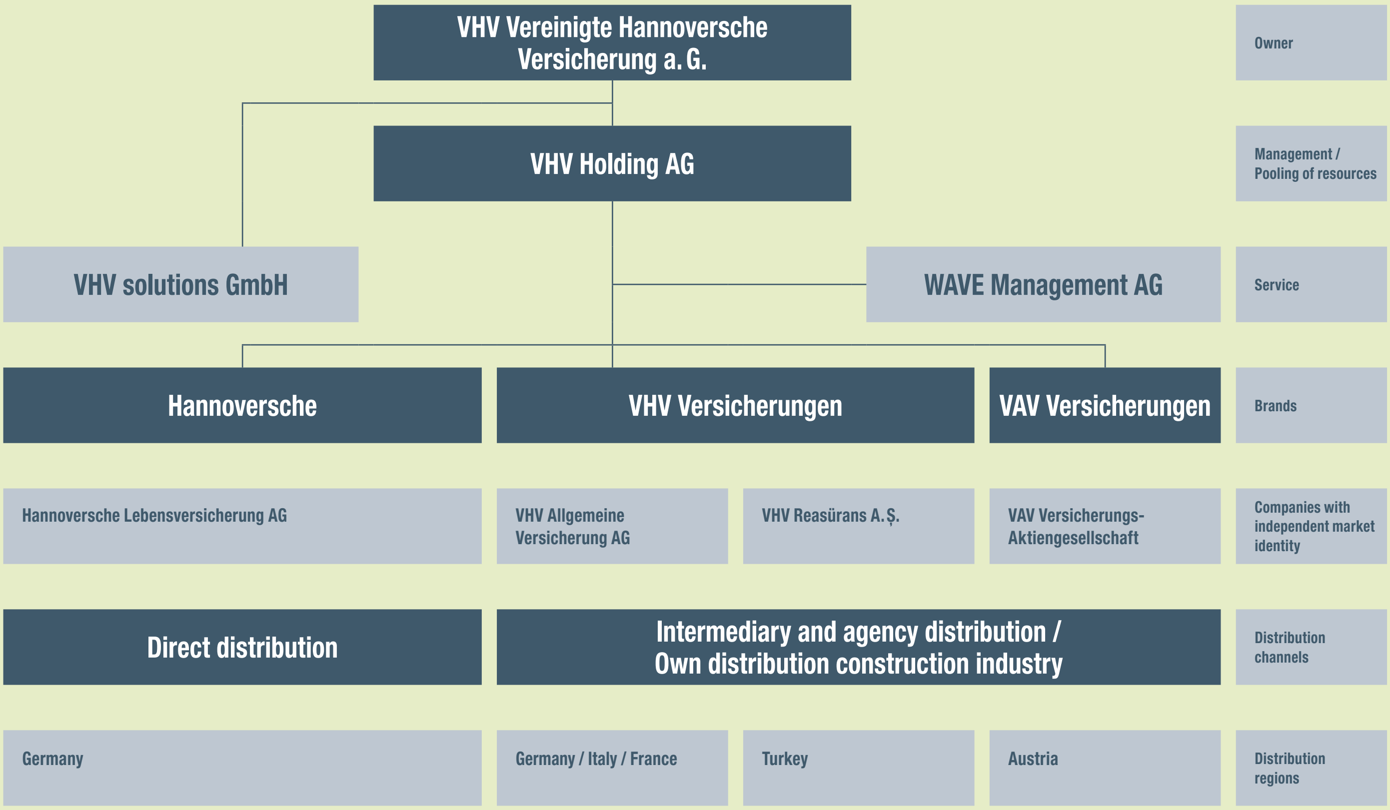
ANNUAL REPORT 2017

VHV GROUP

GROUP STRUCTURE

KEY COMPANIES AS AT 31 DECEMBER 2017



ANNUAL REPORT 2017

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
AGV	Arbeitgeberverband der Versicherungsunternehmen in Deutschland e. V.
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 6 May 1996
DSMS	Data protection management system
ECB	European Central Bank, Frankfurt am Main
EEC	European Economic Community
EGHGB	Introductory Act to the German Commercial Code
EStG	Income Tax Act
EU-GDPR	European General Data Protection Regulation
EuGH	European Court of Justice, Luxembourg
Fed	Federal Reserve System
GDP	Gross domestic product
GDV	Overall Association of German Insurance Companies, Berlin
HD	Hannoversche Direktversicherung AG, Hanover
HGB	German Commercial Code
HL	Hannoversche Lebensversicherung AG, Hanover
ICS	Internal control system
IDD	Insurance Distribution Directive
IRCF	Independent Risk Controlling Function
ITAS	Instituto Trentino Alto Adige per Assicurazioni società mutua di assicurazioni, Trento/Italy
JARP II	Corsair Finance (Ireland) No. 6 Ltd., Dublin/Ireland
KfW	Kreditanstalt für Wiederaufbau, Frankfurt am Main
ORSA	Own Risk and Solvency Assessment
PE	Private Equity
Pensionskasse	Pensionskasse der VHV-Versicherungen, Hanover
PIIGS	Portugal, Italy, Ireland, Greece, Spain
RechVersV	Ordinance on accounting by insurance companies (German Insurance Companies Accounts Regulations – RechVersV)
RfB	Reserves for premium refunds
Securess Versicherungsmakler	Securess Versicherungsmakler GmbH, Essen
VAG	Act on the supervision of insurance companies (Insurance Oversight Act)
VAV	VAV Versicherungs-Aktiengesellschaft, Vienna/Austria
VHV a.G.	VHV Vereinigte Hannoversche Versicherung a. G., Hanover
VHV Allgemeine	VHV Allgemeine Versicherung AG, Hanover
VHV Holding	VHV Holding AG, Hanover
VHV Group	VHV Vereinigte Hannoversche Versicherung a. G./Group, 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 – also known as the guaranteed 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.

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.

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).

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 expenses 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 ist expressed as a percentage.

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

*) 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.

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
Actuarial 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.

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.

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 consumtion. 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.

GLOSSARY

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-actuarial 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 opf 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 actuarial risk and which a (primary) insurance company concludes with another insurance company.

Reserve for insurance claims not yet processed
This is an actuarial 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 an actuarial 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 the potential risk cover exceeds 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 the potential risk cover.

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
In accordance with Directive 2009/138/EC, Solvency II introduced enhanced solvency requirements for insurers based on a comprehensive risk assessment, thereby establishing new regulations for the valuation of assets and liabilities that are to be recognised at fair value.

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

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

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. An actuarial 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.

Z

Zillmerisation
Zillmerisation is an actuarial method where incurred transaction costs that have not yet been repaid in life insurance are taken into account. A zillmerised rate means that actuarial reserves are either very low or even negative in the first few insurance years.

CONSOLIDATED MANAGEMENT REPORT VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

As group parent company, VHV a.G. hereby presents the consolidated financial statements and the Group management report dated 31 December 2017.

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 Rückversicherungen" brand in Turkey.

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 an attractive price.

In 2017, to be optimally prepared for future challenges in property-casualty insurance, **Hannoversche Direktversicherung AG** was merged into VHV Allgemeine effective from 1 January 2017 in accordance with the merger agreement as at 25 July 2017.

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 low prices have always been Hannoversche's strategy and the basis of its success.

VAV Versicherungen is the successful property-casualty insurer on the Austrian market. VAV sells its products via independent intermediaries and has a high profile as a construction insurer and major 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 manages the VHV Group's investments. WAVE is distinguished by excellent expertise in stability- and security-oriented investment.

VHV Reasürans A.Ş conducts facultative reinsurance business in Turkey.

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 resinsurance coverage

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

2. In life insurance:

INDIVIDUAL CAPITAL INSURANCE (PARTLY WITH INDEX-LINKED INCREASES)
Endowment insurance
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 (PARTLY WITH INDEX-LINKED INCREASES)
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 (PARTLY WITH INDEX-LINKED INCREASES)
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 (WITH INDEX-LINKED INCREASES)
Deferred fund-linked annuity insurance with guaranteed protection in case of death
CAPITALISATION TRANSACTIONS
INSURANCES FOR INCOME GUARANTEES
Occupational disability insurance for exemption from premium payment and payment of an annuity at the time the occupational disability occurs
Occupational disability insurance for exemption from premium payment and payment of an annuity at the time the occupational disability 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 and payment of an annuity at the time the occupational disability occurs, as Comfort supplementary occupational disability insurance and Comfort supplementary occupational disability insurance Plus
Supplementary occupational disability insurance for exemption from premium payment at the time the occupational disability occurs
Supplementary occupational disability insurance for exemption from premium payment and payment of an annuity 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

2017 was characterised by increasing economic momentum. Global growth was not only steady, it was also synchronous in developed and emerging economies. In 2017, the USA posted GDP growth of 2.2 %, while the euro area also reported an identical growth contribution of 2.2 %. The economic output in Germany in 2017 of 2.2 % was the average for the euro area. The economic upswing was largely based in the euro area. By contrast, the two economically important countries France and Italy, with growth rates of 1.6 % and 1.5 % respectively fell short of the average of the European Monetary Union. The two leading Asian economies, Japan and China, saw GDP growth of 1.6 % and 6.8 % respectively.

Although the downward spiral of previous years seems to have been overcome with regard to the development of inflation, the inflation target of central banks were not achieved either in 2017. The euro area reported an inflation rate of 1.5 % for 2017. The US inflation rate was 2.0 %. The increases year on year were primarily due to the higher energy costs.

In the reporting year, the monetary policy of the relevant global central banks developed asynchronously. Over the course of the year, the US central bank, the Fed, continued its policy of tightening the monetary policy and increasing the interest rate in three interest rate moves by 75 basis points to 1.5 %. Meanwhile the ECB left the interest rate for the euro area at 0.0 % and the deposit rate at –0.4 % respectively. While this decision was expected by the consensus of market participants, the announcement of further continuation of the bond-buying programme until at least the end of 2018 was surprising.

In 2017, the European bond markets were also influenced by low yield levels due to the ECB's ongoing expansive monetary policy. The slight decrease in the monthly volume of ECB bond purchases from April 2017 did not result in any upheavals.

For most of the year, yields of German government bonds tracked sideways with low volatility. At the end of 2017, the yield on 10-year German government bonds of 0.43 % was up 22 basis points compared to the end of 2016 (0.21 %). Government bonds with maturities of up to six years had negative yields at the end of the year.

Among the bond segments, asset classes with credit risk outperformed government bonds again. Driven by good economic conditions and accelerated by bond purchases by the ECB, risk premiums on corporate bonds continued to narrow in this context.

Stock markets developed positively in 2017. The DAX closed the year with an increase of 12.5 %, while the EuroStoxx50 ended up with an price increase of 6.5 %. In 2017, the US indices, Dow Jones and S&P500, posted price increases of 25.0 % and 19.4 % respectively.

The positive trend on the stock market saw a lower than average fluctuation range. At the end of the year, the volatility indices were close to their historic lows.

The euro continued to appreciate again the US dollar starting at USD 1.05 at the beginning of the year and ending the year at USD 1.20.

Insurance sector environment

According to the projection by the German Insurance Association (GDV) from November 2017, premium growth of 2.9 % and an increase in business-year claims expenses of 3.2 % can be expected in direct property-casualty insurance transactions in Germany in the 2017 financial year. The combined ratio will be around 95 % for the 2017 financial year and thus roughly on a par with the previous year.

As in direct property-casualty insurance transactions in Germany as a whole, the GDV also forecasts emergent growth in premium revenues of 4.1 % and an increase in business-year claims expenses of 3.6 % in motor vehicle insurance. In the 2017 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. A significant reduction in driving is unlikely as a result of the persistently low fuel prices. In comprehensive insurance, following a below-average year for natural hazards in 2016, 2017 is expected to be only slightly below average. Overall, a significant increase in expenses for insurance claims is forecast in the 2017 financial year.

Despite the expected rise in expenses for insurance claims, the GDV says motor vehicle insurance could, like in 2016, close 2017 with a technical gain again, even if it is small.

In property insurance and general liability insurance, the GDV expects an increase in premium revenues of probably 3.0 % and 1.5 % respectively; similarly, premium revenues is expected to remain constant 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 % in premium revenues is assumed for 2017 and a combined ratio of around 69 % is projected.

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 January 2018, the German construction industry and German construction trades are assuming growth in sales of 5.0 % in 2017. As a result, total sales of over EUR 113 billion are expected in the German construction industry. In residential construction, sales are expected to increase by 4.0 % overall. Sales are expected to increase by 6.0 % in commercial construction and by a significant 5.5 % year on year in public sector construction.

According to preliminary figures from the GDV, the life insurance market saw a decline in gross premiums written in 2017. The downward trend in contracts again continued.

Gross premiums written fell by 0.2 % compared with 2016 to EUR 86.6 billion, of which EUR 61.7 billion related to regular premiums (–0.1 %) and EUR 24.9 billion to one-off premiums (–0.3 %). The number of new insurance contracts decreased year on year by 5.2 % to EUR 4.8 million. The regular premiums for one year for these new contracts was EUR 5.1 billion (–4.4 %). One-off premiums paid fell by 1.1 % to EUR 24.6 billion.

Group performance

- Forecast of net income from the previous year significantly exceeded
- Contract and premium growth significantly above market level in the property-casualty segment and in contrast to market level, an increase in expenses for insurance claims in line with expectations.
- Premiums and contract numbers in life insurance higher than in the previous year with significantly higher growth in premiums in new business compared to the previous year
- Much higher growth in earnings on investments than forecast which is attributable to extraordinary effects and other factors.
- Major projects mostly implemented as planned
- “Fitness programme” and digitalisation project “goDigital” in property-casualty and life essentially implemented according to plan.

The Group reported a positive net income for the year of EUR 156.1 million (previous year: EUR 127.8 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 our own account of EUR 60.5 million (previous year: EUR 49.4 million) was achieved. The technical result improved chiefly because of the higher settlement gains from claims reserves in previous years.

The life insurance business closed with a technical result of EUR 38.8 million (previous year: EUR 45.2 million). The decrease in the technical result is primarily attributable to higher interest-induced expenses in the Pensionskasse.

In total, the technical result for our own account amounted to EUR 99.3 million (previous year: EUR 94.6 million).

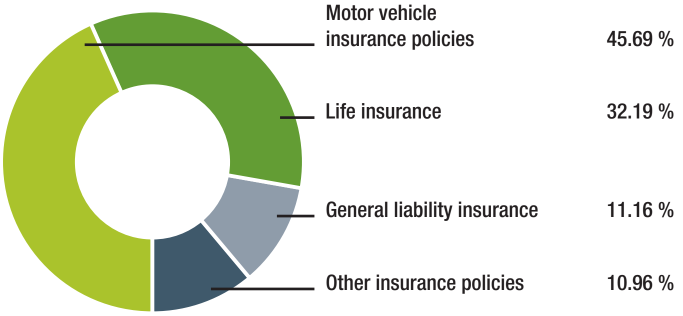
PORTFOLIO DEVELOPMENT FOR DIRECT-WRITTEN INSURANCE TRANSACTIONS

	NUMBER OF CONTRACTS			GROSS PREMIUMS EARNED		
	31.12.2017 Number	31.12.2016 Number	Change	2017 EUR'000	2016 EUR'000	Change
Accident insurance	495,782	442,211	12.1 %	38,433	33,040	16.3 %
Liability insurance	1,511,043	1,469,784	2.8 %	335,217	316,607	5.9 %
Motor vehicle liability insurance	3,058,321	2,922,208	4.7 %	832,136	781,541	6.5 %
Other motor vehicle insurance	2,331,530	2,194,674	6.2 %	539,891	496,853	8.7 %
Fire and property insurance	918,688	893,956	2.8 %	166,569	159,022	4.7 %
of which:						
Associated household contents insurance	450,843	440,553	2.3 %	45,994	43,701	5.2 %
Associated residential building insurance	135,402	133,889	1.1 %	44,519	39,992	11.3 %
Other property insurance	292,830	278,920	5.0 %	63,112	61,974	1.8 %
of which: Technical insurance	62,985	59,595	5.7 %	43,079	40,852	5.5 %
Loan and surety insurance	50,913	49,377	3.1 %	82,357	75,620	8.9 %
Legal expenses insurance	25,446	22,583	12.7 %	2,534	2,188	15.8 %
Transportation service insurance	1,120,298	1,068,902	4.8 %	9,888	8,623	14.7 %
Other insurance policies	59,416	49,727	19.5 %	8,355	6,926	20.6 %
Total property-casualty	**9,571,437**	**9,113,422**	**5.0 %**	**2,015,380**	**1,880,420**	**7.2 %**
Total life insurance	**993,195**	**964,088**	**3.0 %**	**979,280**	**963,657**	**1.6 %**
Total for the VHV Group	**10,564,632**	**10,077,510**	**4.8 %**	**2,994,660**	**2,844,077**	**5.3 %**

RESULTS OF OPERATIONS

Gross premiums earned for the Group amounted to a total of EUR 3,041.9 million (previous year: EUR 2,867.0 million).

PREMIUMS EARNED
(share in %)



Premiums earned of EUR 2,994.0 million (previous year: EUR 2,842.3 million) were generated in direct-written insurance transactions and of EUR 47.9 million (previous year: EUR 24.7 million) in insurance transactions assumed in resinsurance coverage. Including the ceded reinsurance premiums of EUR 135.2 million, the premiums for our own account amounted to EUR 2,906.7 million (previous year: EUR 2,741.8 million). This corresponds to a retention ratio of 95.6 % (previous year: 95.6 %).

Expenses for the Group's insurance operations amounted to 16.4 % of gross premiums earned (previous year: 16.3 %).

The net result from investments amounted to EUR 636.1 million (previous year: EUR 653.9 million), resulting in a net interest of 4.0 % (previous year: 4.3 %).

Current income from investments in the amount of EUR 561.9 million was up 9.7 % on the previous year (EUR 512.3 million). This was due to high one-off distributions from special funds.

Gains from the divestiture of investments fell in comparison to the previous year, from EUR 172.0 million to EUR 106.3 million.

At EUR 1.7 million, losses on the divestiture of investments were EUR 0.6 million higher than in the previous year. Write-downs fell by EUR 2.3 million to EUR 7.9 million.

Appreciation decreased by EUR 0.4 million to EUR 0.3 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 2,062.8 million (previous year: EUR 1,903.7 million). Of this figure, EUR 2,014.9 million was attributable to direct-written insurance transactions and EUR 47.9 million to transactions assumed in reinsurance coverage.

Net premiums earned for own account for the overall business increased by 8.3 % year on year to EUR 1,935.7 million (previous year: EUR 1,786.8 million).

The business-year claims ratio in direct-written insurance transactions increased from 79.8 % in the previous year to 80.5 % in the financial year. The slight increase in the business-year claims ratio was due to a rise in the number of claims and the year-on-year increase in the average claim, but this was within expectations due to a comparatively low business year claims ratio in the previous year. Including the higher settlement result, the reported claims ratio in direct-written insurance transactions nevertheless decreased from 70.9 % in the previous year to 70.0 % in the financial year.

In the financial year, the operating costs ratio of direct-written insurance transactions fell from 21.3 % in the previous year to 20.6 %.

The settlement result increased year on year. At the same time as a decrease in the operating costs ratio, the combined ratio decreased from 92.2 % in the previous year to 90.6 % 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):

Accident insurance
In accident insurance, the number of risks insured increased by 12.1 % year on year to 495,782. In total premiums earned increased by 16.3 % to EUR 38.4 million. The change in the number of contracts and in premiums therefore matched our forecasts.

As previously, the pleasing growth is attributable to the excellent price/performance ratio and the simplified acceptance policy of our accident products. In private accident insurance, our high-performance product continues to be very well received by the market.

The frequency of claims rose by 11.8 %. The business-year claims expenditure increased considerably on account of several major loss events and greater average claim payments. Due to a stronger increase in premiums earned, the business-year claims ratio nevertheless decreased to 82.4 % year on year (previous year: 85.5 %). As a result, the combined ratio fell from 96.1 % in the previous year to 89.6 % in the financial year.

Following an allocation to the equalisation reserve in the amount of EUR 0.8 million (previous year: withdrawel of EUR 0.3 million), a technical result for our own account was recorded of EUR 2.8 million (previous year: EUR 0.9 million), which matched our expectations.

Liability insurance
The number of contracts for liability insurance increased by 2.8 % in comparison with the previous year to 1,511,043. In total premiums earned increased by 5.9 % to EUR 335.2 million.

The business customer base in liability insurance moderately increased in terms of the number of contracts. This development was monitored by improved portfolio stability, which is reflected in a significant decrease in the cancellation rate. The new business figures are below the previous year's figures, in particular due to a strict price and acceptance policy in professional liability insurance. The integration of separate environmental damage insurance contracts into the basic contracts also had a negative impact on this development.

In line with our forecasts, premiums earned in business customer liability insurance continued to develop positively in 2017. The main driving force of this growth in premiums, which is spread over almost all products and target groups, is the stable, good economic situation, in particular the continued positive construction. The associated increase in sales, wage and fee totals has a positive, long-term impact on growth in premiums.

In addition to the effects of economic aspects (increased wage and sales totals), targets portfolio management measures also contributed to the positive growth in premiums. The introduction of a revised product in business liability insurance also had a positive effect.

In personal liability insurance, growth in the number of contracts of 3.1 % was achieved. In the current year, 40,738 contracts were acquired and the portfolio increased to 1,341,270 contracts. There was also a 2.5 % increase in premiums earned to EUR 76.7 million. There was a slight deterioration in the business-year claims ratio in this segment from 49.9 % in the previous year to 51.5 %.

The business-year claims ratio in liability insurance increased by 1.5 percentage points in total to 73.7 % (previous year: 72.3 %). 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 reserves for previous years were strengthened in the financial year, which resulted in corresponding settlement losses. Therefore, the combined ratio decreased only slightly due to a somewhat lower costs ratio from 122.6 % in the previous year to 121.0 % in the financial year.

Following an withdrawel to the equalisation reserve in the amount of EUR 21.9 million (previous year: EUR 21.7 million), a technical result for our own account was recorded of EUR –45.0 million (previous year: EUR –43.6 million), which matched our expectations.

Motor vehicle insurance
The number of insurance contracts in the motor vehicle segment (including motor vehicle accident and transportation service insurance) rose by 5.4 % year on year, considerably outperforming the market.

Premiums earned also significantly increased by 7.4 % to EUR 1,385.6 million. Average premiums thus rose year on year, which exceeded our expectations slightly.

The consistent enhancement of risk selection and claims management again made a significant contribution to profitability in motor vehicle insurance in 2017.

Motor vehicle liability insurance

For motor vehicle liability insurance, the number of insurance contracts increased by 4.7 %. The number of claims reported increased by 4.5 %. Therefore, the change in the claims reported at this point is primarily determined by growth. Premiums earned increased considerably by 6.5 % to EUR 832.1 million (previous year: EUR 781.5 million).

The business-year claims ratio improved slightly from 89.3 % in the previous year to 88.3 % in the financial year due in particular to the claims management measures taken. In combination with a significantly improved settlement result, the combined ratio improved by 3.4 percentage points year on year to 78.6 % (previous year: 82.0 %).

Following an allocation to the equalisation reserve of EUR 51.7 million (previous year: EUR 60.2 million), a technical result for our own account was recorded in the amount of EUR 111.2 million (previous year: EUR 75.7 million). As at 31 December 2017, the equalisation reserve for motor vehicle liability insurance amounted to EUR 377.5 million.

Other motor vehicle insurance

The number of insurance contracts increased considerably by 8.5 % in full motor vehicle insurance and by 2.6 % in partial motor vehicle insurance. Premiums earned in the financial year increased by 8.7 % to EUR 539.9 million. In total, a slight increase in average premiums was seen in comprehensive motor vehicle insurance.

The number of claims reported increased considerably in the financial year by 12.2 % in full motor vehicle insurance and increased only slightly by 3.2 % in partial motor vehicle insurance.

The business-year claims ratio rose from 81.4 % in the previous year to 86.1 % in the financial year. As a result, the combined ratio rose from 95.5 % in the previous year to 99.5 % in the financial year.

An increase in expenses for insurance claims was attributable to claims resulting from natural hazards higher than in the previous year.

Following an allocation to the equalisation reserve in the amount of EUR 3.8 million (previous year: EUR 20.7 million), a technical result for our own account was recorded of EUR –2.5 million (previous year: EUR –2.1 million). The equalisation reserve in other motor vehicle insurance policies amounted to EUR 148.5m as at 31 December 2017.

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 those types of fire and property insurance not listed separately, premiums earned decreased by 4.3 % from EUR 34.5 million in the previous year to EUR 33.0 million during the financial year. The technical result for own account was EUR –7.7 million (previous year: EUR –5.9 million).

The number of insurance contracts in fire and property insurance as a whole, at 24,732, was increased by 2.8 %. Gross premiums earned rose by 4.7 % from EUR 159.0 million in the previous year to EUR 166.6 million in the financial year, which matched our expectations. The business-year claims ratio fell from 66.6 % in the previous year to 63.3 % in the financial year. The combined ratio likewise decreased from 95.1 % in the previous year to 88.0 % in the financial year.

Associated household contents insurance

The number of insurance contracts increased compared to the previous year by 2.3 % to 450,843. The number of contracts in new business was increased. Premiums earned were up 5.2 % from EUR 43.7 million in the previous year to EUR 46.0 million in the financial year. Our expectations thus proved to be correct.

The number of claims increased by 10.1 % in the financial year as a result of storm events. Nevertheless, business-year expenditure decreased by 9.4 % overall. The decline primarily results from a significant decrease in claims from burglary, theft and other natural hazards. In contrast, the increase in the number of storm claims is hardly reflected in expenses due to a lower average expenses for insurance claims. This increased the business-year claims ratio by 6.8 percentage points to 42.3 %.

The combined ratio decreased by 8.1 percentage points to 78.5 % (previous year: 86.6 %).

Following an allocation to the equalisation reserve in the amount of EUR 0.8 million (previous year: withdrawel of EUR 0.2 million), a technical result for our own account was recorded of EUR 6.4 million (previous year: EUR 3.7 million).

Associated residential building insurance
The number of insurance contracts increased by 1.1 % year on year to 135,402. Premiums earned rose by 11.3 % from EUR 40.0 million in the previous year to EUR 44.5 million in the financial year, which exceeded our expectations slightly.

As a result of further targeted portfolio-related measures, the sustainability of the residential building business was improved, the average premium of existing contracts was increased. The new business declined as expected.

The number of business-year claims significantly increased by 56.6 % as a result of storm events. The increase in small-volume storm claims was partly compensated for by a decrease in other natural hazards in business-year claims expenses, thus the business-year claims expenses only increased by 17.1 % in total. The business-year claims ratio amounted to 72.2 % (previous year: 68.6 %).

Despite higher business-year claims, at 100.2 %, the combined ratio remained at the same level as the previous year due to a higher settlement result year on year.

Following an allocation to the equalisation reserve in the amount of EUR 5.2 million (previous year: EUR 5.9 million), a technical result for our own account was recorded of EUR –8.5 million (previous year: EUR –7.3 million).

Technical insurance
The positive development in technical insurance policies was continued in 2017, with insurance contract numbers increasing by 5.7 % year on year to 62,985. This was stimulated by machinery breakdown insurance and construction services insurance.

Premiums earned in the financial year increased by 5.5 % to EUR 43.1 million. The increase in premiums also resulted from the growth in contract numbers, mainly from construction services and machinery insurance. Stationary machinery breakdown insurance had a particularly positive effect. The increase in the number of contracts and premiums matched our expectations.

The business-year claims ratio improved by 4.1 percentage points from 75.7 % in the previous year to 71.6 % in the financial year. Therefore, and due to a settlement result that exceeded expectations, the combined ratio improved considerably from 88.0 % in the previous year to 70.5 % in the financial year.

Following an allocation to the equilisation reserve of EUR 9.1 million (previous year: EUR 5.9 million) a technical result of EUR –0.1 million (previous year: EUR –2.4 million) remained.

Loan and surety insurance
The positive trend in contracts that has been a feature of recent years continued in loan and surety insurance. Here, the insurance segment benefited from growth in the construction industry in the financial year and the good positioning of products tailored to the various areas of the main and ancillary construction trades.

The number of insurance contracts moved up by 3.1 % year on year to 50,913 (previous year: 49,377). Premiums earned increased by 8.9 % to EUR 82.4 million in the financial year (previous year: EUR 75.6 million). The increase in the number of contracts and premiums matches our forecasts from the previous year.

The liability under the guarantees issued during the financial year rose to EUR 2,269.8 million. This corresponds to a year on year increase of 18.5 %.

The business-year claims ratio increased slightly from 26.1 % in the previous year to 29.2 % in the financial year.

Following an allocation to the equalisation reserve in the amount of EUR 8.6 million (previous year: EUR 3.0 million), overall a very good technical result for our own account was recorded of EUR 42.5 million (previous year: EUR 46.0 million).

Transportation service insurance
For transportation service insurance, the number of insurance contracts increased by 4.8 % to 1,120,298. In the process, premiums earned increased by 14.7 % from EUR 8.6 million to EUR 9.9 million mainly because of premium increases. The business-year claims ratio increased slightly from 84.7 % in the previous year to 85.9 % in the financial year.

Taking account of an allocation to the equalisation reserve of EUR 1.6 million (previous year: EUR 1.3 million), a technical result for our own account was recorded in the amount of EUR –1.8 million (previous year: EUR –1.9 million).

Other insurance policies

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

The number of insurance contracts rose by 17.4 % year on year to 84,862 (previous year: 72,310). Premiums earned were up 19.5 % from EUR 9.1 million in the previous year to EUR 10.9 million in the financial year.

In the financial year, a technical result for own account of less than EUR –0.1 million (previous year: EUR –1.0 million) was reported for these types of insurance.

Insurance transactions assumed in resinsurance coverage

In Insurance transactions assumed in resinsurance coverage, which is carried out in the accident, liability, vehicle, fire and property, legal protection, life, air travel, transportation and technical insurance classes, there was a technical result for own account of EUR –32.7 million in 2017 (previous year: EUR –9.9 million). This was essentially due to an allocation to the equalisation reserve of EUR 25.1 million.

PERFORMANCE IN LIFE INSURANCE TRANSACTIONS

The number of newly insurance contracts amounted to 78,275 (previous year: 57,924). 79.1 % or 61,892 of these contracts relate to individual term life (previous year: 49,524).

Overall, premiums from new acquisitions increased from EUR 259.7 million in 2016 to EUR 277.1 million in 2017. EUR 64.0 million of this was attributable to regular premiums and EUR 213.1 million to one-off premiums. Not including capitalisation business, savings products with one-off premiums impacted the portfolio in the amount of EUR 71.0 million. Individual term life policies accounted for 76.9 % of new contracts with regular premiums. EUR 49.3 million of this amount impacted the portfolio (previous year: EUR 39.0 million).

Measured in terms of the sum insured, the insurance portfolio grew by 8.6 % to EUR 95.3 billion (previous year: EUR 87.7 billion). Total new contracts of EUR 12,291.7 million insured (previous year: EUR 8,381.8 million) were partially offset by disposals in the amount of EUR 4,714.8 million insured (previous year: EUR 4,545.5 million). Premature disposal by repurchasing, conversion to non-premium contracts and other premature disposal amounted to a sum insured of EUR 1,162.3 million (previous year: EUR 1,068.5 million).

Measured in terms of the regular premium, the insurance portfolio increased by 2.5 % from EUR 729.4 million to EUR 747.7 million. Contrary to the trend in the market, the insurance portfolio increased by 29,107 contracts from 964,088 contracts to 993,195 contracts.

Gross premiums written increased by 1.8 % from EUR 956.7 million to EUR 974.3 million. The majority of gross premiums related to regular premiums received of EUR 739.9 million (previous year: EUR 724.8 million). Premiums from one-off payments of EUR 234.4 million (previous year: EUR 231.9 million) include premiums from capitalisation transactions of EUR 142.1 million (previous year: EUR 129.8 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 4.1 % in 2017.

Payouts to policy holders for insurance benefits and profit shares decreased from EUR 1,327.5 million to EUR 1,243.2 million in the financial year. Of this amount, EUR 871.3 million was attributable to expirations, annuities, deaths and surrenders and EUR 371.9 to profit balances. HL increased its technical reserves and liabilities for future payments to policy holders by EUR 62.4 million from EUR 10,374.7 million to EUR 10,437.1 million in the financial year.

Unadjusted earnings after taxes amounted to EUR 283.5 million (previous year: EUR 264.9 million). Of this amount, HL allocated EUR 163.8 million to the reserve for premium refunds, and EUR 104.7 million was distributed as direct deposit. EUR 15.0 million was attributable to the net profit for the year (previous year: EUR 13.5 million). The unadjusted earnings after taxes shown were achieved despite further allocations to the additional interest reserve of EUR 138.1 million (previous year: EUR 189.0 million).

PERFORMANCE IN VHV SOLUTIONS

Optimisation of quality and costs in contract and claims processing

Business performance was again characterised by a considerable increase in productivity alongside sinking unit costs, especially with regard to contracts. The positive trend in productivity and unit costs therefore continued. This was mainly due to operational process optimisations and the introduction of a new operating model with regard to contracts. In the claims segment, the trend in average expenses for insurance claims in motor insurance in the motor vehicle liability and partially comprehensive motor vehicle insurance segments were analogous to the market and it outperformed the market in the fully comprehensive insurance segment (market data 10/2017). The lead on the market gained in the last three years was thus secured 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 expenses for insurance claims also developed positively.

As expected, total costs were higher than in the previous year. This was the result of the planned addition of employees. In particular, the pension expenses rose significantly year on year. This is attributable to the adjustment of the actuarial interest rate for pension reserves adopted in the 2016 financial year. In 2017, expenses remained at the same level as in 2015.

Following the successful completion of the “ThinkFIT” programme as at the end of the second quarter, IT focused on the follow-up programme “goDigital” in the financial year as the basis for the digitalisation capability of the VHV Group. The “Test and Release Management” (standardisation of test environments and centralisation of release management) project was integrated into the "goDigital” programme.

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

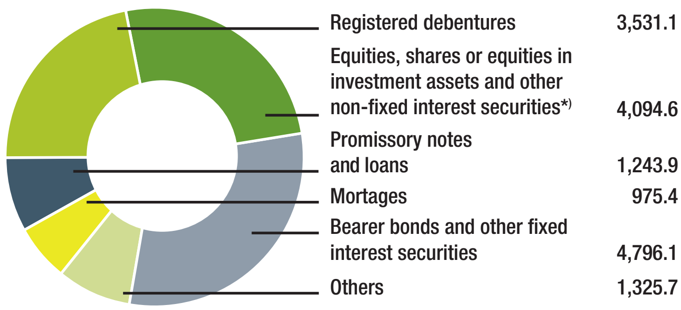
ASSETS

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 3.2 % to EUR 15,966.9 million in the financial year. Gross new investment (not including real property) amounted to EUR 1,786.1 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 8,327.2 (52.2 %). They were followed by equities, shares or equities in investment assets and other non-fixed interest securities at EUR 4,094.6 million (25.6 %) as well as promissory notes and loans at EUR 1,243.9 million (7.8 %).

As at the balance sheet closing date, the asset-backed securities (ABS) portfolio had a carrying amount of EUR 9.6 million. To document the “buy-and-hold” character (long-term investment strategy) of the ABS portfolio, the majority of bearer securities in the ABS portfolio are included in non-current assets.

Overall, depreciation of less than EUR 0.1 million was recognised on ABS securities. At the end of the financial year 2017, the ABS portfolio has net reserves of EUR 1.0 million.

As at 31 December 2017, the Group reported a PE portfolio with a carrying amount of EUR 744.6 million (previous year: EUR 574.2 million). The market value of the private equity investments totalled EUR 1,019.9 million (previous year: EUR 801.9 million). Related to total investments, the private equity share was approximately 4.7 % (previous year: 3.7 %) overall.

In the area of real estate investments, selective additional purchases and sales were made in 2017. As at 31 December 2017, the Group cumulatively held real estate investment units with a carrying amount of EUR 1,063.6 million (previous year: EUR 901.8 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 7,106.8 million (previous year: EUR 6,376.2 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 10.5 million (previous year: EUR 17.4 million) has been avoided.

Funds for indemnification

The Group's funds for indemnification increased by 3.4 % and consist of:

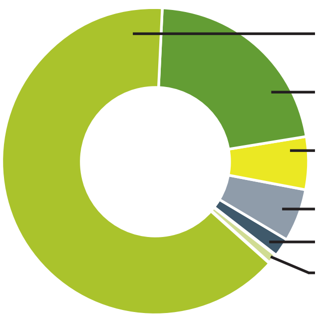
FUNDS FOR INDEMNIFICATION

	2017 EUR million	2016 EUR million
Equity	1,415.4	1,265.9
Net technical reserves	14,277.9	13,912.9
Funds for indemnification for own account	**15,693.3**	**15,178.8**

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 63.6 %, relate to the actuarial reserve.

Of actuarial reserves shown, the majority, at 49.7 %, relate to individual capital insurance policies of the VHV Group's life insurance company. Group insurance policies account for a share of 20.5 %, followed by individual annuity insurance policies with a share of 18.7 % of the total actuarial reserve. To fulfil future interest obligations, the actuarial reserve includes an additional interest rate reserve of EUR 753.2 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

	2017 EUR'000	2016 EUR'000
Cash flow from operating activities	–26,096	–20,320
Cash flow from investment activities	–13,814	–28,232
Cash flow from financing activities	4,423	–91,540
Change in cash and cash equivalents	**–35,487**	**–140,092**
Change in cash equivalents due to exchange rate movements, changes in the scope of consolidation and measurement	3,110	3,702
Cash and cash equivalents at the beginning of the period	181,041	317,431
Cash and cash equivalents at the end of the period	**148,664**	**181,041**

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 net cash outflow 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 and participating interests.

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 2017 financial year.

In addition, investments were made as part of the “goDigital” programme (modernising of the IT application landscapes composite and life) as a basis for future digitalisation initiatives.

MISCELLANEOUS

In 2017, the rating agency Standard & Poor’s (S&P) improved the rating of VHV a.G. and its core companies VHV Allgemeine and HL for the first time from "A" to "A+" with a stable outlook, after the outlook was assessed positively in the previous year. This makes the VHV Group the first insurance group in Germany with an improved rating since 2014.

Capitalisation and profitability of the VHV Group above “AAA” level were decisive factors behind the improvement in rating. In addition, the profitability of the VHV Group which is above market average and the favourable risk/return profile in the life insurance business were highlighted.

For the sixth time in a row, HL received the top rating “excellent A++” from the customer-focused Cologne-based rating agency ASSEKURATA.

HL again passed the stress test by the analysts Morgen & Morgen with an “excellent” mark in 2017.

HUMAN RESOURCES REPORT

The basis for the VHV Group’s good result is provided by the expertise and commitment of its employees and executives.

On average 3,044 employees (2016: 2,951 employees) worked for the VHV Group in 2017. The recruitment of significant numbers of new employees in certain areas (e.g. contracts, claims and IT) due to the good development of business as well as reductions in the number of employees working in other functions (e.g. administrative tasks) as a result of systematic increases in productivity and efficiency contributed to this development. The increase in gross premiums earned (+6.1 %) and the number of contracts (+5.0 %) with a 3.2 % staff increase achieved in 2017 combined with a simultaneous improvement in key parameters relating to processing quality demonstrated that our staff also further increased their productivity in 2017.

As in the case of the other affiliates, human resources activities in 2017 focused on advising employees on strategic change processes, further developing executive development, and ongoing specialised and methodological qualification of employees.

Despite the slight increase to 4.2 % (previous year: 3.8 %), the sickness rate continues to be lower than comparative figures on the insurance market (around 6 %). Together with the low employee resignation rate of 2.0 %, this is evidence of a good working environment with high employee motivation.

Therefore, we now take this opportunity to extend our thanks to all employees who through their individual dedication, expertise and experience mastered the challenges faced in 2017 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 (NOT INCLUDING APPRENTICES)*)

	2017	2016
Average number of employees for the year	3,044	2,951
Number of employees at end of year	3,090	3,010
Average number of office-based employees	2,823	2,719
Average age of employees (years)	44.5	44.4
Average length of employment with the company (years)	15.5	15.4
Proportion of university graduates (%)	26.3	24.9

*) including temporary employees

GENERAL STATEMENT OF THE BOARD OF DIRECTORS

In motor vehicle insurance, VHV Allgemeine clearly improved its position in the market. Another focus last year was the expansion of the non-motor vehicle business. This was particularly successful in liability insurance, fire and property insurance and loan insurance. As a special insurer of the construction industry, VHV benefited from the positive economic situation, which led to rising wage, sales and fee totals. These form the basis for assessing premiums. The development was supported by good, needs-based products and services.

The 2017 financial year was very positive and successful for VHV Allgemeine in all aspects.

In the life segment, unadjusted earnings after taxes of EUR 283.5 million were achieved despite further allocations to the additional interest reserve of EUR 138.1 million. HL also succeeded in taking a top position in the transaction and management expense ratio and 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. The very low management expense ratio compared to the market demonstrates the company's high productivity and its responsible and efficient handing of customers' funds.

In the past financial year, a net result from investments that was significantly above budget of EUR 636.1 million (previous year: EUR 653.9 million) was generated.

The 2017 financial year went positively by and large, allowing the VHV Group to achieve a significantly higher than expected consolidated net income than in the previous year.

OPPORTUNITY AND RISK REPORT

RISK REPORT

Targets

The VHV Group attaches major importance to professional risk management. The risk management methods are continuously developed and improved. In the VHV Group, 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 2017, the eligible own funds of the VHV Group and its individual companies comfortably exceeded the new legal solvency requirements.

HL's excellent security position is proving an even greater advantage in the new Solvency II supervisory system thanks to the risk-oriented measurement approach. As at 31 December 2017, HL clearly exceeded the requirements several times over even without the instruments of the transitional measures subject to approval or volatility adjustments.

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 basis 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 **the Board of Directors** of VHV a.G., who plays 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

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 Head of Compliance 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 monitoring risks in the VHV Group is separated within the organisational structure up to Board level, guaranteeing independent monitoring. 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 Group companies 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 was organised around a centralised approach with decentralised support in the reporting period. In the future, the IRCF will be exercised centrally in an organisational unit led by the Chief Risk Officer (CRO) as the responsible person of the IRCF. The CRO reports directly to the respective Board of Directors of the insurance companies.

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 anti-fraud management.

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 audited by Internal Audit on a regular basis.

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. 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, 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 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 limits being significantly exceeded 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 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 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.

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 policy for the internal control system. The Group policy 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 ensures the completeness and accuracy of the annual financial statements particularly in relation to the accounting processes used.

Material risks

The risk categories are described below. They are ranked as follows in terms of importance for the VHV Group:

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. There are also substantial equalisation reserves through which technical fluctuations can be offset over time. 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.

The table below shows the balance-sheet claims ratios for the property-casualty insurance companies included in the consolidated financial statements as a percentage of premiums earned for own account for the financial years 2008 to 2017.

CLAIMS RATIO PROPERTY-CASUALTY

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
80.9	84.0	82.2	81.3	77.8	79.1	73.8	68.9	71.3	71.6

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 jurisprudence, changes to the legal 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									
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
6.8	7.0	6.3	4.7	5.1	4.5	4.7	7.3	6.7	7.3

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 catastrophe risks in property-casualty insurance, in essence the risk from natural disasters for the VHV Group results in particular from hail, storms and flooding. 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 requisite reinsurance is based in principle on a 200-year event. The Actuarial Function provides an opinion on the appropriateness of the reinsurance structure at least once a year on the basis of an analysis of the reinsurance programme. 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 if future advancements in medicine surpass expectations. 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. Due to the further decline in interest rates, the reference interest rate for allocation to the additional interest rate reserve continued to fall, amounting to 2.21 % at the end of 2017. At the reference interest rate is a 10-year average rate, it can continue to decline even if interest rates increase, which can result in further allocations to the additional interest reserve. In addition, an interest rate increase would result in a decline in the market values of investments, so fewer usable valuation reserves would be available for allocation to the additional interest reserve. In principle, the valuation reserves, the free reserve for premium refunds - while maintaining a minimum level - or equity can be used for funding.

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, HL 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 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. HL's life insurance portfolio has a high proportion of term life insurance. These serve to hedge biometric risks and therefore offer no economic incentive for the cancellation of such contracts on the part of policyholders. 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. Because biometric risks are spread throughout the insurance portfolio (diversification effect) and because of existing reinsurance coverage, disaster risk is not significant.

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 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 equity prices and interest rates.

EQUITIES AND OTHER NON-FIXED INTEREST SECURITIES

Change in equity price*)		Change in market value of investments sensitive to equity
Decrease of 20 %	EUR	–36 million
Market value on 31.12.2017	EUR	179 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	–1,138 million
Change of – 1 % point	EUR	1,254 million
Market value on 31.12.2017	EUR	14,935 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.

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 the assets and earnings situation 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 0.7 % (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.

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	9,451
of which bank bonds	3,053
of which debentures	2,865
of which loans and treasury bonds	1,561
of which Corporates	1,911
of which others	61
Mortgages	975
Loans and advance payments on insurance policies	22
Total	**10,448**

SHARES OF THE RATING CLASSES IN %

	AAA	AA	A	BBB	< BBB	NR
Fixed-interest securities	45.6	22.3	13.0	7.3	0.4	1.9
Mortgages	–	–	–	–	–	9.3
Loans and advance payments on insurance policies	–	–	0.2	–	–	–
Total	**45.6**	**22.3**	**13.2**	**7.3**	**0.4**	**11.2**

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.

There are risks of issuers defaulting with the ABS portfolios in particular. Rising loan default rates may therefore have a negative impact on the development of ABS securities. The vast majority of ABS holdings are invested in senior secured or capital-secured securities. Because of the positive trend in fair values, the improvement in average ratings and the overall fall in the ABS portfolio, credit risks from the ABS portfolio are viewed as low.

Default risks for accounts receivable from policy holders and insurance intermediaries 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 31.7 million on the balance sheet closing date (previous year: EUR 34.5 million). There are no material risks from possible defaults on receivables from policy holders and insurance intermediaries.

On the balance sheet closing date, there are receivables from the reinsurance business amounting to EUR 43.0 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 solidarity, 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.

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 2017, 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 four 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 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 rules, 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). 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. To counter these risks, the transition from the "ThinkFIT" programme (securing the long-term future viability of the IT application landscape and modernising IT operations) to the "goDigital" programme took place with the start of operating project work in the implementation projects as at August 2017. 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 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 established a Turkish subsidiary in 2015, which commenced operations in 2016. Economic development in Turkey - in particular in the construction industry and in the energy segment - is closely monitored.

In the property-casualty segment, 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 45.7 %. 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. This risk is being monitored continuously.

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 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. The VHV Group's financial strength is proving a greater advantage thanks to the risk-oriented measurement approach.

As at 31 December 2017, 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.

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
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. Overall, the VHV Group believes it is in a good position with its product range.

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 for VAV 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 outstanding 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

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, HL sees further opportunities for growth in this segment. Due especially to its cost-efficient and lean organisation, HL can either set or react quickly to market trends.

Insuring employees against disability is seen as another growth area. In 2017, HL has therefore introduced a new independent occupational disability insurance.

Overall, the HL believes it has a good market position.

Investments

Alternative investments have become increasingly important against the background of persistently low interest rates. The VHV Group has also invested in private equity and real estate funds in 2017. 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.

Other

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.

Because customer requirements have changed as a result of digital advances, additional communication channels such as social media and chats are becoming increasingly important. 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 is in a good position thanks to new communication channels at HL and a complete overhaul of the VHV Allgemeine website in the previous year. This was also demonstrated by the VHV Allgemeine website winning the German Design Award. This is already the third award for the newly designed website. In 2017, VHV Allgemeine also won the “EDDI Award” ("Success through Dialogue Marketing") in the Business Customers category.

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

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
In the past calendar year, the positive development of economic early indicators suggests that growth in the global economy is expected to be pleasing in 2018. However, it cannot be assumed that developments will remain as stable and modest volatile as they were in 2017. A heterogeneous allocation of contributions to growth in the different regions must rather be expected. In this regard, economic policy decisions will have a significant influence. Thus, the specific effects of the US tax reform passed as at the end of 2017 can not yet be conclusively assessed. If protectionist trends increased as a result, strong export regions such as the euro area and diverse emerging economies could come under pressure. Economic policy decisions will also be made in the euro area that could potentially have a negative impact on the economy. For example, the UK's departure from the EU, which will raise questions about stronger economic integration within the EU, looks set to solidify.

Further normalisation is likely with regard to inflation rates. Increasing commodity prices in conjunction with increased wage pressure could manifest themselves in an increase in inflation rates.

In 2018, the capital markets will most likely be caught between the economy momentum, monetary policy and geopolitics.

The divergence of the monetary policy between Europe and the US is expected to continue in 2018. The US central bank, the Fed, is anticipated to continue monetary normalisation under its new president as announced. In addition to the gradual reduction in the Fed's balance sheet total, further interest rate hikes are expected in 2018. In contrast, the ECB will initially continue its expansionary monetary policy for the euro area and only reduce the volume of the bond-buying programme. Interest rate hikes are therefore unlikely in 2018.

In 2018, European bond markets are also expected to be influenced by below-average yield levels against the backdrop of the ECB's ongoing expansive monetary policy. However, as European bond markets have historically not been completely uncoupled from developments on the US bond market, a slight increase in yields is also possible in the euro area.

Equities markets are expected to remain fundamentally well supported in 2018. However, due to the price and valuation levels achieved in conjunction with historically low volatility, a linear trend is unlikely. Their high sensitivity to (monetary) political events gives reason to expect further fluctuation in equity prices.

Property-casualty insurance
The construction industry will continue to perform positively in 2018 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 4.0 %.

As expected, private residential construction grew in 2017. For 2018, it is assumed that booming apartment complex construction will continue to grow. 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 2018. 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 2018 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.

In motor vehicle insurance, the VHV Group began focusing its strategy towards increasing its income back in 2010. This strategy was continued in 2017 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 2018. As a result of risk exposure, a trend toward market hardening is only expected in sub-markets.

As an industry insurer specialising in the construction target group, the VHV Group remains in a strong position. Economic indicators are also positive for 2018, 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 2018. 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. This development is supported by increasing product development and market activities in the segment of financial losses liability insurance.

In personal liability insurance, a new product was brought to market in May 2017. This also provided new impetus for growth towards new business for 2018.

Accident insurance will continue its positive development in terms of premium growth. The monthly new business ratios are consistently good. The optimisation of the acceptance processes is having 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.

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 2018 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, gratifying 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 business property and household contents insurance.

The product “FIRMENPROTECT Property” 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.

Overall, in the coming years the VHV Group assumes predominantly stable average premiums in its portfolio and new business. In 2018, expenses for insurance claims are expected to increase moderately. With a planned higher level of contracts in 2018 and associated 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 the once again good financial year 2017 with very gratifying growth, the VHV Group anticipates a decline in results for the coming year 2018, with a further allocation to the equalisation reserve, because no positive extraordinary effects from investments are expected. After allocation, a significantly higher result is forecast.

Life insurance

The period of low interest rates, which has lasted years, and the resulting challenges are expected to persist in 2018. 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 since 2011. The additional interest rate reserve therefore constitutes a forward-looking reinforcement of our reserves. HL has built up the additional interest rate reserve and it is assumed that further allocations will be required in 2018 as well. Should interest rates remain at a very low level long-term, the future allocation to the additional interest rate reserve will constitute a challenge for the entire insurance industry, but HL believes it is well positioned in the market environment because of the balanced relationship between the maturities of assets and liabilities and the extremely low proportion of annuity insurance in the portfolio. 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 unchanged for 2018. Therefore, investments will continue to focus on long-term annuity investments with good credit ratings. A slight increase in the proportion of real estate is also planned. In addition, alternative investments are planned in order to widen the portfolio. For 2018, 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 2017.

In 2018, 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 and occupational disability coverage. 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 2018, 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 2018. 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 2017 and 2016.

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 2018.

Overall, HL is expecting stable premium revenues in the year to come. The expected gross profit in 2018 will decline compared to 2017.

This 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 costs ratio is to be maintained at the respective level.

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 2018, net income from normal business activities is expected to remain constant, without taking account of performance-based remuneration. Net income is expected to increase slightly in subsequent years.

VHV solutions is also not planning any significant changes to its business objective in 2018. 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 2018. 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. With regard to claims, the continuation and expansion of "active claims management" continue to be of material importance for the reduction of average expenses for insurance claims.

IT is focusing on the continuation of the "goDigital" programme. In addition, the regulatory projects "Protego" and "IDD" to implement the requirements of the European General Data Protection Regulation (EU-GDPR), the Insurance Distribution Directive (IDD) and "KRITIS" for the protection of critical infrastructures will be supported. 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 2018 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, a slight decrease in sales revenues is expected and slightly lower earnings before taxes than in the previous year.

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. In addition, the regulatory projects "Protego" and "IDD" to implement the requirements of the European General Data Protection Regulation (EU-GDPR), the Insurance Distribution Directive (IDD) and "KRITIS" for the protection of critical infrastructures will be supported. Under the leadership of Operations/IT, the VHV Group will also concentrate in 2018 on implementing the digitalisation strategy developed for the VHV Group in 2015.

After the positive financial year 2017 overall, the VHV Group anticipates a significant decrease in consolidated net profit for the coming year 2018 mainly due to an increase in tax expense.

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.

NON-FINANCIAL STATEMENT

1. PART: 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 9) 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 the employee interests are 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, as well as diversity and equal opportunities 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 23 et seq.) 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.

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.

2. PART: ISSUES

A. PRODUCTS

I. Organisation

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

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 "eCall" 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 2018, 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 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, occupation pensions and occupational disability insurance policy.

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 actuarial 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

Data protection constitutes an important factor for the VHV Group. Affiliates of the VHV Group process personal data on a daily basis, in particular from policy holders, wronged parties, intermediaries, other business partners and employees. Handling personal data with care is is therefore essential for trusting, long-term cooperation.

The VHV Group's objective is to continue ensuring data protection and information security, to avoid data breaches and to create and guarantee a uniform data protection standard in the VHV Group.

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 which, together with the internal, independent Group data protection officer, is responsible for ensuring that the provisions of the Federal Data Protection Act (BDSG) are implemented and complied with.

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. Each employee is required to comply with data protection provisions and, in particular, to actively contribute to the reliable protection of personal data against unauthorised access. Personal data may only be recorded, processed and used, if this is necessary for a precisely-defined purpose in the performance of a legitimate assignment.

The objective of the data protection management system (DSMS) adopted by the management is to ensure and verify that activities, systems, processes and measures existing in the companies within the VHV Group comply with data protection. In addition to the data protection principles to which the Group must conform, the DSMS describes a control process for the recognition, assessment, elimination, documentation and reporting of processing activities relevant to data protection of the VHV Group. DSMS requirements are specified for employees in the in the Group's policy for data protection and working guidelines of specialist departments in individual companies.

Material regulations on information security for the VHV Group can be found in the Group's information security policy. The increasing dependency of the VHV Group's business processes on the availability, confidentiality and integrity of information in IT systems and in other forms implies the need to protect this 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 comly with the principles of transparancy, the need for processed data, data avoidance und data economy.

To ensure responsible and lawful use of the data, mandatory web-based 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) have been underway since summer 2016 and they are to be completed by May 2018. In particular, EU-GDPR involves developments in the impact assessment of data protection, the protection register and protection rights.

The Group project for the implementation of the EU-GDPR, which was established for this purpose, proceeded as scheduled in the 2017 financial year.

In the 2018 financial year, a challenge for the VHV Group will be to adapt its internal processes to new regulatory requirements.

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 and the anti-fraud management appendix describe 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 whistleblower 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 2017 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 2017 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 (Code of Conduct)

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.

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

To firmly establish the rules of this Code, mandatory training is provided.

In the 2017 financial year, the new version of the EU Insurance Distribution Directive (IDD), which has to be transposed into national law by the member states by 23 February 2018, was a major focus in the sales compliance division. The IDD is supported by delegated acts of the Commission and guidelines by the European Insurance and Occupational Pensions Authority (EIOPA).

In this regard, the goal for the 2018 financial year is to implement the legal changes. 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 a occupational health management system that is centrally managed by a health manager from the human resources department. In addition, there is coordination between 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 4.2 % in 2017, this was slightly above the previous year, which was well below the market average (approximately 6 %, Source: AGV, fluctuation survey as at 2016).

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 2017, employees completed an average of 2.5 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 15.5 years as at 31 December 2017. Fluctuation due to staff resignations is 2.0 %. 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 2017
CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017
CASH FLOW STATEMENT
STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017
VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

Assets	EUR	EUR	EUR	31.12.2017 EUR	31.12.2016 EUR
A. Intangible assets					
I. Purchased concessions, industrial and similar rights and assets and licenses in such rights and assets			37,540,408		39,822,164
II. Goodwill			32,855		4,977,374
III. Advance payments			289,389		305,086
				37,862,652	45,104,624
B. Investments					
I. Real properties, rights equivalent to real property and buildings, including buildings on third-party real properties			124,667,458		129,860,734
II. Investments in affiliated and associated companies					
1. Shares in affiliated companies		32,759,548			36,054,709
2. Participating interests in associated companies		43,662,196			46,255,033
3. Other participating interests		65,608,560			70,915,211
			142,030,304		153,224,953
III. Other investments					
1. Equities, shares or equities in investment assets and other non-fixed interest securities		4,094,643,255			3,947,245,629
2. Bearer bonds and other securities with fixed interest rates		4,796,071,265			4,525,987,754
3. Mortgages, land charges and annuity charges		975,406,894			892,747,933
4. Other loans					
a) Registered debentures	3,531,143,582				3,641,037,093
b) Promissory notes and loans	1,243,885,145				1,420,545,723
c) Loans and advance payments on insurance policies	22,484,712				25,837,362
d) Miscellaneous loans	17,536,035				19,676,864
		4,815,049,474			5,107,097,042
5. Bank deposits		178,273,655			91,500,000
6. Miscellaneous investments		840,715,300			625,756,153
			15,700,159,843		15,190,334,511
				15,966,857,605	15,473,420,198
C. Investments for the account and risk of holders of life insurance policies				95,131,740	81,342,985
D. Receivables					
I. Accounts receivable from own insurance transactions with:					
1. Insurance policy holders		58,059,167			62,075,658
2. Insurance agents		5,494,020			5,718,537
			63,553,187		67,794,195
II. Settlement receivables from reinsurance business			43,015,405		43,550,554
including due to associated companies: EUR 5,039,023 (previous year: EUR 6,656,760)					
III. Other receivables			27,528,737		37,432,646
including from affiliated companies: EUR 0 (previous year: EUR 9,141)				134,097,329	148,777,395
including due to associated companies: EUR 295,458 (previous year: EUR 381,554)					
E. Other assets					
I. Tangible fixed assets and inventories			15,864,136		14,397,844
II. Bank balances, cheques and cash on hand			148,663,784		181,041,152
III. Miscellaneous assets			39,843,297		46,780,527
				204,371,217	242,219,523
F. Prepaid expenses					
I. Accrued interest and rent			151,923,139		159,325,907
II. Other prepaid expenses			37,698,642		37,694,955
				189,621,781	197,020,862
G. Deferred tax assets				315,673,786	291,262,741
H. Excess of plan assets over post-employment benefit liability				14,352,940	14,694,388
TOTAL ASSETS				**16,957,969,050**	**16,493,842,716**

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017
VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

Liabilities and shareholders' equity	EUR	EUR	31.12.2017 EUR	31.12.2016 EUR
A. Equity				
I. Retained earnings				
1. Loss reserve in accordance with § 193 of the Insurance Supervision Act (VAG)	68,806,218			64,103,644
2. Other retained earnings	1,341,098,939			1,189,679,074
		1,409,905,157		1,253,782,718
II. Difference in equity from currency translation		5,496,890		12,076,888
			1,415,402,047	1,265,859,606
B. Difference from capital consolidation			4,266,454	8,789,371
C. Technical reserves				
I. Unearned premiums				
1. Gross	297,743,594			296,901,303
2. Less: Reinsurance ceded	14,233,694			11,688,410
		283,509,900		285,212,893
II. Technical reserve – gross		9,085,358,041		8,938,089,869
III. Reserve for insurance claims not yet processed				
1. Gross	3,443,604,228			3,337,519,363
2. Less: Reinsurance ceded	306,476,802			323,078,896
		3,137,127,426		3,014,440,467
IV. Reserve for performance-related and non-performance-related premium refunds – gross		776,299,847		796,124,834
V. Claim equalisation reserve and similar reserves		847,532,310		756,946,845
VI. Other technical reserves				
1. Gross	151,256,496			122,428,949
2. Less: Reinsurance ceded	3,218,906			341,134
		148,037,590		122,087,815
			14,277,865,114	13,912,902,723
D. Technical reserves for life insurance policies, to the extent that the investment risk is borne by the policy holder				
I. Actuarial reserve – gross			95,131,740	81,342,986
E. Other reserves				
I. Reserves for pensions and similar liabilities		100,017,903		92,968,859
II. Tax reserves		24,480,644		64,843,106
III. Other reserves		112,073,507		111,886,516
			236,572,054	269,698,481
F. Funds held under reinsurance transactions ceded			5,841,904	5,984,572
G. Other liabilities				
I. Accounts payable from own insurance transactions with:				
1. Insurance policy holders	789,687,861			857,666,674
2. Insurance agents	9,782,162			8,967,004
		799,470,023		866,633,678
II. Accounts receivable from reinsurance transactions		14,210,665		8,645,964
including due to associated companies: EUR 0 (previous year: EUR 116,001)				
III. Liabilities to banks		7,890,218		3,467,002
IV. Miscellaneous liabilities		97,379,499		69,380,026
including from affiliated companies: EUR 13,216,779 (previous year: EUR 0)			918,950,405	948,126,670
including due to associated companies: EUR 1,240,360 (previous year: EUR 1,469,319)				
including from taxes of: EUR 29,296,731 (previous year: EUR 29,069,882)				
including for social security: EUR 259,484 (previous year: EUR 281,124)				
H. Deferred income			3,939,332	1,138,307
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**16,957,969,050**	**16,493,842,716**

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2017
VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

Item	EUR	EUR	2017 EUR	2016 EUR
I. TECHNICAL ACCOUNT FOR PROPERTY-CASUALTY INSURANCE TRANSACTIONS				
1. Net premiums earned for own account				
a) Gross premiums written	2,069,118,502			1,913,462,531
b) Reinsurance premiums ceded	–130,169,659			–115,292,827
		1,938,948,843		1,798,169,704
c) Change in gross unearned premiums	–6,271,056			–9,769,168
d) Change in the share of the reinsurer in gross unearned premiums	3,000,388			–1,621,553
		–3,270,668		–11,390,721
			1,935,678,175	1,786,778,983
2. Technical interest income for own account			753,052	773,212
3. Other technical earnings for own account			3,929,546	4,682,028
4. Expenses for insurance claims for own account				
a) Payments for insurance claims				
aa) Gross	–1,340,210,059			–1,250,314,226
bb) Share for reinsurers	76,611,172			94,273,569
		–1,263,598,887		–1,156,040,657
b) Change in reserve for insurance claims not yet processed				
aa) Gross	–107,476,350			–71,786,405
bb) Share for reinsurers	–15,359,799			–46,101,132
		–122,836,149		–117,887,537
			–1,386,435,036	–1,273,928,194
5. Change in other net technical reserves			–2,838,878	–1,149,368
6. Expenses for performance-related and non-perfomance-related premium refund			–4,228,362	–3,412,413
7. Expenses for insurance operations for own account				
a) Gross expenses for underwriting		–433,547,425		–412,099,820
b) Less: commissions and shares of profit received from insurance transactions ceded		41,452,424		40,779,077
			–392,095,001	–371,320,743
8. Other technical expenses for own account			–3,615,214	–3,671,155
9. Subtotal			**151,148,282**	**138,752,350**
10. Change in equalisation reserve and similar reserves			–90,607,849	–89,353,915
11. Technical result for own account in Property-Casualty insurance transactions			**60,540,433**	**49,398,435**

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2017
VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

Item	EUR	EUR	2017 EUR	2016 EUR
II. TECHNICAL ACCOUNT FOR LIFE INSURANCE TRANSACTIONS				
1. Net premiums earned for own account				
a) Gross premiums written	974,285,523			956,699,844
b) Reinsurance premiums ceded	–8,049,797			–8,275,520
		966,235,726		948,424,324
c) Change in gross unearned premiums		4,769,696		6,610,521
			971,005,422	955,034,845
2. Premiums from the gross reserve for premium redemption			4,592,151	4,926,711
3. Income from investments				
a) 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	375,997,662			374,009,460
		384,146,657		382,158,455
b) Income from appreciation		338,212		437,943
c) Gains from the divestiture of investments		103,947,444		159,182,082
			488,432,313	541,778,480
4. Unrealised gains on investments			7,237,312	3,428,581
5. Other technical earnings for own account			255,536	458,174
6. Expenses for insurance claims for own account				
a) Payments for insurance claims				
aa) Gross	–874,713,158			–963,733,699
bb) Share for reinsurers	1,822,526			5,164,153
		–872,890,632		–958,569,546
b) Change in reserve for insurance claims not yet processed				
aa) Gross	–202,607			–9,009,802
bb) Share for reinsurers	–119,952			–785,554
		–322,559		–9,795,356
			–873,213,191	–968,364,902
7. Change in other net technical reserves				
a) Actuarial reserve - gross			–161,056,926	–119,884,945
8. Expenses for performance-related premium refunds for own account			–163,812,753	–159,247,083
9. Expenses for insurance operations for own account				
a) Transaction expenses	–57,465,644			–47,529,664
b) Management expenses	–9,350,440			–9,062,466
		–66,816,084		–56,592,130
c) Less: commissions and shares of profit received from insurance transactions ceded for reinsurance		3,762,403		5,338,193
			–63,053,681	–51,253,937
10. Expenses for investments				
a) Expenses for management of investments, interest expense and other expenses for investments		–16,109,375		–15,270,061
b) Depreciation on investments		–5,585,969		–6,156,570
c) Losses from the divestiture of investments		–143,868		–120,912
			–21,839,212	–21,547,543
11. Unrealised losses on investments			–167,054	–302,632
12. Other technical expenses for own account			–149,591,098	–139,814,728
13. Technical result for own account in life insurance transactions			**38,788,819**	**45,211,021**

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2017 VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

Item	EUR	EUR	EUR	2017 EUR	2016 EUR
III. NON-TECHNICAL ACCOUNT					
1. Technical result for own account					
a) In property-casualty insurance transactions			60,540,433		49,398,435
b) In life insurance transactions			38,788,819		45,211,021
				99,329,252	94,609,456
2. Income from investments, unless listed under II.3.					
a) Income from participating interests					
aa) In companies not included in the consolidated financial statements	7,603,505				6,762,669
bb) In associated companies	1,401,660				1,587,220
		9,005,165			8,349,889
b) Income from miscellaneous investments					
aa) Income from real properties, rights equivalent to real property and buildings, including buildings on third-party real properties	677,289				671,123
bb) Income from miscellaneous investments	168,035,011				121,123,819
		168,712,300			121,794,942
c) Income from appreciation		4,930			304,348
d) Gains from the divestiture of investments		2,305,538			12,805,854
e) Income from profit transfer agreements		358,030			420,514
			180,385,963		143,675,547
3. Expenses for investments, unless listed under II.10					
a) Expenses for management of investments, interest expense and other expenses for investments		–7,079,124			–5,094,841
b) Depreciation on investments		–2,297,773			–4,001,459
c) Losses from the divestiture of investments		–1,516,857			–897,831
			–10,893,754		–9,994,131
			169,492,209		133,681,416
4. Technical interest income			–967,206		–960,450
				168,525,003	132,720,966
5. Other income			36,129,366		43,847,541
6. Other expenses			–93,145,555		–95,355,035
				–57,016,189	–51,507,494
7. Operating result				**210,838,066**	**175,822,928**
8. Taxes on income and earnings			–54,240,361		–47,660,141
including: Income from deferred taxes: EUR 24,411,045 (previous year: EUR 52,260,450)					
9. Other taxes			–475,266		–373,334
				–54,715,627	–48,033,475
10. Net income				**156,122,439**	**127,789,453**
11. Allocations to retained earnings					
a) to the loss reserve in accordance with section 193 of the Insurance Supervision Act (VAG)				–4,702,574	0
b) In other retained earnings				–151,419,865	–127,789,453
12. CONSOLIDATED NET INCOME				**0**	**0**

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

Item	2017 EUR'000	2016 EUR'000
Net profit (consolidated net profit)	**156,122**	**127,790**
Change in technical reserves – net	378,751	347,217
Change in deposit accounts receivable and accounts payable, as well as invoice accounts receivable and accounts payable	5,957	1,745
Change in other accounts receivable and accounts payable	–27,964	–9,646
Change in investments that are not attributable to investment activities	–402,495	–342,622
Change in other balance sheet items that are not attributable to investment or financing activities	20,010	24,528
Other non-cash expenses and income, as well as adjustments to net profit	15,651	20,301
Gain/loss from the divestiture of investments, tangible fixed assets and intangible assets	–110,306	–170,981
Income tax expense/income	54,240	47,660
Income tax payments	–116,062	–66,312
Cash flow from operating activities	**–26,096**	**–20,320**
Receipts from the sale of consolidated companies and other business entities	17,504	5,596
Payments resulting from the acquisition of consolidated companies and other business entities	–8,970	–19,572
Receipts from the sale of capital investments for fund-linked annuity insurance	4,793	2,740
Payments resulting from the acquisition of capital investments for fund-linked annuity insurance	–11,336	–8,900
Other receipts from the divestiture of tangible fixed assets and intangible assets	116	200
Other payments resulting from additions of tangible fixed assets and intangible assets	–15,921	–8,296
Cash flow from investment activities	**–13,814**	**–28,232**
Receipts and payments from other financing activities	4,423	–91,540
Cash flow from financing activities	**4,423**	**–91,540**
Change in cash and cash equivalents	**–35,487**	**–140,092**
Change in cash equivalents due to exchange rate movements, changes in the scope of consolidation and measurement	**3,110**	**3,702**
Cash and cash equivalents at the beginning of the period	181,041	317,431
Cash and cash equivalents at the end of the period	148,664	181,041

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

	Retained earnings			Difference in equity from currency translation	Total
	Loss reserve in accordance with § 193 of the Insurance Supervision Act (VAG) EUR'000	Other retained earnings EUR'000	Total EUR'000	EUR'000	EUR'000
Status on 31.12.2015	**64,104**	**1,061,889**	**1,125,993**	**14,568**	**1,140,561**
Currency translation	–	–	–	–2,491	–2,491
Consolidated net profit	–	127,790	127,790	–	127,790
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**

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 2017.

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 (previous year: 17), including three special purpose entities (SPEs), as in the previous year. In 2017, changes in the consolidation group resulted from merging HD with VHV Allgemeine.

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 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 2018.

One associated company was 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 solutions	100.00 %
VHV Vermögen	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 equity holding's carrying amount 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.

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 companies and participating interests 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 other participating interest included with a subsidiary was stated at fair value at the time of first-time consolidation on 1 January 2011.

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

Mortgages, land charges and annuity charges as well as 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.

Derivatives (forward sales of securities with fixed interest rates) were combined with their underlying transactions to form micro-hedges in accordance with section 254 HGB. These were recognised on the balance sheet using the net hedge presentation method.

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 150 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 2017.

The accrued interest and rents reported under **prepaid expenses** were shown at nominal value. These amounts relate to 2017, 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. A tax rate of 32.42 % (previous year: 32.41 %) was used in calculating the future tax burdens and tax benefits for the German companies. The increase is based on municipal trade tax rate increases. For VAV, a tax rate of 25.00 % was applied and a 20.00 % tax rate for VHV Re.

The **excess of plan assets over pension 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 ceded for reinsurance 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, the prospective entitlement of annuity insurance in accordance with the Pension Plan Certification Act (PPCA) and fund-linked annuity insurance policies, 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 % *)	1.6 %
St 1986 M/F	3.50 % *)	17.3 %
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 % *)	39.5 %
Interpol. of DAV 2004 R-B and R-B20 M/F	4.00 % *)	3.1 %
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 % *)	2.4 %
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 % *)	1.4 %
HL-Table 2008 T M/F	2.25 % *)	1.5 %
DAV 2004 R M/F	2.25 % *)	5.9 %
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 %	0.8 %
DAV 2004 R Unisex	1.75 %	2.7 %
HL-Table 2012 T Unisex	1.25 %	0.2 %
HL-Table 2012 T Unisex mod.	1.25 %	0.4 %
DAV 2004 R Unisex	1.25 %	1.7 %
HL-Table 2016 T Unisex mod.	0.90 %	0.2 %
DAV 2004 R Unisex	0.90 %	0.6 %

*) Like section 341f article 2 HGB in conjunction with section 5 article 3 and article 4 DeckRV a reference interest rate of 2.21 % was taken as a basis.

**) Like section 341f article 2 HGB in conjunction with section 5 article 3 and article 4 DeckRV a reference interest rate of 2.21 % 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 prospectively calculated 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, the prospective entitlement of annuity insurance in accordance with the Pension Plan Certification Act (PPCA) and for other fund-linked annuity insurance policies 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 actuarial reserve for fund-linked annuity insurance policies was determined according to Liabilities D.I. as the fair value of the share units available for the individual contract on the balance sheet closing date.

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

The table DAV 1997 mod. (actuarial interest rate 3 %), modified association tables 1990 M/F (actuarial interest rate 4 %) and the company's own HL tables 2000 I M/F (actuarial interest rate 3.25 %), HL tables 2004 I M/F (actuarial interest rate 2.75 %, 2.25 % and 1.75 %) and HL table 2012 I Unisex (actuarial interest rate 1.75 %, 1.25 % and 0.90 %) were used for supplementary occupational disability policies. The company's own HL tables 2000 I, 2004 I and 2012 I were developed from the table DAV 1997 I, the probabilities of disability for which were reduced based on the company's own experience. In addition, the DAV table 1998 E M/F with actuarial interest rates of 2.75 %/2.25 % was used for supplementary occupational disability insurance policies.

The DAV table 1997 I M/F and Unisex with modifications based on occupational groups and an actuarial interest rate of 2.75 %, 2.25 % 1.75 % and 1.25 % were used for occupational disability insurance policies. The HL table 2017 I is based on occupation-specific individual probabilities of disability with an actuarial interest rate of 0.90 %. For disability insurance policies, the company-specific HL table 2017 E is used with an interest rate of 0.90 %.

The actuarial reserve for contracts concluded between 1960 and 1987 was 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 3.4 %). 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 57).

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 2017 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 thirteen 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 2017 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 2.21 % (previous year: 2.54 %), 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 previous year 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 1.1 % compared to the valuation method which is not probability weighted as at 31 December 2017.

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. 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 resinsurance 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.

The reserve for claims settlement expenses was calculated in accordance with the letter of the Federal Ministry of Finance dated 2 February 1973 and at VAV in accordance with 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.

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.

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

The insurance transactions ceded for reinsurance in life insurance are accounted for on a risk premium basis. As a result, deposit liabilities do not apply in life insurance.

The **equalisation reserve** was formed in accordance with the annexes to section 29 RechVersV, at VAV 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. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

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 based on 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 deferred reserves for premium refunds accounted for under other technical reserves are calculated from valuation differences between the accounting carrying amounts at Group level and the accounting carrying amounts from separate financial statements as well as from the inclusion of special purpose entities (SPEs), which must be allocated to life insurance. They are valued at a reserve for premium refunds ratio (after taxes) of 95.2 % 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 with the average interest rate over the last ten years with an assumed remaining term of 15 years in accordance with section 253 article 2 sentence 2 HGB. At VAV, the interest rate of 3.67 % assumed for 31 December 2017 was used, while for other companies the interest rate of 3.68 % was used.

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 2005G 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) 2008-P Employees mortality 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 pledged 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) 2008-P Employees mortality tables, with an interest rate of 3.67 % (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** and **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 2017. They were calculated according to the projected unit credit method using the 2005G mortality tables by Prof. Klaus Heubeck with an actuarial interest rate of 2.81 %, salary growth of 2.25 % and a turnover rate of 3.00 % for women and 3.00 % for men.

The partial retirement obligations were established on the basis of the actuarial assessment dated 31 December 2017 in accordance with the projected unit credit method using the 2005G 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 2017. 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.

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

The **other liabilities** and **shareholders' equity** were shown at their settlement amount.

DELAYED DISCLOSURES

The actuarial reserve of a part of the syndicated agreements under external management amounting to EUR 35.5 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 resinsurance coverage, amounts totalling EUR 142 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, EUR 6,834 thousand in property-casualty insurance transactions ceded for reinsurance, for which information from the initial insurer was available up to 30 September 2017, 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 2017.

For affiliated companies and other participating interests, the current market values were calculated according to the present value of future cash flow method or net asset value 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 current market values of ABS were calculated by external service providers, based on discounted cash flow models. For other investments, the net asset value was applied as the current market value.

In the micro-hedge, the fair market value of the forward contract equals the difference between the discounted forward rate and the spot rate of the underlying.

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.II. GOODWILL
At less than EUR 0.1 million, the goodwill from the capital consolidation relates to the securities special purpose entities (SPEs) Corsair Finance (Ireland) No. 6 Ltd. (JARP II). The planned depreciation of goodwill will take place over the residual term of the promissory note loan entered in the balance sheet by the company as a capital guarantee of around two years for JARP II. The goodwill of EUR 4.9 million from the capital consolidation of Securess Makler, which was reported under this item in the previous year, was fully amortised in the financial year.

RE B.I. REAL PROPERTIES, RIGHTS EQUIVALENT TO REAL PROPERTY AND BUILDINGS, INCLUDING BUILDINGS ON THIRD-PARTY REAL PROPERTIES
The book value of the real properties and buildings primarily used internally by the group companies in the context of their activities is EUR 123.9 million.

RE B.II.1. SHARES IN AFFILIATED COMPANIES
These are firstly two companies that are expected to be liquidated in 2018. Secondly, they are companies that were not included in the consolidation group due to subordinate importance (section 296 article 2 HGB).

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

DEVELOPMENT IN FINANCIAL YEAR 2017

Asset items	Balance sheet values Previous year EUR'000	Additions 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	39,822	8,151	20	–	10,367	–46	37,540
II. Goodwill	4,977	–	–	–	4,944	–	33
III. Advance payments	305	–	16	–	0	–	289
Total A.	**45,104**	**8,151**	**36**	**–**	**15,311**	**–46**	**37,862**
B. Investments							
I. Real properties, rights equivalent to real property and buildings, including buildings on third-party real properties	129,861	86	–	–	5,280	–	124,667
II. Investments in affiliated and associated companies							
1. Shares in affiliated companies	36,055	8,435	11,731	–	–	–	32,759
2. Participating interests in associated companies	46,255	535	–	178	–	–3,306	43,662
3. Other participating interests	70,915	–	3,739	–	1,567	–	65,609
Total B.II.	**153,225**	**8,970**	**15,470**	**178**	**1,567**	**–3,306**	**142,030**
Total	**328,190**	**17,207**	**15,506**	**178**	**22,158**	**–3,352**	**304,559**

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 2,587.7 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 4,606.9 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 95.1 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 26.3 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.

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 14.4 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
Participating interests	4.0	4.0
Equities, shares or equities in investment assets and other non-fixed interest securities	2.9	2.9
Bearer bonds and other securities with fixed interest rates	381.3	370.8
Mortgages, land charges and annuity charges	49.9	49.1
Other loans	221.7	201.3
Total	**659.8**	**628.1**

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. 12 HGB

EUR 95.1 million investment funds for the account and risk of holders of life insurance policies and EUR 0.2 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.

DISCLOSURE PURSUANT TO SECTION 314 ARTICLE 1 NO. 15 HGB

In 2017, bearer bonds with a carrying amount totalling EUR 109.4 million as at 31 December 2017 (market value: EUR 144.3 million) were sold for forward delivery in January 2018. Micro-hedges were recognised between the securities and the forward contracts, which hedged the market values at the date of the forward sales against changes in interest rates and creditworthiness. The market value of the micro-hedges was EUR 140.9 million. The effectiveness of the hedges was determined using the critical term match method. As all value-determining factors match between the securities and the forward contracts there was no ineffectiveness (perfect micro-hedge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

DISCLOSURE PURSUANT TO SECTION 314 ARTICLE 1 NO. 15 HGB 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	Distribution in 2017 EUR million
Mixed funds	3,411.1	349.8	83.5
Property funds	1,115.8	83.1	64.4

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 VHV Vermögen (EUR 4.2 million) and the Pensionskasse (EUR 0.1 million).

In the financial year, the item was reversed 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 53.6 million (current market value) were offset against the settlement amount of the associated pension reserves of EUR 53.6 million. The current market 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 2.0 million. The current market 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 22.8 million.

RE E.III. OTHER RESERVES

Reserves for partial retirement were reported net of the investment certificates held to collateralise them.

	31.12.2017 EUR million	31.12.2016 EUR million
Settlement amount from partial retirement obligations	**2.0**	**1.3**
Acquisition costs of investment certificates	0.2	0.1
Difference in comparison to fair value	–	–
Fair value of investment certificates	**0.2**	**0.1**
Provision from partial retirement obligations	**1.8**	**1.2**

An insurance contract covering pension liabilities (carrying amount on 31 December 2017: EUR 0.2 million) and a payment obligation (carrying amount on 31 December 2017 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 F. FUNDS HELD UNDER REINSURANCE TRANSACTIONS CEDED

There were no funds held under insurance transactions ceded with a residual term of more than five years as at 31 December 2017 (previous year: less than EUR 0.1 million).

RE G. OTHER LIABILITIES

As at 31 December 2017, there were other liabilities with a residual term of more than five years amounting to EUR 301.4 million (previous year: EUR 324.3 million).

RE H. DEFERRED INCOME

Primarily discounts from registered debentures are shown in deferred income at a figure of EUR 3.8 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	974.3	2,017.5	2,991.8
Insurance transactions assumed in resinsurance coverage	–	51.6	51.6
Total	**974.3**	**2,069.1**	**3,043.4**

Of the gross premiums written for direct-written insurance transactions, EUR 2,892.7 million relates to Germany and 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 is calculated with an interest rate of 3.25 % of the arithmetic mean for the annuity actuarial reserve for the old portfolio. An interest rate of 2.75 % was used for annuities for which payment began after 31 December 2003, of 2.25 % for annuities after 31 December 2006, of 1.75 % for annuities after 31 December 2011 and of 1.25 % for annuities after 31 December 2014. The share of the reinsurers was deducted from that.

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

Transaction expenses in the amount of EUR 288.1 million and management expenses amounting to EUR 145.4 million are included in this item.

RE II.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 less than EUR 0.1 million (previous year: less than EUR 0.1 million), which was attributable almost exclusively to mortgages 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 1.9 million (previous year: EUR 1.3 million). Of this figure, EUR 1.6 million was attributable to participating interests (previous year: EUR 1.0 million), EUR 0.2 million to private equity investments (previous year: EUR 0 million) and EUR 0.1 million to registered debentures (previous year: EUR 0 million). Depreciation on shares or equities in investment assets amounted to less than EUR 0.1 million (previous year: EUR 0.3 million).

RE III.5. OTHER INCOME

Other income contains income from currency conversion of EUR 3.9 million.

RE III.6. OTHER EXPENSES

Other expenses contain the interest component (EUR 6.1 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 0.4 million). Interest and similar expenses are reduced by interest to be offset from nettable assets in the amount of EUR 2.0 million. Expenses from currency translation in the amount of EUR 0.7 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.

	2017 EUR million	2016 EUR million
Earnings before income taxes (financial accounts)	210.4	175.4
Anticipated tax expense Group tax rate 32.42 % (2016: 32.41 %)	68.2	56.9
Reconciliation:		
Divergent foreign tax burden	–0.4	–0.2
Share of tax for:		
Share of tax for: Non-taxable income	–3.0	0.9
Non tax deductible expenses	+0.9	+3.8
Temporary differences and losses for which no deferred taxes were recognised	–7.6	–4.7
Actual tax for prior periods	–4.3	–9.4
Other tax effects	+0.4	+0.4
Recognised tax expense	**54.2**	**47.7**
Effective Group tax rate	**25.8 %**	**27.2 %**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

ADDITIONAL INFORMATION

SUPERVISORY BOARD

Dr Achim Kann
Honorary Chairman
Chairman of the Management Board of GLOBALE Pensions- und Servicegesellschaft, 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 AG, 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 Management Board 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;
Chairman of the Supervisory Board of Bau Holding Beteiligungs AG, Spittal an der Drau/Austria

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

Dr Christian Bielefeld
Operations/IT,
Recklinghausen

Frank Hilbert
HL,
Langenhagen

Peter Rainer
Finance,
Großburgwedel

Ulrich Schneider
Investments,
Hanover

Thomas Voigt
VHV Allgemeine,
Wedemark

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 2017

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 %	1,141,570	89,090
VHV Allgemeine Versicherung AG, Hanover	100.00 %	650,454	Profit transfer
Hannoversche Lebensversicherung AG, Hanover	100.00 %	266,265	15,000
WAVE Management AG, Hanover	100.00 %	6,000	Profit transfer
VHV Vermögensanlage AG, Hanover	100.00 %	4,917	2,022
Securess Finanzhaus AG i.L., Essen[1) 5)]	100.00 %	4,400	0
VHV solutions GmbH, Hanover	100.00 %	3,396	13
VHV Dienstleistungen GmbH, Hanover	100.00 %	1,109	211
Securess Versicherungsmakler GmbH, Essen	100.00 %	775	–2
Hannoversche-Consult GmbH, Hanover	100.00 %	53	Profit transfer
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
Rhein-Ruhr-Vermögensverwaltungsgesellschaft mbH, Hanover[1)]	100.00 %	24	0
Detectino GmbH i.L., Hanover[1) 5)]	100.00 %	21	0
Elvaston Capital Fund II GmbH & Co. KG, Berlin[1) 5)]	89.60 %	29,198	447
Ferrum Holding GmbH & Co. KG, Düsseldorf[1) 5)]	86.87 %	3,399	215
insuremis GmbH, Ismaning[2)]	50.00 %	98	0
Neue Rechtsschutz-Versicherungsgesellschaft AG, Mannheim[2)]	34.02 %	22,306	961
ESB GmbH, Coburg	18.32 %	343,753	41,084
Pensionskasse der VHV-Versicherungen, Hanover	–	9,206	4,703
B. Foreign companies			
WAVE Private Equity SICAV-SIF, Luxembourg[4)]	100.00 %	804,955	46,559
VAV Versicherungs-Aktiengesellschaft, Vienna/Austria	100.00 %	20,634	1,042
VHV Reasürans A.S., Istanbul/Turkey[6)]	100.00 %	16,793	2,296
ASSBAU E.W.I.V., Brussels/Belgium[3) 5)]	33.33 %	72	–1
Deutsche Rückversicherung Schweiz AG, Zurich/Switzerland[2) 5) 7)]	25.00 %	157,601	5,608
Corsair Finance (Ireland) No. 6 Ltd., Dublin/Ireland	–	37,905	3,741

*) 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 2016
6) The exchange rate used as at 31 December 2017 was: EUR 1 = TRY 4.5464
7) The exchange rate used as at 31 December 2017 was: EUR 1 = TRY 1.1702

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 8,591.8 million as at 31 December 2017 (previous year: EUR 7,761.9 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 7.9 million (previous year: EUR 10.1 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 71.1 million as at 31 December 2017 (previous year: EUR 91.1 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 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 68.0 million (previous year: EUR 63.5 million).

In the context of the statutory collateralisation of partial retirement obligations, investment fund shares with a carrying amount of EUR 0.2 million (previous year: EUR 0.1 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 75.4 million (previous year: EUR 81.3 million).

There are future payment obligations of EUR 26.3 million (previous year: EUR 24.7 million) arising from partially long-term lease and rent contracts.

The Group's other financial obligations total a maximum of EUR 1,684.6 million (previous year: EUR 1,424.4 million) and are described below:

From investments in the PE segment, payment obligations in the amount of EUR 1,308.7 million (previous year: EUR 1,109.2 million) remain.

There are payment obligations from investments in property funds in the amount of EUR 225.9 million (previous year: EUR 165.2 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 2017 financial year amounted to 3,044 persons, of whom 2,875 are employed in Germany and 169 internationally. There were also 66 apprenticeship contracts in Germany on average for the year.

The consolidated personnel expenses amounted to EUR 273.2 million in 2017. EUR 224.5 million of this was attributable to wages and salaries, EUR 35.1 million to social security costs and EUR 13.6 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 7.1 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 19.9 million as at the balance sheet closing date.

AUDITORS' FEES

The expenses for auditors' fees accrued in 2017 break down as follows:

	Group auditor EUR million	Other auditors EUR million	Total EUR million
Audit services	0.5	0.3	0.8
Other certification services	0.0	0.0	0.0
Tax consultation services	0.2	0.0	0.2
Other services	0.3	0.0	0.3
Total	**1.0**	**0.3**	**1.3**

Hanover, 9 March 2018

THE BOARD OF DIRECTORS

Reuter	Dr Bielefeld	Hilbert
Rainer	Schneider	Voigt

INDEPENDENT AUDITOR'S REPORT

of VHV Vereinigte Hannoversche Versicherung a.G., Hanover

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT

Audit opinion

We have audited the consolidated financial statements of VHV Vereinigte Hannoversche Versicherung a.G., Hanover, and its subsidiaries comprising the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2017 and the notes to the consolidated financial statements, including a summary of the most important 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 to 31 December 2017. We have not audited the content of the Group non-financial statement included in the section "Non-financial statement" in the Group management report in accordance with German legal provisions.

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

- In accordance with German generally accepted accounting principles, the accompanying consolidated financial statements give a true and fair view in all material respects of the financial position and results of operations as at 31 December 2017 and of the net assets from 1 January to 31 December 2017
- As a whole, the accompanying Group management report provides an accurate view of the Group's position. In all material respects, the Group management report is consistent with the consolidated financial statements, complies with German legal provisions and appropriately presents the opportunities and risks of future development. Our audit report on the Group management report covers the contents of the non-financial consolidated statement.

In accordance with section 322 article 3 sentence 1 HGB, we state that our audit has not resulted in any reservations to the appropriateness of the consolidated financial statements and the Group management report.

Basis for the audit opinion

We conducted our audit in accordance with section 317 of the German Commercial Code, the EU Audit Regulation (No. 537/2014) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW - German Institute of Public Auditors). Our responsibility under these provisions and policies is described further in the section of our audit report entitled "Auditor's responsibility for the audit of the consolidated financial statements and the Group management report". We are independent from the Group companies in accordance with the commercial and professional regulations of European and German law and have fulfilled our other German professional obligations in accordance with these requirements. Furthermore, in accordance with Article 10(2) (f) of the EU Audit Regulation, we declare that we have not performed any prohibited non-audit services as defined by Article 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 audit opinions on the consolidated financial statements and on the Group management report.

Key audit matters in the audit of the consolidated financial statements

In our professional judgement, key audit matters are those matters that were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

DETERMINING THE FAIR VALUE AND VALUATION OF OTHER LOANS

As at 31 December 2017, other loans amounting to EUR 4,815 million were recognised in the consolidated financial statements of VHV Vereinigte Hannoversche Versicherung a. G, which primarily relate to registered debentures and promissory notes and loans and for which there are no quoted market prices. Thus, other loans account for 28.4 % of the balance sheet total and consequently have a significant influence on the Group's net assets.

For accounting and valuation principles, please also refer to the explanations in the notes to the consolidated financial statements in the section "Accounting, valuation and calculation methods". Risk disclosures are included in the "Risk report" section of the Group management report.

Financial statement risk
As there is no observable market price for these other loans, the fair value must be determined using alternative valuation methods. These methods are based on market-based and, if necessary, corrected by premiums and discounts, or on estimated input factors.

As the alternative valuation methods have a high degree of complexity and are not significantly dependent on estimates and assessments of the Group companies, there is a fundamental risk that the valuation method is not appropriate or incorrect and results in incorrect fair values. For the accounting of other loans in the consolidated financial statements, this results in the risk of an anticipated long-term reduction in value not being recognised and depreciation therefore being waived or reversals being waived in an increase in value.

Our audit approach
Taking into account the risks mentioned above, the audit of other loans was conducted in cooperation with the auditors of the companies included essentially as follows:

- The process of collecting market data in the inventory management system for investments and determining input factors for valuation models, including controls established for that purpose, was initially examined. Functional checks were then carried out as part of testing the effectiveness of the installed controls.
- In addition, an assessment of the appropriateness of the valuation models used has been made in terms of their financial and mathematical suitability. With the participation of asset management specialists, the systematics of the parameterisation was assessed, the parameters used were compared with values derived from observable market data and internal benchmarking and discussed with the managers of the companies.
- Based on the information obtained during the audit, an assessment was made in which other loans indicated a need for impairment.
- To ensure the mathematical accuracy of the valuation model used, the calculations of the companies were based on risk-oriented selected elements.

Our conclusions
The methods and the underlying assumptions used to determine the fair values of other loans are appropriate. Required depreciation and reversals were recognised.

EVALUATION OF ACTUARIAL RESERVE IN LIFE INSURANCE

The actuarial reserve (gross = net) in the consolidated financial statements amounts to EUR 9,085.4 million as at 31 December 2017 and with a 53.6 % share of the balance sheet total, has a significant impact on the Group's net assets.

For accounting and valuation principles, please also refer to the explanations in the notes to the consolidated financial statements in the section "Accounting, valuation and calculation methods". Risk disclosures are included in the "Risk report" section of the Group management report.

Financial statement risk
The actuarial reserve is always calculated as the sum of the actuarial reserves determined in individual contracts. The valuation of actuarial reserves is always implemented prospectively and is derived from the cash values of future payments reduced by future premiums. Individual actuarial reserves are determined depending on the tariff from a variety of electronic calculation steps.

For this, requirements of German commercial law and supervisory regulation and assumptions derived specific to the company are to be taken into account. In particular, these include regulations on biometric variables, the probability of cancellation and lump sum options and interest rate assumptions, including the regulations on interest rate increases (additional interest rate reserve or interest rate-induced reinforcement of reserves).

In this respect, there is a risk of an overvalued or undervalued actuarial reserve for individual contracts in an inconsistent, incorrect use of the calculation parameters and an inappropriate application of the measures derived from the individual company.

INDEPENDENT AUDITOR'S REPORT

Our audit approach
In the audit of the actuarial reserve, the following audit procedures were essentially carried out in cooperation with the auditors of the consolidated companies and with the involvement of actuaries:

- The processes for determining the actuarial reserve (including the additional interest rate reserve) were initially recorded and the implemented controls were assessed and tested for their effectiveness. The tested controls cover factors including the completeness and accuracy of the portfolio.
- In addition, analytical audit procedures and individual audits were carried out. Due to a projection of the actuarial reserve based on the profit segmentation of the past years and the current portfolio development, expectations were formulated and compared with the values entered in the balance sheet. In addition, the standard actuarial reserve and the additional interest rate reserve were recalculated for selected sub-portfolios or contracts. Key figure and time series analyses have also been carried out to perform plausibility checks on the overall development of the actuarial reserve and for sub-portfolios or subcomponents over a period of time.
- One focus of the audit related to the derivation and transparency of the underlying calculation bases
- For the assessment of the appropriateness of the calculation bases for the calculation of the actuarial reserve, including the calculation of the additional interest rate reserve, the derivation of the calculation bases was critically evaluated. In particular, the recommendations and publications of the Deutsche Aktuarvereinigung (DAV - German Actuarial Association) and the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – Federal Financial Supervisory Authority) are included in the assessment of the appropriateness of the calculation bases used.
- Furthermore, the explanatory report and the adequacy report of the responsible actuary were critically reviewed.

Our conclusions
- The valuation of the actuarial reserve is appropriate in accordance with the requirements of commercial law and supervisory regulation. Overall, the calculation parameters are appropriate and used fairly.

VALUATION OF THE RESERVE FOR INSURANCE CLAIMS NOT YET PROCESSED IN THE GROSS RESERVE FOR DIRECTLY WRITTEN PROPERTY-CASUALTY INSURANCE BUSINESS INCLUDES RESERVES FOR PARTIAL LOSSES FOR KNOWN AND UNKNOWN CLAIMS.

For accounting and valuation principles, please also refer to the explanations in the notes to the consolidated financial statements in the section “Accounting, valuation and calculation methods”. Risk disclosures are included in the “Risk report” section of the Group management report.

Financial statement risk
The reserve for claims not yet processed (gross = net) in the consolidated financial statements amounts to EUR 3,443.6 million as at 31 December 2017 and with a 20.3 % share of the balance sheet total, has a significant impact on the Group's net assets. The reserve for insurance claims not yet processed includes various partial claims reserves, of which the reserves for known insurance claims and the reserves for unknown insurance claims (late claims) were predominantly recognised.

The reserves for the insurance claims known as at the balance sheet closing date are estimated in accordance with the probable expense for each individual claim. For claims that are not yet known, reserves for late claims are established, which were mainly calculated in accordance with empirical judgements; actuarial methods are also used.

The valuation of these reserves for partial losses is therefore subject to uncertainties with regard to the probable claims amount and is accordingly subject to discretion. The estimate of the probable claims payable is to be made in accordance with the principle of prudence under German Commercial Code (section 341e article 1 sentence 1 HGB).

The risk for the claims known as at the balance sheet closing date is that the outstanding claims payments are not adequately deferred. In the case of claims that have already been incurred but have not yet been reported (unknown late claims), there is also the risk that these are not/not duly taken into account.

Our audit approach
When examining the reserves for known and unknown claims, the following main audit procedures were carried out in cooperation with the auditors of the consolidated companies:

- The process for handling claims, including the key internal controls for recognizing losses in the claims system and identifying and periodically reviewing it, was initially established. Subsequently, the controls were assessed for their appropriateness and effectiveness.
- Based on a conscious selection, we reconstructed the amount of individual, known claims reserves given the various branches and types of insurance.
- Based on a time series comparison, in particular of number of claims, frequency of claims, average amount of claims and settlement speeds and the claims ratio for the financial year and the balance sheet, the development of the loss reserve was analysed with regard to credibility of its development.
- The actual development of the reserve for insurance claims not yet processed booked in the previous year has been analysed on the basis of the settlement results for indications of insufficiently cautious formation of reserves.
- In particular, the assessment of determining unknown late claims was based on evaluating the derivation of the estimated number and the average amount of late claims on the basis of historical experience and current developments.
- In addition, involving specialists, we have carried out our own actuarial calculations of claims reserves for selected segments, which we chose on the basis of risk considerations, and compared these with the calculations of the companies.

Our conclusions
Overall, the methods and the underlying assumptions used to assess the reserves of known and unknown insurance claims are appropriate.

Other information
The legal representatives are responsible for the other information. Other information includes:

- the Group non-financial statement and
- the other parts of the annual report, not including the audited consolidated financial statements and the Group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and the Group management report do not extend to the other information, and accordingly we do not offer any audit opinion or any other form of audit conclusion on it.

In connection with our audit, we have the responsibility to read the other information and to assess whether the other information:

- contains material inconsistencies with the consolidated financial statements or our findings from the audit; or
- is otherwise materially misrepresented.

Responsibility of the company's officers and the Supervisory Board for the consolidated financial statements and the Group management report
The legal representatives are responsible for the preparation of the consolidated financial statements that comply with the provisions for insurance companies under German commercial law in all material respects, and that the consolidated financial statements comply with German legal provisions and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, the company's officers are responsible for the internal controls that they have deemed necessary to enable the preparation of consolidated financial statements that are free from - intentional or unintentional - material misstatement.

In preparing the consolidated financial statements, the company's officers are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing matters in connection the continuation of business activities, if relevant. Furthermore, they are responsible for accounting on the basis of the going concern principles, unless contrary to factual or legal circumstances.

Moreover, the company's officers are responsible for the preparation of the Group management report that, on the whole, provides a suitable view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and with German legal requirements, and accurately presents the risks and opportunities of future development. Also, the company's officers are responsible for the precautions and measures (systems) that they deem necessary to enable the preparation of a Group management report in accordance with German legal requirements to provide sufficient suitable evidence for the statements in the Group management report.

INDEPENDENT AUDITOR'S REPORT

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

Auditor's responsibility for the audit of the consolidated financial statements and Group management report
Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material - intentional or unintentional - misstatement and whether the Group management report as a whole provides a suitable view of the Group's position and, in all material respects, is consistent with the consolidated financial statements, audit findings and German legal requirements, and accurately presents the risks and opportunities of future development, and to issue an audit report containing our audit opinions on the consolidated financial statements and the Group management report.

Reasonable assurance is a high degree of assurance, but not a guarantee that an audit performed in accordance with section 317 HGB, the EU Audit Regulation and the German generally accepted standards for the audit of financial statements promulgated by the IDW will always reveal a material misstatement. Misstatements can result from violations or inaccuracies, and are considered material if they could reasonably be expected, individually or collectively, to influence the economic decisions that users make on the basis of these consolidated financial statements and the Group management report.

We exercise due discretion and maintain a critical approach. We also:

- identify and assess the risks of - intentional or unintentional - material misstatements in the consolidated financial statements and the Group management report, we plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to form the basis of our audit opinions. The risk that material misstatements are not detected is greater for violations than for inaccuracies, as violations can include fraud, falsification, intentional omissions, misrepresentation or the invalidation of internal controls.
- gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and of the systems relevant to the audit of the Group management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the objective of expressing an opinion on the effectiveness of these systems.
- assess the appropriateness of the accounting policies applied by the company's officers and the reasonableness of the estimates and related disclosures by the company's officers.
- draw conclusions about the appropriateness of the going concern principle applied by the company's officers and, on the basis of the audit evidence obtained, whether there is material uncertainty about events or circumstances that can give rise to significant doubts about the Group's ability to continue as a going concern. If we come to the conclusion that material uncertainty exists, we are required to refer to the relevant disclosures in the consolidated financial statements and the Group management report in the auditor's report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our opinion. However, future events or circumstances can lead to the Group being unable to continue its business activities.
- The legal representatives are responsible for the preparation of the consolidated financial statements that comply with the provisions for insurance companies under German commercial law in all material respects, and that the consolidated financial statements comply with German legal provisions and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements.
- we obtain sufficient, suitable audit evidence for the accounting information of the companies or business activities within the Group in order to issue audit opinions on the consolidated financial statements and the Group management report. We are responsible for designing, monitoring and performing the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.
- assess that the Group management report is consistent with the consolidated financial statements and the law, and the view of the position of the Group that it provides.
- perform audit procedures on the forward-looking statements made in the Group management report by the company's officers. In particular, on the basis of sufficient and suitable audit evidence, we analyse the significant assumptions on which the forward-looking statements are based, and assess whether the forward-looking statements have been properly derived from these assumptions. We do not issue a separate audit opinion on the forward-looking statements or the underlying assumptions. There is a considerable yet unavoidable risk that future events will deviate materially from the forward-looking statements.

Among other things, we discuss with those responsible for overseeing the audit the planned scope and scheduling of the audit and significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

We declare to those responsible for overseeing the audit that we complied with the relevant independence requirements and discuss with them all relationships and other issues that can reasonably be assumed to affect our independence, and the precautions taken against this.

Of the issues we discussed with those responsible for overseeing the audit, we determine which issues were most significant in the audit of the consolidated financial statements for the current reporting period and that are therefore the key audit issues. We describe these issues in our audit opinion, unless the public disclosure of such issues is prevented by law or other legal provisions.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Other disclosures in accordance with Article 10 of the EU Audit Regulation
We were appointed as auditors at the meeting of the Supervisory Board on 17 May 2017 and approved by the Supervisory Board. We have been engaged continuously as the auditor of the consolidated financial statements of VHV Vereinigte Hannoversche Versicherung a.G., Hanover, for more than 20 years.

We confirm that the audit opinions contained in this independent auditors' report are consistent with the additional report to the audit committee pursuant to Article 11 EU Audit Regulation ("Prüfungsbericht").

In addition to the statutory audit for the audited entity or entities controlled by it, we have provided the following services that are not disclosed in the consolidated financial statements or in the Group management report:

We conducted statutory and voluntary audits of the annual financial statements and voluntary reviews of regulatory reports. We have also provided audit services in connection with IT projects. Training services were provided in connection with regulatory questions. In the area of taxation, in addition to the preparation of tax returns, we have advised individual items on the company's business activities.

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Clemens Jungsthöfel.

Hanover, 6 April 2018

KPMG AG WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Jungsthöfel	Hetzke
Auditor	Auditor

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

In 2017, 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 actuarial development in insurance companies and the development of participating interests 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.

Key issues

- Status of the IT and digitalisation projects
- Costs and quality development in the operation functions (contract/claims) of VHV solutions
- Insurance technical reserves in VHV Allgemeine
- Current development at ITAS in Italy, VHV Re in Turkey and Al Ahli Takaful Company in Saudi-Arabia
- Strategic options in new business segments
- Current assessment of market position, balance sheet strength and strategic risks in comparison with corporate strategy and current 5-year plan
- Digitalization: Perspectives for the development in the number of employees and cost rates on completion of the IT projects
- Qualitative and quantitative cornerstones of corporate planning for 2018
- Status of the operationalisation of the association philosophy

AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements and Group management report for the financial year from 1 January to 31 December 2017, including the accounting system, were audited by KPMG AG 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 Group management report for 2017, including the non-financial statement to be prepared for the first time in the reporting. 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 16 May 2018.

Hanover, 16 May 2018

THE SUPERVISORY BOARD

Dr Lütke-Bornefeld
Chairman

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