocation of interest to other long-term reserves (EUR 0.3 million). Interest and similar expenses are reduced by interest to be offset from nettable assets in the amount of EUR 2.2 million. Expenses from currency translation in the amount of EUR 1.6 million are included.

RE III.8. AND III.9. TAXES ON INCOME AND EARNINGS AND OTHER TAXES

TAX RECONCILIATION STATEMENT

The following overview shows the reconciliation between the income tax expense anticipated from using the tax rate applicable in Germany and the effective income tax expense shown in the income statement.

	2018 EUR million	2017 EUR million
Earnings before income taxes (commercial balance sheet)	322.3	210.4
Anticipated tax expense Group tax rate 32.44 % (2017: 32.42 %)	104.6	68.2
Reconciliation:		
Divergent foreign tax burden	–0.8	–0.4
Share of tax for:		
Share of tax for: Non–taxable income	+0.2	–3.0
Non tax deductible expenses	+0.2	+0.9
Temporary differences and losses for which no deferred taxes were recognised	–12.0	–7.6
Actual tax for prior periods	–3.7	–4.3
Other tax effects	+0.6	+0.4
Recognised tax expense	**89.1**	**54.2**
Effective Group tax rate	**27.6 %**	**25.8 %**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

ADDITIONAL INFORMATION

SUPERVISORY BOARD

Dr Achim Kann
Honorary Chairman
Chairman of the Management Board of GLOBALE Pensions- und Service-gesellschaft, Cologne;
Retired Managing Director

MEMBERS ELECTED BY THE MEMBERS' MEETING:

Dr Peter Lütke-Bornefeld
Chairman
Retired Chairman of the Board of Directors of General Reinsurance AG, Cologne
Chairman of the Supervisory Board of MLP SE, Wiesloch

Fritz-Klaus Lange (Solicitor)
Deputy Chairman
Chairman of the Management Board of Gegenbauer Holding SE & Co. KG, Berlin
Managing Partner and Chairman of the Management Board of RGM Holding GmbH, Dortmund

Robert Baresel MBA
Retired Chairman of the Board of Directors of LVM,
Landwirtschaftlicher Versicherungsverein Münster a.G., Münster

Dr Thomas Birtel
Chairman of the Management Board of STRABAG SE, Vienna/Austria;
Chairman of the Supervisory Board of STRABAG AG, Cologne;
Chairman of the Supervisory Board of Ed. Züblin AG, Stuttgart;

Professor Dr Gerd Geib
Auditor, Tax Consultant, Kerpen

Dr Bernd Thiemann
Retired Chairman of the Board of Directors of DG Bank
Deutsche Genossenschaftsbank AG, Frankfurt am Main

BOARD OF DIRECTORS

Uwe H. Reuter
Chairman
Hanover

Frank Hilbert
Business unit HL,
Hanover

Peter Rainer
Finance,
Großburgwedel

Bernd Scharrer (from 1 May 2018)
Operations/IT,
Ottobrunn

Ulrich Schneider
Investments,
Hanover

Sebastian Stark (from 1 January 2019)
Risk & Solvency,
Hanover

Thomas Voigt
Business unit VHV Allgemeine,
Wedemark

Dr Christian Bielefeld (until 30 September 2018)
Operations/IT (until 30 April 2018),
Digitalisation/Transformation (until 30 September 2018),
Recklinghausen

LIST OF SHARE OWNERSHIP PURSUANT TO SECTION 285 NO. 11 AND SECTION 313 ARTICLE 2 HGB OF VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a.G. AS AT 31 DECEMBER 2018

Name of the company	Share of the capital	Equity EUR'000	Net profit for the year EUR'000*)
A. German companies			
VHV Holding AG, Hanover	100.00 %	1,299,590	155,020
VHV Allgemeine Versicherung AG, Hanover	100.00 %	730,454	Profit transfer
Hannoversche Lebensversicherung AG, Hanover	100.00 %	281,265	15,000
WAVE Management AG, Hanover	100.00 %	6,000	Profit transfer
VHV Vermögensanlage AG, Hanover	100.00 %	5,700	3,761
Securess Finanzhaus AG i.L., Essen[1) 5)]	100.00 %	4,400	0
VHV solutions GmbH, Hanover	100.00 %	3,589	193
VHV Dienstleistungen GmbH, Hanover	100.00 %	1,124	15
Securess Versicherungsmakler GmbH, Essen	100.00 %	778	3
Hannoversche-Consult GmbH, Hanover	100.00 %	53	Profit transfer
digital broking GmbH, Hanover (formerly: Rhein-Ruhr-Vermögensverwaltungsgesellschaft mbH, Hanover)	100.00 %	32	3
Hannoversche Direktvertriebs-GmbH, Hanover	100.00 %	25	Profit transfer
Securess Mehrfachagentur GmbH, Essen[1)]	100.00 %	25	Profit transfer
VVH Versicherungsvermittlung Hannover GmbH, Hanover	100.00 %	25	Profit transfer
Detectino GmbH i.L., Hanover[1) 6)]	100.00 %	21	0
Elvaston Capital Fund II GmbH & Co. KG, Berlin[1) 5)]	89.60 %	28,120	33,489
Ferrum Holding GmbH & Co. KG, Düsseldorf[1) 5)]	86.87 %	3,506	447
Adveq Opportunity II Zweite GmbH, Frankfurt am Main[1) 5)]	51.72 %	26,950	3,726
insuremis GmbH, Ismaning[2)]	50.00 %	97	–1
Adveq Europe IV B Erste GmbH, Frankfurt am Main[3) 5)]	45.46 %	53,819	6,873
Neue Rechtsschutz-Versicherungsgesellschaft AG, Mannheim[2)]	34.02 %	22,977	671
ESB GmbH, Coburg	18.32 %	343,782	49,813
Pensionskasse der VHV-Versicherungen, Hanover	–	9,206	4,703
B. Foreign companies			
WAVE Private Equity SICAV-SIF, Luxembourg[4)]	100.00 %	989,439	66,734
VAV Versicherungs-Aktiengesellschaft, Vienna/Austria	100.00 %	23,179	3,103
VHV Reasürans A.Ş., Istanbul/Turkey[7)]	100.00 %	16,282	3,681
ASSBAU E.W.I.V., Brussels/Belgium[3) 5)]	33.33 %	72	–2
Deutsche Rückversicherung Schweiz AG, Zurich/Switzerland[2) 5) 8)]	25.00 %	159,028	30

*) Net loss for the year = –
1) Not fully consolidated due to subordinate importance
2) Measured according to the equity method
3) Not measured according to the equity method due to subordinate importance
4) Figures according to revaluation in accordance with HGB
5) Data according to the annual report as at 31 December 2017
6) Data according to the final liquidation account as at 17 October 2017
7) The exchange rate used as at 31 December 2018 was: EUR 1 = TRY 6.0588
8) The exchange rate used as at 31 December 2018 was: EUR 1 = CHF 1.1269

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

The liabilities under surety bonds issued for loan and surety insurance amounted to EUR 9,418.6 million as at 31 December 2018 (previous year: EUR 8,591.8 million).

In accordance with sections 124 ff. of the VAG, HL is a member of the guarantee fund for life insurance companies. On the basis of the Guarantee Fund Financing Ordinance (Life), the guarantee fund levies annual contributions of a maximum of 0.2 ‰ of the total net technical reserves, until guarantee assets of 1.0 ‰ of total net technical reserves are created. As in the previous year, there are no future obligations arising from this for HL.

The guarantee fund can also charge special premiums in the amount of an additional 1.0 ‰ of the total net technical reserves; this corresponds to an obligation of EUR 8.4 million (previous year: EUR 7.9 million).

In addition, HL has undertaken to provide funds to the guarantee fund or alternatively to the company Protektor Lebensversicherungs-AG if the funds in the guarantee fund are not sufficient in the event of necessary restructuring. This obligation amounts to 1.0 % of the total net technical reserves, taking into account those premiums already paid to the guarantee fund at this time. Including the aforementioned payment obligations arising from the payment of premiums to the guarantee fund, the total obligation amounts to EUR 75.3 million as at 31 December 2018 (previous year: EUR 71.1 million).

VHV Allgemeine issued a letter of comfort to its wholly owned subsidiary VHV Re, ensuring that VHV Re can fulfil its contractual obligations. As things stand, we consider it extremely unlikely that the letter of comfort will be utilised.

As a member of the Pharma-Rückversicherungs-Gemeinschaft, VHV Allgemeine has undertaken – in the event that one of the other members of the pool cannot meet its own obligations – to assume this member’s liabilities in the context of a proportionate participation. VHV Allgemeine has undertaken similar obligations in the context of its membership in the Deutsche Kernreaktor-Versicherungsgemeinschaft.

This company is a member of the registered association “Verkehrsopferhilfe e.V.”. Due to this membership, VHV Allgemeine is obligated to provide this association with the necessary resources to fulfil its purpose proportionate to its share in the premium revenues generated by the member companies from direct-written motor vehicle liability insurance transactions in the respective calendar year before last.

In the case of the pension benefits, reinsurance policies written for the purpose of safeguarding against insolvency were pledged in favour of beneficiaries in the amount of EUR 75.4 million (previous year: EUR 68.0 million).

In the context of the statutory collateralisation of partial retirement obligations, investment fund shares with a carrying amount of EUR 0.3 million (previous year: EUR 0.2 million) were pledged in favour of employees.

The risk of utilisation from the contingent liabilities listed above is considered extremely low.

The financial obligations from approved mortgage, land charge and annuity charge receivables amount to EUR 84.0 million (previous year: EUR 75.4 million).

There are future payment obligations of EUR 28.7 million (previous year: EUR 26.3 million) arising from partially long-term lease and rent contracts.

The Group’s other financial obligations total a maximum of EUR 1,661.8 million (previous year: EUR 1,684.6 million) and are described below:

From investments in the PE segment, payment obligations in the amount of EUR 1,361.4 million (previous year: EUR 1,308.7 million) remain.

There are payment obligations from investments in property funds in the amount of EUR 150.4 million (previous year: EUR 225.9 million).

Investments in multi-tranches of EUR 50.0 million result in potential put options of an issuer amounting to no more than EUR 150.0 million in the years 2022 to 2024.

There are no other contingent liabilities that are not already apparent in the balance sheet and the notes/comments. Also, there are no further guarantees or obligations arising from bills of exchange.

ANNUAL AVERAGE NUMBER OF EMPLOYEES

The average number of employees of the companies included in the consolidated financial statements in the 2018 financial year amounted to 3,182 persons, of whom 3,003 are employed in Germany and 179 internationally. There were also 65 apprenticeship contracts in Germany on average for the year.

The consolidated personnel expenses amounted to EUR 291.7 million in 2018. EUR 234.7 million of this was attributable to wages and salaries, EUR 37.4 million to social security costs and EUR 19.6 million to pensions.

TOTAL REMUNERATION OF THE SUPERVISORY BOARD AND BOARD OF DIRECTORS

The total remuneration for members of the Supervisory Board amounted to EUR 1.3 million; for members of the Board of Directors, EUR 7.4 million; and for former members of the Board of Directors and/or their survivors, EUR 1.3 million.

The pension reserve set aside for former members of the Board of Directors and their survivors' amounts to EUR 22.2 million as at the balance sheet closing date.

AUDITORS' FEES

The expenses for the auditors of the consolidated financial statements incurred in 2018 break down as follows:

Expenses for the audit of the annual financial statements:
EUR 0.7 million; other certification services: EUR 0.3 million; other services: EUR 0.1 million.

Hanover, 8 March 2019

THE BOARD OF DIRECTORS

Reuter	Hilbert	Rainer
Scharrer	Schneider	
Stark	Voigt	

INDEPENDENT AUDITOR'S REPORT

To VHV Vereinigte Hannoversche Versicherung a.G.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Opinions
We have audited the consolidated financial statements of VHV Vereinigte Hannoversche Versicherung a.G. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January 2018 to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of VHV Vereinigte Hannoversche Versicherung a.G. for the financial year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the group non-financial statement contained in the "Non-financial statement" section of the group management report.

In our opinion, based on the findings of the audit:

- the accompanying consolidated financial statements comply, in all material respects, with the requirements of German law applicable to insurance companies and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2018 and of its financial performance for the financial year from 1 January 2018 to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the group non-financial statement referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB ["Handelsgesetzbuch": German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group status report.

Basis for the opinions
We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the Group companies in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

VALUATION OF CERTAIN CAPITAL INVESTMENTS AND IDENTIFICATION OF ANTICIPATED LONG-TERM REDUCTIONS IN VALUE OF CAPITAL INVESTMENTS TREATED AS NON-CURRENT ASSETS

Reasons why the matter was determined to be a key audit matter:
The VHV Group's investment portfolio includes non-listed capital investments, which primarily comprise registered debentures, promissory note loans and mortgage loans. They are valued in accordance

with the provisions applicable to non-current assets pursuant to Sec. 341b (1) Sentence 2 HGB and Sec. 341c (1) HGB in conjunction with Sec. 253 (3) HGB. They are therefore recognised either at nominal value or amortised cost or — in the event of an anticipated long-term reduction in value — at the lower fair value.

The fair values of registered debentures, promissory note loans and mortgage loans are calculated using financial valuation models, as there are no observable prices on an active market. The valuation is performed by deriving relevant factors (in particular, yield curves and spreads) from the parameters observable on the market and includes estimates and assumptions.

Furthermore, the Group's Board of Directors exercises discretion when assessing whether there is an anticipated long-term reduction in value of both listed and non-listed capital investments, provided they are treated as non-current assets. In addition to the registered debentures, promissory note loans and mortgage loans, this also relates to shares in investments, bearer bonds and other securities with fixed interest rates, which were classified as non-current assets by the Group's Board of Directors in accordance with Sec. 341b (2) HGB.

Due to the above-mentioned estimates and assumptions as well as the discretion used in deriving parameters relevant for the valuation and the sensitivity of the valuation of registered debentures, promissory note loans and mortgage loans to these parameters (in particular, yield curves and spreads), there is in principle an elevated risk that the fair values are calculated incorrectly. This also results in the risk of an anticipated long-term reduction in value not being identified and a necessary write-down or reversal not being made. This is a key audit matter because the capital investments treated as non-current assets also make up a significant proportion of the Group's total investment portfolio. Moreover, discretion is used to identify an anticipated long-term reduction in value and there is therefore a significant risk of material misstatements in the consolidated financial statements.

Auditor's response:
Taking the above-mentioned risks into account, we essentially performed our audit of the valuation of certain capital investments and the identification of anticipated long-term reductions in value of capital investments treated as non-current assets as follows:

- We looked at the processes set up by the VHV Group to value non-listed capital investments and to identify anticipated long-term reductions in value of capital investments treated as non-current assets. In this regard, we assessed the material internal controls implemented within these processes by tracking and testing their operating effectiveness at measuring non-listed capital investments as well as identifying and assessing an anticipated long-term reduction in value.
- We investigated whether the models and methods underlying the financial valuation of registered debentures, promissory note loans and mortgage loans are appropriate.
- In addition, we assessed whether the material parameters relevant for the valuation (yield curves and spreads) derived by the VHV Group from variables observable on the market are appropriate for the valuation of registered debentures, promissory note loans and mortgage loans.
- Using a deliberate sample, we performed our own calculations of fair values and compared these to the VHV Group's valuations.
- In addition, we assessed whether the criteria defined by the VHV Group for the identification of anticipated long-term reduction in value complies with the IDW's professional standards.
- For a risk-oriented sample of capital investments treated as non-current assets with hidden losses, we also examined whether the criteria were properly applied. In this regard, we critically evaluated the Board of Directors' estimate of the default risk as well as the longevity of the reductions in value and their accounting consequences.
- In connection with the valuation of non-listed capital investments, we involved the component auditors of individual Group companies. For this purpose, we sent audit instructions to the component auditors in which we stipulated requirements for risk classification and the audit approach, especially with regard to the valuation of non-listed capital investments. In addition, we critically reviewed the report received from the component auditors.

As part of our audit, we deployed our own specialists with knowledge of financial mathematics.

Our audit procedures did not lead to any reservations regarding the valuation of non-listed capital investments and the identification of anticipated long-term reductions in value of capital investments treated as non-current assets.

INDEPENDENT AUDITOR'S REPORT

Reference to related disclosures:
The disclosures on the valuation of non-listed capital investments (including registered debentures, promissory note loans and mortgage loans) and on the identification of anticipated long-term reductions in value of capital investments treated as non-current assets are included in the "Accounting, valuation and calculation methods" section of the notes to the consolidated financial statements.

VALUATION OF GROSS ACTUARIAL RESERVE IN THE LIFE INSURANCE BUSINESS

Reasons why the matter was determined to be a key audit matter:
The gross actuarial reserve in the life insurance business is predominantly calculated on the basis of the prospective method in accordance with Sec. 341f HGB and Sec. 25 RechVersV [Versicherungsunternehmens-Rechnungslegungsverordnung: German Insurance Companies Accounts Regulations] (cash value of future benefits less cash value of future premiums). Gross actuarial reserves are calculated depending on the tariff.

For the calculation of the gross actuarial reserve, requirements of German commercial law and supervisory law requirements as well as derived assumptions specific to the company are to be taken into account. These primarily include assumptions on biometrics (e.g., mortality/longevity, occupational disability), on the exercise of policy holder options (cancellation and lump sum options), on costs and on interest on insurance obligations. These are based firstly on the tariff calculation bases of the premium calculation and secondly on current calculation bases. The latter can arise from legal provisions, such as the reference interest rate in accordance with DeckRV ["Deckungsrückstellungsverordnung": German Benefit Reserve Ordinance] or from publications by the German Association of Actuaries (DAV), such as a more up-to-date mortality table for longevity risks. Company-specific assumptions are also included, such as the probability of cancellation and lump sum options or biometric assumptions that deviate from the tables published by DAV.

In particular, insurance companies also have to consider interest rate obligations to policy holders when creating the gross actuarial reserve, unless the current or expected income from the company's assets is sufficient to cover these obligations ("additional interest rate reserves" or "interest rate increases"). These are reported as part of the gross actuarial reserve.

When calculating the additional interest rate reserve and interest rate increases, the VHV Group partially exercises the option of BaFin ["Bundesanstalt für Finanzdienstleistungsaufsicht": German Federal Financial Supervisory Authority] circular "Notes on calculation of the additional interest rate reserve for the new portfolio and allocation to interest rate increases for the old portfolio" from 5 October 2016 (VA 26-FR 3208-2015/0001). In this context, the VHV Group recognises probabilities of cancellation and lump sum options, the determination of which involves discretion and estimation. In addition, biometric calculation bases with reduced security margins are used that are based on developments in the VHV Group's portfolio observable over several years and that also includes room for discretion.

We consider the valuation of the gross actuarial reserve in the life insurance business a key audit matter because it accounts for a significant share of the balance sheet total and because of the discretion and estimates used to calculate the probability of cancellation and lump sum options for the additional interest rate reserve or interest rate increases and in the more up-to-date biometric calculation bases.

Auditor's response:
Taking the above-mentioned risks into account, we essentially performed the audit of the gross actuarial reserve in the life insurance business as follows:

- Firstly, we recorded the process of calculating the actuarial reserve and assessed the operating effectiveness of the material controls in this process with regard to the completeness and correctness of the portfolio and the appropriateness of the valuation.
- We then analysed the actuarial reserve via a projection based on the sources of profit over the past years and the current portfolio development and compared this analysis with the values entered in the balance sheet. In addition, we examined the development of the actuarial reserve via key figures and time series analysis.
- Moreover, we recalculated the standard actuarial reserve and the additional interest rate reserve/interest rate increases for sub-portfolios or contracts selected on the basis of risk and compared the results to the VHV Group's calculations.
- To assess the appropriateness and replicability of the probabilities of cancellation and lump sum options as well as the more up-to-date company-specific biometric assumptions (relief) for the calculation of the additional interest rate reserve and interest rate increases, we critically evaluated the derivation on the basis of historical and

current portfolio development, sources of profit and the VHV Group's expectations of the future behaviour of policy holders. In our assessment of the appropriateness of the calculation bases used, we also made particular use of the recommendations and publications of DAV and BaFin. In this context, we critically reviewed the explanatory report and the appropriateness report of the life insurers' assigned actuary and the results of the annual forecast calculation in accordance with BaFin requirements to determine whether all risks were accounted for in the valuation of the actuarial reserve with regard to the appropriateness of the calculation bases and the ability to satisfy insurance policies in the long term.

As part of our audit, we deployed our own specialists with knowledge of actuarial mathematics.

Our audit procedures did not lead to any reservations regarding the valuation of the gross actuarial reserve in the life insurance business.

Reference to related disclosures:
The disclosures on the principles for the valuation of the gross actuarial reserve in the life insurance business and the probabilities of cancellation and lump sum options and biometric assumptions contained therein are included in the "Accounting, valuation and calculation methods" section of the notes to the consolidated financial statements.

VALUATION OF THE GROSS RESERVE FOR INSURANCE CLAIMS NOT YET PROCESSED IN THE DIRECT-WRITTEN PROPERTY-CASUALTY INSURANCE BUSINESS

Reasons why the matter was determined to be a key audit matter
The gross reserve for insurance claims not yet processed in the property-casualty insurance business reported in the VHV Group's consolidated financial statements is primarily divided into gross reserves for partial losses for known claims and incurred but not reported (IBNR) claims, the valuation of which is guided by the provisions of Sec. 341g HGB.

The gross reserve for partial losses for known claims is valued individually per claim at the amount of the expected expenditure and is based on the knowledge and information as at the closing date and the VHV Group's history of similar claims.

The VHV Group determines the gross reserve for partial losses for IBNR claims predominantly using actuarial procedures on the basis of historical data (claim numbers and claim averages), the current portfolio development and observations of claim reports in the financial year.

The expected expenses for insurance claims for both reserves for partial losses are estimated in accordance with the principle of prudence under Sec. 341e (1) Sentence 1 HGB.

Due to the required estimates and assumptions, there are uncertainties in the valuation of the two gross reserves for partial losses and thus room for discretion. This particularly relates to the gross reserve for partial losses for known claims in the liability segments due to the relatively long settlement period and the gross reserve for partial losses for IBNR claims. There is therefore a risk that the gross reserve for insurance claims not yet processed as a whole and in the individual insurance segments (especially in the liability segments) is not sufficient. In addition, the gross reserve for insurance claims not yet processed makes up a relatively large share of the balance sheet total. This is therefore a key audit matter.

Auditor's response
Taking the above-mentioned risks into account, we largely performed our audit of the gross reserve for insurance claims not yet processed in the property-casualty insurance business as follows:

- We examined the procedures for processing claims and calculating the gross reserve for insurance claims not yet processed by tracking the processing of individual claims from the claim report to recognition on the balance sheet. In this regard, we tested and assessed the appropriateness and operating effectiveness of the material internal controls implemented within these processes.
- In addition, we evaluated the appropriateness of the (actuarial) models and methods applied in the valuation of gross reserves for partial losses for known and IBNR claims for the valuation of the respective gross reserve and the replicability of the parameters used.
- Furthermore, by way of a deliberately sample of individual known claims for various insurance segments (especially the liability segments) and types on the basis of the claim file, we examined whether the respective reserves were sufficient at the balance sheet closing date given the information and knowledge available.

INDEPENDENT AUDITOR'S REPORT

- With regard to whether the gross reserve for insurance claims not yet processed as a whole is sufficient, we carried out our own claim projections for the three largest insurance segments and types on the basis of mathematical-statistical methods. We compared our best estimate with the recognised gross reserve for insurance claims not yet processed and thus assessed whether the reserve as a whole is sufficient.
- Furthermore, we assessed whether the gross reserve for insurance claims not yet processed in previous years was sufficient according to current knowledge to cover the actual claims incurred and thus to obtain indications of the appropriateness of past estimates ("target/actual comparison").
- The subject of the audit of the calculation of the reserve for partial losses for IBNR claims was the replicable derivation of the parameters used by the VHV Group to estimate the reserve for late claims in the financial year (especially the number of claims and average amount claimed).
- In connection with the valuation of the reserves for insurance claims not yet processed, we involved the component auditors of individual Group companies. For this purpose, we sent audit instructions to the component auditors in which we stipulated requirements for risk classification and the audit approach, especially with regard to the valuation of reserves for insurance claims not yet processed. In addition, we critically reviewed the report received from the component auditors.

As part of our audit, we deployed our own specialists with knowledge of actuarial mathematics.

Our audit procedures did not lead to any reservations regarding the valuation of the gross reserve for insurance claims not yet processed in the property-casualty insurance business.

Reference to related disclosures
The disclosures on the valuation of the gross reserve for insurance claims not yet processed in the property-casualty insurance business are included in the "Accounting, valuation and calculation methods" section of the notes to the consolidated financial statements.

Other information
The executive directors are responsible for the other information. Other information includes:

- the Board of Directors' report on business performance in the preface to the annual report,
- the key figures stated in the preface to the annual report,
- the Group non-financial statement included in the "Non-financial statement" section of the group management report, and
- the report of the Supervisory Board.

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

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report
The executive directors are responsible for the preparation of consolidated financial statements that comply, in all material respects, with the requirements of German law applicable to insurance companies, and that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

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

Auditor's responsibilities for the audit of the consolidated financial statements and of 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 due to fraud or error, and whether the group management report as a whole provides an appropriate 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 German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits 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 the 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) 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 opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting 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 related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective 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 whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities,

INDEPENDENT AUDITOR'S REPORT

financial position and financial performance of the Group in compliance with the applicable German legal requirements.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express 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 it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors 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 opinion on the prospective information and on the assumptions used as a basis. 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 significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Other disclosures in accordance with Article 10 of the EU Audit Regulation
Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the Supervisory Board on 16 May 2018. The Supervisory Board engaged us by letter dated 17 July 2018. We were engaged as the group auditor of VHV Vereinigte Hannoversche Versicherung a.G. for the first time in the 2018 financial year.

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

In addition to the financial statement audit, we have provided to the company or entities controlled by it the following services that are not disclosed in the consolidated financial statements or in the group management report:

- A voluntary audit of financial statements
- Voluntary reviews of regulatory reports
- Attestation services for statutory reports to third parties
- Project-related attestation services in connection with IT projects of the company and its affiliated companies
- Project-related quality assurance regarding the implementation of new accounting standards
- Support for the execution of an internal project

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Dr. Markus Horstkötter.

Hanover, 28 March 2019

ERNST & YOUNG GMBH
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Dr Horstkötter	Henkel
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

REPORT OF THE SUPERVISORY BOARD VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a.G. / Group

In 2018, the Supervisory Board performed the tasks incumbent upon it by law and the articles of association, and monitored and advised the management of the company on an ongoing basis.

The Board of Directors reported to the Supervisory Board on a regular basis, promptly and comprehensively regarding performance, the position of the affiliates and of the participating interests, basic issues of company governance, corporate planning, the risk situation, and regarding the Group's intended business policy. The Chairman of the Supervisory Board was in constant contact with the Chairman of the Board of Directors, and was reported to continuously and immediately regarding all transactions of particular importance in the Group. He engaged in regular work discussion with the Chairman of the Board of Directors in the interests of constant exchange of information and opinions between the Supervisory Board and the Board of Directors.

The Supervisory Board met four times during the last financial year. Key policy issues, individual issues, the strategies of the affiliates, and the economic situation including the risk situation and risk management, were the subject matter of these meetings.

MAJOR FOCAL ISSUES

Development of the Group

The Board of Directors reported in the meetings on an ongoing basis regarding the technical development in insurance companies and the development of the other affiliated companies of VHV a.G. The developments in the major segments of property-casualty insurance transactions and in life insurance were explained by the Board of Directors.

Investment situation

The Board of Directors reported to the Supervisory Board on an ongoing basis at its meetings regarding the development of investments at VHV Group companies.

Other key issues

- Status of the IT and digitalisation projects
- Status of international activities in France, Italy and Turkey
- Value performance of material participations
- Financing options for strategic initiatives
- Growth initiatives of VHV Allgemeine and HL
- Qualitative and quantitative cornerstones of corporate planning for 2019

CHANGES IN THE BOARD OF DIRECTORS

Bernd Scharrer was appointed to the Board of Directors as Operations and Chief Digital Officer from 1 May 2018, succeeding Dr Bielefeld, who left the company as at 1 October 2018.

The Supervisory Board thanks Dr Bielefeld for his work.

Sebastian Stark was appointed to the Board of Directors of VHV a.G. as the member responsible for Risk & Solvency from 1 January 2019.

AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements and consolidated management report for the financial year from 1 January to 31 December 2018, including the accounting system, were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft and issued with an unrestricted audit opinion. The Audit Committee of the Supervisory Board of VHV a.G. discussed and reviewed the consolidated financial statements and the consolidated management report for 2018, including the non-financial statement. The auditor and the Board of Directors took part in this meeting. No objections were raised. The Committee reported the results to the Supervisory Board. The consolidated financial statements prepared by the Board of Directors were approved by the Supervisory Board at its meeting on 8 May 2019.

Hanover, 8 May 2019

THE SUPERVISORY BOARD

Dr Lütke-Bornefeld Chairman	Lange Deputy Chairman	Baresel
Dr Birtel	Professor Dr Geib	Dr Thiemann

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