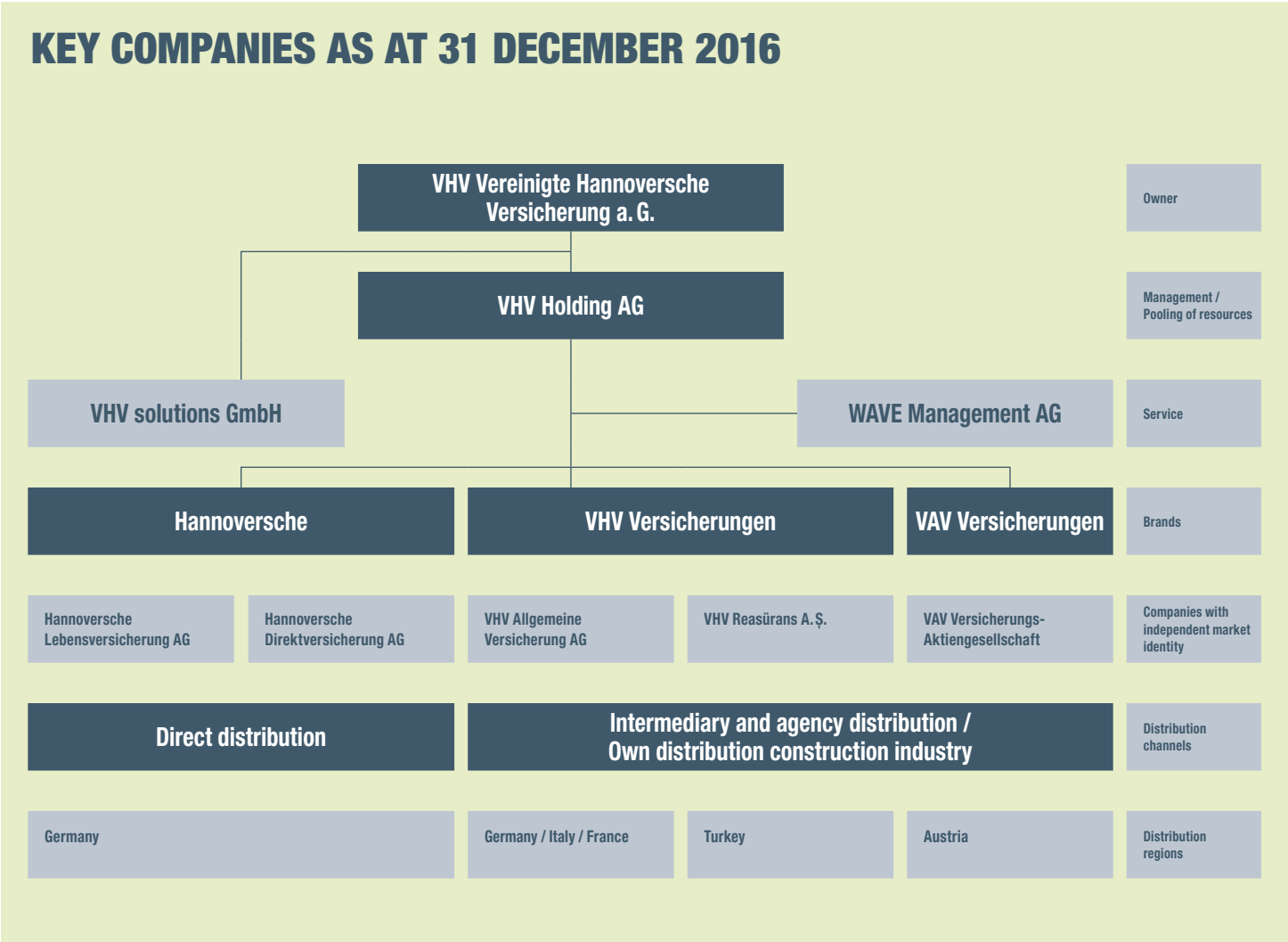


ANNUAL REPORT 2016

GROUP STRUCTURE

KEY COMPANIES AS AT 31 DECEMBER 2016



ANNUAL REPORT 2016

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
AktG	German Stock Corporation Act
ALM	Asset-Liability-Management
BaFin	Federal Financial Supervisory Authority, Bonn and Frankfurt am Main
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
DRS	German Accounting Standards
ECB	European Central Bank, Frankfurt am Main
EEC	European Economic Community
EGHGB	Introductory Act to the German Commercial Code
EuGH	European Court of Justice, Luxembourg
Fed	Federal Reserve System
FinMin NRW	Finance Ministry of North Rhine-Westphalia, Düsseldorf
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
IRCF	Independent risk controlling function
JARP II	Corsair Finance (Ireland) No. 6 Ltd., Dublin/Ireland
KfW	Kreditanstalt für Wiederaufbau, Frankfurt am Main
P&C insurance	property-casualty insurance
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
VDI	Virtual Desktop Infrastructure
VHV a.G.	VHV Vereinigte Hannoversche Versicherung a. G., Hanover
VHV Allgemeine	VHV Allgemeine Versicherung AG, Hanover
VHV Holding	VHV Holding AG, Hanover
VHV Konzern	VHV Vereinigte Hannoversche Versicherung a. G./Group, Hanover
VHV Leben	VHV Lebensversicherung AG, Hanover
VHV Re	VHV Reasürans A.Ş., Istanbul/Turkey
VHV solutions	VHV solutions GmbH, Hanover (formerly: VHV insurance services GmbH)
VHV-Stiftung	VHV-Stiftung, Hanover
VHV Vermögen	VHV Vermögensanlage AG, Hanover
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 set 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, which 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 only sold 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 quotient of premiums earned and 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 understood as the declared minimum participation in the valuation reserves.

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 registered to the averaged number of contracts as at 1 January and as at 31 December of the financial year.

Claims ratio

Quotient of expenses for insurance claims and premiums earned. The claims ratio is expressed as a percentage.

Combined ratio

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

Cover ratio

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

Current average interest

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

*) 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.

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 appreciation or the sale of securities, is not covered by this definition.

D

Deposit accounts receivable/accounts 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 borrowed capital are discounted with 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 with 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 quotient of equities held without taking account of possible equity derivatives and total investments held at market value.

Expenses for insurance claims

Expenses for insurance claims comprise 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, which 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 consumption. Goods, which are not used directly but are warehoused, are taken into account in the calculation as changes in inventories.

Gross new investment

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

Guarantee assets

The portion of an insurance company's assets, which serve 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

Quotient of expenses for the management of insurance contracts and premiums earned.

GLOSSARY

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 quotient 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, which 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

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.

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.

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.

Productivity

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

Profit segmentation

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

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 depicts 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

Quotient of net premiums written and 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, which 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 introduces enhanced solvency requirements for insurers based on a comprehensive risk assessment and establishes new regulations for the valuation of assets and liabilities that are to be recognised at fair value in the future. The directive came into force on 1 January 2016.

Strategic asset-allocation

The target weighting of the individual investment categories is meant by the 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 from income and expenses solely resulting from insurance transactions.

Transaction costs ratio (Life)

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

Transaction expenses

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

Turnover rate

The turnover rate determines the proportion of employees who leave the company every year in comparison with the average number of staff.

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 preset probability of default (confidence level), the VaR of a financial item is the amount of the loss that will not be exceeded with the preset 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. With a zillmerised rate this leads to the fact that actuarial reserves are either very low or even negative in the first few insurance years.

CONSOLIDATED MANAGEMENT REPORT

VHV VEREINIGTE HANNOVERSCHER VERSICHERUNG a. G.

As group parent company, VHV a.G. hereby presents the consolidated financial statements and the Group management report dated 31 December 2016.

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 characterise the Group. Customers and sales partners benefit from products and advice with a very good cost/performance ratio.

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

The individual companies operate under the VHV Versicherungen and Hannoversche brands in Germany, the VAV Versicherungen brand in Austria and the VHV Versicherungen brand in Turkey.

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.

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. Today, Hannoversche also offers car and household contents insurance in direct sales.

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.

CONSOLIDATED MANAGEMENT REPORT

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

1. In property-casualty insurance:

ACCIDENT INSURANCE

General accident insurance

Individual accident insurance without premium refund

Complete accident insurance

Insurance for non-work accidents

Aviation accident insurance

Functional disability insurance

Group accident insurance without premium refund

Complete group accident insurance

Partial group accident insurance

Motor vehicle accident insurance

LIABILITY INSURANCE

Personal liability insurance

Business and professional liability insurance

Construction (including architects and structural engineers), industry, trade and other business operations

Environmental liability insurance / Environmental damage insurance

Financial losses liability insurance

Radiation and nuclear facility liability insurance

Fire liability insurance

Construction guarantee insurance

Construction completion insurance

R. C. Décennale

Other liability insurance, and liability insurance not classified

MOTOR VEHICLE LIABILITY INSURANCE

OTHER MOTOR VEHICLE INSURANCE

Full motor vehicle insurance

Partial motor vehicle insurance

FIRE AND PROPERTY INSURANCE

Fire insurance

Industrial fire insurance

Other fire insurance

Associated household contents insurance

Associated residential building insurance

Other property insurance

Burglary and theft insurance

Water mains insurance

Glass insurance

Storm insurance

Hail insurance*)

Technical insurance policies

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 reinsurance transactions

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

INDIVIDUAL ANNUITY INSURANCE POLICIES (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 in accordance with Pension Plan Certification Act (PPCA)

Savings plan with annuity option

GROUP INSURANCE POLICIES (PARTLY WITH INDEX-LINKED INCREASES)

Group endowment insurance

Group term insurance (Classic, Plus) with fixed sum insured

Immediately commencing and deferred group annuity insurance

Immediately commencing and deferred group basic annuity in accordance with section 10 paragraph 1 no. 2 b of the Income Tax Act

Group annuity insurance in accordance with the Pension Plan Certification Act (AltZertG)

Group savings plan with annuity option

FUND-LINKED ANNUITY INSURANCE AS INDIVIDUAL OR GROUP INSURANCE (WITH INDEX-LINKED INCREASES)

Deferred fund-linked annuity insurance with guaranteed protection in case of death and optional premium guarantee

Deferred fund-linked basic annuity (as individual insurance) in accordance with section 10, paragraph 1, no. 2 b of the Income Tax Act

CAPITALISATION TRANSACTIONS

OCCUPATIONAL DISABILITY INSURANCE POLICIES

Occupational disability insurance for exemption from premium payment and payment of an annuity at the time the occupational disability occurs

SUPPLEMENTARY INSURANCE POLICIES

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 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

In 2016, the global economy was characterised by declining momentum and a continuation of expansionary monetary policy. Lower contributions to growth were seen particularly in the industrial nations. In contrast, economic development in the major emerging economies turned out better than forecast. The USA posted GDP growth of 1.6 % in the year as a whole, while the euro zone reported a growth contribution of 1.7 %. The uneven economic development of the individual countries of the monetary union was reflected in varying growth rates. While economic growth in France and Italy was below average at 1.3 % and 0.7 % respectively, Spain provided a positive surprise with GDP growth of 3.1 %. The economic output in Germany in 2016 of 1.9 % was slightly higher than the average for the euro zone. The important Asian economies, Japan and China, saw GDP growth rates of 0.7 % and 6.6 % respectively.

Following historically below-average figures, inflation rates normalised over the course of the year. At the end of the year, the inflation rate was 0.3 % in the euro zone and 1.2 % in the USA. This development was primarily due to the recovery of the price of oil, which had a delayed effect on inflation rates.

In light of the economic conditions characterised by only moderate growth, the monetary policy of the globally relevant central banks remained expansionary in 2016. With just one interest rate move, the US Federal Reserve (Fed) was much more restrained than had been expected at the start of the year. The ECB expanded its monetary measures by, firstly, ramping up its bond-buying programme and extending it to include corporate bonds. Secondly, the duration of the measures was extended until at least December 2017.

The capital markets were volatile in 2016, caught between declining economic momentum, the central banks' expansionary policies and surprising political developments. Great Britain's vote to leave the EU and the unexpected result of the US presidential election triggered particularly significant fluctuations on the financial markets in 2016.

On the European bond market, the trend of falling yields continued until midway through the year. Consequently, the yield on 10-year German government bonds hit a new all-time low at -0.19 %. Rising inflation rates, improved economic prospects and the anticipation of an interest rate hike by the US Fed led to increasing yields over the course of the year. At the end of 2016, the yield on 10-year German government bonds of 0.21 % was down 42 basis points compared to the end of 2015 (0.63 %). Government bonds with maturities of up to eight years had negative yields at the end of the year.

Corporate bonds developed much more positively than government bonds in 2016. Development was also boosted by the ECB's bond-buying in this segment. As a result of the Italian banking crisis becoming an issue again, the risk premiums on bank bonds increased significantly for a time.

Equities delivered a mixed earnings picture in 2016. While the US indices Dow Jones and S&P500 registered price gains of 13.4 % and 9.5 % respectively and marked new all-time highs, the European equivalents were relatively weak. The German benchmark index, the DAX, fluctuated between 8,753 and 11,481 points with high volatility and occasionally significant interim losses. In net terms, the DAX gained 6.9 % in 2016, while the Euro Stoxx 50 posted price gains of only 0.7 %.

The euro continued to decline against the US dollar, starting at USD 1.09/EUR at the beginning of the year and ending 2016 at USD 1.05/EUR.

Insurance sector environment

According to the projection by the German Insurance Association (GDV) from November 2016, premium growth of 2.9 % and an increase in business-year claims expenses of 3.7 % can be expected in direct property-casualty insurance transactions in Germany in the 2016 financial year. The combined ratio will be around 96 % for the 2016 financial year and thus roughly on a par with the previous year.

Like in direct property-casualty insurance transactions in Germany as a whole, the GDV also forecasts emergent growth in premium revenues of 2.5 % and a more marked increase in claims expenses of 3.9 % in motor vehicle insurance. In motor vehicle liability insurance, the negative claims development may have been facilitated by an increase in driving as a result of persistently low fuel prices.

In comprehensive insurance, an average year for natural hazards is assumed. Due to an anticipated increase in the average claim by 2.5 % to 3.0 % in all areas of motor vehicle insurance, claims expenditure is expected to increase significantly in the 2016 financial year.

Despite the expected rise in claims expenditure, the GDV says motor vehicle insurance could, like in 2015, close 2016 with a positive technical result again, even if it is small.

In property insurance and general liability insurance, the GDV expects an increase in premium revenues of probably 3.7 % and 2.5 % respectively; similarly, a 1.0 % increase in premium revenues is expected in general accident insurance. The increase in premiums in liability insurance is attributable to premium adjustments and rising wage and sales totals.

In loan, surety and fidelity insurance, a slight year-on-year increase in premium revenues combined with sharply increasing claims expenditure and a technical result slightly below the previous year is expected.

As a special insurer of the construction industry, VHV Allgemeine has a keen interest in the economic situation and development of the construction industry. According to their statistical forecast from January 2017, the German construction industry and German construction trades are assuming growth in sales of 5.8 % in 2016. As a result, total sales of over EUR 106 billion are expected in the German construction industry. In residential construction, sales are expected to increase by 9.0 % overall. Sales are expected to increase by 3.5 % in commercial construction and by a significant 5.0 % 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 2016. The downward trend in contracts again continued.

Gross premiums written fell by 1.7 % compared with 2015 to EUR 86.6 billion, of which EUR 61.6 billion related to regular premiums (-0.4 %) and EUR 25.0 billion to one-off premiums (-4.5 %). The number of new insurance contracts decreased year on year by 3.5 % to 4.9 million. The regular premiums for one year for these new contracts amounted to EUR 5.3 billion (+2.2 %). One-off premiums paid fell by 5.1 % to EUR 24.6 billion.

Group performance

- Contract growth above market level and expectations in the property-casualty segment and good premium growth in conjunction with higher claims expenses year on year
- Stable premiums and contract numbers in life insurance, as expected, with higher growth in premiums in new business compared to the previous year
- Much higher growth in earnings on investments than forecast as a result of high gains on disposal with an expected decline in current interest
- Major projects mostly implemented as planned
- "Fitness programme" essentially implemented according to plan

The Group reported net income for the year of EUR 127.8 million (previous year: EUR 140.1 million). This meant that the company's financial resources were also strengthened further in the interests of our policy holders.

In property-casualty insurance business, a technical result for our own account of EUR 49.4 million (previous year: EUR 118.5 million) was achieved. The technical result decreased chiefly because of the higher allocation to the equalisation reserve, which resulted in a further increase in the capital base.

The life insurance business closed with a technical result of EUR 45.2 million (previous year: EUR 20.1 million). The improvement of the technical result is attributable to a lower allocation to the latent reserves for premium refunds as well as to the actuarial reserve in the Pensionskasse.

In total, the technical result for our own account amounted to EUR 94.6 million (previous year: EUR 138.6 million).

CONSOLIDATED MANAGEMENT REPORT

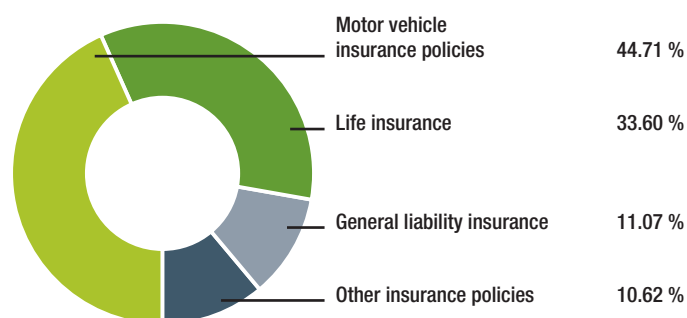
PORTFOLIO DEVELOPMENT FOR DIRECT-WRITTEN INSURANCE TRANSACTIONS

	NUMBER OF CONTRACTS			GROSS PREMIUMS EARNED		
	31.12.2016 Number	31.12.2015 Number	Change	2016 EUR'000	2015 EUR'000	Change
Accident insurance	442,211	394,036	12.2 %	33,040	29,314	12.7 %
Liability insurance	1,469,784	1,423,066	3.3 %	316,607	299,891	5.6 %
Motor vehicle liability insurance	2,922,208	2,722,816	7.3 %	781,541	718,548	8.8 %
Other motor vehicle insurance policies	2,194,674	2,022,474	8.5 %	496,853	463,475	7.2 %
Fire and property insurance	893,956	855,274	4.5 %	159,022	151,087	5.3 %
of which:						
Associated household contents insurance	440,553	421,355	4.6 %	43,701	42,145	3.7 %
Associated residential building insurance	133,889	130,262	2.8 %	39,992	37,055	7.9 %
Other property insurance	278,920	264,680	5.4 %	61,974	59,453	4.2 %
of which: Technical insurance policies	59,595	56,661	5.2 %	40,852	40,041	2.0 %
Loan and surety insurance	49,377	47,061	4.9 %	75,620	72,843	3.8 %
Legal expenses insurance	22,583	20,995	7.6 %	2,188	1,989	10.0 %
Transportation service insurance	1,068,902	991,192	7.8 %	8,623	6,832	26.2 %
Other insurance policies	49,727	46,655	6.6 %	6,926	6,407	8.1 %
Total property-casualty	9,113,422	8,523,569	6.9 %	1,880,420	1,750,384	7.4 %
HL	964,088	958,316	0.6 %	963,657	941,095	2.4 %
Total life insurance	964,088	958,316	0.6 %	963,657	941,095	2.4 %
Total for the VHV Group	10,077,510	9,481,885	6.3 %	2,844,077	2,691,479	5.7 %

RESULTS OF OPERATIONS

Gross premiums earned for the Group amounted to a total of EUR 2,867.0 million (previous year: EUR 2,720.9 million).

PREMIUMS EARNED
(share in %)



Premiums earned of EUR 2,842.3 million (previous year: EUR 2,690.9 million) were generated in direct-written insurance transactions and of EUR 24.7 million (previous year: EUR 30.0 million) in insurance transactions assumed in reinsurance coverage. Including the ceded reinsurance premiums of EUR 125.2 million, the premiums for our own account amounted to EUR 2,741.8 million (previous year: EUR 2,558.6 million). This corresponds to a retention ratio of 95.6 % (previous year: 94.0 %).

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

The net result from investments amounted to EUR 653.9 million (previous year: EUR 547.0 million), resulting in a net interest of 4.3 % (previous year: 3.7 %). The main reason for the higher net result from investments compared to the previous year is the utilisation of valuation reserves at HL to finance the additional interest reserve.

Current income from investments in the amount of EUR 512.3 million was down 3.7 % on the previous year (EUR 531.8 million).

Gains from the divestiture of investments increased in comparison to the previous year, from EUR 43.6 million to EUR 172.0 million.

At EUR 1.0 million, losses on the divestiture of investments were EUR 2.6 million lower than in the previous year. Write-downs increased by EUR 2.1 million to EUR 10.2 million.

Appreciation decreased slightly by EUR 0.1 million to EUR 0.7 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 1,903.7 million (previous year: EUR 1,780.0 million). Of this figure, EUR 1,879.0 million was attributable to direct-written insurance transactions and EUR 24.7 million to insurance transactions assumed in reinsurance coverage.

Net premiums earned for own account increased by 9.9 % year on year to EUR 1,786.8 million (previous year: EUR 1,625.7 million).

The business-year claims ratio in direct-written insurance transactions increased from 78.6 % in the previous year to 79.8 % 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. Including the settlement result, the reported claims ratio in direct-written insurance transactions therefore increased from 67.4 % in the previous year to 70.9 % in the financial year.

The operating costs ratio of direct-written insurance transactions fell from 21.9 % in the previous year to 21.3 %.

After another good business performance in direct-written insurance transactions, the combined ratio is 92.2 % (previous year: 89.3 %). The year-on-year change is largely due to the higher settlement result in the previous 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):

CONSOLIDATED MANAGEMENT REPORT

Accident insurance

In accident insurance, the number of risks insured increased by 12.2 % year on year to 442,211. In total premiums earned increased by 12.7 % to EUR 33.0 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 of our accident products. In private accident insurance, a high-performance product was launched on 1 July 2015 that was very well received by the market. The risk-selective rate and the focus on insuring young customers also improved the portfolio structure.

The frequency of claims rose by 3.3 %. The business-year claims expenditure increased considerably on account of several major loss events and greater average claim payments. The business-year claims ratio increased to 85.5 % after 70.4 % in the previous year. As a result, the combined ratio rose from 84.5 % in the previous year to 96.1 % in the financial year.

Following a withdrawal from the equalisation reserve of EUR 0.3 million, there was a technical result for own account of EUR 0.9 million.

Liability insurance

The number of contracts for liability insurance increased by 3.3 % in comparison with the previous year to 1,469,784. In total premiums earned moved up by 5.6 % to EUR 316.6 million.

The business customer base in liability insurance decreased in terms of the number of contracts despite good development of new business. This development is mainly based on portfolio streamlining measures in business liability and construction guarantee insurance, the integration of separate environmental damage insurance contracts into basic contracts and a tougher price and acceptance policy in professional liability insurance.

In line with our forecasts, premiums earned in business customer liability insurance continued to develop positively in 2016. This premium growth was spread over nearly all products and target groups.

The positive premium growth is attributable firstly to a better-than-expected development of new business in business and professional liability insurance, including the underwriting of some major risks. Secondly, premiums earned were also increased in 2016 through targeted portfolio management measures in professional liability insur-

ance. This development continued to be boosted by stable, buoyant construction; the associated increase in sales, wage and fee totals also had a positive impact on growth in premiums.

In personal liability insurance, growth in the number of contracts of 3.8 % was achieved. In the current year, 48,036 contracts were acquired and the portfolio increased to 1,300,532 contracts. On the basis of growth in the portfolio, a pleasing increase in premiums earned of 7.5 % to EUR 74.9 million was achieved in this segment with a decline in the business-year claims ratio from 55.5 % in the previous year to 49.9 % in the financial year.

The business-year claims ratio in liability insurance decreased by 3.6 percentage points in total to 72.3 % (previous year: 75.9 %). In order to account for the longer settlement periods 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. As a result, the combined ratio increased from 97.8 % in the previous year to 122.7 % in the financial year.

Following a withdrawal from the equalisation reserve of EUR 21.7 million, there was a technical result for own account of EUR -43.6 million (previous year: EUR -20.4 million).

Motor vehicle insurance

The number of insurance contracts in the motor vehicle segment (including motor vehicle accident and transportation service insurance) rose by 8.0 %, considerably outperforming the market.

Premiums earned likewise increased considerably by 8.3 % to EUR 1,290.4 million. Average premiums thus fell slightly.

The consistent enhancement of risk selection and claims management again made a significant contribution to profitability in motor vehicle insurance in 2016.

Motor vehicle liability insurance

For motor vehicle liability insurance, the number of insurance contracts increased by 7.3 %. In contrast, the number of claims registered increased by 5.6 %. This reduction in claims frequency is primarily attributable to the efficient use of technical pricing. Premiums earned increased considerably by 8.8 % to EUR 781.5 million (previous year: EUR 718.5 million).

The business-year claims ratio improved slightly from 89.6 % in the previous year to 89.3 % 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 5.8 percentage points year on year to 82.0 % (previous year: 87.8 %).

Following an allocation to the equalisation reserve of EUR 60.2 million (previous year: EUR -42.4 million), a technical result for our own account was recorded in the amount of EUR 76.0 million (previous year: EUR 126.1 million). As of 31 December 2016, the equalisation reserve for motor vehicle liability insurance amounted to EUR 325.3 million.

Other motor vehicle insurance

The number of insurance contracts increased considerably by 11.3 % in full motor vehicle insurance and by 4.5 % in partial motor vehicle insurance. Premiums earned rose by 7.2 % to EUR 496.9 million in the financial year. In total, a slight decline in average premiums was seen in comprehensive motor vehicle insurance.

In contrast to the previous year, there was an average number of claims resulting from natural hazards in 2016.

The number of claims registered increased considerably in the financial year by 9.7 % in full motor vehicle insurance and by 5.5 % in partial motor vehicle insurance.

The business-year claims ratio rose from 77.3 % in the previous year to 81.4 % in the financial year. As a result, the combined ratio increased from 92.0 % in the previous year to 95.5 % in the financial year.

After an allocation to the equalisation reserve of EUR 20.7 million, a technical loss for own account of EUR -2.2 million was produced. As at 31 December 2016, the equalisation reserve in other motor vehicle insurance amounted to EUR 144.5 million.

Fire and property insurance

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

For those types of fire and property insurance not listed separately, premiums earned increased by 8.3 % from EUR 31.8 million in the previous year to EUR 34.5 million during the financial year.

The technical result for own account was EUR -5.9 million (previous year: EUR -5.0 million).

The above-average growth in the business and industrial property segment remained at a high level. With regard to industrial business, underwriting was more selective than before and exclusively focused on target groups. The FIRMENPROTECT product is well positioned on the market. VHV Allgemeine is established as a qualified and reliable partner in this segment.

The number of insurance contracts in fire and property insurance as a whole, at 38,682, was increased by 4.5 %. Gross premiums earned rose by 5.3 % from EUR 151.1 million in the previous year to EUR 159.0 million in the financial year, which matched our expectations. The business-year claims ratio rose from 63.1 % in the previous year to 66.6 % in the financial year. The combined ratio likewise increased slightly from 94.6 % in the previous year to 95.0 % in the financial year.

Associated household contents insurance

The number of insurance contracts increased compared to the previous year by 4.6 % to 440,553. The product brought to market in 2015 resulted in good new business development. The number of contracts in new business was increased. Premiums earned were up 3.7 % from EUR 42.1 million in the previous year to EUR 43.7 million in the financial year. Our expectations thus proved to be correct.

The frequency of claims fell by 11.0 % in the financial year due to a significantly lower number of storm claims. In contrast, the business-year claims expenditure increased by 4.6 % as a result of higher natural hazard expenses due to flooding. This increased the business-year claims ratio by 2.2 percentage points to 49.1 %.

The combined ratio rose by 2.7 percentage points to 86.6 % (previous year: 83.9 %).

Following a withdrawal from the equalisation reserve of EUR 0.2 million, there was a technical result for own account of EUR 3.6 million.

Associated residential building insurance

The number of insurance contracts increased by 2.8 % year on year to 133,889. Premiums earned rose by 7.9 % from EUR 37.1 million in the previous year to EUR 40.0 million in the financial year, which exceeded our expectations slightly.

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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 and the development of new business was curbed in numbers of contracts.

The combined ratio improved slightly from 100.9 % to 100.2 % due to a higher settlement result year on year.

After an allocation to the equalisation reserve of EUR 5.9 million, there was a technical result for own account of EUR -7.3 million.

Technical insurance policies

The positive development in technical insurance policies was continued in 2016, with insurance contract numbers increasing by 5.2 % year on year to 59,595. This was stimulated by machinery breakdown insurance and construction services insurance.

Premiums earned in the financial year increased by 2.0 % to EUR 40.8 million, which includes EUR 0.4 million worth of fronting business from the cooperation with Helvetia Group. The premium growth in VHV original business resulted primarily from construction services and machinery breakdown 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 1.1 percentage points from 76.8 % in the previous year to 75.7 % in the financial year. Therefore, and due to a settlement result that significantly exceeded expectations, the combined ratio improved considerably from 95.1 % in the previous year to 88.0 % in the financial year.

An allocation to the equalisation reserve of EUR 5.9 million (previous year: EUR 0.7 million) left a technical result of EUR -2.4 million in the financial year.

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 4.9 % year on year to 49,377 (previous year: 47,061). Premiums earned increased by 3.8 % to EUR 75.6 million in the financial year (previous year: EUR 72.8 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 1,915.0 million. This equated to an increase of 7.5 % year on year.

The business-year claims ratio fell slightly from 26.5 % in the previous year to 26.1 % in the financial year.

After the allocation to the equalisation reserve of EUR 3.0 million, there was a very good technical result for own account of EUR 46.0 million in total.

Transportation service insurance

For transportation service insurance, the number of insurance contracts increased considerably by 7.8 % to 1,068,902. In the process, premiums earned increased by 26.2 % from EUR 6.8 million to EUR 8.6 million mainly because of premium increases. The business-year claims ratio of 90.8 % in the previous year fell to 84.7 % in the financial year.

Taking account of an allocation to the equalisation reserve of EUR 1.3 million, there was a technical result for own account of 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 6.9 % year on year to 72,310 (previous year: 67,650). Premiums earned were up 8.6 % from EUR 8.4 million in the previous year to EUR 9.1 million in the financial year.

In the financial year, a technical loss for own account of EUR -1.2 million was reported for these types of insurance.

Insurance transactions assumed in reinsurance coverage

In insurance transactions assumed in reinsurance coverage, which are carried out in the accident, liability, vehicle, fire and property, legal protection, life, air travel, transportation and technical insurance classes, there was a technical loss for own account of EUR 9.9 million in 2016 (previous year: EUR -2.2 million). This was essentially due to an allocation to the equalisation reserve of EUR 8.7 million.

PERFORMANCE IN LIFE INSURANCE TRANSACTIONS

The number of new insurance contracts amounted to 57,924, corresponding to an increase of 5.8 % on 2015 (previous year: 54,733) against the market trend (market: -3.5 %). 85.5 % or 49,524 of these contracts relate to individual term life, 5.5 % more than in the previous year (46,941 contracts).

Overall, new premiums increased by 11.0 % from EUR 234.1 million in 2015 to EUR 259.7 million in 2016. EUR 50.0 million of this was attributable to regular premiums (+4.2 %) and EUR 209.7 million to one-off premiums (+12.7 %). Not including one-off premiums capitalisation business, savings products with one-off premiums impacted the portfolio in the amount of EUR 79.9 million. Individual term life policies accounted for 78.0 % of new contracts with regular premiums. EUR 39.0 million of this amount impacted the portfolio, 7.8 % more than in 2015 (previous year: EUR 36.2 million).

Measured in terms of the sum insured, the insurance portfolio grew by 4.6 % to EUR 87,739.5 million (previous year: EUR 83,903.2 million). Total new contracts of EUR 8,381.8 million insured (previous year: EUR 7,536.3 million) were partially offset by disposals in the amount of EUR 4,545.5 million insured (previous year: EUR 3,980.8 million). Premature cancellation by repurchasing, conversion to non-premium contracts and other premature disposals amounted to a sum insured of EUR 1,068.5 million (previous year: EUR 1,020.3 million).

Measured in terms of the regular premium, the insurance portfolio increased by 0.1 % from EUR 728.7 million to EUR 729.4 million. Contrary to the trend in the market, the insurance portfolio increased by 5,772 contracts from 958,316 contracts to 964,088 contracts.

The cancellation rate (based on the average regular premium) fell by 0.2 percentage points year on year to 1.8 % and remains noticeably below the sector-wide average of 4.3 % in 2016.

As expected, gross premiums written increased by 2.3 % from EUR 935.2 million to EUR 956.7 million. The majority of gross premiums related to regular premiums received of EUR 724.8 million (previous year: EUR 725.4 million). Premiums from one-off payments of EUR 231.9 million (previous year: EUR 209.8 million) include premiums from capitalisation transactions of EUR 129.8 million (previous year: EUR 119.3 million).

The payouts to policy holders for insurance benefits and profit shares increased from EUR 1,185.9 million to EUR 1,327.5 million in the finan-

cial year. Of this amount, EUR 960.5 million was attributable to expirations, annuities, deaths and surrenders and EUR 367.0 million to profit balances. HL increased its insurance technical reserves and liabilities for future payments to policy holders by EUR 30.4 million from EUR 10,344.3 million to EUR 10,374.7 million in the financial year.

Unadjusted earnings after taxes amounted to EUR 264.9 million (previous year: EUR 228.0 million). Of this amount, HL allocated EUR 159.2 million to the reserve for premium refunds, and EUR 92.2 million was distributed as direct deposit. EUR 13.5 million was attributable to the net profit for the year (previous year: EUR 10.2 million). The unadjusted earnings after taxes shown were achieved despite further allocations to the additional interest reserve of EUR 189.0 million (previous year: EUR 107.4 million).

PERFORMANCE IN OTHER SEGMENTS OF THE GROUP

Optimisation of quality and costs in contract and claims processing

VHV solutions' 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 of recent years therefore continued. This was due to the further improvement in automation rates in applications, operational process optimisations and a lower sick-leave rate among the workforce. The average claims expenditure in the motor vehicle insurance segments has so far developed in line with the market (market data 11/2016). The lead over the market gained in the last two years was thus secured as a result of the "profit-oriented claims management" programme (reduction of claims expenditure through processing claims more intensively).

As expected, total costs were lower than in the previous year. This was the result of the planned reduction in personnel and non-labour costs. In particular, the pension expenses decreased year on year due to the adjustment of the actuarial interest rate for pension reserves adopted in the 2016 financial year.

In the financial year, IT continued to focus on the "ThinkFIT" programme (securing the long-term future viability of the IT application landscape and modernising IT operations) in preparation for future digitalisation initiatives. In addition, the "OPAL" (optimisation and consolidation of payment processes) was completed on schedule. The planned changes to comply with the Code of Conduct (code of conduct for dealing with personal data in the insurance industry) were implemented as of the end of 31 December 2016. Moreover, the "Test and Release

CONSOLIDATED MANAGEMENT REPORT

Management" (standardisation of test environments and centralisation of release management) project was continued.

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

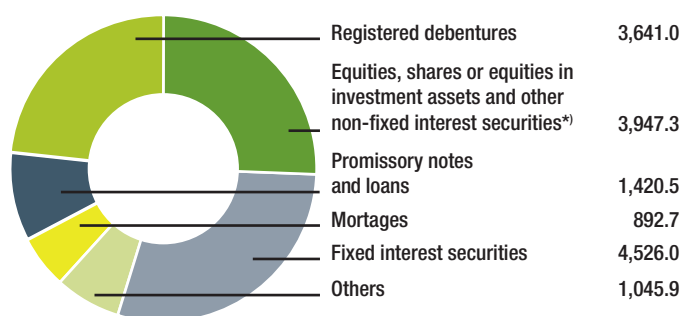
ASSETS

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 3.5 % to EUR 15,473.4 million in the financial year. Gross new investment (not including real property) amounted to EUR 1,957,325 million.

INVESTMENTS in million EUR



*) Equity exposure to fair value 1,4 %

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 8,167.0 (52.8 %). They were followed by equities, shares or equities in investment assets and other non-fixed interest securities at EUR 3,947.3 million (25.5 %) as well as promissory notes and loans at EUR 1,420.5 million (9.2 %).

As of the balance sheet closing date, the asset-backed securities (ABS) portfolio had a carrying amount of EUR 27.9 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, appreciation of less than EUR 0.1 million was recognised on ABS securities. At the end of the financial year 2016, the ABS portfolio has net reserves of EUR 2.7 million.

As of 31 December 2016, the Group reported a PE portfolio with a carrying amount of EUR 574.2 million (previous year: EUR 510.1 million). The market value of the private equity investments totalled EUR 801.9 million (previous year: EUR 653.7 million). Related to total investments, the private equity share was approximately 3.7 % (previous year: 3.4 %) overall.

In the area of real estate investments, selective additional purchases and sales were made in 2016. As at 31 December 2016, the Group cumulatively held real estate investment units with a carrying amount of EUR 901.8 million (previous year: EUR 836.5 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 6,376.2 million (previous year: EUR 6,182.6 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 17.4 million (previous year: EUR 17.5 million) has been avoided.

Funds for indemnification

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

FUNDS FOR INDEMNIFICATION

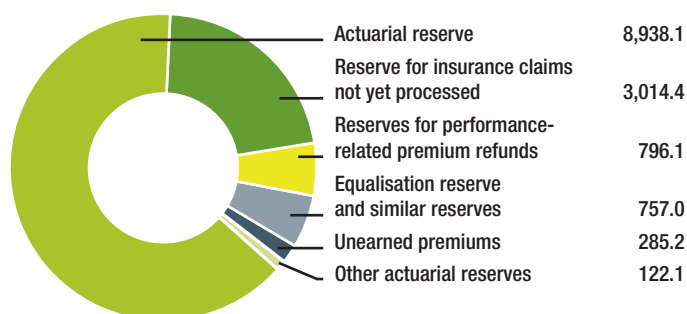
	2016 EUR million	2015 EUR million
Equity	1,265.9	1,140.6
Subordinated liabilities	–	95.0
Net technical reserves	13,912.9	13,574.9
Funds for indemnification for own account	15,178.8	14,810.5

In 2016, all subordinated liabilities of EUR 95.0 million were repaid.

Net technical reserves

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

NET TECHNICAL RESERVES in million EUR



The majority of net technical reserves, at 64.2 %, relate to the actuarial reserve.

Of actuarial reserves shown, the majority, at 51.3 %, relate to individual capital insurance policies of the VHV Group's life insurance company. Group insurance policies account for a share of 20.0 %, followed by individual annuity insurance policies with a share of 18.3 % of the total actuarial reserve. To fulfil future interest obligations, the actuarial reserve includes an additional interest rate reserve of EUR 615.1 million.

FINANCIAL POSITION

Liquidity

The financial position and changes in cash flows are affected by insurance transactions.

Rolling 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 2016 and in the future.

ITEM

	2016 EUR'000	2015 EUR'000
Cash flow from operating activities	-20,320	267,097
Cash flow from investment activities	-28,232	-13,706
Cash flow from financing activities	-91,540	-50,000
Change in cash and cash equivalents	-140,092	203,391
Change in cash equivalents due to exchange rate movements, changes in the scope of consolidation and measurement	3,702	-1,016
Cash and cash equivalents at the beginning of the period	317,431	115,056
Cash and cash equivalents at the end of the period	181,041	317,431

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

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 activities is based on the repayment of loan liabilities and the assumption of KfW pass-through loans in the mortgage loan business.

Please see the cash flow statement on page 51 for additional details.

Investments

The VHV Group mainly invested in investments in the 2016 financial year.

In addition, investments were made as part of the "ThinkFIT" programme (securing the long-term future viability of the IT application landscape and modernising IT operations) in preparation for future digitalisation initiatives.

CONSOLIDATED MANAGEMENT REPORT

MISCELLANEOUS

In 2016, the rating agency Standard & Poor's (S&P) confirmed the "A" rating of the VHV Group and its core companies VHV Allgemeine and HL and improved the outlook from "stable" to "positive".

The improvement is attributable in particular to the capitalisation and profitability of the VHV Group above "AAA" level. The strong competitive position with high cost efficiency and HL's low cancellation rate were also highlighted.

This makes the VHV Group the first insurance group in Germany since 2014 whose outlook has improved despite a challenging market environment.

The VHV Group and its core companies VHV Allgemeine and HL have now had the "A" rating for eleven years.

Numerous awards for products and service confirm the positive positioning of VHV Allgemeine and HL on the market.

For the fifth time in a row, HL received the top rating "excellent A++" from the customer-focused Cologne-based rating agency ASSEKURATA. The excellent ratings of the quality sub-categories "Growth/Attractiveness to the market", "Customer orientation" and "Security" were decisive factors behind the result. HL's performance in the quality sub-categories "Success" and "Profit Participation/Performance" remain "very good".

In addition, HL achieved an excellent result in the customer survey carried out as part of the rating process in the previous year, again emphasising HL's customer focus.

HL again passed the stress test by the analysts Morgen & Morgen with an "excellent" mark in 2016.

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 2,951 employees (2015: 2,853 employees) worked for the VHV Group in 2016. The recruitment of significant numbers of new employees in certain areas (e.g. contracts, claims and IT) as well as

reductions in the number of employees working in other functions (e.g. administrative tasks) contributed to this development. The increase in gross premiums earned (+5.7 %) and the number of contracts (+6.3 %) achieved in 2016 combined with a simultaneous improvement in key parameters relating to processing quality demonstrated that our staff also further increased their productivity in 2016.

Human resources activities in 2016 focused in particular on the qualification and training of employees and the enhancement of occupational health management. The latter is reflected in a further improvement in the sick-leave rate, which again improved significantly year on year to 3.8 % in 2016 and is thus lower than comparative figures on the insurance market (around 6 %). Together with the positive results of the employee survey carried out in 2016 and the low employee resignation rate of 1.9 %, this is evidence of a good working environment with high employee motivation.

The VHV Group attaches great importance to the constant development and qualification of its employees. The internal academies have also proved their worth in developing and retaining staff in 2016. The main topics covered here were technical and methodological expertise as well as executive training.

We now take this opportunity to extend our thanks to all employees who through their individual dedication, expertise and experience contributed significantly to mastering the challenges faced in 2016 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)*)

	2016	2015
Average number of employees for the year	2,951	2,853
Number of employees at end of year	3,010	2,897
Average number of office-based employees	2,719	2,619
Average age of employees (years)	44.4	44.5
Average length of employment with the company (years)	15.4	15.6
Proportion of university graduates (%)	24.9	23.4

*) 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 2016 financial year was very positive and successful for VHV Allgemeine in all aspects.

In the life segment, unadjusted earnings after taxes of EUR 264.9 million were achieved despite further allocations to the additional interest reserve of EUR 189.0 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 handling of customers' funds.

In the past financial year, a net result from investments that was significantly above budget of EUR 653.9 million (previous year: EUR 547.0 million) was generated.

The 2016 financial year went positively overall, allowing the VHV Group to exceed expectations with consolidated net profit that declined only slightly after the very good year in 2015.

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 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
- Meet supervisory requirements for risk management

Impact of the introduction of Solvency II

The new Solvency II Directive came into force on 1 January 2016. In recent years, the VHV Group has dealt intensively with the implementation of the new supervisory requirements, so the VHV Group is well prepared for the new requirements. In addition to the requirements for the business organisation, the new capital and reporting requirements must also be considered.

In 2016, the eligible own funds of the VHV Group and its individual companies comfortably exceeded the new regulatory 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 2016, HL clearly exceeded the requirements several times over even without the instruments of the transitional measures subject to approval or volatility adjustments.

Because the accounting policies according to the German Commercial Code (HGB) and the new regulatory requirements are different, the risk categories in the Opportunity and Risk Report still correspond to the previous classification on the basis of German Accounting Standard (GAS) 20.

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

CONSOLIDATED MANAGEMENT REPORT

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 effective risk management is the responsibility of the **Board of Directors**. Because of the large number of Group companies, a Risk Committee acts 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 was 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.

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 (Independent Risk-Controlling Function (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.

The internal review of the business organisation and the methods and tools of the key functions and changes in the organisation are also discussed.

Risk management in the VHV Group is coordinated and developed further by **Group Risk Management** led by the Chief Risk Officer (CRO). Group Risk Management forms the core of the IRCF, which is supplemented by local risk controllers from selected specialist departments. The IRCF's task is to guarantee a consistent and efficient risk management system.

In the **operations**, 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 IRCF. The Group pursues the aim of encouraging the risk culture in the company, in particular, by clearly allocating responsibility for risk internally.

The **Compliance Function** monitors compliance with laws, regulations and supervisory requirements within the VHV Group. The central organisational unit Group Compliance handles topics including 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 assumes an important role in the context of risk management. In particular, it plans audits in a risk-oriented manner. Group Risk Management and the local risk management units are audited by Internal Audit on a regular basis.

The risk early recognition system is also checked by the **auditor** with regard to risks that represent a threat to the company as a going concern as part of the annual audit in accordance with section 317 article 4 HGB.

The internal review of the entire business organisation was initiated and evaluated by the Board of Directors, and the results were documented.

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. To this end, the Risk Officer requests information on all risks as part of a semi-annual risk assessment and updates this information as

required. There are also wide-ranging ad hoc reporting requirements to ensure risks are identified during the year. Process-oriented risks are also identified as part of an IT-based system of documenting business processes.

Risk assessment is understood as all methods and processes that serve to measure and assess significant risks. To determine the overall solvency needs in the own risk and solvency assessment (ORSA), company-specific circumstances are included in the models. The overall solvency needs are determined on an annual basis, while the standard formula is calculated on a quarterly basis.

Risks that are not assessed using the model-based approach are quantified via the expert assessment of the VHV Group's Risk Officers using the probability of occurrence and the potential economic loss as criteria.

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 not only that there is an early warning in the event of limits being significantly exceeded but also that an ad hoc report is produced without delay.

Reporting is ensured within the framework of the company's own risk and solvency assessment at Group level and for each individual insurance company. The report on the findings of the company's own risk and solvency assessment are approved by the Board of Directors, members of the Supervisory Boards Risk Committees and the supervisory authority. Ad-hoc risk analyses are also prepared where necessary. In connection with the quarterly supervisory reporting, the coverage ratio is also reported according to the standard formula during the year.

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 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. The ICS is appropriately integrated into the structures and processes.

The appropriateness and effectiveness of the ICS are systematically reviewed and evaluated at least once a year according to a standardised procedure on the basis of a control process. The ICS control process is primarily geared towards an assessment of the major controlling activities and a comprehensive confirmation of the functionality of the ICS by all executives of the VHV Group. The ICS control process is coordinated by the ICS Officer with the support of the ICS Coordinators in the individual departments. The results of the ICS review are reported to the Board of Directors.

The ICS ensures the completeness and accuracy of the annual financial statements particularly in relation to the accounting processes used.

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 in property-casualty insurance

The technical risk describes the risk that, due to chance, error or change, the actual expense for claims and benefits differs from the forecast expense. 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. The premium risk is reduced in particular 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

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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 2007 to 2016.

CLAIMS RATIO PROPERTY-CASUALTY

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
82.9	80.9	84.0	82.2	81.3	77.8	79.1	73.8	68.9	71.3

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. 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 furthermore 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

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
4.3	6.8	7.0	6.3	4.7	5.1	4.5	4.7	7.3	6.7

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. In essence, the risk from natural disasters for the VHV Group results in particular from hail, storms and flooding. There are further natural disaster risk concentrations in the insurance transactions conducted due to the risk of earthquakes in Turkey. The VHV Group predominantly underwrites technical risks in Germany. VHV’s fleet of vehicles is 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 adequate reinsurance coverage against natural disasters, which safeguards against accumulation risk from natural hazards. The requisite reinsurance is reviewed annually using external analyses and is based in principle on a 200-year event. The Actuarial Function delivers an opinion on the appropriateness of the reinsurance structure at least once a year on the basis of an analysis of 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 experience.

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 long 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. For the first time, 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 2.54 % at the end of 2016. 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 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 non-interest products in the portfolio, HL can expect lower allocations to the additional interest reserve compared to the market in the future.

The further reduction in the guaranteed interest rate to 0.90 % for new contracts from 1 January 2017 is having a positive impact on the interest guarantee risk.

The **cost risk** is the risk that actual costs may exceed expected costs. The cost risk is considered low.

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. However, the probability of occurrence of this risk is viewed as low, as there is no economic incentive for the cancellation of such contracts. The cancellation rate is well below the market average and is monitored continuously using portfolio movement and performance statistics.

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 manageable and classified as low.

Market risk

Market risk 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 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 asset allocation is developed taking into account the risk-bearing capacity and involving Group Risk Management and the responsible actuary in Life. The core element of this strategic allocation is the fixing of minimum revenues. Compliance with these is verified via scenario calculations. Compliance with the strategic asset allocation is monitored continuously.

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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 –49 million
Market value on 31.12.2016	EUR 243 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 rates
Change of + 1 % point	EUR –1,178 million
Change of – 1 % point	EUR 1,280 million
Market value on 31.12.2016	EUR 15,144 million

There are also risks from investments in the context of a PE programme, which is mainly executed via various umbrella funds. Due to the long-term strategy in this segment and the high degree of diversification (managers, regions, years, segments, industries), the risks are viewed as only insignificant.

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.

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

Overall, the exchange rate risk is considered low.

Credit/default risk

Credit risk describes the risk of a loss or an adverse change in the financial position 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 0.6 % (previous year: 2.7 %) of total investment relates to exposure vis-à-vis the PIIGS countries, and this relates predominantly to Spain and Italy. The exposure was considerably reduced in the reporting year, especially in Italy and Spain. The risk in relation to government bonds from the euro zone is considered below average in comparison with the market.

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	9,473
of which bank bonds	3,233
of which debentures	2,820
of which loans and treasury bonds	1,637
of which Corporates	1,704
of which others	79
Mortgages	893
Loans and advance payments on insurance policies	26
Total	10,392

SHARES OF THE RATING CLASSES IN %

	AAA	AA	A	BBB	<BBB	NR
Fixed-interest securities	43.9	23.1	13.7	8.1	0.9	1.5
Mortgages	–	–	–	–	–	8.6
Loans and advance payments on insurance policies	–	–	0.2	–	–	–
Total	43.9	23.1	13.9	8.1	0.9	10.1

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. The risk from profit-dependent subordinated securities was reduced in the reporting year.

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 minimised by corresponding organisational and technical measures. The value of the receivables portfolio has also been adjusted 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 34.5 million on the balance sheet closing date (previous year: EUR 43.9 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 settlement receivables from reinsurance business amounting to EUR 41.5 million. In the ceded reinsurance business, the receivables are almost exclusively due from reinsurers with a Standard & Poor's rating of at least A-.

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 2016, the VHV Group was able to meet its financial obligations at all times.

The VHV Group minimises 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 pro-

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cedures 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. To take account of this, a detailed analysis of the degree of maturity concerning market standard of the IT-systems was presented to the Board of Directors of VHV Holding in spring 2015. The findings were incorporated into the Group project landscape, especially the "ThinkFIT" programme (securing the long-term future viability of the IT application landscape and modernising IT operations). Reports on the status of IT and the "ThinkFIT" 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 effective-

ness of the security measures was reviewed and documented in one emergency drill in the reporting period. 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. 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, 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. Political and economic development in Turkey could have negative effects on the business of the Turkish subsidiary.

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 45.1 %. In addition, the property-casualty segment is dependent on the construction sector in terms of customers.

Against the backdrop of the continuing low level of interest rates and the regulatory 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.

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. At present there are no indications of significant risks to our reputation. Reputation risk is continuously monitored by the central Corporate Communication department.

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 in the new supervisory system thanks to the risk-oriented measurement approach.

As at 31 December 2016, 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. In 2016, VHV Allgemeine brought a comprehensive protection package for the construction industry onto the market with a new combi-product

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“VHV surety insurance PREMIUM” with the additional module “VHV loss of receivables insurance Start” and “BAUPROTECT” business liability insurance.

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 emphasised. 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. For example, HL innovatively revised its risk rates in 2016.

Insuring employees against disability is seen as another growth area.

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 continued to invest in PE and real estate funds in 2016. 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 in 2015.

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. The VHV Group is in a good position thanks to new communication channels at HL and a complete overhaul of the VHV Allgemeine website. This was also demonstrated by the redesigned VHV Allgemeine website winning the Gold Stevie Award and the Red Dot Awards: Communication Design in 2016.

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 the high service quality of the VHV Group. For example, HL won the German Customer Innovation Award in 2016. 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 and earnings situation of the VHV Group at present.

FORECAST REPORT

Macroeconomic development and the capital market

Economic early indicators suggest that, on balance, moderate economic growth can be expected in 2017. Individual regions are expected to exhibit very mixed economic trends. The future economic policy of the USA is of considerable importance. The potential implementation of announced infrastructure and economic measures could stimulate global trade. However, if there are more protectionist measures, export regions such as the euro zone and the Asian economies in particular could come under pressure.

The development on the capital markets will remain under the influence of the decisions of the globally relevant central banks in 2017. The US central bank, the Fed, is expected to continue on its path of interest rate hikes. In the euro zone, the ECB is initially likely to adhere to its expansionary monetary policy. As well as monetary policy, political events over the course of 2017 also have the potential to trigger market fluctuations. With elections in the Netherlands, France and Germany, there are major political events on the agenda. In addition, the UK's departure from the EU looks set to solidify.

It is highly likely that the euro zone bond markets will continue to be influenced by historically below-average interest rates. However, interest rates are unlikely to fall significantly because yields are negative in some cases, particularly at the short end of the interest curve.

Equities are expected to remain fundamentally well supported in 2017 and, compared to interest-bearing forms of investment, be relatively attractive. However, their high sensitivity to economic and political events gives reason to expect further high volatility.

On the basis of the situation on the capital market described above and the VHV Group's investment structure, it is assumed that the net interest return on investments will be considerably below the level of 2016.

Property-casualty insurance

The construction industry will continue to perform positively in 2017 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 5.0 %.

As expected, private residential construction grew in 2016. Residential construction investment is expected to continue rising in 2017 due to the continuing scarcity of living space, especially in metropolitan areas, as well as high net immigration and ongoing internal migration. The historically low level of mortgage rates and minimal returns on alternative secure investments will lead to somewhat more favourable financing conditions for private households.

Rising sales are also anticipated in commercial construction in 2017. There is a good order situation in the factory and workshop building segment in particular. Overall, however, the growth will be lower than expected in residential and public-sector construction. A marked increase in investment in public-sector construction and therefore significant growth is expected in 2017 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.

After successful years with strong growth but also a high combined ratio across the market, the VHV Group began focusing its car insurance strategy towards increasing its income back in 2010. This strategy was continued in 2016 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 claims expenditure. The VHV Group also intends to further improve its overall competitiveness by a re-launch of the successful, comprehensive fitness programme carried out in recent years covering issues ranging from service quality, the costs offensive through to risk selection.

CONSOLIDATED MANAGEMENT REPORT

Liability business for business customers will also be influenced by intensive price and performance competition in 2017. Trends towards market hardening are only observable in individual, particularly risk-exposed segments.

As an industry insurer specialising in the construction target group, the VHV Group remains in a strong position. Despite the sustained competitive pressure, the good new business production is expected to remain stable in 2017. Since the forecast for economic growth in 2017 also remains positive, increases in wages, fees and sales totals in the business and professional liability insurance segment are also expected in the coming year, particularly in the construction industry. This good economic situation, the market-focused product strategy continued in 2017 and the continuation of the active management of the portfolio of professional liability insurance for architects and engineers permit optimism regarding our expectations for the growth in premiums in business customer liability insurance. 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 will be brought to market in May 2017. This will also provide new impetus towards new business.

Accident insurance will continue its positive development in terms of premium growth. The new product introduced on 1 July 2015 has had a positive response from the broker market. The monthly new business ratios are consistently good. The optimisation of the acceptance processes is having a particularly positive effect.

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 2017 because demand for these products remains stable.

A positive trend in surety insurance can also be assumed in the longer term because of the increasing demand for surety bonds.

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.

Due to persistent underrating in the industrial property insurance market, the underwriting of large commercial and industrial business will be even more selective in future. The focus here remains on the construction sector and in segments that promise profitable growth. In the newly defined target groups, we anticipate a significant increase in contract numbers and premium growth.

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.

Through the measures described, the VHV Group has succeeded in prevailing in the commercial property segment and with its sales partners in addition to its well-known expertise in the motor vehicle, liability, surety and private property, liability and property-casualty insurance sectors.

Overall, in the coming years the VHV Group assumes predominantly stable average premiums in its portfolio and new business. In 2017, claims expenditure is expected to increase moderately. With a planned higher level of contracts in 2017 and associated moderate increase in premiums received, claims management measures, primarily in the motor vehicle segment, and measures to reduce management expenses will be a high priority in order to ensure its competitive position in the future, too. After the once again superb financial year 2016 with very gratifying growth, the VHV Group anticipates a marked decline in results for the coming year 2017, with a further allocation to the equalisation reserve expected.

Life insurance

The period of low interest rates, which has lasted years, and the resulting challenges are expected to persist in 2017. 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 2017 as well. However, 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 relation-

ship 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.

The investment strategy is unchanged for 2017. 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 2017, 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 substantially below the level of 2016.

In 2017, 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, the Fit Tariff 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 2017, 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 2017. 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 2016 and 2015. In 2017, the maturity payments for policy holders are expected to be considerably lower than in 2016. Expenditure for insurance operations will increase slightly compared to 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 2017.

Overall, HL is expecting stable premium revenues in the year to come. The expected gross profit in 2017 will decline moderately compared to 2016.

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 2017, a slight reduction in net income from normal business activities is expected, without taking account of performance-based remuneration. Net income is expected to remain constant in subsequent years.

VHV solutions is also not planning any significant changes to its business objective in 2017. The strategy pursued in recent years to increase productivity and reduce unit costs while improving quality parameters with regard to contracts is to be continued in 2017. 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 "profit-oriented claims management" continue to be of material importance for the reduction of average claims expenditure.

For VHV solutions, in which the back-office and IT activities of the VHV Group companies are combined, a key objective for the 2017 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 (IT, digitalisation, "Think FIT" and continuing the implementation of IT targets).

CONSOLIDATED MANAGEMENT REPORT

Taking account of the planning of the risk-bearing companies, VHV solutions expects a slight increase in sales revenues and slightly higher earnings before taxes than in the previous year.

VHV Holding will continue to manage the extensive major projects in the coming year, which principally include the IT of VHS solutions. The focus is on concluding the “ThinkFIT” programme (securing the long-term future viability of the IT application landscape and modernising IT operations) and continuing the implementation of the property-casualty and life IT targets. In addition, the “Test and Release Management” project (standardisation of test environments and centralisation of release management) will continue and the newly initiated “Protego” project to implement the now enacted European General Data Protection Regulation (EU-GDPR) will be supported. Under the leadership of Operations/IT, the VHV Group will also concentrate in 2017 on implementing the digitalisation strategy developed for the VHV Group in 2015.

After the positive financial year 2016 overall, the VHV Group anticipates a marked decline in consolidated net profit for the coming year 2017 due to further allocations to the equalisation reserve.

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.

VHV VEREINIGTE HANNOVERSCHER VERSICHERUNG a. G.

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016
CONSOLIDATED INCOME STATEMENT FOR THE
PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016
CASH FLOW STATEMENT
STATEMENT OF CHANGES IN EQUITY**

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016
VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

Assets	EUR	EUR	EUR	31. 12. 2016 EUR	31. 12. 2015 EUR
A. Intangible assets					
I. Purchased concessions, industrial and similar rights and assets and licences in such rights and assets			39,822,164		46,537,621
II. Goodwill			4,977,374		9,921,270
III. Advance payments			305,086		64,443
				45,104,624	56,523,334
B. Investments					
I. Real properties, rights equivalent to real property and buildings, including buildings on third-party real properties			129,860,734		132,782,034
II. Investments in affiliated and associated companies					
1. Shares in affiliated companies		36,054,709			21,137,919
2. Participating interests in associated companies		46,255,033			46,527,930
3. Other participating interests		70,915,211			71,640,802
			153,224,953		139,306,651
III. Other investments					
1. Equities, shares or equities in investment assets and other non-fixed interest securities		3,947,245,629			3,570,025,817
2. Bearer bonds and other securities with fixed interest rates		4,525,987,754			4,423,519,829
3. Mortgages, land charges and annuity charges		892,747,933			826,534,754
4. Other loans					
a) Registered debentures	3,641,037,093				3,606,050,759
b) Promissory notes and loans	1,420,545,723				1,696,170,403
c) Loans and advance payments on insurance policies	25,837,362				31,112,514
d) Miscellaneous loans	19,676,864				18,753,287
		5,107,097,042			5,352,086,963
5. Bank deposits		91,500,000			16,800,000
6. Miscellaneous investments		625,756,153			493,460,773
			15,190,334,511		14,682,428,136
				15,473,420,198	14,954,516,821
C. Investments for the account and risk of holders of life insurance policies				81,342,985	72,107,874
D. Receivables					
I. Accounts receivable from own insurance transactions with:					
1. Insurance policy holders		62,075,658			74,126,692
2. Insurance agents		5,718,537			3,853,815
			67,794,195		77,980,507
II. Settlement receivables from reinsurance business			43,550,554		50,038,164
including from associated companies: EUR 6,656,760 (previous year: EUR 8,095,991)					
III. Other receivables			37,432,646		36,523,898
including from affiliated companies: EUR 9,141 (previous year: EUR 11,901)				148,777,395	164,542,569
including from associated companies: EUR 381,554 (previous year: EUR 341,665)					
E. Other assets					
I. Tangible fixed assets and inventories			14,397,844		16,107,629
II. Bank balances, cheques and cash on hand			181,041,152		317,431,368
III. Miscellaneous assets			46,780,527		45,500,997
				242,219,523	379,039,994
F. Prepaid expenses					
I. Accrued interest and rent			159,325,907		170,990,911
II. Other prepaid expenses			37,694,955		41,065,675
				197,020,862	212,056,586
G. Deferred tax assets				291,262,741	238,542,604
H. Excess of plan assets over post-employment benefit liability				14,694,388	15,760,238
TOTAL ASSETS				16,493,842,716	16,093,090,020

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016
VHV VEREINIGTE HANNOVERSCHES VERSICHERUNG a. G.

Liabilities and shareholders' equity	EUR	EUR	31. 12. 2016 EUR	31. 12. 2015 EUR
A. Equity				
I. Retained earnings				
1. Loss reserve in accordance with § 193 of the Insurance Supervision Act (VAG)	64,103,644			64,103,644
2. Other retained earnings	1,189,679,074			1,061,889,622
		1,253,782,718		1,125,993,266
II. Difference in equity from currency translation		12,076,888		14,568,045
			1,265,859,606	1,140,561,311
B. Difference from capital consolidation			8,789,371	8,994,129
C. Subordinated liabilities			0	95,000,000
D. Technical reserves				
I. Unearned premiums				
1. Gross	296,901,303			294,088,048
2. Less: Reinsurance ceded	11,688,410			13,364,631
		285,212,893		280,723,417
II. Actuarial reserve – gross		8,938,089,869		8,827,440,036
III. Reserve for insurance claims not yet processed				
1. Gross	3,337,519,363			3,257,030,579
2. Less: Reinsurance ceded	323,078,896			370,128,543
		3,014,440,467		2,886,902,036
IV. Reserve for performance-related and non-performance-related premium refunds – gross		796,124,834		814,194,200
V. Claim equalisation reserve and similar reserves		756,946,845		667,603,086
VI. Other technical reserves				
1. Gross	122,428,949			98,497,944
2. Less: Reinsurance ceded	341,134			439,912
		122,087,815		98,058,032
			13,912,902,723	13,574,920,807
E. Technical reserves for life insurance policies, to the extent that the investment risk is borne by the policy holder				
I. Actuarial reserve – gross			81,342,986	72,107,874
F. Other reserves				
I. Reserves for pensions and similar liabilities		92,968,859		94,079,273
II. Tax reserves		64,843,106		24,365,306
III. Other reserves		111,886,516		100,945,519
			269,698,481	219,390,098
G. Funds held under reinsurance transactions ceded			5,984,572	5,250,111
H. Other liabilities				
I. Accounts payable from own insurance transactions with:				
1. Insurance policy holders	857,666,674			885,029,635
2. Insurance agents	8,967,004			8,228,184
		866,633,678		893,257,819
II. Accounts receivable from reinsurance transactions		8,645,964		14,123,075
including due to associated companies: EUR 116,001 (previous year: EUR 0)				
III. Liabilities to banks		3,467,002		3,588,733
IV. Miscellaneous liabilities		69,380,026		64,650,313
including due to associated companies: EUR 1,469,319 (previous year: EUR 1,344,656)			948,126,670	975,619,940
including from taxes of: EUR 29,069,882 (previous year: EUR 27,035,283)				
including for social security: EUR 281,124 (previous year: EUR 283,068)				
I. Deferred income			1,138,307	1,245,750
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			16,493,842,716	16,093,090,020

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2016
VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

Item	EUR	EUR	2016 EUR	2015 EUR
I. TECHNICAL ACCOUNT FOR PROPERTY-CASUALTY INSURANCE TRANSACTIONS				
1. Net premiums earned for own account				
a) Gross premiums written	1,913,462,531			1,784,936,081
b) Reinsurance premiums ceded	– 115,292,827			– 149,889,240
		1,798,169,704		1,635,046,841
c) Change in gross unearned premiums	– 9,769,168			– 4,968,766
d) Change in the share of the reinsurer in gross unearned premiums	– 1,621,553			– 4,391,308
		– 11,390,721		– 9,360,074
			1,786,778,983	1,625,686,767
2. Technical interest income for own account			773,212	741,415
3. Other technical earnings for own account			4,682,028	4,412,142
4. Expenses for insurance claims for own account				
a) Payments for insurance claims				
aa) Gross	– 1,250,314,226			– 1,165,491,297
bb) Share for reinsurers	94,273,569			117,148,434
		– 1,156,040,657		– 1,048,342,863
b) Change in reserve for insurance claims not yet processed				
aa) Gross	– 71,786,405			– 52,099,331
bb) Share for reinsurers	– 46,101,132			– 19,014,516
		– 117,887,537		– 71,113,847
			– 1,273,928,194	– 1,119,456,710
5. Change in other net technical reserves			– 1,149,368	– 1,380,960
6. Expenses for performance-related and non-performance-related			– 3,412,413	– 3,775,047
7. Expenses for insurance operations for own account				
a) Gross expenses for underwriting		– 412,099,820		– 394,266,729
b) Less: commissions and shares of profit received from insurance transactions ceded for reinsurance		40,779,077		51,282,393
			– 371,320,743	– 342,984,336
8. Other technical expenses for own account			– 3,671,155	– 3,225,455
9. Subtotal			138,752,350	160,017,816
10. Change in equalisation reserve and similar reserves			– 89,353,915	– 41,563,303
11. Technical result for own account in Property-Casualty insurance transactions			49,398,435	118,454,513

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2016
VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

Item	EUR	EUR	2016 EUR	2015 EUR
II. TECHNICAL ACCOUNT FOR LIFE INSURANCE TRANSACTIONS				
1. Net premiums earned for own account				
a) Gross premiums written	956,699,844			935,226,820
b) Reinsurance premiums ceded	–8,275,520			–7,977,523
		948,424,324		927,249,297
c) Change in gross unearned premiums		6,610,521		5,694,230
			955,034,845	932,943,527
2. Premiums from the gross reserve for premium redemption			4,926,711	5,416,746
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	374,009,460			393,737,200
		382,158,455		401,886,195
b) Income from appreciation		437,943		161,995
c) Gains from the divestiture of investments		159,182,082		33,495,977
			541,778,480	435,544,167
4. Unrealised gains on investments			3,428,581	3,020,019
5. Other technical earnings for own account			458,174	215,645
6. Expenses for insurance claims for own account				
a) Payments for insurance claims				
aa) Gross	–963,733,699			–829,174,036
bb) Share for reinsurers	5,164,153			679,260
		–958,569,546		–828,494,776
b) Change in reserve for insurance claims not yet processed				
aa) Gross	–9,009,802			6,094,757
bb) Share for reinsurers	–785,554			970,375
		–9,795,356		7,065,132
			–968,364,902	–821,429,644
7. Change in other net technical reserves				
a) Actuarial reserve - gross			–119,884,945	–185,188,877
8. Expenses for performance-related premium refunds for own account			–159,247,083	–131,475,401
9. Expenses for insurance operations for own account				
a) Transaction expenses	–47,529,664			–44,094,791
b) Management expenses	–9,062,466			–8,429,156
		–56,592,130		–52,523,947
c) Less: commissions and shares of profit received from insurance transactions ceded for reinsurance		5,338,193		4,665,000
			–51,253,937	–47,858,947
10. Expenses for investments				
a) Expenses for management of investments, interest expense and other expenses for investments		–15,270,061		–13,605,236
b) Depreciation on investments		–6,156,570		–5,224,667
c) Losses from the divestiture of investments		–120,912		–779,603
			–21,547,543	–19,609,506
11. Unrealised losses on investments			–302,632	–523,960
12. Other technical expenses for own account			–139,814,728	–150,904,067
13. Technical result for own account in life insurance transactions			45,211,021	20,149,702

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2016
VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G.

Item	EUR	EUR	EUR	2016 EUR	2015 EUR
III. NON-TECHNICAL ACCOUNT					
1. Technical result for own account					
a) In property-casualty insurance transactions		49,398,435			118,454,513
b) In life insurance transactions		45,211,021			20,149,702
			94,609,456		138,604,215
2. Income from investments, unless listed under II.3.					
a) Income from participating interests					
aa) In companies not included in the consolidated financial statements	6,762,669				7,265,772
bb) In associated companies	1,587,220				2,706,784
		8,349,889			9,972,556
b) Income from miscellaneous investments					
aa) Income from real properties, rights equivalent to real property and buildings, including buildings on third-party real properties	671,123				654,126
bb) Income from miscellaneous investments	121,123,819				119,263,030
		121,794,942			119,917,156
c) Income from appreciation		304,348			660,850
d) Gains from the divestiture of investments		12,805,854			10,086,245
e) Income from profit transfer agreements		420,514			398,888
			143,675,547		141,035,695
3. Expenses for investments, unless listed under II.10					
a) Expenses for management of investments, interest expense and other expenses for investments		–5,094,841			–4,285,145
b) Depreciation on investments		–4,001,459			–2,822,502
c) Losses from the divestiture of investments		–897,831			–2,824,287
			–9,994,131		–9,931,934
			133,681,416		131,103,761
4. Technical interest income			–960,450		–933,012
			132,720,966		130,170,749
5. Other income			43,847,541		35,528,917
6. Other expenses			–95,355,035		–121,729,485
			–51,507,494		–86,200,568
7. Operating result			175,822,928		182,574,396
8. Taxes on income and earnings			–47,660,141		–42,223,059
including: Income from deferred taxes: EUR 52,260,450 (previous year: EUR 45,658,392)					
9. Other taxes			–373,334		–276,994
			–48,033,475		–42,500,053
10. Net income			127,789,453		140,074,343
11. Allocations to retained earnings					
a) to the loss reserve in accordance with section 193 of the Insurance Supervision Act (VAG)			0		–2,957,478
b) In other retained earnings			–127,789,453		–137,116,865
12. CONSOLIDATED NET INCOME			0		0

CONSOLIDATED CASH FLOW STATEMENT

VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G. / GROUP

Item	2016 EUR '000	2015 EUR '000
Net profit (consolidated net profit)	127,790	140,074
Change in technical reserves – net	347,217	293,453
Change in deposit accounts receivable and accounts payable, as well as invoice accounts receivable and accounts payable	1,745	18,697
Change in other accounts receivable and accounts payable	–9,646	–30,836
Change in investments that are not attributable to investment activities are	–342,622	–110,847
Change in other balance sheet items that are not attributable to investment or financing activities	24,528	3,189
Other non-cash expenses and income, as well as adjustments to net profit	20,301	27,431
Gain/loss from the divestiture of investments, tangible fixed assets and intangible assets	–170,981	–42,388
Income tax expense/income	47,660	42,223
Income tax payments	–66,312	–73,899
Cash flow from operating activities	–20,320	267,097
Receipts from the sale of consolidated companies and other business entities	5,596	12,908
Payments resulting from the acquisition of consolidated companies and other business entities	–19,572	–9,600
Receipts from the sale of capital investments for fund-linked annuity insurance	2,740	3,362
Payments resulting from the acquisition of capital investments for fund-linked annuity insurance	–8,900	–10,881
Other receipts from the divestiture of tangible fixed assets and intangible assets	200	278
Other payments resulting from additions of tangible fixed assets and intangible assets	–8,296	–9,773
Cash flow from investment activities	–28,232	–13,706
Receipts and payments from other financing activities	–91,540	–50,000
Cash flow from financing activities	–91,540	–50,000
Change in cash and cash equivalents	–140,092	203,391
Change in cash equivalents due to exchange rate movements, changes in the scope of consolidation and measurement	3,702	–1,016
Cash and cash equivalents at the beginning of the period	317,431	115,056
Cash and cash equivalents at the end of the period	181,041	317,431

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

CHANGE IN EQUITY

VHV VEREINIGTE HANNOVERSCHE VERSICHERUNG a. G. / GROUP

PARENT COMPANY					
Accumulated other comprehensive income					
	Loss reserve in accordance with § 37 of the Insurance Supervision Act (VAG) EUR'000	Generated equity (consolidated) EUR'000	Adjustment item from foreign currency translation EUR'000	other neutral actions EUR'000	Equity in accordance with the consolidated balance sheet EUR'000
Status on 31.12.2014	61,146	834,611	8,013	90,162	993,932
Other changes	–	–	6,555	–	6,555
Consolidated net profit for the year	2,958	137,116	–	–	140,074
Status on 31.12.2015	64,104	971,727	14,568	90,162	1,140,561
Other changes	–	–	–2,491	–	–2,491
Consolidated net profit for the year	–	127,790	–	–	127,790
Status on 31.12.2016	64,104	1,099,517	12,077	90,162	1,265,860

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

VHV VEREINIGTE HANNOVERSCHES 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 2016.

CONSOLIDATION GROUP

In addition to VHV Vereinigte Hannoversche Versicherung a. G., Hanover, as the ultimate parent company, the consolidated financial statements also include 17 subsidiaries, including three special purpose entities (SPEs), as in the previous year. The number of fully consolidated subsidiaries has not changed year on year.

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 2017.

One associated company was not measured according to the equity method pursuant to section 311 article 2 HGB. In the financial year, one other associated company not measured according to the equity method in the previous year was dissolved. 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 %
HD	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 on page 61. 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 included 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. As a result of the lapse of section 308 article 3 HGB, valuations based on tax law may no longer be included in the consolidated financial statements.

Investments in affiliated companies and participating interests are always to be valued at the lower of acquisition cost or fair value as of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

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 amortisation 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.

The **other receivables** were generally entered on the balance sheet at nominal value, with the exception of the corporation tax refund claims for previous years not yet due. These were taken into consideration at cash value (interest rate 4 %).

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.

Inventories were entered on the balance sheet at acquisition cost less a valuation discount. An inventory count was made on 31 December 2016.

The accrued interest and rents reported under **prepaid expenses** were shown at nominal value. These amounts relate to 2016, 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, **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 32.41 % (previous year: 32.40 %) 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.

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 Vienna, 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 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 actuarial basis was used (without consideration of syndicated agreements under outside control):

Probability tables	Actuarial interest rates	Share of the actuarial reserve
St 1967 M	3.00 % *)	2.2 %
St 1986 M/F	3.50 % *)	18.5 %
Interpol. of DAV 2004 R-B and R-B20 M/F	3.00 % *)	0.5 %
Interpol. of DAV 2004 R-B and R-B20 M/F	3.50 % *)	1.8 %
HL-Table 1994 M/F	4.00 % **)	39.4 %
Interpol. of DAV 2004 R-B and R-B20 M/F	4.00 % **)	3.2 %
HL-Table 2000 T M/F	3.25 % **)	6.0 %
Interpol. of DAV 2004 R-B and R-B20 M/F	3.25 % **)	1.0 %
HL-Table 2000 T M/F	2.75 % **)	2.3 %
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 %	1.2 %
HL-Table 2008 T M/F	2.25 %	1.6 %
DAV 2004 R M/F	2.25 %	5.9 %
HL-Table 2011 T M/F mod.	1.75 %	0.5 %
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 %	0.6 %
DAV 2004 R Unisex	1.75 %	2.8 %
HL-Table 2012 T Unisex	1.25 %	0.2 %
HL-Table 2012 T Unisex mod.	1.25 %	0.2 %
DAV 2004 R Unisex	1.25 %	1.4 %

*) Like section 341f article 2 HGB in conjunction with section 5 article 3 and article 4 DeckRV a reference interest rate of 2.54 % was taken as a basis.

**) In accordance with section 341f article 2 HGB in conjunction with section 5 article 3 and article 4 DeckRV a reference interest rate of 2.54 % 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 D.II. The actuarial reserve for capitalisation transactions 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 D.II.: 4.1 %).

The actuarial reserve for fund-linked annuity insurance policies was determined according to Liabilities E.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 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 probabilities of disability from 11 American companies from the years 1935 to 1939 (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 % and 1.25 %) 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 of the merged VHV Leben.

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 actuarial reserve for contracts concluded between 1960 and 1987 was zillmerised at 5 ‰ of the sum insured or at 5 % of the annuity. The merger added individual insurance policies with a zillmerisation rate of 4.0 %, group insurance policies with a zillmerisation rate of 2.0 % 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 3.9 %). 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 49).

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 2016 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 twelve 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 2016 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 2.54 % (previous year: 2.88 %), 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 for the first time. For the latter, a comparative calculation with the calculation bases of the addition to the interest reserves of the previous year was 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 reserve in the new portfolio in accordance with DeckRV were also adopted for the old portfolio, but without recognising cancellation probabilities or a reduction in the biometric calculation basis. In the old portfolio, the valuation rate in the previous year was 2.75 %. In the additional interest reserve of the new and old portfolio, additional contract components were also included for endowment insurance policies for the first time. Taking all changes together, the actuarial reserve as of 31 December 2016 increasing by around 0.8 % compared to the valuation method of the previous year.

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 ceded for reinsurance 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 ordinance of the Ministry of Finance of North Rhine-Westphalia 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 and discounted at 6.5 %. 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 of the balance sheet closing date, and is calculated individually for each contract. Within the final surplus share fund, 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 "Verkehrsofopferhilfe 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 95.0 % 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 of 4.00 % in accordance with section 253 article 2 sentence 2 HGB.

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

In Germany, the pension obligations were calculated on the basis of the 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 4.00 % (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 2016. 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 3.22 %, salary growth of 2.25 % and a labour turnover rate of 3.25 % for women and 3.25 % for men.

The partial retirement obligations were established on the basis of the actuarial assessment dated 31 December 2016 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 2016. 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 35.8 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 ceded for reinsurance, amounts totalling EUR 153 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, new property-casualty insurance transactions ceded for reinsurance, for which information from the initial insurer was available before 30 September 2016, were recognised in the reporting year 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 2016.

For affiliated companies and other participating interests, the current market values were calculated according to the present value of future cash flow method or correspond to the respective carrying amounts. 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

The goodwill from the capital consolidation relates to Securess Versicherungsmakler (EUR 4.9 million) and the securities special purpose entities (SPEs) Corsair Finance (Ireland) No. 6 Ltd. (JARP II) (EUR 0.1 million). The planned depreciation of goodwill will take place over the estimated run-off period of the customer contracts acquired of seven years for Securess Versicherungsmakler and over the residual term of the promissory note loan entered in the balance sheet by the company as a capital guarantee of around three years for JARP II. In the financial year, the goodwill was written down on a scheduled basis by EUR 4.9 million in total.

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 129.0 million.

As a result of the lapse of section 308 article 3 HGB, the valuation for the real properties and buildings was adjusted by the depreciation recognised only on the basis of commercial law requirements, as in previous years.

RE B.II.1. SHARES IN AFFILIATED COMPANIES

These are firstly two companies that are expected to be liquidated in 2017. 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 2016

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 licences in such rights and assets	46,538	3,166	–	–	9,878	–4	39,822
II. Goodwill	9,921	–	–	–	4,944	–	4,977
III. Advance payments	64	241	–	–	0	–	305
Total A.	56,523	3,407	–	–	14,822	–4	45,104
B. INVESTMENTS							
I. Real properties, rights equivalent to real property and buildings, including buildings on third-party real properties	132,782	2,359	2	–	5,278	–	129,861
II. Investments in affiliated and associated companies							
1. Shares in affiliated companies	21,138	19,572	4,655	–	–	–	36,055
2. Participating interests in associated companies	46,528	–	–	386	1,002	343	46,255
3. Other participating interests	71,641	–	726	–	–	–	70,915
Total B.II.	139,307	19,572	5,381	386	1,002	343	153,225
Total	328,612	25,338	5,383	386	21,102	339	328,190

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 2,180.3 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 4,280.5 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 81.3 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 29.5 million.

RE G. DEFERRED TAX ASSETS

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

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

RE H. EXCESS OF PLAN ASSETS OVER POST-EMPLOYMENT BENEFIT LIABILITY

The excess of plan assets over the associated pension obligations in the amount of EUR 14.7 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
Bearer bonds and other securities with fixed interest rates	253.6	245.1
Mortgages, land charges and annuity charges	1.8	1.7
Other loans	81.7	73.2
Total	337.1	320.0

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

DISCLOSURE PURSUANT TO SECTION 314 ARTICLE 1 NO. 15 HGB

In 2016, bearer bonds with a carrying amount totalling EUR 162.2 million as at 31 December 2016 (market value: EUR 227.2 million) were sold for forward delivery in January 2017. Valuation units (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. As at 31 December 2016, the market value of the micro-hedges was EUR 238.8 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 of the valuation units (perfect micro-hedge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

DISCLOSURE PURSUANT TO SECTION 314 ARTICLE 1

NO. 18 HGB

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

Type of fund/ investment objective	Fair value EUR million	Hidden reserves EUR million	Distribution in 2016 EUR million
Mixed funds	3,448.1	383.8	58.9
Property funds	933.0	62.1	25.0
Pension funds	5.8	–	0.1

The return of units in the real estate funds 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.

As a result of the suspension of section 308 article 3 HGB in 2003, the real properties and buildings were increased by the depreciation recognised only on the basis of tax law requirements. The appreciation amount remaining after scheduled depreciation was recognised directly in equity under retained earnings.

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 8.5 million) and the Pensionskasse (EUR 0.2 million).

In the financial year, the item was reversed to a minor extent through the income statement as a result of disposals and write-downs on revalued investments.

RE C. SUBORDINATED LIABILITIES

The subordinated liabilities were called in and repaid in full at nominal value as at 9 May 2016 and 30 June 2016.

RE F.I. RESERVES FOR PENSIONS AND SIMILAR LIABILITIES

In accordance with section 246 article 2 sentence 2 HGB, the assets from pledged reinsurance contract of EUR 48.8 million (current market value) were offset against the settlement amount of the associated pension reserves of EUR 48.8 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 2.1 million. The current market value of the reinsurance contract 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 18.4 million.

RE F.III. OTHER RESERVES

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

	31.12.2016 EUR million	31.12.2015 EUR million
Settlement amount from partial retirement obligations	1.3	1.6
Acquisition costs of investment certificates	0.1	0.2
Difference in comparison to fair value	–	–
Fair value of investment certificates	0.1	0.2
Provision from partial retirement obligations	1.2	1.4

A reinsurance contract (carrying amount on 31 December 2016: EUR 0.3 million) and a payment obligation (carrying amount on 31 December 2016 EUR 0.3 million) to a former employee with a guaranteed term until 1 February 2025 were recognised as a valuation unit (micro-hedge), which secured an interest obligation of 2.0 % p.a. The effectiveness of the hedge was determined using the critical-term-match method. As all value-determining factors match between the insurance contract covering pension liabilities and the payment obligation, the valuation unit is effective (perfect micro-hedge). In connection with the valuation unit, other assets were netted against other reserves in the volume shown above.

RE G. FUNDS HELD UNDER REINSURANCE TRANSACTIONS CEDED

As in the previous year, there were funds held under insurance transactions ceded with a residual term of more than five years amounting to less than EUR 0.1 million as at 31 December 2016.

RE H. OTHER LIABILITIES

As at 31 December 2016, there were other liabilities with a residual term of more than five years amounting to EUR 324.3 million (previous year: EUR 358.2 million).

RE I. DEFERRED INCOME

Primarily discounts from registered debentures are shown in deferred income at a figure of EUR 1.0 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	956.7	1,884.5	2,841.2
Insurance transactions assumed in reinsurance coverage	–	29.0	29.0
Total	956.7	1,913.5	2,870.2

Of the gross premiums written for direct-written insurance transactions, EUR 2,748.9 million relates to Germany and EUR 92.3 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 266.0 million and management expenses amounting to EUR 146.1 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 277 article 3 HGB in conjunction with section 253 article 3 sentence 5 HGB (moderate lower of cost or market principle) of less than EUR 0.1 million (previous year: EUR 0.1 million), which was attributable 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 1.3 million (previous year: EUR 0.9 million). Of this figure, EUR 1.0 million was attributable to participating interests (previous year: EUR 0.1 million) and EUR 0.3 million to shares or equities in investment assets (previous year: EUR 0.3 million). There was no depreciation on other loans in the financial year (previous year: EUR 0 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 5.7 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 0.5 million). Interest and similar expenses are reduced by interest to be offset from nettable assets in the amount of EUR 2.1 million. Expenses from currency translation in the amount of EUR 0.2 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.

	2016 EUR million	2015 EUR million
Earnings before income taxes (financial accounts)	175.4	182.3
Anticipated tax expense		
Group tax rate 32.41 % (2015: 32.41 %)	56.9	58.3
Reconciliation:		
Divergent foreign tax burden	−0.2	−0.3
Share of tax for:		
Non-taxable income	0.9	3.9
Non-tax deductible expenses	+3.8	+0.5
Temporary differences and losses for which no deferred taxes were recognised	−4.7	−4.2
Actual tax for prior periods	−9.4	−16.8
Other tax effects	+0.4	+0.8
Recognised tax expense	47.7	42.2
Effective Group tax rate	27.2 %	23.1 %

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

ADDITIONAL INFORMATION

SUPERVISORY BOARD

Dr Achim Kann

Honorary Chairman

Chairman of the Management Board of GLOBALE Rückversicherungs-Aktiengesellschaft, 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 and HD,

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 HANNOVERSCHES VERSICHERUNG a.G. AS AT 31 DECEMBER 2016**

Name of the company	Share of the capital	Equity EUR'000	Net profit for the year EUR'000*)
A. German companies			
VHV Holding AG, Hannover	100.00 %	1,039,480	34,270
VHV Allgemeine Versicherung AG, Hanover	100.00 %	600,454	Profit transfer
Hannoversche Lebensversicherung AG, Hanover	100.00 %	251,265	13,500
Hannoversche Direktversicherung AG, Hanover	100.00 %	20,000	Profit transfer
WAVE Management AG, Hanover	100.00 %	6,000	Profit transfer
Securess Finanzhaus AG i.L., Essen ^{1) 5)}	100.00 %	4,400	0
VHV solutions GmbH, Hanover	100.00 %	3,383	46
VHV Vermögensanlage AG, Hanover	100.00 %	2,895	92
VHV Dienstleistungen GmbH, Hanover	100.00 %	898	-1,021
Securess Versicherungsmakler GmbH, Essen	100.00 %	777	60
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
VH Versicherungsmittlung 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	12
Elvaston Capital Fund II GmbH & Co. KG, Berlin ^{1) 5)}	89.60 %	11,191	-23
Ferrum Holding GmbH & Co. KG, Düsseldorf ^{1) 5)}	86.87 %	5,104	179
insuremis GmbH, Ismaning ²⁾	50.00 %	98	0
Neue Rechtsschutz-Versicherungsgesellschaft AG, Mannheim ²⁾	30.01 %	21,345	1,059
ESB GmbH, Coburg	18.32 %	343,831	36,162
Pensionskasse der VHV-Versicherungen, Hanover	–	6,704	0
B. Foreign companies			
WAVE Private Equity SICAV-SIF, Luxembourg ⁴⁾	100.00 %	589,896	40,725
VAV Versicherungs-Aktiengesellschaft, Vienna/Austria	100.00 %	20,150	1,641
VHV Reasürans A.S., Istanbul/Turkey ⁶⁾	100.00 %	17,490	1,028
ASSBAU E.W.I.V., Brussels/Belgium ^{3) 5)}	33.33 %	72	0
Deutsche Rückversicherung Schweiz AG, Zurich/Switzerland ^{2) 5) 7)}	25.00 %	170,512	6,350
Corsair Finance (Ireland) No. 6 Ltd., Dublin/Ireland	–	34,164	2,320

*) 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 as per consolidated separate financial statement

⁵⁾ Data according to the annual report as at 31 December 2015

⁶⁾ The exchange rate used as at 31 December 2016 was: 1 Euro = TRY 3.7072

⁷⁾ The exchange rate used as at 31 December 2016 was: 1 Euro = CHF 1.0739

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 7,761.9 million as at 31 December 2016 (previous year: EUR 7,224.2 million).

As part of a payment guarantee in favour of Lifeguard Assurance Trustees Ltd., a guarantee of GBP 3.4 million (EUR 4.0 million) was issued by Deutsche Bank (previous year: guarantee of GBP 4.0 million, equivalent to EUR 5.5 million). This guarantee is collateralised by means of pledging time deposit balances in the amount of EUR 6.0 million at Deutsche Bank AG (previous year: EUR 6.0 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 10.1 million (previous year: EUR 9.3 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 91.1 million as of 31 December 2016 (previous year: EUR 83.6 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 "Verkehrsofferhilfe e.V.". Due to this membership, VHV Allgemeine and HD are obligated to provide this association with the necessary resources to fulfil its purpose proportionate to their 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 63.5 million (previous year: EUR 63.2 million).

In the context of the statutory collateralisation of partial retirement obligations, investment fund shares with a carrying amount of EUR 0.1 million (previous year: EUR 0.2 million) were pledged in favour of employees.

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

The financial obligations from approved mortgage, land charge and annuity charge receivables amount to EUR 81.3 million (previous year: EUR 81.7 million).

There are future payment obligations of EUR 24.7 million (previous year: EUR 23.1 million) arising from partially long-term lease and rent contracts.

The Group's other financial obligations total a maximum of EUR 1,424.4 million (previous year: EUR 1,039.6 million) and are described below:

From investments in the PE segment, payment obligations in the amount of EUR 1,109.2 million (previous year: EUR 833.0 million) remain.

There are payment obligations from investments in property funds in the amount of EUR 165.0 million (previous year: EUR 56.4 million).

Investments in multi-tranches of EUR 50 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 obligations from mandatory capital contributions not yet called in at GDV Dienstleistungs-GmbH & Co. KG, Hamburg, of EUR 0.2 million (previous year: EUR 0.2 million).

As part of the foundation of VHV-Stiftung, its founder, VHV a.G., has agreed to make regular additional donations from net income after tax.

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 2016 financial year amounted to 2,951 persons, of whom 2,788 are employed in Germany and 163 internationally. There were also 74 apprenticeship contracts in Germany on average for the year.

The consolidated personnel expenses amounted to EUR 252.0 million in 2016. EUR 211.1 million of this was attributable to wages and salaries, EUR 34.5 million to social security costs and EUR 6.4 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 1.4 million; for members of the Board of Directors, EUR 6.7 million; and for former members of the Board of Directors and/or their survivors, EUR 1.1 million.

The pension reserve set aside for former members of the Board of Directors and their survivors amounts to EUR 19.1 million as of the balance sheet closing date.

AUDITORS' FEES

The expenses for auditors' fees accrued in 2016 break down as follows: expenditures for the audit of the annual financial statements: EUR 1.0 million; other certification services: EUR 0.1 million; tax consultation services: EUR 0.1 million; other services: less than EUR 0.1 million.

Hanover, 10 March 2017

THE BOARD OF DIRECTORS

Reuter	Dr Bielefeld	Hilbert
Rainer	Schneider	Voigt

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by VHV Vereinigte Hannoversche Versicherung a.G., Hanover, comprising the consolidated balance sheet, the consolidated income statement, notes to the consolidated financial statements, cash flow statement and statement of changes in equity, together with the Group management report for the financial year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the Group management report in accordance with German commercial law are the responsibility of the association's Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and generally accepted German standards for the audit of financial statements promulgated by the 'Institut der Wirtschaftsprüfer' (IDW). These standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply with the 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. The Group management report is consistent with the consolidated financial statements, complies with the legal provisions, and as a whole provides an accurate view of the Group's position and appropriately presents the opportunities and risks of future development.

Hanover, 31 March 2017

KPMG AG WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Jungsthöfel
Auditor

Hetzke
Auditor

REPORT OF THE SUPERVISORY BOARD

VHV VEREINIGTE HANNOVERSICHE

VERSICHERUNG a.G. / Group

In 2016, 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

In the meetings, the Board of Directors reported continuously on the technical development of the various insurance companies and the development of the participating interests of VHV a.G. The developments in the major segments of property-casualty business 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

- Group strategy 2016-2020
- Restructuring of the direct property-casualty business within the VHV Group
- Status of the IT and digitalisation projects
- Status of the 2016/2017 cost offensive
- Participation management and investment options
- International activities in Italy, France and Turkey
- Qualitative and quantitative cornerstones of corporate planning for 2017 including investments and international business
- 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 2016, 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 2016. 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 17 May 2017.

Hanover, 17 May 2017

THE SUPERVISORY BOARD

Dr Lütke-Bornefeld
Chairman

ADMINISTRATION

CENTRAL HEADQUARTERS:

VHV Vereinigte Hannoversche Versicherung a. G.

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Hannoversche Lebensversicherung AG

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VHV Holding AG

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VHV Allgemeine Versicherung AG

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Hannoversche Direktversicherung AG

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