DEUTSCHE Familienversicherung

The leading European InsurTech

DFV Deutsche Familienversicherung AG

Annual Report 2018

CONFIRMATION OF LEADING PRODUCT QUALITY BY STIFTUNG WARENTEST

DFV-ZAHNSCHUTZ
VERY GOOD (0.5)
FINANCIAL TEST 05/2018
TEST WINNER

DFV-KRANKENGELD
GOOD (1.7)
FINANCIAL TEST 06/2018
TEST WINNER

DFV-KLINIKSCHUTZ
VERY GOOD (0.7)
FINANCIAL TEST 12/2018
TEST WINNER

DFV-UNFALLSCHUTZ EXKLUSIV
VERY GOOD (1.3)
FINANCIAL TEST 05/2018
3RD PLACE

5 REASONS TO INVEST IN DEUTSCHE FAMILIENVERSICHERUNG:

- Because we will achieve a net growth in new business of 100,000 units in 2019
- Because we will achieve portfolio growth of at least €25 million to €100 million in premium volume in 2019
- Because we are the only functioning InsurTech company in Europe
- Because we cover the entire value chain of an insurance company with unique digital capabilities
- Because we're the only InsurTech with a reinsurance license

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The DFV Deutsche Familienversicherung AG (ISIN DE000A0KPM74) is a publicly listed, high-growth InsurTech company, which as a digital insurance company covers the complete value chain up to claims and benefits settlement. In accordance with the corporate principle “Simple. Sensible”, Deutsche Familienversicherung only offers insurance products that people really need and understand immediately.

These are multiple award-winning products for supplementary health insurance as well as accident and property insurance. Based on a state-of-the-art scalable IT system developed in-house, Deutsche Familienversicherung is setting new standards in the insurance industry with consistently digital product designs and processes as well as the possibility of taking out policies via digital language assistants.

www.deutsche-familienversicherung.de

CONTENT

from left to right
Stephan Schinnenburg, CSO
Dr Stefan Knoll, CEO
Marcus Wollny, COO
Michael Morgenstern, CFO

Dear Shareholders, Ladies and Gentlemen,

Deutsche Familienversicherung, founded in 2007, has been listed on the Frankfurt Stock Exchange since December 4, 2018. It was an IPO in a difficult economic environment that could not have been foreseen when the shareholders, Supervisory Board and Executive Board had decided to venture an IPO (Initial Public Offering). Deutsche Familienversicherung did not even need a year to prepare for the IPO; a year that involved considerable administrative work due to the intention to go public. The legal and technical preparations placed personnel demands on the staff of Deutsche Familienversicherung, and the associated financial expenses were high.

In addition to the preparations for the IPO, normal business operations had to continue and, despite the additional expenses associated with the planned IPO, we succeeded in achieving an operating result that represents the best ever in the company's history.

The Executive Board is grateful to the employees for their outstanding commitment in 2018 and therefore considered it in agreement with the shareholders and the Supervisory Board, as appropriate for all 111 employees of Deutsche Familienversicherung to participate in the company as part of the IPO. Employees had the opportunity to acquire a total of 35,000 shares with a nominal value of EUR 2.00 each. We are proud and grateful that everyone who contributed to the success of Deutsche Familienversicherung can now say that they are shareholders in Deutsche Familienversicherung.

The IPO itself was an exceptional event. For the first time the ringing of the bell in the premises of the stock exchange was accompanied by all employees of the company as a sign of the initial listing.

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Deutsche Familienversicherung is an InsurTech, i.e. the combination of an insurance company and a technology company. The digitalization of the company, which we describe in detail in this annual report, the far above-average quality of the insurance products offered, as confirmed by Stiftung Warentest (German consumer organization), and the strong growth of the company confirm the exceptional position of Deutsche Familienversicherung.

Consequently, since December 4, 2018, Deutsche Familienversicherung has been the only InsurTech listed in Europe.

Our success is due to the joint efforts of all our employees. We would like to express our sincere thanks to sincere thanks to everyone involved. We would also like to thank our shareholders and business partners for the trust they have placed in us.

We look forward to working with you to make 2019 a successful year.

Yours sincerely

Dr Stefan Knoll, CEO

Frankfurt, April 11, 2019

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The employees together with representatives and players of Eintracht Frankfurt in front of the Frankfurt Stock Exchange on the occasion of the IPO of Deutsche Familienversicherung

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board in fiscal year 2018 has performed the duties incumbent upon it by law and the statutes. It in particular supervised the Executive Board in the management of the company and regularly obtained comprehensive reports in a timely manner in writing and verbally regarding the business development and the condition of the company.

The Executive Board in the process regularly and comprehensively informed the Supervisory Board of the overall business management and the strategic further development. The Supervisory Board was thus continuously informed of the intended business and company policy, including financial and staff planning and the condition of the company.

The regular information and coordination on the status and development of the IPO in December 2018 was the focal point of the collaboration between Executive Board and Supervisory Board, which was at any time open and trusting.

SUPERVISORY BOARD'S TASKS

The Supervisory Board of the company consisted of four members.

In the reporting year, three scheduled regular meetings of the Supervisory Board took place on April 23, 2019, June 21, 2018, and September 5, 2018. All members of the Supervisory Board attended the meetings on April 23, 2018 and September 5, 2018. One member of the Supervisory Board could not attend the meeting on June 21, 2018.

The Supervisory Board reported in detail on the respective current business trend in all meetings of the Supervisory Board. In particular the existing and new business figures as well as the premium trend was presented to the Supervisory Board. The key business figures as well as earnings performance, in particular in light of revenue, cost, and income situation, was discussed in every meeting.

The Executive Board also reported to the Supervisory Board on the respective current solvability indicators published in the Solvency II report on solvency and the financial situation (SFCR), as well as on the risks and risk management relevant for the company as described in the company's own risk and solvency assessment (ORSA).

The Executive Board furthermore regularly reported on the operating and claims payments including claims ratios and reserves, also in comparison to comparable industry figures. The developments and advances in the area of IT infrastructure and digitization were also presented.

In the meeting on April 23, 2018, the Supervisory Board also addressed general considerations regarding the development in the Executive Board, in particular the new appointment of members of the Executive Board and the increase of the number of Executive Board members.

The Supervisory Board in the meeting of April 23, 2018 in particular approved the audited annual statement including the auditor's report for fiscal year 2017. The auditor was present at the meeting and confirmed that the unqualified audit certificate was granted.

The presentation of the company as Europe's only functioning InsurTech was also presented to the Supervisory Board and was then presented to press and industry representatives in calendar week 17.

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In the meeting of June 21, 2018, the Supervisory Board obtained information on the progress of digitization and automation of business processes and the implementation of infrastructure measures. The workforce development and workforce planning as well as workforce statistics with essential workforce metrics was also discussed.

The Supervisory Board was also informed of the start and further planning of the approved IPO. The decisions on the selection of the lead bank or joint bookrunner as well as the transaction council and auditor was in particular presented and substantiated to the Supervisory Board. The Executive Board reported on the kick-off meeting and introduced the further milestones on the way to the IPO.

The intended participation of the company in the BCA AG broker pool was also positively discussed with the Supervisory Board.

In the meeting of September 5, 2018, the Supervisory Board in the presence of the auditor extensively addressed the consolidated financial statement for fiscal year 2017 and approved it.

The Supervisory Board furthermore in the meeting on September 5, 2018 obtained extensive and comprehensive information on the fundamental structure of the IPO, whereby the Supervisory Board and Executive Board unanimously agreed on the creation of new authorized capital, a simplified capital reduction by reverse stock split, another reverse joint split without change of the share capital, as well as a capital increase by issuing new shares for the purpose of stock exchange placement.

Within the scope of the intended IPO, the new version of the statute was also discussed in the meeting on September 5, 2018, and following that by circular resolution of the Supervisory Board the adjustment of the bylaws of the Supervisory Board and the Executive Board were also discussed.

The Supervisory Board was also permanently informed of the status and details of the IPO outside of the Supervisory Board meetings and included in the decision-making process. The Supervisory Board was comprehensively informed of the content and conclusion of the merger agreement with joint bookrunners, the agreement on granting of the greenshoe option, as well as the share lending agreement of the existing shareholder borrowing the greenshoe shares, as well as the lock-up agreement regarding the shares of the company between the existing shareholders.

By resolution of November 22, 2018, the Supervisory Board approved the resolution of the Executive Board on the same date regarding the final placement price for the shares offered within the scope of the IPO and by resolution of November 29, 2018 also the volume determination resolution of the Executive Board of the same date regarding the precise number of shares to be issued for the IPO.

COMMITTEE TASKS

The Supervisory Board in coordination with the Executive Board refrained from creating specific subject committees, in particular an auditing and nomination committee. The company is of the opinion that the formation of such committees represents an unreasonable organizational effort for the company in light of proportionality company in light of proportionality and that deliberations in the plenum are more efficient.

The members of the Supervisory Board were also at any time able to themselves perform all tasks efficiently on the board and to consult professionally and properly and to adopt resolutions.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS 2018

The auditor for insurers is appointed by the Supervisory Board of the company, not the general meeting. The audit services for the annual and consolidated financial statements were publicly tendered in the first half year 2018. After comprehensive review of the offers, the Supervisory Board in a multi-step selection process in its meeting on September 5, 2018 chose to appoint and commission the auditing firm Mazars & Co. KG as auditor of the company for fiscal year 2018.

Mazars has audited the annual statutory financial statement of the company, the consolidated financial statements set-up in accordance with International Financial Reporting Standards as well as the respective management reports for fiscal year 2018 and has issued unqualified audit opinions.

All members of the Supervisory Board have received the annual financial statement documents for fiscal year 2018 and the audit report of the auditor in a timely manner, and thus had sufficient opportunity for acknowledgment and review.

The annual financial statement documents and the audit report were also discussed with the Executive Board in detail on April 3, 2019 within the scope of the Supervisory Board meeting. The auditor attended the discussions of the annual financial statement. He reported on the essential results of the audits and was available to the Supervisory Board for supplementary information. The particularly important audit facts and the performed audit activities described in the audit opinion was also discussed in particular.

No objections were raised after the final review by the Supervisory Board. The annual financial statement of the company created by the Executive Board was approved by the Supervisory Board by resolution of April 3, 2019. The annual financial statement for the fiscal year 2018 is thus adopted.

COMPOSITION AND CHANGES IN THE SUPERVISORY BOARD AND EXECUTIVE BOARD

The Supervisory Board members Dr Hans-Werner Rhein, Luca Pesarini, Herbert Pfennig, and Georg Glatzel were re-elected in the general meeting of September 5, 2018 for the period until the closing of the general meeting adopting the resolution on the ratification for fiscal year 2023.

Michael Morgenstern was appointed effective April 1, 2018 as Chief Financial Officer as successor for the separating member of the Executive Board Georg Jüngling; Stephan Schinnenburg also effective April 1, 2018 as Chief Sales Officer, and Marcus Wollny effective August 1, 2018 as Chief Operating Officer, each for the duration of three years. The Chairman of the Executive Board, Dr Stefan Knoll, was re-appointed effective April 1, 2018 for a term of five years.

The Supervisory Board thanks the overall Executive Board and all employees for their great personal commitment and their dedicated performance and successes in fiscal year 2018. In particular the successful IPO is greatly appreciated.

For the Supervisory Board

April 2019

Dr Hans-Werner Rhein
Chairman of the Supervisory Board

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CONSOLIDATED MANAGEMENT REPORT

CONSOLIDATED MANAGEMENT REPORT

1 PRELIMINARY REMARKS

In fiscal year 2018, Deutsche Familienversicherung with the consolidated annual report for the first time submits an annual report pursuant to the International Financial Reporting Standards (IFRS). As recognition and measurement methods of trade law provisions can in part differ greatly from IFRS, the values of the annual report in the consolidated annual report for 2017 created on the basis of trade law principles can not be compared to the previous year values.

Deutsche Familienversicherung created a pro-forma consolidated annual report pursuant to IFRS for fiscal year 2017 within the scope of the IPO, which received an unqualified opinion by the auditing firm WEDDING & Cie. GmbH Wirtschaftsprüfungsgesellschaft. The recognition and measurement methods for this pro-forma consolidated annual report correspond to those of the consolidated annual report for fiscal year 2018.

In this regard, the previous year values stated in the consolidated annual report for fiscal year 2017 pertain to this pro-forma report.

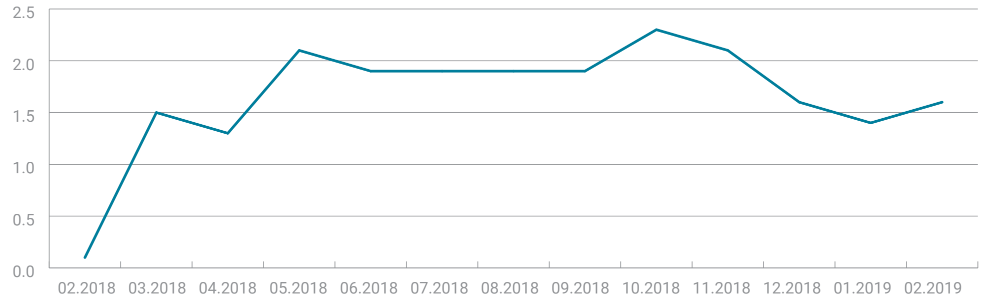
2 ECONOMIC ENVIRONMENT AND INDUSTRY DEVELOPMENT

2018 was the tenth year of an economic upswing in Germany, with a provisional growth rate of around 1.6% in gross domestic product. The number of gainfully employed people and the unemployment rate also reached new record levels.

However, the growth was well below the previous year's growth rates due to rising political uncertainties, such as the uncertainty surrounding the United Kingdom's exit from the European Union, the increase in global trade disputes and the prolonged formation of the German government as well as the spring elections in Italy. In addition, problems with pollutant emissions and impending driving bans, especially in Germany, resulted in significant losses in the automotive industry.

Compared with 2017, inflation rose from 1.8% to 1.9%, but remained below the target set by the European Central Bank (ECB), especially in terms of core inflation adjusted for energy and food prices. Although the ECB has announced the end of its bond purchase program at the end of the year, it will continue to invest cash inflows from maturing annuities in bonds after the end of the program. This leaves uncertainties regarding the reduction of the ECB's balance sheet total and thus the implementation of the monetary policy turnaround. As a result, interest rates remain at an unchanged low level. For example, the yield on 10-year German government bonds was around 0.44% at the beginning of 2018, then rose to almost 80 basis points and closed at around 17 basis points at the end of the year due to growing investor uncertainty.

DEVELOPMENT OF THE INFLATION IN %



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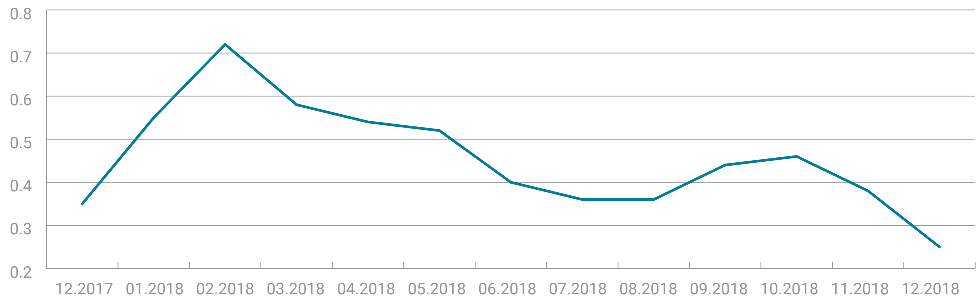
10-YEAR FEDERAL BOND



The uncertainty among investors also led to considerable declines in the share prices. Germany's leading index, the DAX, for example, lost around 18% and the Euro STOXX 50 around 11%.

DAX PERFORMANCE-INDEX/EURO STOXX 50

In addition to global policy challenges, demographic change in the Euro area, with persistently low birth rates and an expected aging of society, particularly in Germany, poses a major problem for social security systems. On the other hand, this change will result in greater growth potential for the health and long-term care insurance products of Deutsche Familienversicherung.

The premium income of the German insurance industry also developed positively in 2018. The preliminary figures of the Gesamtverband der Deutschen Versicherungswirtschaft (German Insurance Association, GDV) show premium growth of around 2.1% for the German insurance industry.

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3 DEVELOPMENT OF BUSINESS PERFORMANCE AND NET ASSETS, FINANCIAL POSITION AND EARNING SITUATION OF THE COMPANY

3.1 Overview of the course of business in 2018

Deutsche Familienversicherung can look back on an extremely successful business year. The year was characterized by the continued excellent assessment of the insurance products of Deutsche Familienversicherung by Stiftung Warentest, groundbreaking progress in the digitalization of the company, very strong portfolio growth – in particular in supplementary health insurance – and the successful IPO of the company.

Existing premiums rose in a year-on-year comparison by 3.8% from TEUR 72,909.6 to TEUR 75,657.3. Taking into account the effect of the termination of coinsurance of an insurance portfolio in building insurance as of December 31, 2017 and the run-off of electronics insurance, existing premiums grew by 19.7%. The strong growth of Deutsche Familienversicherung is based on three pillars: product, digitization and distribution expertise.

The outstanding quality of the products was also proven in 2018. Following the principle “Simple. Reasonable.”, Deutsche Familienversicherung offers its customers exclusively products for which the customer can obtain a very quick overview of the insurance cover and the premiums. The quality of the insurance products was again confirmed by several test seals. For the third time in a row, DFV-ZahnSchutz (dental insurance) was the test winner at Stiftung Warentest in the spring. But we also finished as test winner with Stiftung Warentest with the tariffs DFV-KrankenGeld (sickness insurance) and DFV-KlinikSchutz (hospital coverage). Last but not least, DFV-UnfallSchutz Exklusiv (accident insurance) closed the fourth quarter of 2018 with a “very good” result.

In 2018, Deutsche Familienversicherung consistently continued its digitalization. The digital closing, policy and claims settlement processes were presented to the general public in the second quarter and implemented shortly thereafter. Already at this point, Deutsche Familienversicherung enabled its customers to use voice control media such as Amazon Echo. Since the fourth quarter, Deutsche Familienversicherung has been the first insurance company in the world to offer its customers a complete conclusion of an insurance contract via the digital assistant “Alexa”, including payment functions.

The third pillar of growth is the focus on three distribution channels: while in 2018 around 73% of new business was generated online, around 19% of new business originated from cooperation agreements. Approximately 8% of the closings in 2018 were done via insurance brokers. Online sales in connection with the completely digitalized policy processes allows an extensive scalability of the new business.

Deutsche Familienversicherung closed the financial year with a loss before taxes of TEUR –4,4014.4 (previous year: profit of TEUR 2,118.2). The following developments made a significant contribution to this result:

3.1.1 Premium development

Gross written premiums of TEUR 66,522.2 were down TEUR 4,132.7 (5.8%) from the previous year, mainly due to the termination of co-insurance in a portfolio in building insurance. Adjusted for this effect, gross written premiums would have increased by 10.1%.

This increase can be attributed to the strong growth in the health and long-term care supplementary insurance segment. In this segment, the portfolio of insurance contracts increased by 30,378 (+9.7%) from 314,095 at the end of 2017 to 344,473. This was accompanied by an even higher increase in written premiums, which rose by almost 16% in a year-on-year comparison to TEUR 61,951.6.

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The introduction of the product model under the name “16-matrix” was an important requirement to realize the digitization strategy of Deutsche Familienversicherung. Reducing digitization to a mere process and IT topic means to ignore the need of customers for demand-oriented and understandable products. In both 2017 and 2018, Deutsche Familienversicherung was awarded the Gold Innovation Prize of the German Insurance Industry in the Product Design/Assurance Technology category for this product innovation of the 16-matrix by the renowned, independent insurance analysts of Morgen & Morgen and Versicherungsmagazin, one of the leading trade journals for insurance brokers.

The premium and portfolio development in the property classes was characterized by a complete revision of the products during 2018. This revision made it possible to replace the insurance products of the first generation and also to sell them better online and via language assistance systems.

In addition to the above-mentioned effects from the termination of co-insurance in a building insurance portfolio, gross written premiums in engineering insurance (electronics) in particular decreased by TEUR 832.2, as expected. Due to the poor earnings performance, electronic insurance were closed with effect per May 31, 2015; with being in run-off; an additional improvement of the claims and expense ratio was also being recorded in the year under review. Deutsche Familienversicherung expects this positive development to continue in the remaining settlement period.

3.1.2 Claims and benefits

At TEUR 38,637, claims and benefits to customers were almost at the previous year’s level. Of this amount, TEUR 11,629 (previous year: TEUR 10,740) can be attributed to the allocation to the actuarial reserve. Claims payments themselves increased by TEUR 843 from TEUR 26,560 in 2017 to TEUR 27,403.

The gross actuarial reserve of TEUR 42,570.2 (previous year: TEUR 30,941.0) reported as of December 31, 2018 and the provision for profit-related premium refunds in the amount of TEUR 836.0 (previous year: TEUR 811.6) continue to relate mainly to the long-term care division.

Gross provisions for outstanding claims amounted to TEUR 10,268.9 as of the balance sheet date (previous year: TEUR 10,713.6).

3.1.3 Underwriting result

The strong premium growth is accompanied by a significant increase in sales expenses, which rose by TEUR 3,114.7 from TEUR 11,422.5 in the previous year to TEUR 14,537.2. Despite these high additional sales expenses, Deutsche Familienversicherung closed the business year with an underwriting profit without taking the share of the investment result attributable to life insurance business of TEUR 717.2 (previous year: TEUR 1,414.9), into consideration. This underlines the competence of Deutsche Familienversicherung to grow profitably in its core business.

3.1.4 Capital investments

The development of the international capital markets was characterized by considerable volatility during 2018. The reasons for this were manifold. On the one hand, growth prospects are clearly declining in almost all economic regions. On the other hand, many countries are trying to protect their domestic economies by reintroducing or tightening existing trade barriers. For the European Union, the unresolved issue of the United Kingdom’s exit from the Union is still a major challenge. The expansive monetary policy of recent years, under which the European Central Bank (ECB) attempted to bring inflation closer to the target value of 2% with massive purchases of bonds, has so far only resulted to a limited extent in the desired success. Although the ECB terminated additional bond purchases towards the end of the year, maturing funds are used to buy new bonds, so that the general interest rate level remains extremely low or negative in the area of safe investments – such as German government bonds.

Existing investments of Deutsche Familienversicherung amounted to TEUR 90,053.0 as of December 31, 2018. The allocation of investments follows the principles of asset/liability management and is, in particular, invested in long-term investments with matching maturities. Deutsche Familienversicherung uses the DFV special fund to manage its investments.

In view of the volatile market development, the investment results are very disappointing. The current investment result in light of the continuously declining interest level amounted to TEUR 522.0 short of the previous year value of TEUR 1,107.

The significant declines in share prices, which reached lows at the end of the year, made unplanned impairments necessary. The total of realized profits and losses including necessary impairments in the fiscal year amounted to TEUR –2,656 (previous year: net profits of TEUR 337), which corresponds to 2.9% and has to be seen in relation to the decline in the DAX –18%.

3.1.5 Other results

In other results, Deutsche Familienversicherung recorded net expenses of TEUR 4,104 (previous year: TEUR 1,570). Deutsche Familienversicherung went public with the listing on December 4, 2018. With its stock market listing, Deutsche Familienversicherung has created the conditions for long-term profitable growth. The company's successful IPO was the result of a comprehensive company-wide effort. It was realized with a lead time of well under one year in an extremely volatile capital market environment in which nearly all announced IPOs were cancelled at short notice. The external direct costs in connection with the IPO are accounted for in other comprehensive income net off the tax effect under IFRS. On the other hand, the additional internal expenses of TEUR 1,500 impacted the annual result and led to a significant increase in other expenses.

3.1.6 Overall result

Deutsche Familienversicherung closed the 2018 fiscal year with a loss before taxes of TEUR 4,104.4 (previous year: profit of TEUR 2,118.2). After offsetting taxes, the net loss for the year amounts to TEUR 3,338.3 (previous year: profit of TEUR 1,481.2). It should be emphasized here that Deutsche Familienversicherung achieved an underwriting profit despite the strong growth and the associated significant increase in distribution expenses. The turmoil on the international capital markets and the expenses incurred by the entire company in connection with the successful IPO led to the overall negative result for the year.

3.1.7 Digitization

Deutsche Familienversicherung is a functioning InsurTech. InsurTech is defined as a combination of an insurance company according to § 1 para. 1 no. 1 in conjunction with § 7 no. 33 Versicherungsaufsichtsgesetz (German Insurance Supervision Act) and a technology company for the digitization of the insurance product range and all underlying processes.

When business operations commenced in 2007, Deutsche Familienversicherung began as a traditional insurance company, and used the IT infrastructure of Helvetia Versicherungs-AG. The termination of the cooperation agreement with Helvetia to use its IT infrastructure forced Deutsche Familienversicherung to set up its own inventory management system. This new contract management system (BSN) was gradually introduced starting

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in January 2014 and represents today the heart of corporate IT. The contract management system is, on the one hand, characterized by the fact that it was programmed in a modern language (JAVA), and, on the other hand, by the fact that it works event-based. This makes it possible to technically implement business processes immediately and in “real time”. Due to this technical IT functionality, Deutsche Familienversicherung can offer an accident insurance product on demand where the customer can increase the insurance cover using the DFV customer app according to the situation and reduce this insurance cover in the same way after the end of the increased risk. The customer receives confirmation of the higher insurance cover immediately because the contract management system can process it in real time. The future lies in such insurance solutions, because customers are increasingly requesting insurance on demand. Deutsche Familienversicherung is prepared for this.

In 2014, the first digitization concept was also created, the focus of which was the realization that digitization must begin with the insurance product when the sales focus is on online sales. This is mainly due to the fact that in online sales, the customer must be able to see immediately, at a glance, which insurance cover he is buying and which risks are covered on the one hand and are associated with it on the other hand for the customer. Because Deutsche Familienversicherung focuses on online sales, the entire product range had to be revised with regard to associated criteria. Thus the so-called “16 Matrix Health” and subsequently the “16 Matrix Property” were created.

The main consideration is in this respect that the customer in general always has complete insurance cover in each product family (dental, outpatient, inpatient and nursing) and only selects the amount of insurance cover depending on his financial possibilities. In the case of supplementary dental insurance, this means that all services provided by the dentist are insured. This also applies with regard to possible innovations and expansions in dentistry (guarantee of the GOZ (German Dental Fee Schedule)). The customer can then choose whether he wishes to have 30%, 60%, 90% or 100% reimbursed of what his statutory insurance does not cover. This principle applies to all product families offered by Deutsche Familienversicherung. For this reason, Deutsche Familienversicherung can quote customers all prices for all products offered by Deutsche Familienversicherung after they enter their age.

After the conversion of the offered insurance products, Deutsche Familienversicherung calls this the product digitization phase, all processes were aligned based on this, automated and thus also digitized. In detail, this looks as follows:

3.2 Segment and Portfolio Allocation as of the Balance Sheet Date

The portfolio and earnings trends of the main products per insurance segment are presented below. The following summary provides an overview of the segment and portfolio allocation as of the balance sheet date in regard of the distribution of gross premiums written and the number of policies.

PORTFOLIO DEVELOPMENT

Insurance	Number of insurance contracts of at least one year duration		Changes		Gross premiums written		Changes	
in TEUR	2018	2017	in units	in %	2018	2017	in TEUR	in %
Health Total	344,473	314,095	30,378	9.7	61,951.6	53,518.7	8,432.9	15.8
Health by type of property	289,595	266,097	23,498	8.8	40,478.3	34,860.9	5,617.4	16.1
Health by type of life	54,878	47,998	6,880	14.3	21,473.3	18,657.8	2,815.5	15.1
Accident	14,370	15,075	−705	−4.7	1,124.3	1,058.5	65.8	6.2
Liability	12,757	13,208	−451	−3.4	719.0	1,248.4	−529.4	−42.4
Legal expense	9,317	9,830	−513	−5.2	1,058.3	850.3	208.0	24.5
Glass breakage	8,103	8,534	−431	−5.1	94.1	94.8	−0.7	−0.7
Household	9,739	10,189	−450	−4.4	594.3	624.7	−30.4	−4.9
Residential building	0	18,288	−18,288	−100.0	−1,996.9	8,436.4	−10,433.3	−123.7
Electronic insurance	56,187	75,067	−18,880	−25.2	2,377.9	3,210.1	−832.2	−25.9
Other property insurance	18	70	−52	−74.3	599.6	1,613.1	−1,013.5	−62.8
Total	**454,964**	**464,356**	**−9,392**	**−2.0**	**66,522.2**	**70,654.9**	**−4,132.7**	**−5.8**

Due to the presentation in TEUR, rounding differences may occur in the totals.

CLAIMS DEVELOPMENT

Insurance segments	Gross expenses for claims		Changes		Gross claims ratios in % or earned premium		Changes
in TEUR	2018	2017	in TEUR	in %	2018	2017	in % absolute
Health total	24,943.8	18,773.1	6,170.7	32.9	40.3	35.1	5.2
Health by type of property	22,176.6	17,760.2	4,416.4	24.9	54.8	51.1	3.8
Health by type of life	2,767.2	1,013.0	1,754.2	173.2	12.9	5.4	7.5
Accident	359.3	126.3	233.0	184.5	32.0	11.9	20.1
Liability	104.8	737.3	−632.5	−85.8	14.6	58.9	−44.4
Legal expense	912.6	692.9	219.7	31.7	86.1	81.0	5.1
Glass breakage	13.7	6.5	7.2	111.2	14.5	6.8	7.7
Household	79.7	258.8	−179.1	−69.2	13.4	41.3	−27.8
Residential building	−428.4	4,971.9	−5,400.3	−108.6	* n.a.	60.0	*n.a
Electronic insurance	263.1	862.6	−599.5	−69.5	9.5	21.7	−12.2
Other property insurance	709.6	1,364.6	−655.0	−48.0	118.4	84.6	33.8
Total	**26,958.2**	**27,794.1**	**−835.9**	**−3.0**	**39.5**	**39.0**	**0.5**

* Not applicable

Deutsche Familienversicherung uses reinsurance for risk control. In the 2018 fiscal year, the company generated a positive result of TEUR 653.4 from reinsured business. In the previous year, Deutsche Familienversicherung recorded an effect on earnings of TEUR 4,113.5 from reinsurance, which is in particular attributable to the high level of reinsured business in residential building insurance.

The underwriting result without taking into account the share of write-downs on investments attributable to transaction concluded according to the type of life insurance amounted to TEUR 865.2 in the reporting year (previous year: EUR 1,909.3). This decline can in particular be attributed to the significant increase in gross written premiums in health insurance by type of life, which grew by around 15% in the year-on-year comparison.

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

Intangible assets amounted to TEUR 9,204.6 in fiscal year 2018 (previous year: TEUR 9,319.9). The reduction is mainly due to ongoing depreciation of the BSN inventory management system. Due to the ongoing growth of business and the capital increase carried out as part of the IPO, investments rose substantially from TEUR 46,356.6 to TEUR 90,053.0. Cash and cash equivalents increased over the end of 2017 by TEUR 3,523.2 to TEUR 9,033.5. The share of reinsurers in underwriting reserves increased in light of the significant existing and premium growth from TEUR 29,412.9 in the previous year to TEUR 5,605.6 to TEUR 35,018.5

3.3 Cash flow and liquidity position

The ongoing strong growth of Deutsche Familienversicherung also resulted in a positive operating cash flow in 2018. However, the operating cash inflows were offset by substantial cash outflows in connection with the IPO, so that the operating cash flow of TEUR 6,625.6 was below the previous year's figure of TEUR 16,621.0. The operating cash flow and the liquid funds raised from the IPO were used in particular to expand the investment portfolio of Deutsche Familienversicherung (TEUR 46,714.7) and additional investments in intangible assets (TEUR 1,842.9). Cash and cash equivalents were increased by TEUR 3,523.2 compared to the previous year. The increase was due to the inflow of funds from the capital increase toward the end of 2018, insofar as such were not yet invested by the end of the year.

3.4 Summary of the Overall Statement on the Situation of the Company

The result from ordinary activities decreased from TEUR 2,118.1 in the previous year to TEUR –4,104.4.
This loss essentially consists of three components:

- increased general costs, including expansion of the Executive Board and expansion of its divisional structure (TEUR 850)
- a write-down requirement on investments of TEUR 2,600 as a result of global slumps in the investment market
- internal IPO costs totaling TEUR 1,500

In consideration of tax obligations, the loss for the financial year was TEUR 3,338.3, compared with a profit of TEUR 2,118.1 in the previous year.

The asset situation of Deutsche Familienversicherung improved as a result of the successful IPO and the achievement of the established growth targets. Investments increased by TEUR 43,696.4 to TEUR 90,053.0.

Deutsche Familienversicherung met all its payment obligations in the reporting year. When the Annual Report was prepared, no evidence existed that the company's ability to meet its payment obligations in the future would be impaired.

With its successful IPO, Deutsche Familienversicherung created the conditions for significantly intensifying growth in 2019 and subsequent years. In this context, a gradual change in the reinsurance structure may also be undertaken. The digitization scope of Deutsche Familienversicherung is well advanced above the market average. Building on this, further additions to the IT systems will be made in 2019.

An alternative investment, no expenses comparable to IPO costs in 2019 and the significant expansion of new business will have a positive effect on the long-term earnings position of Deutsche Familienversicherung.

4 OPPORTUNITY AND RISK REPORT

4.1 Introduction and description of the risk structure

The purpose of the company is the insurance business. Naturally, this activity is associated with risks. Therefore, it is important to engage in risks in a targeted manner within the framework of the existing risk-bearing capacity, as far as the associated opportunities allow the expectation of adequate added value. Risk management at Deutsche Familienversicherung aims at identifying and controlling product and contract risks at an early stage and to ultimately handle them systematically. Active risk management is carried out by the members of the Executive Board and managers. Routinely, the department heads report to the divisional board or the full Executive Board on the current course of business, also from possible risk perspective.

The risk strategy of Deutsche Familienversicherung also includes the transfer of risk to solvent reinsurance companies with very good credit ratings by means of pro-rata risk assumption and flexibly expandable major loss and natural catastrophe covers, as well as annually adjusted insurance cover for loss of earnings/business interruptions, business liability, cyber risks and commercial buildings and inventory.

An internal risk and solvency assessment (ORSA) process exists pursuant to the Solvency II Framework Directive and the delegated acts as part of pillar 2. Founded on the total solvency requirement determined as of the effective date of December 31, 2017/January 1, 2018, an ORSA assessment was carried out on the basis of the figures as of June 30, 2018, taking into account the effects of the successful IPO in December and the associated capital increase. This so-called regular ORSA process must be carried out once a year. In addition, the ORSA process of Deutsche Familienversicherung stipulates that the solvency and minimum capital requirements must also be carried out and evaluated on a regular basis by means of updated risk calculations according to the standard formula as part of the quarterly reports to the supervisory authority. The full Executive Board and the Supervisory Board will be informed on a regular basis about the quarterly solvency figures. The solvency ratio as of December 31, 2018 was well above the statutory requirements.

Deutsche Familienversicherung has an "independent risk controlling function" (URCF) whose area of responsibility includes the continuous, independent and objective implementation and further development of the risk management system of Deutsche Familienversicherung. The principle of proportionality is applied in the design of the URCF and the risk management system.

The overall risk of Deutsche Familienversicherung can be divided into the following risk categories:

- underwriting opportunities and risks
- risks from the default of receivables from insurance business
- opportunities and risks from investments, in particular market risks
- operational risks
- liquidity risks
- reputational risks
- strategic opportunities and risks

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

4.2 Underwriting opportunities and risks

As part of risk management, the identification, assessment and control of underwriting risks naturally plays a key role.

The main risk in the insurance segments in operation is the premium and loss risk. It means that from the premiums calculated in advance, contractually fixed claims payments are to be made in the future, the amount of which is not known with certainty when the premiums are fixed (risk of chance and change). As part of the ongoing monitoring of the profitability of the insurance portfolio, it is also examined whether a need exists to adjust premiums for supplementary health insurance products.

Another risk is the reserve risk. It means that the claims expenditure to be paid may be higher than expected at the time of the claim notification. The underwriting reserves are calculated individually for each claim on the basis of differentiated statistics and in accordance with the principle of prudence under commercial law.

Deutsche Familienversicherung mitigates these risks with a risk-sensitive calculation of premiums, through a targeted underwriting policy and through stringent underwriting guidelines. As part of systematic portfolio controlling, Deutsche Familienversicherung ensures an appropriate ratio of premium income to claims and benefit expenses. Deutsche Familienversicherung protects itself against the effects of the damage risk by concluding suitable proportional reinsurance contracts, particularly in the insurance segments supplementary health insurance, long-term care insurance and electronics insurance. In addition, non-proportional reinsurance contracts for the segments foreign health insurance, accident, household, liability and legal expenses exist, under which the equity share of the benefit obligations for each risk, each policy and each event exceeding a specified priority have been assigned. The non-proportional reinsurance contracts include the option of multiple reinstatements of reinsurance covers. The further expansion of the insurance portfolio and the associated strengthening of the company's net assets, financial position and results of operations will provide an opportunity to reduce the share of proportional reinsurance in order to fully capture the positive underwriting results.

AN OVERVIEW OF THE LOSS RATIOS (GROSS) FOR THE PAST TEN YEARS:

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
43.5%	23.2%	31.5%	32.7%	35.4%	43.2%	48.6%	42.8%	39.0%	39.5%

Since 2011, Deutsche Familienversicherung has been offering private supplementary long-term care insurance, which is calculated according to the type of life insurance. In this line of business, Deutsche Familienversicherung assumes long-term risks with regard to the development of care costs and biometrics. Deutsche Familienversicherung has calculated the underwriting risks on the basis of recognized accounting principles. Nevertheless, these can deviate from the actual course and result in an increased risk of loss. Pursuant to § 155 (3) VAG, Deutsche Familienversicherung therefore compares the required insurance benefits with the calculated insurance benefits on an annual basis. Taking into account the requirements and procedures described in § 155 (3) VAG (German Insurance Supervision Act), Deutsche Familienversicherung has the opportunity to adjust the originally selected calculation parameters, including the interest rate, if circumstances change as part of a recalculation of the tariffs.

Moreover, the above risk parameters are continuously monitored and analyzed. The underwriting risks are recalculated and assessed in the quarterly reports to the supervisory authority using the standard formula according to Solvency II. The Supervisory Board is informed about these quarterly solvency ratios at the regular quarterly meetings. In view of the scope and long-term nature of the supplementary long-term care insurance, 50% or 70% of the portfolio of Deutsche Familienversicherung was covered by reinsurance.

With the successful completion of its IPO on December 4, 2018, Deutsche Familienversicherung created the conditions for further growth. In connection with the IPO of Deutsche Familienversicherung, the following capital measures were resolved and implemented in the course of 2018:

- By resolution of the annual general meeting on September 5, 2018, the capital of TEUR 7,000 previously authorized in accordance with the resolution of April 20, 2016 was cancelled and the Executive Board was authorized, with the approval of the Supervisory Board, to increase the company's share capital by up to TEUR 12,000 once or several times until September 4, 2023 by issuing new non-par value bearer shares in return for cash contributions or contributions in kind (authorized capital 2018).
- On the same day, a resolution was passed to reduce the company's share capital by means of a simplified capital reduction of TEUR 16,202.3 from TEUR 34,110 to TEUR 17,907.8 by consolidating shares in a ratio of 40 to 21. The resolution on the simplified capital increase was entered in the commercial register on October 24, 2018 and its implementation on December 3, 2018.
- It was also decided by resolution of September 5, 2018, subject to the recording of the simplified capital increase, to combine the shares at a ratio of 2 to 1 in a way that two bearer shares with a notional par value of EUR 1.00 each were combined to form one bearer share with a calculatory par value of EUR 2.00 each, which left the amount of the share capital unaffected.
- By resolution of the annual general meeting on October 24, 2018, the company's share capital was increased from TEUR 17,907.8, divided into 8,953,875 shares, by up to TEUR 9,000.0 to up to TEUR 26,907.8 by issuing up to 4,500,000 new non-par value bearer shares, each representing EUR 2.00 of the share capital, against cash contributions. The statutory subscription rights of shareholders were excluded. The Executive Board was authorized, with the approval of the Supervisory Board, to determine the further details of the capital increase and its implementation as well as the conditions for the issue of shares.
- By resolution of the Executive Board of November 29, 2018 and with the approval of the Supervisory Board on the same day, it was determined that the number of new shares would total 3,800,000 and that the IPO capital increase amounting to TEUR 45,600 would be carried out by issuing 3,800,000 new shares. The implementation of the capital increase was recorded in the commercial register on December 3, 2018.

4.3 Risks from the Default of Receivables from Insurance Business

Risks due to commission refund claims exist against insurance brokers. This is adequately countered by sufficient cancellation reserves and cancellation liability periods.

Receivables from insurance business existed as of the balance sheet date. Receivables from policyholders were value-adjusted by 62.0% as of the balance sheet date. This risk potential can be well controlled by means of ongoing review processes of the composition and age structure of outstanding receivables as well as proven collection processes.

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Significant receivables may also exist from the reinsurance partners of Deutsche Familienversicherung. When selecting reinsurance companies, creditworthiness is a key factor in decision-making. On the balance sheet date, the following companies are significant reinsurance partners of the Company:

- BNP Paribas Cardif Allgemeine Versicherung, Stuttgart, German branch of BNP Paribas Cardif Assurances Risques Divers, France, Paris
- Echo Rückversicherungs-AG, Switzerland, Zurich
- E+S Rückversicherung AG, Hanover
- HanseMerkur Reiseversicherung AG, Hamburg
- Helvetia Schweizerische Versicherung AG, Directorate for Germany, Frankfurt am Main
- Partner Reinsurance Europe SE, Switzerland, Zurich
- SCOR Global Life Deutschland, Köln, Cologne, branch of SCOR Global Life SE, France, Paris
- VIG Re as, Czech Republic, Prague

As part of the ORSA process and the regular determination of counterparty default risks, Deutsche Familienversicherung reviews the economic development of its reinsurance partners, in particular possible changes in the ratings of the above-mentioned reinsurance companies. The risk strategy of Deutsche Familienversicherung stipulates that the risk is in principle to be transferred to several solvent reinsurance partners with good to very good ratings from recognized global rating agencies.

4.4 Opportunities and Risks from Investments, in particular Market Risks

The company's investment portfolio consists primarily of the investment of funds to cover the ability to meet underwriting liabilities at all times, in particular the long-term coverage of age provisions from the obligations of the insurance segment health and supplementary long-term care insurance by type of life.

The following significant individual risks exist in connection with investments:

- **Market price risks**
  They arise from the potential loss due to adverse changes in market prices for investments (including changes in interest rates, exchange rates and share prices).

- **Counterparty default and concentration risks**
  They result from negative changes in the creditworthiness of issuers, in particular if a significant concentration of investments in individual issuers exists.

- **Liquidity risks**
  They consist in that the company's ability to meet its payment obligations would be jeopardized by delayed inflows of liquidity.

As part of the DFV Special Fund, investment management is performed by a fund manager. A function outsourcing agreement exists for this purpose. As of December 31, 2018, the total investment assets amounted to TEUR 90,263.0 (previous year: TEUR 46,357.0), which were in particular invested in the "DFV Special Fund". The investment in the fund is intended as a long-term investment. In connection with the IPO of Deutsche Familienversicherung shortly before the end of the year, the fund held a share of TEUR 56,000 in overnight and fixed-term deposits. These funds were reallocated to longer-term investments during the first quarter of 2019.

The investment policy of the DFV Special Fund aims to ensure that the assets of Deutsche Familienversicherung are invested in consideration of investment risks and investment opportunities as well as the greatest possible security and profitability while maintaining liquidity at all times and maintaining an appropriate mix and spread. In accordance with the function outsourcing agreement for the DFV Special Fund, the manager of the investment fund must comply with the following security principles:

- Protection of the nominal value
- Safeguarding the economic substance of the investment
- Investments must be available for unrestricted sale and transfer at all times
- Consideration of recognized ratings (investment-grade ratings from recognized rating agencies)

Essential principles of the investment policy, such as the stipulation that the fund assets may only be invested on regulated markets and exclusively in OECD countries, are established in the management regulations of the fund prospectus. The investment policy is continuously reviewed and determined by the investment committee appointed by Deutsche Familienversicherung. In the investment committee, the Executive Board of the company, together with the fund manager, verifies and adjusts the risk, duration and return development of the fund and sets forth fixed rules on permissible asset classes (e.g. derivatives for hedging purposes only), distribution and concentration limits as well as investment specifications to the funds manager in writing. The durations in the individual investments of the securities in the fund are determined by the long-term cash flow and funding requirements as defined by asset/liability management.

In order to monitor the defined targets, the Executive Board members and the responsible employees of the finance department receive a detailed monthly report on the development of the fund from the fund manager. In addition, risks arising from investments are recalculated and assessed each quarter on the basis of reports at the individual security level to the supervisory authority and the ECB by means of detailed revaluations of the market, interest rate, concentration, spread and counterparty default risks using standard solvency formulas. In addition, detailed reports on the composition, portfolio, value and earnings development of the fund are made available daily by the fund manager to the Executive Board members and responsible employees of the finance department.

The investments in the DFV Special Fund, which are intended to cover the obligations from supplementary health and long-term care insurance of the life insurance type, are monitored by an independent trustee in accordance with § 128 VAG.

4.5 Operational risks

In general, every insurance company is exposed to a large number of operational risks from its day-to-day operations. The risk of losses that may result from human or technical failure, from the inadequacy of internal processes or systems or from external influences is particularly relevant. This also includes legal risks.

In order to reduce these risks, Deutsche Familienversicherung has an internal control system that is adequate for the size of the company. Deutsche Familienversicherung prevents employee risks by defining clear authorization limits for each employee for engagements and release of invoices for payment. Payment restrictions are stored in automatic collection and disbursement systems. Otherwise, the company has a consistent principle of dual control. Moreover, control is carried out by means of random samples and supervision. In addition, Internal Audit checks systems, procedures and individual cases independently of processes.

As part of an existing outsourcing of IT security, Deutsche Familienversicherung benefits from the high security and functionality levels of external service providers. Their geographically separated systems ensure that operation can be resumed in the event of a disaster. Effective access controls and the use of the latest security technologies reliably guarantee the integrity of all data. In cooperation with one of the external service providers, Deutsche Familienversicherung also has an ongoing monitoring and improvement process with regard to so-called cyber risks.

In order to mitigate possible effects of operational risks, the company has comprehensive insurance cover for buildings, inventory, loss of earnings/interruption of operations and cyber risks, among other things. Insurance cover is reviewed annually and adjusted if necessary.

Legal risks can result in particular from changes in the legal framework (laws and jurisdiction), from changes in official interpretations and from changes in the business environment.

To avoid legal risks, the company has a decentralized compliance organization. The key compliance function is responsible for the identification and analysis of legal risks, the development of risk-limiting measures and the implementation of control procedures. The ongoing review of risks as part of the compliance organization, binding powers of attorney with underwriting limits for individual employees, a clear separation of functions and defined reporting channels as well as compliance with the principle of dual control ensure compliance with the law and regulatory requirements.

As a result of the stock exchange listing, Deutsche Familienversicherung is subject to the provisions applicable to capital market-oriented companies. These include in particular, but are not limited to, regulations on ad hoc publicity, the maintenance of insider lists, the prohibition of insider dealings, proprietary dealings by executives or persons closely related to them (directors' dealings) as well as reporting and publication obligations in the event of changes in voting rights. In addition, the requirements of the German Corporate Governance Code must be taken into account.

The company has taken these increased requirements into account and has established organizational conditions and measures for compliance with and implementation of these regulations.

4.6 Liquidity Risks

The liquidity risk is the risk that the company's ability to meet its payment obligations will be jeopardized by a delayed inflow of liquidity.

In general, a steady inflow of liquidity occurs by direct debit, which is, inter alia, allocated to the DFV Special Fund in accordance with long-term planning to hedge underwriting liabilities. The availability of investments in the DFV Special Fund is ensured by the fund manager in consideration of the requirements of asset/liability management as part of the investment management process described above.

A standard agreement exists for the settlement of major losses with reinsurers in the reinsurance contracts on immediately retrievable loss contributions to avert liquidity bottlenecks.

The share of reinsurers with very good credit ratings to cover the ageing provisions of health and supplementary long-term care products of the life insurance type is made available as a deposit by the reinsurer of Deutsche Familienversicherung for investment purposes.

4.7 Reputational Risks

Reputational risks can arise not least from negative public presentations, e.g. from dissatisfied customers or sales partners, from legal proceedings and ultimately from defamation.

Deutsche Familienversicherung mitigates these risks with an adequate internal compliance management system, ongoing monitoring and active public relations work. Customer behavior is actively monitored by complaint management, which investigates the causes of all complaints and assesses their potential impact on reputation. Anomalies in complaint management can result in adjustments in business processes. This measure is supported by online marketing, which evaluates social networking activities using software tools.

As part of its public relations work, Deutsche Familienversicherung continuously monitors the current media. In addition, Deutsche Familienversicherung is able to continuously expand its positive public image by proactively dealing with the media and clearly communicating with customers. This ensures that appropriate measures can be taken at short notice to respond to particular developments.

4.8 Strategic Opportunities and Risks

The strategic risks result from the fact that strategically necessary objectives and measures from the corporate environment are not recognized or are recognized too late and implemented inadequately. Deutsche Familienversicherung also defines misinterpretations and the resulting major business mistakes as a strategic risk.

Deutsche Familienversicherung responds to these opportunities and risks by the following:

- material business decisions are subject to an extensive review and consultation process,
- the process of monitoring the corporate environment is continuously expanded and systematized,
- it has a detailed business plan on the basis of a strategic framework objective which reflects the requirements with regard to the development of the insurance segments, the products and the distribution channels over a period of five years,
- the ongoing, short-term monitoring of this planning with the real actual data is used as an essential early warning tool for identifying and counteracting undesirable business developments,
- it informs the Supervisory Board in detail about business developments by means of divisional analyses at the quarterly supervisory meetings, and
- it provides an intensive exchange of information, including the definition of measures with regard to possible strategic risks and undesirable developments, at a weekly meeting of the Executive Board, which is recorded in minutes.

4.9 Summary of the Risk Situation

The main risks are described in the previous sections. In summary, Deutsche Familienversicherung states that, on the basis of current knowledge and the circumstances described, no current developments can be discerned that could endanger the continued existence of the company and that could materially impair its net assets, financial position and results of operations as well as its risk-bearing capacity.

5 COMPARISON OF FORECAST WITH ACTUAL RESULT FOR 2018

Gross written premiums declined by TEUR 4,132.7 to TEUR 66,522.2. Adjusted for the planned termination of co-insurance in an insurance portfolio in the building insurance, gross written premiums in the other segments rose again significantly by 10.1%.

The persistently low level of interest rates led to the expected pressure on the current return on investments in European bonds. This was compounded by the volatility on the capital markets, particularly in the second half of the year, with the result that some share portfolios suffered significant price declines. Against the background of this development, Deutsche Familienversicherung has made write-downs on its investment portfolios.

6 OUTLOOK 2019

6.1 Macroeconomic and industry-specific framework conditions

In the fourth quarter of 2018, the OECD forecast growth of 1.6% in Germany's gross domestic product for 2019. For the Euro zone, gross domestic product is forecast to fall to 1.0% in 2018 (2018: 2.1%).

According to the Gesamtverband der Deutschen Versicherungswirtschaft e. V. (German Insurance Association), German insurers recorded an increase in premium income of 1.9% (previous year: 1.7%) to EUR 202.2 billion in the fiscal year. The insurance industry is cautiously optimistic about 2019. Despite the generally gloomy economic outlook, the German insurance industry expects business to remain stable, with the consequences of the low-interest policy having a sustained negative impact on results. On the other hand, however, the inclination to make provisions and the need to hedge risks are likely to increase.

6.2 Company forecast

Deutsche Familienversicherung plans to significantly expand its new business in 2019. Deutsche Familienversicherung will use the proceeds from the IPO to finance the acquisition costs. In the supplementary health and supplementary long-term care insurance segment, Deutsche Familienversicherung expects the portfolio of policies and gross premiums earned to increase again in 2019, with cancellation rates remaining constant. The growing online business was supplemented by the conclusion of group insurance with Henkel. In addition, Deutsche Familienversicherung plans to introduce an animal health insurance policy (DFV-TierkrankenSchutz), which will be launched on the market in the course of the second quarter. In the other property portfolio, Deutsche Familienversicherung is planning a slight increase for existing policies due to the complete revision of its products. For the run-off business of the electronic insurance division, a further scheduled decline in the existing policies is expected. Overall, an increase in gross premiums earned of 20% is planned.

Due to the persistently low level of interest rates in European bonds, investment income will continue to be affected negatively in relation to the growing investment portfolio. In addition, political and economic uncertainties exist as a result of the Brexit and the growing protectionist tendencies in the USA, which could lead to additional unforeseeable and not inconsiderable negative impacts on earnings in the investment portfolio.

Provided that the uncertain political and economic conditions described above do not lead to any extraordinary negative influences on results, Deutsche Familienversicherung expects a pre-tax loss between EUR 9 and 11 million for the following fiscal year, taking into account the planned further expansion of existing policies through new contracts, additional expenses in the course of further digitization and the further development and expansion of new distribution channels. Despite the further dynamic growth the break-even is expected for 2021.

7 CORPORATE GOVERNANCE REPORT ACCORDING TO 3.10 DCGK AND §§ 315 D; 289 F HGB

7.1 Corporate Governance Report

Both the Executive and the Supervisory Board are to provide an annual corporate governance report, which is to be published together with the Corporate Governance Statement.

Corporate governance means responsible, transparent corporate management and supervision aimed at sustainable value creation. Corporate governance in this sense is essential for the success of Deutsche Familienversicherung and builds confidence in the company by policyholders, business partners, employees and shareholders.

Dual system of governance with Executive Board and Supervisory Board

As a listed stock corporation, Deutsche Familienversicherung is subject to the provisions of the German Stock Corporation Act (AktG) among others. A basic principle of German stock corporation law is a dual management system consisting of the executive board on the one hand and the supervisory board on the other. The executive board is responsible for the management and orientation of the company and the supervisory board for advising and supervising the executive board. At Deutsche Familienversicherung, both of these bodies work together in the best interest of the company on a spirit of trust.

According to the bylaws, the Executive Board of Deutsche Familienversicherung consists of four members. The Executive Board determines the company's business policy and develops the company's strategic orientation. It manages the company in its own responsibility with the aim of creating sustainable value and in the best interest of the company. It is also responsible for the preparation of the annual financial statements and the consolidated financial statements.

In the fiscal year 2018, the Supervisory Board of the company consisted of four members who were re-elected at the Annual General Meeting of September 5, 2018 for the period until the end of the Annual General Meeting that decides on the discharge for fiscal year 2023. The Supervisory Board consists of members that will ensure comprehensive advice and supervision of the Executives. It can therefore be expected that the Supervisory Board members possess knowledge in the areas of equity investment, insurance and accounting. Details of the functioning of the Supervisory Board are included in the corporate governance report.

Members of the Executive Board must neither demand nor accept payments or other unjustified advantages from third parties in connection with their function, either for themselves or for other persons, neither must they grant unjustified advantages to third parties.

When making decisions, members of the Supervisory Board must not pursue personal interests or business opportunities to which the company or the group are entitled for themselves or third parties.

Members of both Executive and Supervisory Boards must report any conflicts of interest to the Supervisory Board.

Annual General Meeting

The Annual General Meeting is another body of the company. This is where the shareholders of Deutsche Familienversicherung exercise their rights. All shares issued by Deutsche Familienversicherung are no-par bearer shares with identical rights and obligations. Each share is entitled to one vote for AGM resolutions.

The Annual General Meeting takes place within the first eight months of each fiscal year and conducts all business for which it is responsible by law. It primarily decides discharging members of the Executive or Supervisory Board, retained earnings, remuneration for Supervisory Board members, capitalization measures and amendments to the company's Bylaws.

The Annual General Meeting is chaired by the Chair of the Supervisory Board or another member of the Supervisory Board designated by them.

Resolutions of the Annual General Meeting are passed by a simple majority of the votes cast, unless mandatory statutory provisions or the company's Bylaws prescribe a higher majority.

Accounting and audit

Accounting at Deutsche Familienversicherung and its subsidiaries (DFV Group) is carried out in accordance with §315e of the German Commercial Code (HGB) and based on the International Financial Reporting Standards (IFRSs) as adopted for the European Union. The annual financial statements of Deutsche Familienversicherung are prepared in accordance with German legislation, in particular the HGB.

As prescribed by law for insurance undertakings, the auditor is appointed by the Supervisory Board. Before the appointment is made, the Supervisory Body must ensure the impartiality of the auditor.

The audit includes both the single-entity financial statements for Deutsche Familienversicherung and the consolidated financial statements for the DFV Group.

Communication and transparency

Transparent management and corporate governance, and open communication has always been a high priority for Deutsche Familienversicherung, even more since the company's IPO in December 2018 because prompt, consistent and comprehensive information and communication builds confidence by investors and the general public.

Whenever it publishes new information, the Executive Board always acts on the principles of transparency, openness and clarity, as well as immediacy and equal treatment of shareholders and investors.

Investor Relations publishes all relevant information regarding the company's position and performance, any announcements, such as press releases, ad hoc announcements and voting rights announcements, as well as financial reports and the financial calendar.

Further reporting on the company's results is provided in the annual and interim financial and other reports. Members of the Executive Board also communicate financial information with relevant market participants at both domestic and international conferences and roadshows.

7.2 Report on corporate management

Listed coroporations are required to include a statement on their corporate management in their Management Report.

Statement on the German Corporate Governance Code pursuant to § 161 German Stock Corporation Act (AktG)

The Executive Board and Supervisory Board of Deutsche Familienversicherung follow the recommendations of the Government Commission on the German Corporate Governance Code (Regierungskommission Deutscher Corporate Governance Kodex) published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette.

As The Executive Board and Supervisory Board of a listed company, they must declare annually that the German Corporate Governance Code has been and is being complied with or which recommendations have not been or are not being applied and why not.

In October 2018, the Executive Board and Supervisory Board of Deutsche Familienversicherung issued the following statement on the German Corporate Governance Code in accordance with §161 AktG:

- **Declarations of Compliance with the German Corporate Governance Code**
  Pursuant to §161(1) AktG, the Management Board and Supervisory Board of a listed German stock corporation are obligated to declare once a year whether the recommendations of the German Corporate Governance Code (GCGC) have been and are being complied with or which recommendations of the Code have not been or are not being applied and why not.

  The Executive Board and the Supervisory Board of DFV Deutsche Familienversicherung AG declare that Deutsche Familienversicherung will comply with the recommendations of the Code with the following exceptions:

  Clause 4.2.3, para. 2, s. 2
  The Code recommends that the monetary compensation components of Executive Board salaries should include fixed and variable components.

  The company is of the opinion that variable remuneration components create false incentives in an expanding company.

  Clause 4.2.3, para. 4, s. 1
  The Code recommends that payments to a member of the Executive Board in the event of premature termination of his contract, including fringe benefits, should be limited to the value of two years' compensation.

  For the current members of the Executive Board, no limit exists on the remuneration payable upon termination of their Executive Board activity until the end of the contract term. However, in any case, the remuneration will not be more than the remaining term of the employment contract.

  Clause 5.3, s. 1
  The Code recommends that the Supervisory Board should form professionally qualified committees according to the specific circumstances of the company and the number of its members.

  The company is of the opinion that forming of committees from five Supervisory Board members represents an organizational expense that is unreasonable for the company under proportionality aspects.

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

Clause 5.3.2, para. 1, s. 1
The Code recommends that the Supervisory Board shall establish an audit committee.

The company is of the opinion that the formation of its own audit committee represents an organizational expense that is unreasonable for the company under proportionality aspects.

Clause 5.3.3
The Code recommends that the Supervisory Board shall form a nomination committee.

The company is of the opinion that the formation of its own nomination committee represents an organizational expense that is unreasonable for the company under proportionality aspects.

Frankfurt am Main,
October 2018

Corporate Government practices

In addition, Deutsche Familienversicherung has established a governance system that enables solid and prudent management of the insurance business. This governance system comprises the four key functions, the risk management function, the compliance function, the actuarial function and the internal audit function. The main pillars of the system are the establishment of suitable processes in the area of key functions and the company's own risk and solvency assessment (ORSA), internal controls and outsourcing.

Deutsche Familienversicherung has a functioning and effective internal control system that ensures company-specific management and compliance with regulatory requirements, and thus the proper functioning of its business activities and the reliability of information and reporting.

The internal control system is supplemented by the key function of Internal Audit, which independently and objectively conducts risk-oriented reviews of the business segments and the company-specific processes, procedures and systems in accordance with the established audit plan.

Compliance means compliance with laws, including observance of the principles of morality, and ensuring legal conduct in a company organization.

Compliance is a fundamental matter for Deutsche Familienversicherung and its employees. For Deutsche Familienversicherung, compliance means not only legality and risk avoidance, but also a responsible value orientation.

It is the goal of the Compliance Management System of Deutsche Familienversicherung to avoid compliance risks, in particular financial risks and damage to reputation, and to create a compliance culture that is alive.

The Compliance Management System of Deutsche Familienversicherung is responsible for compliance with and monitoring of the legal and regulatory requirements applicable to insurance operations. In addition to advising the Executive Board on the laws and administrative regulations applicable to the operation of the insurance business, it assesses the possible effects of changes in the legal environment and risks associated with non-compliance with the legal requirements.

The key compliance function reports regularly to the company's Executive Board as part of the compliance report or, if there is direct cause, directly in the form of an ad hoc report.

Functioning of the Executive Board

The Executive Board conducts the company's business with due care and diligence in accordance with the provisions of the law, the company's bylaws and its rules of procedure.

The Executive Board as a whole is responsible for managing the company. The members of the Executive Board are therefore jointly responsible for the management and compliance with legal requirements.

Irrespective of the overall responsibility of the Executive Board, the individual members independently manage the departments assigned to them in accordance with the schedule of responsibilities. The departments are summarized as follows:

- Legal; Human Resources; Corporate Communications; Audit
- Accounting, Taxes, Finance; Actuarial Services; Risk Management; Solvency II; BI/Controlling; Asset Management/Capital Investments
- Sales; Product Development; Marketing
- Operation/Claim/Payment; IT; IT Security; Digital Transformation

The Executive Board meets regularly, at least twice a month, for Executive Board meetings chaired by the Chairman of the Executive Board. Each member of the board is entitled to nominate items and topics for the agenda. The meetings serve to vote, deliberate and pass resolutions.

If possible, resolutions of the Executive Board shall be passed unanimously, otherwise the resolution shall be passed by a simple majority of the votes cast, unless other majorities are stipulated by law, the bylaws or the rules of procedure. Executive Board resolutions of particular importance require the approval of the Supervisory Board.

Minutes shall be taken for each meeting of the Executive Board, which show, inter alia, the essential content of the negotiations and the resolutions.

At the meetings of the Executive Board, all corporate issues are discussed and resolved in an interdepartmental and concluding manner. It is therefore also possible to dispense with the formation of further Executive Board and group committees under proportionality principles.

The Executive Board reports regularly and comprehensively to the Supervisory Board on business development, the net assets, financial position and results of operations, planning and target achievement as well as corporate strategy, including investment and personnel planning and existing risks.

Functioning of the Supervisory Board

The Supervisory Board sets clear objectives for its composition with due regard for the legal requirements and the recommendations of the German Corporate Governance Code and sets out the competence profile for the entire body. The Supervisory Board must take into account any potential conflicts of interest that may arise from the specific situation of the company, the number of independent Supervisory Board members as well as the Board's diversity.

The Supervisory Board advises and supervises the Executive Board in managing the company. In order to enable it to do so, the Executive Board provides the Supervisory Board with regular, prompt and comprehensive written and verbal reports about the company's performance and its position.

In addition, the Supervisory Board is in particular responsible for the appointment of the members of the Executive Board, the determination of the total remuneration of the individual members of the Executive Board as well as the review and approval of the annual financial statements of the company and the consolidated financial statements.

The Supervisory Board meets as needed, with at least two meetings to be held in each half of the calendar year. By order of the Chairman of the Supervisory Board or with the consent of all members of the Supervisory Board, meetings may also be held in the form of a telephone conference or by other electronic means of communication (in particular video conference).

As a rule, resolutions of the Supervisory Board are passed at meetings, but may also be passed outside meetings in writing, by fax, by e-mail or by any other comparable means of communication, as well as in combination with the aforementioned forms. Unless otherwise stipulated by law, resolutions of the Supervisory Board shall be passed by a simple majority of the votes cast.

The activities of the Supervisory Board for the 2018 fiscal year are described in more detail in the report of the Supervisory Board.

Compliance with § 76 (4) and § 111 (5) AktG

According to § 76 (4) and § 111 (5) AktG, the Supervisory and the Executive Boards of Deutsche Familienversicherung have to set targets for the proportion of women in leadership positions and timelines for their achievement.

The Supervisory Board has set a 0% target of women for both Supervisory and Executive Boards to be achieved by August 31, 2023.

The Executive Board has set a 50% target of women in top two management tiers below the Executive Board to be achieved by August 31, 2023.

Diversity Policy for the Executive Board and Supervisory Board

Deutsche Familienversicherung has no separate diversity policy with regard to the composition of either Supervisory or Executive Board. Equal opportunities and rejecting all forms of discrimination are nonetheless firmly embedded in the company's corporate policy. That means that the only criteria taken into consideration when appointing leadership positions at Deutsche Familienversicherung are the candidates' qualification and competence. Other factors, such as gender, race, age, color, religion, marital status, sexual orientation, or origin are of no relevance.

8 ANNEX TO MANAGEMENT REPORT

List of insurance classes and insurance segments operated in the fiscal year

In direct insurance business:

Non-substitutive health insurance:	Clause pursuant to BerVersV
◆ Independent individual medical expense insurance (outpatient)	02.2
◆ Independent individual medical expense insurance (inpatient)	02.3
◆ Individual sick day benefit insurance	02.4
◆ Other independent individual partial insurance	02.6
◆ Travel health insurance	02.6.7
◆ Voluntary daily long-term care insurance	02.8.6

Property and accident insurance:	
◆ Accident insurance	03
◆ Liability insurance	04
◆ Legal expense insurance	07
◆ Glass breakage insurance	11
◆ Comprehensive household insurance	13
◆ Comprehensive building insurance	14
◆ Electronic insurances	17
◆ Other property insurance	28
◆ Other property insurance	29

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET AS OF DECEMBER 31, 2018

ASSETS

EUR	31.12.2018	31.12.2017
A. Intangible assets		
I. Good will	0	0
II. Other intangible assets	9,204,617	9,319,918
Sum A.	**9,204,617**	**9,319,918**
B. Investments		
I. Loans	0	0
II. Financial investments available for sale	90,053,043	46,356,558
III. Financial investments at fair value through profit or loss	0	0
IV. Other investments	0	0
Sum B.	**90,053,043**	**46,356,558**
C. Receivables		
I. Receivables from direct insurance business		
1. to policyholders	538,022	517,482
2. to insurance brokers	183,906	604,971
	721,928	1,122,452
3. Other receivables	4,199,093	782,101
Sum C.	**4,921,021**	**1,904,554**
D. Current accounts at banks	**9,033,485**	**5,510,342**
E. Share of reinsurers in underwriting provisions		
I. Unearned premiums	558,144	2,006,811
II. Actuarial reserves	30,487,674	22,029,558
III. Reserves for outstanding claims	3,970,737	5,374,759
IV. Other underwriting provisions	1,903	1,813
Sum E.	**35,018,458**	**29,412,941**
F. Tax refund claims		
I. from actual taxes	0	0
II. from deferred taxes	2,010,171	402,029
Sum F	**2,010,171**	**402,029**
G. Other assets	**5,074,447**	**1,376,574**
Total assets	**155,315,242**	**94,282,915**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

EQUITY AND LIABILITIES

EUR	31.12.2018	31.12.2017
A. Equity		
I. Authorized capital	25,507,750	34,110,000
II. Capital reserves	39,774,689	3,893,859
III. Retained earnings	467,435	−19,335,094
IV. Other reserves	0	
1. Unrealized gains and losses	−770,357	−699,075
2. Expenses for the procurement of equity capital	−2,472,601	0
3. Reserve from currency conversion	0	0
	−3,242,958	**−699,075**
V. Consolidated net income for the year attributable to the shareholders of the parent company	−3,338,339	1,481,243
Sum A.	**59,168,577**	**19,450,933**
B. Gross underwriting provisions		**0**
I. Unearned premiums	2,537,001	4,338,025
II. Actuarial reserves	42,570,283	30,940,988
III. Reserves for outstanding claims	10,268,949	10,713,586
IV. Other underwriting provisions	867,942	818,921
Sum B.	**56,244,175**	**46,811,520**
C. Other reserves	**871,556**	**484,487**
D. Liabilities		
I. Liabilities from direct insurance business		
1. to policyholders	195,886	237,707
2. to insurance brokers	1,416,530	459,800
	1,612,417	**697,507**
3. Other liabilities	36,255,074	25,319,008
Sum D.	**37,867,491**	**26,016,515**
E. Tax debt		
I. from actual taxes	197,820	315,744
II. from deferred taxes	965,622	1,203,716
Sum E.	**1,163,442**	**1,519,460**
Total equity and liabilities	**155,315,242**	**94,282,915**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

STATEMENT OF COMPREHENSIVE INCOME

EUR	2018	2017
I. Income statement (through profit or loss)		
1. Written premiums		
a) Gross	66,522,190	70,654,940
b) Share of reinsurers	30,814,588	39,659,213
	35,707,603	**30,995,727**
2. Change in unearned premiums		
a) Gross	−1,801,024	−548,814
b) Share of reinsurers	−1,448,667	10,971
	−352,357	**−559,786**
3. Earned net premiums	**36,059,960**	**31,555,512**
4. Result from investments	**−2,344,840**	**1,066,252**
thereof: result from associated companies	0	0
5. Other income	**1,027,729**	**474,711**
Total income	**34,742,848**	**33,096,475**
6. Benefits paid to customers		
a) Gross	38,636,560	38,899,298
b) Share of reinsurers	18,429,581	20,913,028
	20,206,979	**17,986,271**
7. Expenses for insurance operations		
a) Gross	29,024,219	26,044,245
b) Share of reinsurers	14,487,040	14,621,743
	14,537,179	**11,422,502**
8. Other expenses	**4,103,110**	**1,569,509**
Total expenses	**38,847,267**	**30,978,282**
9. Operating result	**−4,104,419**	**2,118,193**
10. Financing expenses	**0**	**0**
11. Net income before income taxes	**−4,104,419**	**2,118,193**
12. Income taxes	**−766,080**	**636,950**
13. Net result	**−3,338,339**	**1,481,243**
thereof attributable to shareholders of the parent company	−3,338,339	1,481,243
thereof attributable to minority interests	0	0
Earnings per share	**−0.36**	
II. Other results (recognized directly in equity)		
14. Unrealized gains and losses from investments	**−71,282**	**−547,002**
15. Expenses for the procurement of equity capital	**−2,472,601**	**0**
16. Currency conversion	**0**	**0**
	−2,543,883	**−547,002**
III. Total result	**−5,882,221**	**934,240**
thereof attributable to shareholders of the parent company	−5,882,221	934,240
thereof attributable to minority interests	0	0

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

DEVELOPMENT OF THE GROUP EQUITY

TEUR	Subscribed capital	Capital reserves	Retained earnings	Reserve from currency conversion	Reserve unrealized gains and losses	Expenses for the procurement of equity capital	Group equity
As of December 31, 2016	**34,110**	**3,894**	**–19,335**	**0**	**–152**	**0**	**18,517**
Change in consolidation scope	0	0	0	0	0	0	0
Gains and losses recognized directly in equity	0	0	0	0	–547	0	–547
Consolidated net profit/loss	0	0	1,481	0	0	0	1,481
Total group result	**0**	**0**	**1,481**	**0**	**–547**	**0**	**934**
Paid dividends	0	0	0	0	0	0	0
Capital increase	0	0	0	0	0	0	0
As of December 31, 2017	**34,110**	**3,894**	**–17,854**	**0**	**–699**	**0**	**19,451**
Change in consolidation scope	0	0	0	0	0	0	0
Gains and losses recognized directly in equity	0	0	0	0	–71	–2,473	–2,544
Consolidated net profit/loss	0	0	–3,339	0	0	0	–3,339
Total group result	**0**	**0**	**–3,339**	**0**	**–71**	**–2,473**	**–5,883**
Paid dividends	0	0	0	0	0	0	0
Capital reduction	16,202	2,119	–18,321	0	0	0	0
Capital increase	7,600	38,000	0	0	0	0	45,600
As of December 31, 2018	**25,508**	**39,775**	**–2,872**	**0**	**–770**	**–2,473**	**59,168**

With regard to changes in equity, we also refer to the notes in the management report.

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

CASH FLOW STATEMENT

EUR	2018	2017
1. Result for the period before extraordinary items	−3,338,339	1,481,2431,
2. B. Change of gross underwriting provisions	3,827,138	2,749,709
3. Change in deposits retained and accounts payable as well as accounts receivable and accounts payable	6,108,033	10,988,986
4. Change in other receivables and liabilities	2,726,476	−233,018
5. Gains and losses on the disposal of investments	2,044,651	−336,932
6. Change in other balance sheet items	−7,714,578	364,577
7. Other non-cash expenses and income	2,972,252	1,606,452
I. Cash flow from operating activities	**6,625,633**	**16,621,016**
9. Proceeds from the sale and maturities of other investments	−144,772	2,196,324
10. Payments from the acquisition of other investments	−46,714,732	−16,959,793
11. Other proceeds	−321,607	31,912
12. Other payments	−1,521,246	−1,037,562
II . Cash flow from investment activities	**−48,702,357**	**−15,769,119**
13. Proceeds from additional equity	45,599,866	0
14. Payments to company owners and minority shareholders	0	0
III. Cash flows from financing activities	**45,599,866**	**0**
Changes in cash funds	3,523,143	851,897
Cash funds at the beginning of the period	5,510,342	4,658,445
Cash funds at the end of the period	**9,033,485**	**5,510,342**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

SEGMENT REPORTING 2018

BALANCE SHEET

	Supplementary health insurance		Damage/accident	
EUR	2018	2017	2018	2017
A. Intangible assets				
I. Good will	–	–	–	–
II. Other intangible assets	7,941,940.48	7,890,379.97	1,251,986.02	1,429,537.53
Sum A.	**7,941,940.48**	**7,890,379.97**	**1,251,986.02**	**1,429,537.53**
B. Investments				
I. Loans	–	–	–	–
II. Financial investments available for sale	84,809,794.26	43,018,465.42	5,453,249.09	3,548,092.48
III. Financial investments at fair value through profit or loss	–	–	–	–
IV. Other investments	–	–	–	–
Sum B.	**84,809,794.26**	**43,018,465.42**	**5,453,249.09**	**3,548,092.48**
C. Receivables				
I. Receivables from direct insurance business				
1. to policyholders	242,064.07	87,953.32	295,958.16	429,528.41
2. to insurance brokers	174,007.46	347,889.01	7,177.02	257,081.74
	416,071.53	**435,842.32**	**303,135.18**	**686,610.16**
3. Other receivables	3,567,108.86	708,263.51	667,322.39	20,294.24
Sum C.	**3,983,180.40**	**1,144,105.84**	**970,457.57**	**706,904.39**
D. Share of reinsurers in underwriting provisions				
I. Unearned premiums	347,950.44	402,144.28	210,193.56	1,604,666.55
II. Actuarial reserves	30,487,673.56	22,029,557.69	–	–
III. Reserves for outstanding claims	2,341,359.31	1,748,070.37	1,629,377.95	3,626,689.01
IV. Other underwriting provisions	1,810.27	1,812.41	91.89	–
Sum E.	**33,178,793.58**	**24,181,584.75**	**1,839,663.40**	**5,231,355.56**
E. Other segment assets	**11,955,408.40**	**5,245,346.87**	**2,238,714.10**	**1,627,196.74**
Sum segment assets	**141,869,117.12**	**81,479,882.85**	**11,754,070.18**	**12,543,086.70**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

	Other		Consolidation		Total	
	2018	2017	2018	2017	2018	2017
	–	–	–	–	–	–
	10,690.00	–			9,204,616.50	9,319,917.50
	10,690.00	**–**	**–**	**–**	**9,204,616.50**	**9,319,917.50**
	–	–	–		–	–
	–	–	−210,000.00	−210,000.00	90,053,043.35	46,356,557.90
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	**–**	**−210,000.00**	**−210,000.00**	**90,053,043.35**	**46,356,557.90**
	–	–	–	–	538,022.23	517,481.73
	2,721.24	–	–	–	183,905.72	604,970.75
	2,721.24	**–**	**–**	**–**	**721,927.95**	**1,122,452.48**
	1,074,022.81	388,992.00	−1,109,360.72	−335,448.96	4,199,093.34	782,100.79
	1,076,744.05	**388,992.00**	**−1,109,360.72**	**−335,448.96**	**4,921,021.29**	**1,904,553.27**
	–	–	–	–	558,144.00	2,006,810.82
	–	–	–	–	30,487,673.56	22,029,557.69
	–	–	–	–	3,970,737.26	5,374,759.38
	–	–	–	–	1,902.16	1,812.41
	–	**–**	**–**	**–**	**35,018,456.98**	**29,412,940.31**
	1,923,980.61	**416,400.97**	**–**	**–**	**16,118,103.12**	**7,288,944.58**
	3,011,414.66	**805,392.97**	**−1,319,360.72**	**−545,448.96**	**155,315,241.24**	**94,282,913.56**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

SEGMENT REPORTING 2018

	Supplementary health insurance		Damage/accident	
EUR	**2018**	**2017**	**2018**	**2017**
A. Gross underwriting provisions				
I. Unearned premiums	1,306,202.60	1,187,577.95	1,230,798.77	3,150,447.20
II. Actuarial reserves	42,570,283.27	30,940,987.90	–	–
III. Reserves for outstanding claims	5,567,597.84	4,090,693.39	4,701,351.14	6,622,892.36
IV. Other underwriting provisions	865,134.15	815,017.21	2,807.54	3,904.11
Sum A.	**50,309,217.86**	**37,034,276.45**	**5,934,957.45**	**9,777,243.67**
B. Other reserves	**457,662.95**	**291,633.25**	**97,890.01**	**103,312.74**
C. Other segment liabilities	**36,490,482.05**	**26,134,926.79**	**1,161,597.39**	**1,221,724.26**
Sum segment liabilities	**87,257,362.85**	**63,460,836.49**	**7,194,444.84**	**11,102,280.67**

INCOME STATEMENT

	Supplementary health insurance		Damage/accident	
EUR	**2018**	**2017**	**2018**	**2017**
1. Written premiums from insurance business	61,951,558.85	53,518,681.57	4,570,631.48	17,136,258.07
2. Earned net premiums	30,480,812.52	24,390,213.70	5,579,146.99	7,165,298.68
3. Result from investments	–1,793,251.51	835,068.53	–231,514.21	245,324.44
4. Other income	432,701.75	331,146.18	79,200.86	97,283.33
Total income	**29,120,262.76**	**25,556,428.41**	**5,426,833.64**	**7,507,906.45**
5. Benefits paid to customers	17,927,804.04	14,320,462.74	2,279,174.85	3,665,808.00
6. Expenses for insurance operations	13,277,710.28	8,546,881.15	1,271,052.41	2,875,620.85
7. Other expenses	3,392,219.63	1,162,768.68	511,705.80	395,453.32
Total expenses	**34,597,733.95**	**24,030,112.57**	**4,061,933.06**	**6,936,882.17**
8. Operating result	–5,477,471.19	1,526,315.84	1,364,900.58	571,024.28
9. Financing expenses	–	–	–	–
10. Net income before income taxes	–5,477,471.19	1,526,315.84	1,364,900.58	571,024.28
11. Income tax	–1,022,854.30	459,215.42	254,879.38	171,801.37
12. Net result	–4,454,616.89	1,067,100.42	1,110,021.21	399,222.91

ADDITIONAL INFORMATION

	Supplementary health insurance		Damage/accident	
EUR	**2018**	**2017**	**2018**	**2017**
Interest income	4,649.73	1,030.39	851.08	302.71
Interest expense	506,108.52	326,534.82	92,637.09	95,928.62
Scheduled depreciation and amortization	1,554,868.50	1,217,111.98	284,600.02	357,560.25
Significant non-cash income (+) and expenses (–) *	–2,106,268.75	–126,936.82	–272,466.53	–37,291.19

* with the exception of scheduled depreciation and amortization

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

	Other		Consolidation		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	–	–	–	–	2,537,001.37	4,338,025.15
	–	–	–	–	42,570,283.27	30,940,987.90
	–	–	–	–	10,268,948.98	10,713,585.75
					867,941.69	818,921.32
	–	**–**	**–**	**–**	**56,244,175.31**	**46,811,520.12**
	316,003.34	**89,541.00**	**–**	**–**	**871,556.29**	**484,486.99**
	2,488,213.48	**514,771.52**	**−1,109,360.72**	**−335,448.97**	**39,030,932.19**	**27,535,973.60**
	2,804,216.82	**604,312.52**	**−1,109,360.72**	**−335,448.97**	**96,146,663.80**	**74,831,980.71**

	Other		Consolidation		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	–	–	–	–	66,522,190.33	70,654,939.64
	–	–	–	–	36,059,959.51	31,555,512.38
	–	−14,141.38	−320,074.32	–	−2,344,840.04	1,066,251.59
	15,023,029.69	9,144,298.42	−14,507,203.46	−9,098,017.15	1,027,728.84	474,710.78
	15,023,029.69	**9,130,157.04**	**−14,827,277.78**	**−9,098,017.15**	**34,742,848.31**	**33,096,474.75**
	–	–	–	–	20,206,978.89	17,986,270.74
	13,493,918.96	–	−13,505,502.78	–	14,537,178.87	11,422,502.00
	1,520,959.20	9,109,304.19	−1,321,775.00	−9,098,017.15	4,103,109.63	1,569,509.04
	15,014,878.16	**9,109,304.19**	**−14,827,277.78**	**−9,098,017.15**	**38,847,267.39**	**30,978,281.78**
	8,151.53	20,852.85	–	–	−4,104,419.08	2,118,192.97
	–	–	–	–	–	–
	8,151.53	20,852.85	–	–	−4,104,419.08	2,118,192.97
	1,894.46	5,933.47			−766,080.47	636,950.27
	6,257.07	14,919.38	–	–	−3,338,338.61	1,481,242.70

	Other		Consolidation		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	–	–	–	–	5,500.81	1,333.10
	–	–	–	–	598,745.61	422,463.44
	–	–	–	–	1,839,468.52	1,574,672.23
	–	–	–	–	−2,378,735.28	−164,228.01

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NOTES

1. PRINCIPLES OF PREPARATION AND LEGAL PROVISIONS

1.1 General information

The consolidated financial statements of DFV Familienversicherung AG were prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002 and Sec. 315e para. 3 German Commercial Code (HGB). It complies with all IFRS and applicable International Accounting Standards (IAS) applicable and valid in the European Union (EU) in fiscal year 2017 and the corresponding interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC) and applicable interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretation Committee (SIC). The new standards that came into force in 2018, amendments to existing standards and interpretations that were not mandatory for the 2018 fiscal year were not applied early.

Uniform accounting and valuation methods were applied to the reporting period and the comparative period, unless prospective changes in methods were explicitly permitted for the year under review. The consolidated financial statements were prepared on the going concern assumption. The reporting currency is the EUR. The consolidated financial statements are presented in full EUR; this may result in rounding differences.

As part of the IPO, Deutsche Familienversicherung prepared pro forma consolidated financial statements in accordance with IFRS for the 2017 fiscal year, which were issued an unqualified audit opinion by WEDDING & Cie. GmbH Wirtschaftsprüfungsgesellschaft. The accounting policies used in these pro forma consolidated financial statements are consistent with those used in the consolidated financial statements for the 2018 fiscal year. The prior-year figures stated in the consolidated financial statements for the 2018 fiscal year insofar refer to these pro forma financial statements.

Pursuant to IFRS 4.13, IFRS 4 “Insurance Contracts”, which is currently still relevant for insurance companies, permits during a transitional phase, Phase I, to account and assess underwriting items in principle according to the accounting provisions applied prior to the introduction of IFRS. Accordingly, in compliance with IFRS 4.25, DFV Familienversicherung AG applied the national accounting standards applicable to the accounting of insurance contracts under the German Commercial Code (HGB) and other additional accounting standards applicable to insurance companies.

1.2 Indication of the underwritten classes of insurance

Pursuant to IFRS 4 an insurance company has to classify its contracts concluded with policyholders in regard to the assumption of underwriting risks and thus with respect to the applicability of IFRS 4.

Deutsche Familienversicherung AG underwrites the following classes and segments of insurance:

Damage and accident insurance

- Accident insurance
- Liability insurance
- Legal expense insurance
- Household insurance
- Pet and livestock insurance
- Electronic insurance

Private supplementary health insurance and long-term care insurance

- **Supplementary health insurance, underwritten according to the type of life insurance**
  - Supplementary long-term care insurance
  - State-aided care provision insurance
  - Supplemental insurance for inpatient treatment
  - Daily hospital insurance

- **Supplementary health insurance, underwritten according to the type of damage insurance**
  - Supplemental dental insurance for dentures and tooth preservation
  - Supplemental insurance for outpatient treatment and outpatient prevention
  - Foreign travel health insurance

The insurance contracts concluded by Deutsche Familienversicherung as part of the above-mentioned insurance classes each include the assumption of a significant insurance risk of a policyholder by agreeing to pay compensation or assumption of costs incurred in the event of an uncertain future event which adversely affects the policyholder. The insurance contracts concluded by Deutsche Familienversicherung as part of the above-mentioned insurance classes each include the assumption of a significant insurance risk of a policyholder by agreeing to pay compensation or assumption of costs incurred in the event of an uncertain future event which adversely affects the policyholder. These contracts therefore meet the definition of an insurance contract (IFRS 4 Appendix B – Definition of an insurance contract) and must be accounted for in accordance with IFRS 4.

Reinsurers' shares in underwriting provisions are shown separately in the balance sheet pursuant to IFRS 4.14 (d) (i). Reserved amounts of discretionary profit participation are shown under underwriting provisions.

1.3 Significant changes to standards and interpretations in the reporting year

IFRS 9 including consequential changes (Financial Instruments)

The final version of IFRS 9 Financial Instruments supersedes IAS 39 Financial Instruments: Recognition and Measurement. The final version of IFRS 9 contains in particular the following fundamentally revised areas of regulation:

Classification and measurement of financial instruments:

The regulations for classification and measurement of financial instruments were revised for financial assets. For financial assets, the regulations of IAS 39 were adopted almost exclusively. The classification and valuation of these instruments is decided based on the business model according to which the portfolio is managed. The models "Hold to generate contractual cash flows", "Hold and sell" and "Other" are provided for this purpose. Another criterion for assessing classification and measurement is the evaluation of contractual cash flows. If the cash return consists exclusively of interest and repayments and if the business model "Hold to generate contractual cash flows" exists, the instrument is generally measured at amortized cost unless the fair value option is exercised.

If the above requirements are not met, an instrument generally has to be measured at fair value; the categories "fair value through profit and loss" and "fair value through OCI" are available for this purpose, depending on the existing conditions.

Equity instruments are generally measured at fair value through profit or loss, unless the decision is made to measure them directly in equity. The prerequisite for a valuation recognized directly in equity is that the equity instrument is neither held for trading purposes nor represents a contingent consideration that is recognized by an acquirer as part of a business combination pursuant to IFRS 3.

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Conversely, the classification and valuation rules for financial liabilities have hardly changed. Only for liabilities designated at fair value, in the future, changes in this fair value that are attributable to changes in the Group's own credit risk no longer have to be recognized in profit and loss but in other comprehensive income (OCI).

Impairment

The new provisions on impairment fundamentally change the recognition of impairments, because not only incurred losses but also expected losses have to be recognized. In regard to the scope, it is again differentiated as to whether the default risk of financial assets has deteriorated significantly since their acquisition or not. If they have deteriorated or if the default risk cannot to be classified as low on the balance sheet date, all expected losses have to be recorded over the entire term from this point in time. Otherwise, only the expected losses over the term of the instrument resulting from future potential loss events within the next twelve months have to be taken into account. For certain instruments, all expected losses have to be or may be recognized upon acquisition.

Hedge Accounting

It is the main objective of the new provisions to align hedge accounting more closely to a company's economic risk management. As previously, companies have to document the respective risk management strategy including their risk management objectives at the beginning of a hedging relationship; however, the relationship between the hedged underlying transaction and the hedging instrument (hedge ratio) generally has to correspond to the requirements of the risk management strategy in future. If this hedge ratio changes during a hedging relationship, but not the risk management objective, the quantities of the underlying transaction and the hedging instrument included in the hedging relationship have to be adjusted while the hedging relationship may not be dissolved. As opposed to IAS 39, IFRS 9 will no longer allow a hedging relationship to be terminated at any time for no reason. In addition, under certain circumstances, individual risk components can also be considered in isolation for non-financial base transactions. Moreover, the requirements to prove the effectiveness of hedging transactions are changing: According to IFRS 9, both the retrospective evidence and the effectiveness band of IAS 39 no longer apply. Instead, companies have to prove, without commitment to quantitative limits, that an economic relationship exists between the hedged item and the hedging instrument that leads to corresponding opposite changes in value due to a common base value or the hedged risk. This evidence may also be provided in purely qualitative form. However, the changes in the value of the economic relationship may not mainly be caused by the influence of credit risk.

IFRS 9 is generally first applicable to fiscal years beginning on or after January 1, 2018. In general, this initially has to apply retrospectively, but various simplification options are granted, such as, for example, prospective application for hedge accounting.

We claim the temporary exemption from IFRS 9 because we have not applied any other version of IFRS 9 until then and our business activities since December 31, 2015 or on a subsequent balance sheet date (see IFRS 4.20G) are primarily related to the insurance business (see IFRS 4.20D). This is primarily related to the fact that the carrying amount of liabilities from contracts within the scope of application of IFRS 4 is significant compared to the total carrying amount of all its liabilities. The share of the total carrying amount of our insurance-related liabilities in the total carrying amount of all liabilities exceeds 90%.

IFRS 15 (Revenue from Contracts with Customers)

The regulations and definitions of IFRS 15 replace both the content of IAS 18 "Revenue" and also of IAS 11 "Construction Contracts" as well as the associated interpretations.

It is the core principle of IFRS 15 that an entity should recognize revenue in the amount at which consideration is expected for the transfer of goods or the rendering of services to customers. This core principle is implemented with a five-level framework model:

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- Identification of the contract/contracts with a customer,
- Identification of the independent service obligations in the respective contract,
- Determination of the transaction price,
- Distribution of the transaction price among the service obligations of the contract,
- Revenue recognition upon fulfillment of the service obligations by the company.

Compared to other industries, DFV is hardly affected by the new regulations, since the main sales revenues of an insurance company, the insurance premiums, continue to be governed by the regulations of IFRS 4 and, from 2021, to the provisions of IFRS 17 and not the regulations of IFRS 15. As a non-manufacturing company, DFV is generally not affected by changes in accounting for production orders. Other income such as interest and rent have to be accounted for in accordance with standards such as IFRS 9 and IAS 17.

IAS 40 (Transfers of Investment Property)
The standard clarified that transfers to or from 'investment property' require an actual change in use. A possible change in use is not limited to the examples in IAS 40.57 alone. Also included are, for example, construction projects that have yet to be completed.

The amendments adopted in December 2016 clarify that an enterprise can only change the classification of an investment property if evidence of a change in use exists. The change in use may result in that the property meets (or no longer meets) the definition of an investment property for the first time. This clarifies that an intended change of use by the company management is not sufficient proof of a change of use. The clarifications are covered by an analysis of building use that takes place on a regular basis; no impact is expected insofar. The changes are effective for reporting periods beginning on or after January 1, 2018. An early application is permitted but has to be disclosed. The changes are to be applied prospectively. A retrospective application is only permitted if this is possible without the use of later findings.

IFRS 2 (Classification and measurement of share-based payment agreement)
The IASB issued an amendment to IFRS 2 Share-based Payment which addresses three main areas: the impact of vesting conditions on the measurement of cash-settled share-based payment transactions; the classification of share-based payment transactions with net performance clauses in case of a statutory withholding tax obligation; and the accounting for cash-settled share-based payment transactions in the event of a modification of their conditions, which lead to a classification as equity-settled share-based payment transactions. The amendment is applicable to fiscal years beginning on or after January 1, 2018. An early application is permitted but has to be disclosed. Since the DFV Group does not provide share-based payments based on cash-settled options, net performance clauses or equity compensation, the clarifications do not lead to changes in Group accounting.

IFRIC 22 (Foreign Currency Transactions and Advance Consideration)
The interpretation includes the clarification that to determine the exchange rate to be applied when an asset, expense or income is initially recognized when a non-monetary asset or liability arising from advance consideration is derecognized, the date of the transaction corresponds to the date when the non-monetary asset or liability arising from the prepayment is recognized for the first time. If several advance deposits or payments exist, the company has to determine the transaction date for each deposit or payment of a consideration paid in advance. Companies can apply the changes retrospectively.

In the alternative, an enterprise may apply the interpretation prospectively to all relevant transactions that are initially recognized at or after the beginning of the period in which the enterprise first applies the interpretation or at or after the beginning of the comparative period for the period of first-time application.

The interpretation is applicable to fiscal years beginning on or after January 1, 2018.

Improvements 2014–2016
The improvements to IFRS 2014–2016 represent a collective standard that was published in December 2016. The improvements pertaining to IFRS contain the following changes:

- IAS 28: It was clarified that the individual valuation principle applies to the options in IAS 28.18 and IAS 28.36A. A uniform valuation at fair value for all investments is not mandatory.
- IFRS 1: Deletion of a short-term simplification provision for IAS 19, IFRS 7 and IFRS 10 for first-time adopters that are no longer relevant due to the passage of time.

1.4 Significant new IFRS standards to be applied by DFV in coming accounting periods

IFRS 17, Insurance Contracts (EU endorsement procedure not yet completed)
With the currently applicable IFRS 4, the IASB published a transitional solution for accounting for insurance contracts in 2004, which has now been applicable for more than 10 years.

Subject to the EU endorsement, the final new standard IFRS 17, Insurance Contracts, must be applied for the first time as of January 1, 2022.

IFRS 17 largely applies to all insurance and reinsurance contracts written by an entity. The definition of insurance contracts was adopted from IFRS 4. Excluded from the scope of application are financial guarantees, if the user makes use of the option to treat them as a financial instrument, product guarantees, assets and liabilities from pension plans, conditional contractual rights and obligations from non-financial matters, residual value guarantees, conditional payments from business combinations and companies as policyholders. Derivatives, investment components and benefit obligations for goods and services embedded in insurance contracts that are not closely related to the insurance component shall generally be treated according to the applicable standard.

The subject matter of the standard is the presentation of assets and liabilities resulting from insurance contracts. In the course of standard development, the present value of fulfilment cash flows has emerged as the preferred valuation concept. The present value of fulfilment cash flows results from a current estimate of the expected present value of the cash flows required from the company’s perspective to meet the obligations arising from an insurance contract.

The valuation of the provision for future cover is based on a general model using the 3-block approach (Building Block Approach, BBA):

- Estimation of expected incoming and outgoing cash flows
- Discounting of expected cash flows to reflect the time value of money
- Determination of a risk margin for the uncertainty of estimated cash flows

If the present values of expected proceeds exceed those of expected risk-adjusted payments, the remaining residual amount has to be recognized as the contractual service margin (CSM). Negative margins must be recognized through profit or loss in the income statement.

In general, a distinction has to be made between the prospective provision for future cover and the provision for damages incurred. The above concept is likewise applied to the provision for damages incurred.

Not all insurance contracts have to be mapped according to the 3-block approach. Contracts with a maximum term of one year can be mapped using the simplified method (Premium Allocation Approach, PAA). This also applies to contracts with a term of more than 12 months, where the application of the simplified method would lead to similar results as the 3-block approach. However, the simplified approach does not apply to contracts for which the PAA is not a reasonable estimate for the 3-block approach. These include unprofitable contracts as well as contracts that contain embedded options or guarantees or have a long term.

In addition to direct insurance contracts (including active reinsurance), passive reinsurance contracts also have to be valued by a primary insurer. In general, passive reinsurance contracts are valued using the 3-block approach, usually based on portfolios, while some modifications have to be taken into account.

By including the variable fee approach (VFA), the IASB set an important course for the accounting of life insurance business, in particular of business with profit participation rights. Fluctuations in the amount of the insurer's share of the investment result and in the value of the guarantees may be offset against CSM under the VFA. An insurance contract is regarded as directly entitled to surpluses and therefore falls within the scope of the variable fee approach if:

- the policyholder participates in a clearly identifiable pool of underlying assets,
- the insurer distributes a significant portion of the income to the policyholder, and
- a significant portion of the insurer's cash flows to the policyholder fluctuates with the development of the underlying values.

According to the current status, the applicability of the VFA for participating direct insurance business in Germany can be derived from this definition of contracts directly entitled to surpluses. Reinsurance contracts are not covered by the VFA, even if they relate to insurance contracts covered by the VFA.

In deviation from the general model, the contractual service margin under the VFA bears interest at the current interest rate, not at the locked-in interest rate.

In the context of subsequent measurement, the topics income recognition and handling changes in estimates with regard to expected cash flows, risk adjustment and the yield curve are of great importance. Changes in estimates of the expected cash flows and the risk adjustment with respect to future cover are offset against CSM; the effects of interest rate fluctuations on underwriting liabilities can be recognized either in the income statement through profit or loss or directly in equity at portfolio level (OCI option).

With the OCI solution, the IASB has decided on an instrument to avoid volatility in an insurer's income statement. Accordingly, the effects of market interest rate fluctuations on the fulfilment cash flow of the underwriting obligations can be recognized directly in equity (OCI). In analogy, a category for financial instruments with a debt character for the assets side was created in IFRS 9, which is also subject to measurement recognized directly in equity (OCI) with no effect on income in accordance with the business model holding and selling. While the new investment category is recycled when a financial instrument is sold, an analogous effect is guaranteed when the OCI solution is applied on the liabilities side by adding interest at the fixed (locked in) interest rate at the time of posting.

Assessment of possible effects of the application of IFRS 17

A significant portion of the assets and liabilities in the balance sheet and the overall structure of the income statement will change completely in DFV's consolidated financial statements with the introduction of IFRS 17. This corresponds to the extensive introduction of IFRS at DFV, which also represents a paradigm shift from the accounting method previously used for insurance contracts. In the future, all incoming and outgoing payments

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from an insurance contract have to be estimated and mapped at the beginning of the contract. Misjudgments in regard to cash flows result in increased P&L volatility. Especially in the first period after the introduction of IFRS 17, this will result in major challenges with regard to the planning, predictability and ability to interpret corporate results.

In conjunction with IFRS 9, the challenge is to exploit the optimum possibilities to avoid an accounting mismatch. An appropriate portfolio cut of insurance products, the analogous exercise of options and valuation approaches and the determination of suitable yield curves are instruments for this purpose.

To introduce IFRS 17, a new subledger for insurance contracts has to be introduced and inserted into the corporate system landscape in addition to the implementation of the technical requirements. The introduction of IFRS 17 therefore results overall in a significant reorganization of processes for the preparation of future DFV consolidated financial statements. This affects large parts of the company, in particular also with regard to planning and simulation processes.

The introduction of IFRS 17 always has to be viewed in close interaction with IFRS 9, which further increases the requirements for users.

Challenges in the future interaction of IFRS 9 and IFRS 17

The main challenge in the joint application of IFRS 9 and IFRS 17 is to avoid an accounting mismatch. In this context, the possibility to exercise the OCI option for financial instruments on the assets side and for insurance contracts on the liabilities side mostly congruently is of major importance. A considerable difficulty is that both standards cannot be introduced simultaneously at DFV, so that the assets side of the balance sheet has to be classified according to IFRS 9, which is currently applicable for the first time, while the interactions with the insurance contracts portfolios to be formed on the liabilities side of the balance sheet cannot already be evaluated at the same time.

The standard “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”, Amendments to IFRS 4, published in September 2016, contains, inter alia, the deferral approach for insurance companies, which generally allows them to introduce IFRS 9 not in 2018, but only with the first-time application of IFRS 17. DFV will introduce IFRS 9 together with IFRS 17.

Conclusion

Overall, it is foreseeable that the application of IFRS 9 and the implementation of IFRS 17 will at least result in considerable conversion expenses in the coming four financial years, resulting in a reorganization of IFRS accounting for insurance companies, which will lead to a completely new picture of the IFRS consolidated financial statements. However, many specific questions regarding the introduction of IFRS 17 remain unanswered. Their response over time will have additional consequences that are not yet foreseeable.

IFRS 9 (Financial instruments)

These amendments were published in October 2017 and take into account the classification rules of IFRS 9 for financial assets with a negative compensation in the event of premature repayment. Pursuant to the clarification, such assets meet the cash flow conditions. Subject to the still outstanding EU endorsement, the amendments have to be applied retrospectively for fiscal years beginning on or after January 1, 2019. An early application is permitted but has to be disclosed. The transitional provisions allow certain transitional reliefs. Due to a lack of relevant business transactions the DFV Group does not expect any effects from this provision.

1.5 Other changes for which the EU endorsement process has been completed

IFRS 16 (Leases)

On January 13, 2016, IASB published the Standard IFRS 16 "Leases", which must be applied as of January 1, 2019. DFV will apply the new standard as of the defined effective date according to the modified retrospective approach. So far, DFV has only entered into operating leases for movable assets such as IT and office technology. Until now, payment obligations for operating leases have only been disclosed in the notes. However, in the future, the rights and obligations arising from these leases have to be recognized as assets (right of use in the leased asset) and liabilities (lease liability) in the balance sheet. The Group expects the redefinition of a lease to have an impact on the number of items to be recognized as leases. Exceptions thereof are short-term leases of up to twelve months and leases of low-value assets. DFV expects the new regulations to result in a small increase of the balance sheet total at the time of initial application measured against total assets.

So far, the income statement shows expenses from operating leases have been reported under various items in the various business segments according to the occurrence of expenses. In the future, depreciation on the right of use and interest expenses for the leasing liabilities will be reported instead.

So far, payments for operating leases have previously been reported under cash flow from operating activities in the cash flow statement. In the future, they will be divided into interest payments and repayments. While interest payments continue to be reported under cash flow from operating activities, repayments will be allocated to cash flow from financing activities.

According to previous analyses, lessor accounting will remain largely unchanged, with the exception of extended notes.

The transitional provisions contain simplifications to the effect that a so-called "simplified procedure" can be used for the first-time application of IFRS 16, which does not include full retrospective accounting. An adjustment of the previous year's figures would not be necessary if the simplified procedure were applied. Existing contracts would not have to be fully reassessed retroactively if the simplified procedure were applied.

As explained above, the implementation of IFRS 16 is expected to lead to changes in the accounting of lessee relationships in the consolidated financial statements. However, the impact on the net assets, financial and earnings situation of the Group is estimated to be rather minor.

IFRIC 23 (Uncertainty over Income Tax Treatments)

The interpretation was published in June 2017 and has to be applied to the accounting for income taxes according to IAS 12 if uncertainties exist regarding the treatment of income tax. It does not apply to taxes or levies which do not pertain to the scope of IAS 12 and does not contain provisions on interest and surcharges in connection with uncertain tax treatment. The interpretation requires an entity to determine whether it should assess uncertain tax treatment individually. Moreover, assumptions have to be made with regard to the review of tax treatment by the tax authorities. Furthermore, the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates are topics of the interpretation just as the consideration of changes in facts and circumstances.

Companies have to determine whether they assess each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach should be chosen that allows a better prediction to resolve the uncertainty. The interpretation is effective for reporting periods beginning on or after January 1, 2019. However, certain transitional reliefs may be used. At the time of the preparation of these consolidated financial statements specific statements on the expected effects of IFRIC 23 cannot yet be made.

1.6 Other changes for which the EU endorsement process has not been completed

IAS 1/IAS 8 (Presentation of Financial Statements / Accounting Policies, Changes in Accounting Estimates and Errors)

The amendments to IAS 1 and IAS 8, in combination with additional explanations on their application, are intended to clarify the concept of materiality and, in particular, to make it easier for IFRS users to make materiality judgments. The amendments furthermore ensure that the definition of materiality is uniform in the IFRS rules and regulations.

IAS 19 (Employee Benefits)

In February 2018, the IASB issued the amendments and thus addressed one of two issues in relation to IAS 19 that were submitted to the IFRS Interpretations Committee and published as a joint draft in June 2015. The following changes in plan amendments, curtailments or settlements (amendments to IAS 19) were decided:

- In the future, it will be mandatory that in case of an amendments, curtailments or settlement of a defined benefit plan the current service cost and the net interest for the remainder of the fiscal year have to be remeasured using the current actuarial assumptions used to revalue the net liability (asset).
- Furthermore, additions have been included to clarify how a plan amendment, curtailment or settlement will affect the asset ceiling requirements.

An enterprise applies the changes to plan amendments, curtailments or settlements which begin on or after 1 January 2019. An early application is permitted but has to be disclosed. The changes relate to future plan amendments, curtailments or settlements.

Currently, none of these issues are relevant to DFV; no effects are foreseeable in this regard.

IAS 28 (Long-term Investments in Associates and Joint Ventures)

These amendments were published in October 2017. They explain that an entity first applies IFRS 9 to financial instruments that are not accounted for using the equity method but are part of a net investment in an associate or joint venture. IAS 28.38 and IAS 28.40–43 are applied below. Subject to the still outstanding EU endorsement, the amendments have to be applied retrospectively for fiscal years beginning on or after January 1, 2019. An early application is permitted but has to be disclosed. The transitional provisions provide for some transitional reliefs. This has no effect on DFV.

IFRS 3 (Business Combinations)

Clarification of the business definition in IFRS 3 Appendix B5 et seqq. The amendment contains guidelines to facilitate the distinction between the acquisition of a business and the acquisition of an asset or group of assets. Only the acquisition of a business operation falls within the scope of IFRS 3 and results in the capitalization of goodwill.

Improvements to IFRS (2015–2017)

The improvements pertaining to IFRS 2015–2017 are a collective standard that was published in December 2017 and consists of amendments to various IFRS which have to be applied for fiscal years beginning on or after January 1, 2019. The improvements pertaining to the IFRS contain the following changes:

Since the publication of the improvements only took place in December 2017, we have only just begun to analyze their relevance for DFV. In this respect, we cannot yet make any statements in regard to the expected effects of the improvements on future consolidated financial statements.

- IAS 12: Clarification on the recognition of income tax consequences of financial instruments classified as equity: Tax effects on dividends should be recognized when liabilities for taxes are recognized. The recognition of corporate taxes on dividends is based on the origination of past transactions (generally recognized in profit or loss), which constitute the basis for the origination of dividends (and not on the reclassification of dividends from equity to liabilities with no effect on profit or loss).
- IAS 23: When an asset is completed or procured for which outside capital has been borrowed and not fully utilized, such borrowing costs are included from that date in the general borrowing rate for other qualifying assets for which no specific borrowing has been made.
- IFRS 3 / IFRS 11: Clarification of accounting for a change of status from at-equity interests to interests in a joint operation (IFRS 11) and for a change of status from interests in a joint operation to sole control (IFRS 3). In the first case, the previously held shares are not revalued. The latter case constitutes a successive business combination with a revaluation of the shares previously held.

2 ADJUSTMENT OF THE MEASUREMENT

DFV Familienversicherung AG has partially changed the measurement method for the gross provision for outstanding claims as of June 30, 2018. The unknown incurred but not reported reserve (IBNR) was previously determined using the so-called BAV method. INBR is determined using actuarial methods to provide a better and more realistic insight into the net assets and earnings situation of the DFV Group.

Other than that, no valuation adjustments were made in the reporting year.

3 USE OF DISCRETION, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires the use of discretion, estimates and assumptions in the measurement of various items in the balance sheet and income statement. This concerns, in particular, the following segments:

- Distribution of acquisition costs as part of a company acquisition, in particular with regard to the measurement of acquired intangible assets
- Determination of the fair values of financial instruments, unless stock exchange prices or acquisition costs are taken as a basis for measurement
- Determination of recoverable amounts for impairment tests of assets

4 RECOGNITION AND DERECOGNITION OF ASSETS AND LIABILITIES

Assets are recognized if it is likely that their future economic benefits will flow to the company and if their acquisition or production costs can be reliably measured. Assets are derecognized when risks and rewards transfer to third parties or when power of disposition is lost.

Liabilities are recognized if it is likely that a direct outflow of economically relevant resources will result from the fulfilment of a current obligation of the company. Liabilities are derecognized when the obligation no longer exists.

5 GENERAL VALUATIONS OF ASSETS AND LIABILITIES

The monetary amounts for the items in the financial statements are determined with the help of various valuation bases and methods. The most frequently used valuation bases for the measurement of assets and liabilities are:

- Amortized acquisition costs and
- Fair values.

These valuation bases are often combined with other valuation bases, for example when determining present values and net realizable values. The valuations and valuation bases are regulated in the IFRS framework concept.

Measurement at fair value is becoming increasingly important in IFRS. Fair value is defined as the price that would be received in an ordinary transaction between market participants on the measurement date upon sale of an asset or upon transfer of a liability. IFRS 13 "Fair Value Measurement" provides detailed guidance on how to measure assets and liabilities at fair value if another standard requires a fair value measurement or disclosure of fair value in the notes. If the fair values are determined internally, scopes for discretion exist, for example in the choice of input parameters.

Therefore, fair value measurements require extensive disclosures in the notes, for example information on the hierarchy levels of the fair values, descriptions of the measurement procedures and the used input parameters.

6 GENERAL PRINCIPLES OF IMPAIRMENT AND REVERSAL OF IMPAIRMENT LOSSES OF ASSETS

Pursuant to IAS 36 "Impairment of Assets", all intangible and tangible assets are assessed at least on each balance sheet date to determine whether there is any indication of material impairment. If this is the case, the recoverable amount of the corresponding asset is determined. The recoverable amount is defined as the higher of the net realizable value (sales price less selling costs) and the value in use (present value of future cash flows). Irrespective of whether any indications of impairment exist, intangible assets with an indefinite useful life, such as, for example, goodwill, brand names and intangible assets not yet ready for use, are subject to an annual impairment test.

Assets that do not generate separable cash flows are allocated to so-called cash-generating units. The subject of an impairment test is the cash-generating unit.

If the recoverable amount of an asset or a cash-generating unit is less than its carrying amount, an impairment loss has to be recognized in accordance with IAS 36. An impairment loss is first allocated to the goodwill of a cash-generating unit or to other intangible assets separable from it and then proportionately to the other assets on the basis of their carrying amounts and are immediately recognized in the result for the period.

Market prices quoted on active markets or prices from transactions with the same or comparable assets are used as the basis to determine recoverable amounts. In the alternative, fair values are determined using generally accepted mathematical valuation models. Details for this and the internally defined criteria for an impairment are explained in the notes to the general accounting and valuation methods under the corresponding items.

Impairments of goodwill are shown in a separate item in the income statement. Impairments on investments are reported under depreciation and amortization and impairments on investments, while allowances on other intangible assets, other receivables and sundry assets are included in operating expenses, claims and insurance benefits expenses, investment expenses and other expenses by function. Impairment losses are recognized directly by reducing the carrying amounts of the assets.

If the requirements of IAS 36 are met, all assets, with the exception of goodwill, reversals of impairment losses are performed up to the lower of their recoverable amount and amortized costs.

Reversals of impairment losses on investments are shown in the income statement under income from write-ups. Pursuant to IAS 39.69, write-ups of equity instruments in the category "available for sale" through profit or loss are not permitted.

7 CONSOLIDATION PRINCIPLES AND GROUP REPORTING ENTITY

7.1 Consolidation principles

Pursuant to IFRS 10 "Consolidated Financial Statements", a parent company controls another entity, irrespective of the nature of its engagement, if it has power of disposition over that entity, is exposed to or has rights to variable returns (positive or negative) from the entity and can influence those returns based on its power of disposition. In this context, a parent company has the power of disposition if it is currently able to determine the relevant activities of the entity based on existing voting rights or other rights. These are the activities that significantly influence the economic success of the investment company.

If voting rights are relevant, the Group controls an entity if it directly or indirectly holds more than half of the voting rights in the entity. Potential voting rights are also taken into consideration in evaluating control if they are deemed to be substantial.

Special funds and other structured companies are included in the consolidated financial statements as subsidiaries according to the uniform criteria of IFRS 10. They are also considered consolidated structured companies within the meaning of IFRS 12 "Disclosure of Interests in Other Entities". Pursuant to IFRS 12, structured entities are entities that are designed in such a way that voting rights or similar rights are not relevant to decide who controls the entity.

In accordance with IAS 8.8, subsidiaries are only not included if, viewed together in regard to equity as well as the annual result, they are of minor significance for the presentation of a true and fair view of the net assets, financial and earnings situation of the DFV Group. The balance sheet date of the consolidated subsidiaries is generally December 31 of each calendar year.

In case of deviations, interim financial statements are prepared as of December 31 of the respective fiscal year.

Intercompany receivables and liabilities, expenses and income as well as interim results are eliminated.

In general, as part of the consolidated financial statements, uniform Group-wide accounting principles are applied. Subsidiaries are consolidated as of the date when DFV obtains a controlling influence. The consolidation ends at the point in time when a controlling influence is no longer possible. A business combination exists when the DFV Group acquires control of another business. A business combination is recognized using the purchase method pursuant to IFRS 3 “Business Combinations”. This requires the recognition of all identifiable assets, liabilities and contingent liabilities of the acquired company at their fair values on the acquisition date, in particular also the identification and measurement of intangible assets acquired as part of the business combination. The acquisition costs result from the total fair value of the consideration paid to obtain control. Incidental acquisition costs are recorded as an expense in the fiscal year in which they arise. If the acquisition costs exceed the Group’s share in the revalued net assets of the subsidiary, the difference is capitalized as goodwill. Differences on the liabilities side are immediately recognized through profit or loss after the carrying amounts have been reassessed.

The non-controlling interest in the net assets of the subsidiary is shown separately in the balance sheet.

Since the IASB clarifies that the scope of application of IAS 40 “Investment Property” and IFRS 3 are independent of one another, the acquisition of an investment property may also result in a business combination pursuant to IFRS 3.

At the time when the DFV Group loses control of a subsidiary, the assets and liabilities of the subsidiary are derecognized at their carrying amounts, the carrying amount of all non-controlling interests in the former subsidiary is derecognized and the fair value of the received consideration is recognized. The shares held in the former subsidiary are recognized at fair value and any resulting difference is recognized as a profit or loss in the consolidated income statement. Amounts recognized in other comprehensive income directly in equity in prior periods associated to this subsidiary are transferred to the consolidated income statement or, if required by other standards, directly to retained earnings.

7.2 Group reporting entity

DFV has three subsidiaries which are intended to permanently serve the business operations of the DFV Group.

Pursuant to IFRS 10, the consolidated financial statements include in addition to DFV Versicherung AG as parent company all subsidiaries. The shares in subsidiaries of the Group are held directly by DFV Versicherung AG. The financial information in the consolidated financial statements contains data of the parent company together with its consolidated subsidiaries, presented as an economic unit.

DFV Group consists of 5 (previous year 7) consolidated companies. This includes, in addition to the parent company and the 3 subsidiaries, 1 special fund (DFV Sondervermögen, registered office in Luxembourg, 100% share). In the fiscal year, two subsidiaries in which DFV held 100% of the shares were merged into subsidiaries.

Joint ventures or associated companies do not exist.

LIST OF CONSOLIDATED SUBSIDIARIES

Company	Registered office	Investment book value	Investment quota	Subscribed capital	Equity	Last year's result
		TEUR	in %	TEUR	TEUR	TEUR
DFVS Deutsche Familienversicherung Servicegesellschaft mbH	Frankfurt am Main	25.0	100.00	25.0	40.1	1.7
DFVV Deutsche Familienversicherung-Vertriebsgesellschaft mbH	Frankfurt am Main	135.0	100.00	25.0	143.9	0.0
DFVR Deutsche Familienversicherung Rechtsschutz-Schadenabwicklungsgesellschaft mbH	Frankfurt am Main	25.0	100.00	25.0	23.1	4.5

8 ACCOUNTING AND VALUATION METHODS

8.1 Intangible assets

Other intangible assets

Other intangible assets include purchased software. Purchased software is recognized at amortized cost or manufacturing costs. For purchased software, the acquisition costs include the purchase price and directly attributable costs to prepare the software for its intended use. Subsequently, software is carried at acquisition cost or manufacturing costs less any accumulated amortization and impairment losses. The amortization of software is generally depreciated pro rata temporis through additions and disposals of the fiscal year to other intangible assets with limited useful lives.

8.2 Investments

Financial instruments

Financial instruments are currently held exclusively in the category "available for sale". They are reported pursuant to IAS 39. Financial instruments are initially recognized on the fulfilment date.

Generally, fair values of financial instruments are determined based on parameters that can be observed on the market. IFRS 13 defines the fair value as "sales price" (price that would be received in an ordinary transaction between market participants on the measurement date upon sale of an asset or upon transfer of a liability). The portfolio currently consists exclusively of stock exchange-traded financial instruments, which are valued based on current market prices.

Pursuant to IFRS 13, the method to determine the fair values results in an allocation to a specific hierarchy level. Comprehensive explanations of the hierarchy levels and their underlying individual valuation procedures as well as the used calculation parameters, are presented below.

The category "financial instruments available for sale" is a residual. It contains all financial instruments which, due to their nature, do not have to be allocated to another category and for which no other option has been exercised. This item mainly shows shares, investment shares and other shareholdings. "Financial instruments available for sale" are measured at fair value. For listed securities, this is generally the market value.

Changes in value resulting from the difference between fair value and amortized acquisition cost are recognized directly in equity.

An impairment loss is recognized through profit or loss if the fair value of equity instruments in an active market is below cost for more than nine months or more than 30% on the balance sheet date. Write-ups through profit or loss of equity instruments are not permitted. Reversals of impairment losses are recognized directly in equity.

Profits or losses on the disposal of "financial instruments available for sale" are calculated from the difference between the proceeds from the sale and the carrying amount on the date of sale. They are reported under investment income or expenses. Profits or losses from an interim revaluation that were initially recognized directly in equity are realized upon sale.

8.3 Share of reinsurers in underwriting provisions

According to IFRS, reinsurers' shares in underwriting provisions are shown under assets in the balance sheet. The corresponding gross amounts have to be shown on the liabilities side. The reinsurers' shares in underwriting provisions are determined by taking the contractual terms of the underlying reinsurance contracts into consideration.

8.4 Receivables

Receivables mainly include interest receivable, receivables from direct insurance business (dIB) and accounts receivable from reinsurance business. They are reported at nominal value less payments made. Based on past experience, a standardized specific allowance is made for receivables from the dIB. Credit risks are adequately taken into consideration after an individual risk assessment.

For reinsurance, allowances are made on a strict case-by-case basis. Write-offs through profit and loss are generally only made in case of insolvency. Based on past experience no further allowances are made, even with regard to essential items.

In the DFV Group allowances through profit and loss are made and reduce the premium income and the book value of the receivables. If fair values of receivables are to be determined for the required disclosures in the notes, it is assumed pursuant to IFRS 7.29 (a) that the carrying amount represents the best approximate value. According to the regulations of IFRS 13, this results in an allocation of these fair values to hierarchy level 3.

8.5 Cash and cash equivalents

Cash and cash equivalents are reported at the nominal value.

8.6 Deferred tax assets

Deferred tax assets have to be recognized in accordance with IAS 12 if asset items in the consolidated balance sheet are to be valued lower or liability items higher than in the tax balance sheet of the relevant Group company and these differences balance out in the future with effect on taxes (temporary differences). If the temporary differences are recognized in profit or loss, the deferred taxes are recognized in profit or loss; if they are recognized in equity, the related deferred taxes are also recognized directly in equity. In addition, deferred tax assets are formed for unused tax loss carryforwards and certain consolidation procedures. Deferred taxes are calculated using the individual corporate tax rates of the respective Group companies. For this purpose, changes in tax rates already decided on the balance sheet date are taken into consideration. If a realization of the respective deferred tax refund claim is not likely, the deferred tax assets is value adjusted.

8.7 Other assets

Other assets include operating and office equipment, prepaid expenses, inventories and sundry assets.

Operating and office equipment is recognized at cost less accumulated depreciation and impairment losses. The straight-line depreciation is based on expected useful lives of between three and five years.

A collective item is created for assets with acquisition values between EUR 150 and EUR 1,000 net. This collective item includes all assets acquired in a fiscal year within the stated value limits. It is depreciated over a period of five years, beginning in the year of formation.

Prepaid expenses are stated at nominal values on a pro rata basis.

Inventories mainly include advertising material and office supplies. Inventories are measured at the lower value of acquisition or manufacturing costs and net realizable value. Any necessary allowances and reversals of impairment losses are recognized through profit and loss.

8.8 Equity

Group equity

Subscribed capital
Subscribed capital is reported at the nominal value of the shares. There are no different share categories.

Capital reserves
The capital reserve contains the premium from the issue of shares and other additional payments to equity.

Retained earnings
Retained earnings include the results of the companies included in the consolidated financial statements according to IFRS.

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

Reserve unrealized gains and losses

Unrealized gains and losses in the reserve include unrealized changes in the value of financial assets measured at fair value that are available for sale at any time, less deferred taxes.

Reserve for expenses for the procurement of equity capital

Expenses that are directly attributable to the procurement of equity are to be accounted for as a deduction from equity in accordance with IAS 32.35. This considers only such expenses that are directly attributable to the equity transaction, i.e. that would not have arisen without this transaction. The tax effect from the expense of raising equity capital is taken into account here.

8.9 Underwriting provisions (gross)

8.9.1 Actuarial reserves

For health insurance business conducted like life insurance, the company strictly calculates according to the actuarial equivalence principle, i.e. the present value of premiums and benefits are calculated in parity during the initial calculation. The provisions of the KVAV (Calculation Regulation)[1] are strictly observed. For this purpose, the calculation bases listed in the following table are used. Unless premium adjustments have to be made, the premiums per tariff and policyholder will remain the same throughout the life of the policyholder.

[1] Ordinance on the Supervision of Business Activities in Private Health Insurance (Health Insurance Supervision Regulation; Krankenversicherungsaufsichtsverordnung – KVAV)

TARIFFS

interest (%)	alpha	Mortality table	Lapse table	Burning cost table
0.0300	12	PKV 2011	BaFin Sto-Son 2008	BaFin Stat EB 2009
0.0300	12	PKV 2011	BaFin Sto-Son 2008	BaFin Stat EB 2009
0.0300	12	PKV 2011	BaFin Sto-Son 2008	BaFin Stat ZB 2009
0.0275	12	PKV 2015	BaFin Sto-Son 2008	BaFin Stat EB 2011
0.0175	14	PKV 2016	Storno GKV N 2014	BaFin Stat EB 2011
0.0175	14	PKV 2016	Storno GKV N 2014	BaFin Stat EB 2011
0.0175	14	PKV 2016	Storno GKV N 2014	BaFin Stat EB 2011
0.0175	14	PKV 2016	Storno GKV N 2014	BaFin Stat EB 2011
0.0175	14	PKV 2016	Storno GKV N 2014	BaFin Stat EB 2011
0.0175	14	PKV 2016	Storno GKV N 2014	BaFin Stat EB 2011
0.0175	14	PKV 2018	Storno GKV N 2016	BaFin Stat ZB 2016
0.0300	8	PKV 2011	BaFin Storno KT 2010	BaFin KT 29-42 2010
0.0300	8	PKV 2011	BaFin Storno KT 2010	BaFin KT 29-42 2010
0.0175	8	PKV 2017	BaFin Storno KT 2015	Eigenes Profil
0.0175	8	PKV 2017	BaFin Storno KT 2015	Eigenes Profil
0.0175	8	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0175	17	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0175	8	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0175	17	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0300	8	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0300	17	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0275	8	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0275	12	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0275	17	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0300	12	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0300	17	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0275	8	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0275	17	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0175	2	PKV 2011	BaFin Sto-Son 2008[2]	EPV 2014[4]
0.0175	2	PKV 2011	BaFin Sto-Son 2008[2]	EPV 2014[4]
0.0175	4	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0175	6	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]
0.0175	14	PKV 2011	BaFin Sto-Son 2008[1]	EPV 2014[3]

1 Lapse rate table was ajusted subject to age.
2 The GEPV has been dampened more.
3 The expected loss pattern was smoothed out.
4 In GEPV, the smoothed expected loss pattern was increased.

For these tariffs, an actuarial reserve (aging provision) is formed for part of the collected premiums. It is used to finance increased claims payments that exceed the calculated risk premium at the age of the policyholders. This actuarial reserve is set up strictly in accordance with the prospective method required by law. In case of premium adjustments, their compensation is adjusted to the current calculation bases. Their adequate measurement is independently verified and certified by the appointed responsible actuary.

8.9.2 Provision for profit-related premium refunds

For health insurance business conducted like life insurance, policyholders are entitled to technical surpluses in accordance with regulatory provisions. These surpluses result from risk, interest and cost profits arising in the course of business of these tariffs. They have to be accumulated in a provision for profit-related premium refunds (RFB) according to statutory provisions. The reserves provided by the company for this purpose were independently audited and found to be correct by both the auditors who certify the balance sheet and by the responsible actuary.

8.9.3 Reserve for outstanding claims

The reserve for outstanding claims represents benefit obligations from claims for which the amount and/or time of payment cannot yet be reliably determined. The reserve is reported, but is also created for claims that have already been incurred but not yet reported. This also includes both internal and external expenses as well as claims settlement costs.

For known claims, the reserve for outstanding claims is generally calculated individually. Receivables from recourses, claim recoveries and distribution agreements are offset. In addition, for claims incurred or caused but not yet reported as of the balance sheet date, an IBNR reserve was created for claims incurred but not reported as of the balance sheet date based on the subsequent claims reports observed in previous years. Claims not yet reported at the balance sheet date are assessed with a lump sum. The reserve for outstanding claims is not discounted. The reserves for claims settlement expenses also included in this item are determined using a lump sum method. The share of reinsurers in the reserve is determined pursuant to the reinsurance contracts.

In the segments legal expenses insurance and homeowners' insurance, reserves are provided for already reported claims by external service providers.

8.10 Other reserves

8.10.1 Tax provisions

Tax provisions include actual income taxes and other taxes, which are determined in consideration of the respective national taxation regulations. They are reported according to IAS 12.

8.10.2 Other provisions

Pursuant to IAS 37, other provisions are recognized and measured in consideration of all identifiable risks in the amount of the expected settlement amount as far as a current obligation exists to third parties from a past event that will likely results in an outflow of resources in the future and can be reliably estimated. The fulfilment amount is determined based on the best possible estimates. Provisions according to IAS 37 are not offset against reimbursement claims.

8.11 Liabilities

Liabilities include liabilities from direct insurance business as well as accounts payable and deposits liabilities from reinsurance business and other liabilities. They are reported at nominal values.

8.12 Deferred tax liabilities

Deferred tax liabilities have to be recognized in accordance with IAS 12 if asset items in the consolidated balance sheet are to be valued higher or liability items lower than in the tax balance sheet of the relevant Group company and these differences balance out in the future with effect on taxes (temporary differences). If the temporary differences are recognized in profit or loss, the deferred taxes are recognized in profit or loss; if they are recognized in equity, the related deferred taxes are also recognized directly in equity.

8.13 Other liabilities

Other liabilities include only prepaid expenses and are reported at their repayment amount.

8.14 Written gross premiums

Written gross premiums are premiums and premium rates due in the fiscal year for direct insurance business.

8.15 Earned premiums (net)

Earned premiums (net) correspond to gross premiums written minus reinsurers' shares. Moreover, the change in unearned premiums is taken into consideration here. The premiums for each insurance contract are calculated pro rata temporis on a daily basis, in consideration of the commencement of insurance.

8.16 Investment income and expenses

Investment income includes current income, income from write-ups, profits from changes in fair value and profits from the disposal of investments. Current income mainly includes interest income from fixed-interest securities and dividend income. The inflow principle applies to dividends; interest income is recognized on an accrual basis.

Investment expenses include expenses for the management of investments, depreciation and impairment losses on investments, losses from changes in fair value and losses from the disposal of investments.

8.17 (Net) expenses for insurance operations

(Net) expenses for insurance operations include direct and indirect acquisition and administrative expenses. Commissions and profit shares received from reinsurers are deducted from this amount.

8.18 (Net) insurance benefits

(Net) insurance benefits include payments for claims, the change of the reserve for outstanding claims, the change in the actuarial reserve and the other underwriting provisions as well as the expenses for premium refunds. They are shown minus reinsurers' shares.

8.19 Leasing

IAS 17, which is applicable to the accounting of leases, distinguishes between operating leases and finance leases. In accordance with the specified criteria, it is examined whether the lease is an operating lease or a hire purchase with transfer of economic control (finance lease).

Each lease is classified at the commencement of the contract. In practice, the classification of leases is based on various criteria and indicators stipulated in IAS 17 which, individually or in combination, results in a classification as a finance lease. These criteria are: Transfer of ownership, existence of a purchase option, term structure, present value of the minimum leasing payment and existence of a so-called special leasing. The contract is classified as an operating lease, if these criteria do not apply.

For finance leases, the leased asset is capitalized in the lessee's balance sheet and a payment liability of the lease payments is recognized accordingly. For operating leases, the item remains instead in the lessor's balance sheet and only results in that the lessee recognizes the leasing expenses in the income statement.

9 NOTES TO THE CONSOLIDATED BALANCE SHEET – ASSETS

9.1 Development of sundry intangible assets

DEVELOPMENT OF SUNDRY INTANGIBLE ASSETS

	Purchased software	Other intangible assets	Total	Purchased software	Other intangible assets	Total
TEUR		**31.12.2018**			**31.12.2017**	
Gross book value December 31, previous year	**12,151**	**1,222**	**13,373**	**12,126**	**816**	**12,942**
Accumulated amortization December 31, previous year	3,417	636	4,053	2,771	561	3,332
Balance sheet value December 31 previous year/January 1 fiscal year	**8,734**	**586**	**9,320**	**9,355**	**255**	**9,610**
Additions	310	1,108	1,418	25	406	431
Disposals gross book values	–12	0	–12	0	0	0
Depreciations	1,185	336	1,521	646	75	721
Disposals depreciations	0	0	0	0	0	0
Blance sheet value December 31, current year	**7,847**	**1,358**	**9,205**	**8,734**	**586**	**9,320**
Accumulated amortization December 31, current year	4,602	972	5,574	3,417	636	4,053
Gross book value December 31, current year	**12,449**	**2,330**	**14,779**	**12,151**	**1,222**	**13,373**

9.2 Financial instruments – available for sale

FINANCIAL INSTRUMENTS – AVAILABLE FOR SALE

TEUR	31.12.2018	31.12.2017
Shares	8,342	7,675
Investment fund units	0	5
Bonds	25,311	36,376
	33,653	**44,057**
Time deposits and call money	56,400	2,300
Total	**90,053**	**46,357**

A 10% interest (minus one share) in BCA AG, Oberursel was acquired in the reporting year 2018, which is included in the table above under Shares.

Securities lending

At the time of reporting, no securities were lent.

9.3 Share of reinsurers in underwriting provisions

SHARE OF REINSURERS IN UNDERWRITING PROVISIONS

TEUR	31.12.2018	31.12.2017
Unearned premiums	558	2,007
Actuarial reserves	30,488	22,030
Provision ofr outstanding claims	3,970	5,375
Other underwriting provisions	2	2
Total	**35,018**	**29,413**

9.3.1 Reinsurers’ share of the development of unearned premiums

REINSURERS’ SHARE OF THE DEVELOPMENT OF UNEARNED PREMIUMS

TEUR	31.12.2018	31.12.2017
As of December 31, previous year/January 1, fiscal year	**2,007**	**1,996**
Additions	558	2,007
Reversal	2,007	1,996
As of December 31, current year	**558**	**2,007**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

9.3.2 Reinsurers’ share of the development of actuarial reserve

REINSURERS’ SHARE OF THE DEVELOPMENT OF ACTUARIAL RESERVE

TEUR	31.12.2018	31.12.2017
Actuarial reserve as of December 31, previous year	**22,030**	**14,141**
Additions	8,733	8,328
Reversal	275	439
Actuarial reserve as of December 31, current year	**30,488**	**22,030**

9.3.3 Reinsurers’ shares in the development of the reserve for outstanding claims

REINSURERS’ SHARES IN THE DEVELOPMENT OF THE RESERVE FOR OUTSTANDING CLAIMS

TEUR	31.12.2018	31.12.2017
As of December 31, previous year/January 1, fiscal year	**5,375**	**4,517**
Claims expenses		
for the fiscal year	10,062	13,232
for previous years	–91	–182
Total	**9,971**	**13,050**
Minues payments		
for the fiscal year	7,691	8,921
for previous years	3,685	3,271
Total	**11,375**	**12,192**
As of December 31, current year	**3,971**	**5,375**

9.4 Receivables

RECEIVABLES

TEUR	31.12.2018	31.12.2017
Receivables from direct insurance business	722	1,122
Of which to policyholders	538	517
Of which to insurance brokers	184	605
Accounts receivable from reinsurance business	3,506	89
Receivables from insurance business	**4,228**	**1,212**
Fringe benefits on long-term care	575	587
Other receivables	118	106
Total	**4,921**	**1,905**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

9.5 Tax deferral

DEFERRED TAX ASSETS

TEUR	Total deferred tax assets 31.12.2018	Thereof directly in equity 31.12.2018	Thereof through profit or loss 31.12.2018	Total deferred tax assets 31.12.2017	Thereof directly in equity 31.12.2017	Thereof through profit or loss 31.12.2017
Intangible assets	0	0	0	0	0	0
Investments						
Financial instruments	151	145	6	141	141	0
Derivative financial instruments	0	0	0	0	0	0
Underwriting provisions	34	0	34	7	0	7
Sundries	0	0	0	254	0	254
Loss carry forward	1,825	0	1,045	0	0	0
	2,010	**145**	**1,085**	**402**	**141**	**261**

DEFERRED TAX LIABILITIES

TEUR	Total deferred tax liabilities 31.12.2018	Thereof directly in equity 31.12.2018	Thereof through profit or loss 31.12.2018	Total deferred tax liabilities 31.12.2017	Thereof directly in equity 31.12.2017	Thereof through profit or loss 31.12.2017
Intagible assets	801	0	801	878	0	878
Investments						
Financial instruments	0	0	0	0	0	0
Derivative financial instruments	64	0	64	0	0	0
Underwriting provisions	0	0	0	0	0	0
Sundries	101	0	101	326	0	326
	966	**0**	**966**	**1,204**	**0**	**1,204**

9.6 Other assets

OTHER ASSETS

TEUR	31.12.2018	31.12.2017
Opreatring office equipment	677	565
Prepaid expenses and accrued income	350	300
Accrued interest from investments	0	349
Tax prepayments	1,961	95
Sundry assets	2,086	68
Total	**5,074**	**1,377**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

9.7 Development of operating and office equipment

DEVELOPMENT OF OPERATING AND OFFICE EQUIPMENT

TEUR	2018	2017
Gross book value December 31, previous year	1,791	2,457
Accumulated depreciation December 31, pevious year	1,225	1,581
Net book value December 31, pevious year/January 1, current year	**565**	**877**
Addtiions	416	133
Disposoal Gross book value	0	−800
Depreciation	304	385
Disposal depreciation	0	−740
Net book value December 31, current year	**677**	**565**
Accumulated depreaciation, December 31	1,530	1,225
Gross book value December 31	**2,206**	**1,791**

10 NOTES TO THE CONSOLIDATED BALANCE SHEET – LIABILITIES

10.1 Equity

DEVELOPMENT OF UNREALIZED GAINS AND LOSSES

TEUR	01.01.2018	Change	31.12.2018
Investments	−840	−75	−915
Deferred taxes	141	2	143
	−699	**−73**	**−772**

TEUR	01.01.2017	Change	31.12.2017
Investments	−386	−454	−840
Deferred taxes	234	−93	47
	−152	**−547**	**−793**

10.2 Underwriting provisions (gross)

UNDERWRITING PROVISIONS (GROSS)

TEUR	31.12.2018	31.12.2017
Unearned premiums	2,537	4,338
Actuarial reserve	42,570	30,941
Reserve for outstanding claims	10,269	10,714
Reserve for premium refunds	836	812
Other underwriting provisions	32	7
Total	**56,244**	**46,812**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

10.2.1 Development of unearned premiums

DEVELOPMENT OF UNEARNED PREMIUMS		
TEUR	31.12.2018	31.12.2017
As of December 31, previous year/January 1, fiscal year	**4,338**	**4,887**
Additions	2,537	4,338
Reversend/claimed	–4,338	4,887
As of December 31, current year	**2,537**	**4,338**

10.2.2 Development of actuarial reserve

DEVELOPMENT OF ACTUARIAL RESERVE		
TEUR	31.12.2018	31.12.2017
Actuarial reserve as of December 31, previous year	**30,941**	**20,201**
Additions	11,181	10,806
Reversal	386	627
Accretion	833	562
Actuarial reserve of December 31, current year	**42,570**	**30,941**

The interest portion is determined from the respective actuarial interest from the fiscal year in relation to the mean value of the balance-sheet actuarial reserve of the previous year and the fiscal year.

10.2.3 Development of the reserve for outstanding claims

DEVELOPMENT OF THE RESERVE FOR OUTSTANDING CLAIMS		
TEUR	31.12.2018	31.12.2017
As of December 31, previous year/January 1, fiscal year	**10,714**	**9,480**
Claim expenses		
for the fiscal year	26,207	27,601
for previous years	751	193
Total	**26,958**	**27,794**
Minus payments		
for the fiscal year	19,483	19,778
for previous years	7,920	6,783
Total	**27,403**	**26,561**
As of December 31, current year	**10,269**	**10,714**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

10.2.4 Development of the reserve for premium refunds

DEVELOPMENT OF THE RESERVE FOR PREMIUM REFUNDS

TEUR	31.12.2018	31.12.2017
As of December 31, previous year/January 1, fiscal year	**812**	**647**
Additions	24	472
Reversend/claimed	0	308
As of December 31, current year	**836**	**812**

10.2.5 Other underwriting provisions

OTHER UNDERWRITING PROVISIONS

TEUR	31.12.2018	31.12.2017
Provision for expected lapses	7	7
Other underwriting reserves	25	0
Total	**32**	**7**

10.3 Other reserves

10.3.1 Development of other provisions

DEVELOPMENT OF OTHER PROVISIONS

TEUR	2018	2017
December 31, previous year	**484**	**739**
Usage	483	736
Release	1	3
Increase	872	484
December 31, current year	**872**	**484**

10.3.2 Terms of other provisions

The remaining term of the other provisions is 12 months at most.

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

10.4 Liabilities

LIABILITIES

TEUR	31.12.2018	31.12.2017
Liabilities from direct insurance business	1,612	698
Thereof from policyholders	195	238
Thereof from insurance brokers	1,417	460
Accounts receivable from reinsurance business	159	299
Deposit liabilities for reinsured insurance business	32,840	23,176
Receivables from insurance business	**34,611**	**24,173**
Other liabilities	3,256	1,844
Total	**37,867**	**26,017**

10.4.1 Other liabilities

OTHER LIABILITIES

TEUR	31.12.2018	31.12.2017
Taxes	264	602
Payroll tax	31	42
Liabilities form goods and services	1,162	932
Sundries	1,799	268
Total	**3,256**	**1,844**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

11 NOTES ON THE CONSOLIDATED INCOME STATEMENT

11.1 Earned premiums

We refer to the income statement in regard to the written premiums, changes in unearned premiums and earned premiums (gross, reinvested and net).

11.2 Result from investments

RESULT FROM INVESTMENTS

TEUR	2018	2017
Income from investments		
Current income from investments	522	1,107
Income from appreciations	0	0
Profits from changes in fair value	253	0
Profits from the disposal of investments	0	1,931
Total	**775**	**3,039**
Expenses for investments		
Expenses for management of investments, other expenses	209	378
Depreciation and impairments on investments	865	0
Losses from changes in fair value	0	0
Losses from the disposal of investments	2,044	1,594
Total	**3,118**	**1,972**
Result form investments	**–2,344**	**1,066**

11.3 Other income

OTHER INCOME

TEUR	2018	2017
Other underwriting income	39	360
Other non underwriting income	989	114
Total	**1,028**	**474**

Other underwriting income in 2017 includes premiums from the provision for premium refunds of TEUR 308.

11.4 Insurance benefits

INSURANCE BENEFITS

TEUR	2018	2017
Payments for insurance claims		
Gross amount	27,403	26,561
Reinsurers' share	11,375	12,192
Net amount	16,027	14,369
Change in reserve for outstanding claims		
Gross amount	−445	1,233
Reinsurers' share	1,404	858
Net amount	959	375
Change in actuarial reserve		
Gross amount	11,629	10,740
Reinsurers' share	8,458	7,889
Net amount	3,171	2,851
Change in other underwriting provisions		
Gross amount	25	−107
Reinsurers' share	0	−26
Net amount	25	−81
Expenses for premium refunds		
Gross amount	24	472
Reinsurers' share	0	0
Net amount	24	472
Total	**20,207**	**17,986**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

11.5 Claims development

Claims development (claims reserves plus claims payments made (in each case including claims settlement) for direct property/casualty insurance business:

PROPERTY 2018

Gross TEUR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	302,925	1,209,943	1,584,136	1,303,200	2,066,283	3,234,840	6,060,736	11,758,286	14,412,484	11,724,574	9,222,768	2,406,278
2	271,865	1,000,042	1,562,068	1,785,097	1,625,641	3,244,183	6,417,169	12,571,908	14,748,998	11,607,532	8,910,821	
3	220,564	1,160,998	1,568,473	1,816,195	1,713,158	2,568,250	6,259,299	12,400,656	14,721,159	11,414,515		
4	217,042	1,154,497	1,562,441	1,800,128	1,920,747	2,522,659	6,355,112	12,431,976	14,777,473			
5	217,042	1,105,409	1,609,993	1,397,156	2,119,935	2,678,135	6,278,786	12,431,363				
6	217,042	1,104,546	1,575,836	1,406,534	2,386,331	2,678,718	6,279,341					
7	217,042	1,123,063	1,605,113	1,395,791	2,379,763	2,675,674						
8	217,042	1,123,063	1,602,246	1,389,839	2,440,052							
9	217,042	1,123,063	1,602,246	1,389,932								
10	217,042	1,123,063	1,601,746									
11	217,042	1,123,063										
12	217,042											
Run-off result	**85,883**	**86,880**	**−17,610**	**−86,732**	**−373,769**	**559,166**	**−218,605**	**−673,077**	**−364,988**	**310,059**	**311,947**	**0**

Net TEUR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	144,485	486,338	665,520	390,274	494,160	2,259,145	4,811,515	8,677,879	7,088,799	5,108,328	3,604,086	2,254,445
2	125,709	444,358	679,394	488,674	443,453	2,215,822	5,088,292	9,143,503	7,406,964	5,268,370	3,641,442	
3	115,449	522,346	681,352	538,340	594,131	1,966,178	4,995,109	9,072,907	7,369,049	5,193,118		
4	114,745	526,376	687,792	596,570	691,645	1,960,761	5,028,103	9,107,952	7,432,170			
5	114,745	502,491	763,444	499,048	739,013	1,998,989	5,000,262	9,103,791				
6	114,745	511,873	757,153	537,412	750,264	1,996,341	5,000,558					
7	114,745	520,351	774,845	528,538	745,441	1,994,679						
8	114,745	520,351	770,910	527,029	752,480							
9	114,745	520,351	770,910	527,059								
10	114,745	520,351	770,060									
11	114,745	520,351										
12	114,745											
Run-off result	**29,740**	**−34,013**	**−104,540**	**−136,785**	**−258,320**	**264,466**	**−189,042**	**−425,912**	**−343,372**	**−84,790**	**−37,356**	**0**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

HEALTH INSURANCE 2018

Gross TEUR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	0	0	178,213	1,195,517	3,265,014	4,448,117	6,149,290	9,289,456	12,750,009	15,994,251	18,377,836	23,800,708
2	0	0	214,065	1,501,212	3,611,407	5,006,025	6,313,310	10,509,044	12,313,512	16,060,481	19,250,641	
3	0	0	214,170	1,508,026	3,649,782	5,099,164	6,487,045	10,167,826	12,550,516	16,226,707		
4	0	0	213,831	1,513,529	3,761,255	5,114,898	6,466,153	10,222,046	12,618,126			
5	0	0	213,831	1,569,215	3,765,725	5,121,749	6,500,050	10,254,318				
6	0	0	221,353	1,573,216	3,765,332	5,122,511	6,503,766					
7	0	0	221,741	1,572,750	3,768,528	5,122,800						
8	0	0	221,728	1,572,749	3,768,475							
9	0	0	221,728	1,573,012								
10	0	0	221,728									
11	0	0										
12	0											
Run-off result	**0**	**0**	**−43,515**	**−377,495**	**−503,461**	**−674,683**	**−354,476**	**−964,862**	**131,883**	**−232,456**	**−872,805**	**0**

Net TEUR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	0	0	122,395	386,086	1,827,564	2,312,676	3,290,102	6,179,857	7,848,807	9,151,427	10,764,212	13,890,274
2	0	0	129,483	588,171	2,060,840	2,823,463	3,421,086	7,038,692	7,749,312	9,287,604	11,444,194	
3	0	0	129,670	594,272	2,074,693	2,877,765	3,516,378	6,882,622	7,828,273	9,356,490		
4	0	0	129,596	596,926	2,140,595	2,887,822	3,502,338	6,906,740	7,874,304			
5	0	0	129,596	629,763	2,143,280	2,891,591	3,516,162	6,925,319				
6	0	0	134,092	632,418	2,143,029	2,892,036	3,518,670					
7	0	0	134,331	632,104	2,144,872	2,892,205						
8	0	0	134,319	632,103	2,144,819							
9	0	0	134,319	632,233								
10	0	0	134,319									
11	0	0										
12	0											
Run-off result	**0**	**0**	**−11,924**	**−246,148**	**−317,256**	**−579,529**	**−228,568**	**−745,462**	**−25,497**	**−205,064**	**−679,982**	**0**

PROPERTY 2017

Gross TEUR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	302,925	1,209,943	1,584,136	1,303,200	2,066,283	3,234,840	6,060,736	11,758,286	14,412,484	11,724,574	9,222,768
2	271,865	1,000,042	1,562,068	1,785,097	1,625,641	3,244,183	6,417,169	12,571,908	14,748,998	11,607,532	
3	220,564	1,160,998	1,568,473	1,816,195	1,713,158	2,568,250	6,259,299	12,400,656	14,721,159		
4	217,042	1,154,497	1,562,441	1,800,128	1,920,747	2,522,659	6,355,112	12,431,976			
5	217,042	1,105,409	1,609,993	1,397,156	2,119,935	2,678,135	6,278,786				
6	217,042	1,104,546	1,575,836	1,406,534	2,386,331	2,678,718					
7	217,042	1,123,063	1,605,113	1,395,791	2,379,763						
8	217,042	1,123,063	1,602,246	1,389,839							
9	217,042	1,123,063	1,602,246								
10	217,042	1,123,063									
11	217,042										
Run-off result	**85,883**	**86,880**	**−18,110**	**−86,639**	**−313,480**	**556,122**	**−218,050**	**−673,690**	**−308,675**	**117,042**	**0**

Net TEUR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	144,485	486,338	665,520	390,274	494,160	2,259,145	4,811,515	8,677,879	7,088,799	5,108,328	3,604,086
2	125,709	444,358	679,394	488,674	443,453	2,215,822	5,088,292	9,143,503	7,406,964	5,268,370	
3	115,449	522,346	681,352	538,340	594,131	1,966,178	4,995,109	9,072,907	7,369,049		
4	114,745	526,376	687,792	596,570	691,645	1,960,761	5,028,103	9,107,952			
5	114,745	502,491	763,444	499,048	739,013	1,998,989	5,000,262				
6	114,745	511,873	757,153	537,412	750,264	1,996,341					
7	114,745	520,351	774,845	528,538	745,441						
8	114,745	520,351	770,910	527,029							
9	114,745	520,351	770,910								
10	114,745	520,351									
11	114,745										
Run-off result	**29,740**	**−34,013**	**−105,390**	**−136,754**	**−251,281**	**262,804**	**−188,747**	**−430,073**	**−280,250**	**−160,042**	**0**

HEALTH INSURANCE 2017

Gross TEUR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	0	0	178,213	1,195,517	3,265,014	4,448,117	6,149,290	9,289,456	12,750,009	15,994,251	18,377,836
2	0	0	214,065	1,501,212	3,611,407	5,006,025	6,313,310	10,509,044	12,313,512	16,060,481	
3	0	0	214,170	1,508,026	3,649,782	5,099,164	6,487,045	10,167,826	12,550,516		
4	0	0	213,831	1,513,529	3,761,255	5,114,898	6,466,153	10,222,046			
5	0	0	213,831	1,569,215	3,765,725	5,121,749	6,500,050				
6	0	0	221,353	1,573,216	3,765,332	5,122,511					
7	0	0	221,741	1,572,750	3,768,528						
8	0	0	221,728	1,572,749							
9	0	0	221,728								
10	0	0									
11	0										
Run-off result	**0**	**0**	**–43,515**	**–377,232**	**–503,514**	**–674,394**	**–350,760**	**–932,590**	**199,493**	**–66,231**	**0**

Net TEUR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	0	0	122,395	386,086	1,827,564	2,312,676	3,290,102	6,179,857	7,848,807	9,151,427	10,764,212
2	0	0	129,483	588,171	2,060,840	2,823,463	3,421,086	7,038,692	7,749,312	9,287,604	
3	0	0	129,670	594,272	2,074,693	2,877,765	3,516,378	6,882,622	7,828,273		
4	0	0	129,596	596,926	2,140,595	2,887,822	3,502,338	6,906,740			
5	0	0	129,596	629,763	2,143,280	2,891,591	3,516,162				
6	0	0	134,092	632,418	2,143,029	2,892,036					
7	0	0	134,331	632,104	2,144,872						
8	0	0	134,319	632,103							
9	0	0	134,319								
10	0	0									
11	0										
Run-off result	**0**	**0**	**–11,924**	**–246,018**	**–317,309**	**–579,360**	**–226,060**	**–726,883**	**20,533**	**–136,177**	**0**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

11.6 (Net) expenses for insurance operations

(NET) EXPENSES FOR INSURANCE OPERATIONS

TEUR	2018	2017
Acquisition costs	21,977	16,639
Administration expenses	7,047	9,405
Less: reinsurers' shares	14,487	14,622
Total	**14,537**	**11,423**

11.7 Other expenses

OTHER EXPENSES

TEUR	2018	2017
Other underwriting expenses		
Deposit interest reinsurance	596	421
Fire protection tax	0	242
Sundries underwriting expenses	36	291
	632	**954**
Other non-underwriting expenses	3,471	615
Thereof supervisory board compensations	176	161
Total	**4,104**	**1,570**

11.8 Main components of income tax expense and income

MAIN COMPONENTS OF INCOME TAX EXPENSE AND INCOME

TEUR	2018	2017
Current taxes		
Current year	2	444
Previous year	–89	–14
	–87	**430**
Deferred taxes		
Deferred taxes on timing differences (accrued/reversal)	–679	207
	–766	**638**

Income taxes comprises current taxes from corporation tax along with solidarity surcharge and trade tax from each domestic Group company. Further changes in deferred tax assets and liabilities are included in this position.

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

11.9 Reconciliation of expected income taxes to reported income taxes

Based on the operating result before taxes the following reconciliation of calculated to the reported taxes applies:

RECONCILIATION OF CALCULATED INCOME TAXES TO REPORTED INCOME TAXES

TEUR	2018	2017
Group result	−3,339	1,481
Income taxes	−766	637
Result after taxes	−4,104	2,118
Group tax rate in %	32.00	32.00
Calculated income taxes	−1,313	678
Adjusted by tax effects from		
tax exempt income	0	0
non deductible expenses	0	0
recognised losses carried forward	1,825	0
inverse effects from the recognition of the IPO expenses	−1,164	0
taxes for other accounting periods	−89	0
adjustments on deferred tax assets	0	0
not recognised deferred tax on losses from the current year	0	−249
other effects	−25	208
	547	**−41**
Reported income taxes	−766	637
The income taxes are calculated with a Group tax rate of 32% (previous year 32%). The total effective avarange tax rate for the current year was 18,66% (previous year 30,08%)		
effective Group tax rate	18.66	30.08

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

11.10 Disclosures under IAS 33 Earnings per Share

All ordinary shares are bearer shares. No preference shares are outstanding.

The earnings per share reported in the income statement are derived as follows:

EARNINGS PER SHARE

	in EUR
Net result for the period	**–3,338,339**

	Number of Shares
weighted avarage traded common shares in the reporting period	
in place:	
Sharholder (old)	8,953,875
weighted	
number of days	360
weighted number	**8,953,876**
Shareholder (new)	3,800,000
weighted	
number of days	26
weighted number	**274,444**
Total	**9,228,320**
EPS in EUR	–0.36

Securities that might have a potentially dilutive effect on future earnings per share, but are not included in the EPS calculation, relate to shares from a capital increase from authorized capital. The Executive Board made use of this option on February 27, 2019. We refer to Chapter 12.15 Supplementary Report.

12 OTHER DISCLOSURES

12.1 Capital management IFRS 4

Capital structure

As of December 31, 2018, the DFV Group had total equity of EUR 59.2 million (previous year EUR 19.5 million). With regard to the changes in equity in connection with the IPO in November 2018, we refer to the comments in the management report. The equity consisted of the following components:

Subscribed capital remained unchanged at EUR 25.5 million (previous year EUR 34.1 million), the capital reserve was EUR 39.8 million (previous year EUR 3.9 million). Retained earnings amounted to EUR 0.5 million (previous year: EUR –19.4 million). The consolidated net profit/loss is EUR –3.4 million (previous year EUR 1.5 million).

The reserve for unrealized profits and losses, where changes in the fair value of financial instruments classified as available for sale, in consideration of deferred tax effects, are recognized directly in equity, decreased to EUR –0.8 million (prior year: EUR –0.7 million) in the course of the reporting year due to capital market factors. In addition, a reserve for expenses for the procurement of equity in the amount of EUR –2.5 million (previous year: EUR 0 million) was formed.

The equity ratio, defined as the ratio of total equity of EUR 58.2 million (previous year EUR 19.5 million) to earned (net) premiums of EUR 36.1 million (previous year EUR 31.6 million), rose considerably due to the capital increase from 66.6% in the previous year to 164.1%. The return on equity decreased to –6.6% (previous year 10.5%). It is calculated as the ratio of earnings before taxes of EUR –4.1 million (previous year: EUR 2. million [sic!]) to equity adjusted for other reserves in the amount of EUR 62.4 million (previous year: EUR 20.2 million).

For DFV, the equity of the DFV Group is also a portion to fulfill the solvency requirements, also in regard to the realignment of the regulatory capital requirements in the course of Solvency II.

Risk reporting

This report meets the requirements for risk reporting pursuant to IAS 1.134 through 136 (Capital), IFRS 4.38 to 39A (the nature and extent of risks arising from insurance contracts) and IFRS 7.31 to 42 (Nature and extent of risks arising from financial instruments).

DFV's risk management includes all relevant risk types. This approach is reflected in the present report on opportunities and risks. In general, the requirements of IFRS 4 and IFRS 7 are limited to risks resulting from insurance contracts or risks from financial instruments and place these at the center of reporting.

DFV focuses on an overall approach when using risk management instruments and when assessing the risk situation pursuant to the requirements of the Insurance Supervision Act (German Versicherungsaufsichtsgesetz, VAG).

Risk management system

The objective of DFV's risk management is to ensure that the obligations arising from insurance policies, and here in particular solvency and long-term risk-bearing capacity, the creation of sufficient underwriting provisions, investment in suitable assets, compliance with commercial principles, including proper business organization and compliance with the remaining financial principles of business operations, can be fulfilled on a permanent basis for all business activities.

Risk management comprises all systematic measures to identify, evaluate and control risks. Risks and other negative developments that could have a significant impact on the net assets, financial and earnings situation are analyzed and countermeasures are initiated.

The implemented risk management process establishes rules for the identification, analysis and evaluation, control and monitoring, reporting and communication of risks and for a central early warning system. Investments are also included in risk management. Moreover, the risk management system includes a business continuity management system.

It is the objective of the annual risk inventory to identify risks and assess their materiality. The subject of the risk inventory is to review and document all individual and accumulation risks. The results of the risk inventory are recorded in the risk profile.

The identified risks are assigned to risk categories. Following this categorization, the main risks are shown in this opportunity and risk report and measures to limit them are explained. Risk exposure is generally shown as net numbers, i.e. in consideration of the initiated or planned risk mitigation measures.

The review and assessment of risk-bearing capacity at least once per quarter also includes a review of clearly defined key figures and threshold values. Measures are initiated if a defined index value is exceeded.

The risk-bearing capacity and all material risks are finally assessed by the risk commission on a quarterly basis. The central risk reporting system ensures transparency in reporting. Notifications of the Executive Board are provided for in the event of significant changes in risks. The risk-relevant company information is made available to the responsible supervisory bodies on a regular basis and, if necessary, also on an ad hoc basis.

The effects on the company's risk profile are already analyzed and assessed as part of the new product procedure during product development. The impact of new business segments or the introduction of new insurance products on the overall risk profile has to be assessed.

Governance structure

DFV's risk management is embedded in the business strategy as an integral component of corporate management. It builds on the risk strategy approved by the Executive Board and is based on the three interlinked functions embedded in the control and monitoring system: operational risk management, risk monitoring and internal auditing. The control environment is completed by the Supervisory Board and external auditors.

The guideline Risk management and ORSA (Own Risk and Solvency Assessment) documents the management of risks with comprehensive descriptions of methods, processes and responsibilities. A basic principle of risk organization and risk management processes is the separation of risk management and risk monitoring.

Operational risk management

Risk management is the operational implementation of the risk strategy in the risk-bearing business segments. The operating segments make decisions to consciously assume or avoid risks. In this context, they have to observe the specified framework conditions and risk limits. The functions of the persons responsible for establishing risk positions are separated from the subordinate areas of risk monitoring under personnel and organizational aspects.

Risk monitoring

Insurance companies must have an effective risk management system that is well integrated into the organizational structure and decision-making processes of the company, whereby reasonably considering the information needs of persons who actually manage the company or hold key functions through appropriate internal reporting. The risk management system has to include the strategies, processes and internal reporting procedures which are required to identify, assess, monitor and control risks to which the company is or may be exposed and to report these risks in a meaningful manner.

A risk strategy coordinated with the management of the company, which takes the type, scope and complexity of the business conducted and the risks associated with it into consideration, is in particular part of the strategies that is to be developed.

Due to the uncertainty of future developments, the insurance business is associated with risks. It is important to take specific risks in the context of the existing risk-bearing capacity, if the associated opportunities promise adequate added value.

DFV's overall risk can be divided into the following risk categories:

- Undertaking risks,
- Market risks, particularly in connection with investments,
- Credit risks, in particular from the default of receivables from insurance business,
- Liquidity risks,
- Operational risks,
- Reputation risk,
- Strategic risks.

DFV's risk management aims to identify, control and ultimately systematically manage these risks early on. Executive Board members and executives perform active risk management. The department heads report routinely to the divisional or full Executive Board in regard to the current course of business, also from a potential risk perspective. In addition, the company's Supervisory Board regularly addresses risk strategy issues at its meetings and is informed by the Executive Board about business development and planning.

The company's risk strategy also includes risk transfer to solvent reinsurance companies with first-class ratings via proportional risk assumptions and flexibly expandable coverage for major losses and natural catastrophes as well as annually adjusted insurance cover for loss of earnings/operating interruptions, public liability, business premises, business inventory and cyber risks.

During the reporting period, DFV also implemented an internal risk and solvency assessment process (ORSA – Own Risk and Solvency Assessment) according to the requirements of Solvency II. While each insurance company applies identical criteria for assessing a risk with the application of the standard formula, and thus determines a Europe-wide comparable solvency capital requirement, individual company assessment criteria are also used in ORSA and the individual overall solvency requirement is determined based thereon. Furthermore, the forecast for the next three to five years runs through certain stress scenarios to ensure a stable solvency of the DFV even under considerable pressure.

The Executive Board commissions to perform an ORSA at least once a year (regular ORSA) If certain criteria established in guidelines by the Executive Board (e.g. the intention to change the company's reinsurance policy or changes on the capital market that exceed established limits) occur, the Executive Board can at any time initiate an additional ORSA to summarize the changes in the procedure, principles, findings and conclusions of ORSA in an internal report to the Executive Board. The Executive Board determines possible effects on the business strategy and business planning within two weeks after the report is submitted and also decides on any further information to the Supervisory Board and the supervisory authority.

The CFO was appointed for independent risk control at DFV with the Key function being transferred to the Head of Controlling, effective December 1, 2018.

The company's Head of the Legal/Compliance Department of the company was appointed for the compliance function of the DFV. He is a fully qualified lawyer, attorney and in-house counsel. As part of the compliance function, he performs the tasks according to Sec. 29 para. 2 German Insurance Supervision Act (Versicherungsaufsichtsgesetz). This includes advising the Executive Board on compliance with the laws and administrative regulations that apply to the operation of the insurance business. Furthermore, the compliance function has to assess the possible effects of changes in the legal environment for the company and identify and assess the risk associated with the violation of legal requirements (compliance risk).

Procedures to implement compliance and the reports to be created are defined in a compliance plan. The Executive Board can implement the approved audit plan through resolution as the approved compliance plan and may waive a separate compliance plan. The compliance function informs the Executive Board on a regular basis about compliance issues and prepares an annual compliance report.

Insurance undertakings must have an effective actuarial function (AF). At DFV the AF was divided according to the insurance products by the type of damage insurance on the one hand and by the type of life insurance on the other hand and allocated externally in each case. The AF for the classes of insurance by type of loss, in particular supplementary health products by type of loss and personal and property insurance, such as liability, accident, glass breakage, household contents, was outsourced to Meyerthole Siems Kohlruss Gesellschaft für aktuarielle Beratung mbH, Cologne, through a function outsourcing agreement of October 29, 2015, for which Dr. Dietmar Kohlruss, actuary (DAV) is responsible. The AF for the classes of insurance like life insurance, in particular for the supplementary products for non-substitutive health and long-term care like life insurance, was outsourced to the actuary (DAV) Dr. Berthold Ströter from the actuarial firm Bek Ströter PartG through a function outsourcing agreement of November 24, 2015. The outsourcing officer for the AF is the head of the DFV's actuarial department. He has many years of professional experience as a graduate mathematician (FH) in the insurance sector.

Insurance companies are required to have an effective internal audit function that checks the adequacy and effectiveness of the entire business organization and in particular the internal control system.

Steinkrüger GmbH, headquartered in Cologne, was appointed for the internal audit function in accordance with the outsourcing agreement. Outsourcing representative is the head of the legal/compliance department of the company. He is a fully qualified lawyer, attorney and in-house counsel. The internal audit department provides independent and objective auditing services and thereby supports management in achieving its objectives by assessing and recommending possible measures to improve the appropriateness and effectiveness of the business organization, in particular the internal control system, risk management and the management and monitoring processes. To ensure its independence, the internal audit department works reports directly to the Chairman of the Executive Board or a member of the Executive Board appointed by the entire Executive Board. The internal audit department reports exclusively to the Group Executive Board, and also to the outsourcing representative. Within the scope of their auditing activities the persons engaged with internal auditing are not subject to any restrictive instructions and have to perform these tasks autonomously and independently.

Risk capital management

It is the objective of DFV's capital management to ensure risk-bearing capacity at all times to be able to meet all obligations from insurance contracts and to finance future growth largely independently through an appropriate equity strategy. The degree of capitalization represents the regulatory risk-bearing capacity of DFV as a ratio of eligible own funds to the risks resulting from business activity. The risk-bearing capacity is analyzed at least quarterly on the basis of supervisory regulations and under consideration of internal limits.

12.2 Regulatory risk-bearing capacity and underwriting risks

It is the objective of DFV's capital management to ensure risk-bearing capacity at all times to be able to meet all obligations from insurance contracts and to finance future growth largely independently through an appropriate equity strategy. The degree of capitalization represents the regulatory risk-bearing capacity of DFV as a ratio of eligible own funds to the risks resulting from business activity. The risk-bearing capacity is analyzed at least quarterly on the basis of supervisory regulations and under consideration of internal limits.

The own funds of DFV are expected to once again exceed the equity under commercial law. The valuation differences are mainly due to the non-recognition of intangible assets and valuation differences in underwriting provisions (e.g. unearned premiums, claims equalization provisions).

Regulatory risk-bearing capacity

Regulatory risk-bearing capacity is determined using the standard formula pursuant to Solvency II. Risk capital requirements (SCR: Solvency Capital Requirement) are calculated as value-at-risk with a confidence level of 99.5%.

The regulatory risk-bearing capacity of DFV is shown as a ratio of eligible own funds to the risks resulting from business activity. The development of the regulatory risk-bearing capacity is analyzed at least quarterly.

In the fiscal year 2018, DFV meets the statutory minimum solvency requirements pursuant to Solvency II or the solvency ratio is well above the minimum requirements.

Underwriting risks

General information

Currently, Deutsche Familienversicherung AG operates exclusively in Germany. In this context, the policyholders are exclusively natural persons. According to the classes of insurance mentioned in section A.1.2., the insured risks are as follows

- Risks or illness, disability and accidents of natural persons as well as
- property belonging to persons.

Accumulation and major risks

Based on the nature of the conducted business, the portfolio of Deutsche Familienversicherung has no individual major risks whose occurrence could endanger the continued existence of the company. Moreover, the underwritten risks are widely spread geographically and thereby reduce possible risk concentrations.

Appropriate calculation and underwriting policy

In general, premiums are calculated using accepted actuarial methods and include sufficient safety margins. Based thereon, acceptance guidelines are implemented for each insured risk and their compliance is systematically monitored so that the risk of underwriting losses can be limited.

The powers of attorney to enter into legally binding underwriting risks for Deutsche Familienversicherung AG are only granted to employees who can prove that they have the necessary professional qualification. Before it is written, every underwriting risk is subjected to an appropriate and comprehensive risk assessment.

All classes of insurance offered by Deutsche Familienversicherung include in their terms the right to adjust premiums in case of a permanent change of the calculation basis. This also limits the risk of permanent underwriting losses.

Permanent risk control

The company systematically monitors the economic, social and legal bases of its insurance business. In doing so, it reviews in particular whether the underlying calculation bases for the premium calculation are still applicable and whether insurance conditions need to be adjusted due to changes in the legal framework. If this careful examination reveals the need for adjustments in the calculation or of the terms and conditions, such adjustments will be made promptly within the legally permissible framework.

Measurement of undertaking risks

The measurement of all categories of underwriting risk corresponds to and is integrated in the procedures used when applying the Solvency II requirements. This applies in particular to the calculation of stress scenarios, i.e. extremely unfavorable progressions in the development of business and investments, and their impact on the result and possible burden on equity.

For this purpose, the procedure is as follows in line with the inventory of insurance contracts underwritten by the company:

- Management of the underwriting risk health

The underwriting risk health is calculated as a combination of the capital requirements for the subcategories health like non-life insurance, health like life insurance and catastrophe risk health.

The risk measurement in the subcategories health like non-life insurance is generally carried out according to the methods described in the chapters on non-life underwriting risk.

The underwriting risk health at DFV includes accident insurance business as well as health insurance business.

For insurance contracts subject to mortality risk, the risk is shown by an increase in mortality of 15%.

For insurance contracts subject to longevity risk, the risk is shown by an increase in longevity of 20%.

For the insurance contracts subject to the cancellation risk, the risk is shown for the scenarios cancellation increase at a 50% increase in the cancellation rate, cancellation decrease at a 50% reduction of the cancellation rate and mass cancellation with a cancellation rate at 40% of the contracts.

The measurement of cost risk is based on the stress scenarios of a permanent increase of 10% in the costs taken into consideration in the measurement of the underwriting provisions and an increase by one percentage point in the cost inflation rate.

The risk of illness differentiated between cost reimbursement insurance and income reimbursement insurance.

The risk of illness in income reimbursement insurance is represented by an increase in burning costs by 10%.

The risk of illness in cost reimbursement insurance is represented by a one-off increase in insurance benefits of 5% and an increase in annual medical inflation of 1%. Furthermore, a one-off decrease of 5% in insurance benefits and 1% annually in medical inflation is assumed.

The disaster risk health is divided into mass accident risk, accident concentration risk and pandemic risk.

The mass accident risk assumes a sudden loss event in which many people are affected simultaneously by an accident.

The accident concentration risk assumes that a very large number of the persons affected by an accident are insured by the insurance company.

The pandemic risk assumes that a large number of people will require health care or disability benefits as a result of an directly spreading pandemic.

◆ Management of the underwriting risk non-life

The calculation of capital requirements for the premium and reserve risk is based on risk factors and volume measures for all classes of insurance. The risk factors (for example, the standard deviation as a percentage of the volume measure) describe the danger of the risk. Volume measures for the premium risk is the premium income. The volume measure for the reserve risk are the net claims provisions in the form of the best estimate.

To determine the risk requirement from a catastrophe scenario, we used site-specific and value-specific risk factors in consideration of the probabilities defined in the standard formula.

The solvency requirement for the cancellation risk is determined on the basis of a stress scenario assuming a cancellation of 40% of those insurance contracts for which a cancellation would result in an increase in the best estimate for the premium provision.

◆ Risk factors

In health insurance as an essential component of the underwriting risk health the risk of increased claims exists based on the behavior of insured persons and service providers.

As part of its property and casualty insurance business, DFV conducts business that covers catastrophes. These are natural disasters, such as earthquakes, storms or floods, and also accidents caused by human intervention. These events are unforeseeable.

In general, there is a risk that particularly large individual loss events take place and also that a particularly large number of loss events occur that are not necessarily large individual loss events. As a result, the actual claim burden from the amount and frequency of claims for one year can significantly exceed the expected burden.

Unfavorable claims experiences would result in an increase in insurance benefits reported in the income statement and could have a negative impact on DFV’s result.

The limit values presented here for the stress scenarios performed by us correspond to the stipulations of Solvency II. They are suitable for assessing and quantifying extreme – but unlikely – business developments that could present a burden on equity. These invoices showed in no event a result that even remotely exhausts the company’s equity.

Risk-adequate reinsurance
The company concludes reinsurance contracts in order to transfer its assumed risks with the following objectives:

- Avoidance of fluctuations in the underwriting experience,
- Limitation of cover amounts for contracts with a high cover commitment and
- Reduction of any remaining concentration risks.

In this contract the insurance contracts are long-term in nature. Reinsurance contracts are only concluded with companies with the best credit rating.

Product development
When developing new products, the needs for insurance in the target markets of Deutsche Familienversicherung are analyzed systematically and in a targeted manner to ensure that the company offers coverage concepts tailored to the needs of the market. It is in particular ensured that the protection offered is clearly structured and can be well understood by the policyholder. This reduces the risk that the provided insurance cover does not meet the expectation and understanding of the policyholder and the risk of legal disputes and damage to the company's image is consequently kept to a minimum.

Supplementary health insurances
Deutsche Familienversicherung AG offers insurance cover against financial burdens in the event of illness and the need for care. In this context, the insurance contracts cannot be terminated by the company on a regular basis. However, the premiums of a tariff are adjusted under certain conditions. The company therefore bears the risk of an unfavorable development of insured losses, interest, mortality, cancellation and other expenses only until the respective next premium adjustment.

Probability tables by the Federal Financial Supervisory Authority (BaFin), the Association of Private Health Insurers (PKV) and, if the existence of a tariff provides a sufficient basis for this, the insurer's own tables are used for the calculation of insurance premiums and actuarial provisions (aging provisions). Furthermore, the calculation takes into account sufficient security surcharges for fluctuations below the thresholds that allow premium adjustments.

If premiums are adjusted, the company reviews all calculation bases and adjusts the premiums appropriately to the existing circumstances at that time. This also applies to the composition of the respective inventories by gender.

A sufficiently high actuarial reserve (ageing provision) was created for the tariffs calculated like life insurance (supplementary care insurance, inpatient treatment, daily sickness allowance).

Interest rate risk – changes in interest rates can include economic and accounting opportunities and risks for the company.
An economic interest rate risk primarily exists in the business conducted by the company like life insurance, since an implicit actuarial interest rate for the entire life of an insurance contract is used here as the basis for premium calculation. It is, however, possible to adjust this actuarial interest rate to the current interest rate and capital market situation, if premium adjustments can be made. Due to the present low-interest phase, this actuarial interest rate for the tariffs of Deutsche Familienversicherung is reasonably low, so that the capital market income of the security assets created for this purpose in conjunction with a cautionary investment is sufficient to generate

the established actuarial interest rate. Moreover, the stress scenario calculations performed as part of Solvency II show that none of the calculated scenarios could create an economic situation for the company in which the available equity of the company would be even remotely used up.

Damage and accident insurance

Deutsche Familienversicherung AG offers insurance cover for property, liability, legal protection, animal and accident insurance. Therefore, the policyholders of Deutsche Familienversicherung are protected from economic loss or damage to insured property caused by the occurrence of defined risks. The company offers coverage against claims for damages of injured third parties in form of liability insurance. Accident insurance covers personal injury resulting from accidents.

Each contract entered into by Deutsche Familienversicherung can be terminated without cause at the end of a defined term. The respective policyholder has a right of termination at any time. Under certain conditions, Deutsche Familienversicherung AG has extraordinary termination rights.

Premium risk – Premiums are calculated after a thorough evaluation of the relevant statistical bases according to accepted methods of property insurance mathematics. To this end, sufficient reserves are always part of the calculation; therefore it is unlikely that the risk contributions to cover the losses lack detail. This counteracts the risk of under-pricing. In addition, adjustment rights exist for all tariffs of property/casualty insurance if the claims experience exceeds the calculated safety surcharges.

Reservation risk – The reservation risk means that the individual or lump sum provisions are too low for subsequent claims payments. Therefore, we use statistics from our own claims experience in conjunction with actuarial estimation methods to estimate their amount. In addition, we limit the risks in which the reversal of these provisions is constantly monitored. The knowledge acquired in this process is re-incorporated into the current estimates.

Claims development in the property-casualty segment has a significant influence on the result of Deutsche Familienversicherung.

Risks from the default of receivables from insurance business

Receivables from insurance business may exist against our policyholders, brokers and reinsurers.

12.3 Classification of financial instruments

Pursuant to IAS 39, financial instruments are contracts that result in a financial asset for one entity and simultaneously in a financial liability or equity instrument for another entity. Receivables from natural persons – for example from mortgage loans – are also treated as financial instruments.

IFRS 7 requires entity to allocate its financial instruments to specific classes for the disclosures in the notes to the consolidated financial statements. A distinction has to be made at least between financial instruments measured at amortized cost or their residual carrying amount and financial instruments measured at fair value. Shares in non-consolidated subsidiaries, joint ventures and associated companies require disclosures regarding their carrying amounts and level information according to IFRS 13.

Cash and cash equivalents with a term of up to three months are reported as a separate class of financial instruments. They are reported at nominal value and are only subject to insignificant fluctuations in value.

Loan commitments also represent a separate class of financial instruments for which the requirements of IFRS 7 have to be met, if applicable.

Further detailed information pursuant to IFRS 7 about risks and maturities of financial assets and liabilities and their risk management, sensitivity analyses and capital management of the DFV Group are explained in the opportunities and risk report.

12.4 Fair value hierarchy

IFRS 13 defines the fair value as sales price (price that would be received in an ordinary transaction between market participants on the measurement date upon sale of an asset or upon transfer of a liability). Pursuant to IFRS 13 all assets and liabilities measured at fair value are assigned to a measurement hierarchy (level). Moreover, level information also has to be disclosed for fair values, which are exclusively presented in the notes. The valuation hierarchy provides for three levels of valuation. The allocation informs which of the reported fair values have occurred through transactions on the market and to what extent the measurement was based on observable market-derived data or using valuation models due to a lack of market transactions. On each valuation date, it is reviewed whether the allocation to the levels of the valuation hierarchy is still appropriate. If changes in the valuation basis occurred, for example due to inactive markets, the use of new valuation methods or the adjustment of parameters that require a different allocation, corresponding reclassifications are made between the levels.

Level 1: Prices quoted in active markets on the valuation date for the assets and liabilities to be measured
Level 2: Use of quoted prices other than those defined in Level 1 that are either directly or indirectly observable for the asset or liability
Level 3: Unobservable input factors, if applicable of a valuation model using unobservable, estimated input factors

Valuation techniques and input factors to determine fair values for assets and liabilities at levels 2 and 3

The measurement of financial instruments and investments in these levels is mainly based on capital value-oriented methods. The investment in DFVR is carried at cost.

In the trading category, plain vanilla swaps and structured swaps are valued using the shifted Libor market model; the main valuation parameters are money market and swap yield curves and, where applicable, spot exchange rates. Moreover, derivatives are held at level 2 to hedge the interest rate risk. Their fair values are determined using recognized capital value-oriented methods, which incorporate interest rates, creditworthiness and liquidity premiums as measurement parameters that are mainly observable on the market and correspond to the respective term. Prepurchases are valued based on the DCF method; in this context, the yield curve and the credit spread are the measurement parameters. Stock and index-related options are valued using Monte Carlo simulation in a local volatility model with constant forward skew, expanded by forward volatilities. Implied volatilities and forecasted dividend payments from Bloomberg serve, inter alia, as the data basis. The valuation of forward exchange transactions corresponds to the discounted delta between the agreed forward rate and forward rate on the valuation date. Market data to determine forward rates on the key date is supplied in SAP via an interface to various providers of market data.

Negative fair values from derivatives in level 2 are valued in analogy to the positive fair values from derivatives.

FINANCIAL INSTRUMENTS AND DETERMINATION OF FAIR VALUE 2018 (FAIR VALUE HIERARCHY)

TEUR	Level 1	Level 2	Level 3	Total
Shares in subsidiaries, joint ventures and associated companies	0	0	0	0
Financial instruments available for sale	90,263	0	0	90,263
Non-current assets held for sale	0	0	0	0
Total of positive market values	**90,263**	**0**	**0**	**90,263**
Shares in subsidiaries, joint ventures and associated companies	0	0	0	0
Financial instruments available for sale	0	0	0	0
Non-current assets held for sale	0	0	0	0
Total of negative market values	**0**	**0**	**0**	**0**

FINANCIAL INSTRUMENTS AND DETERMINATION OF FAIR VALUE 2017 (FAIR VALUE HIERARCHY)

TEUR	Level 1	Level 2	Level 3	Total
Shares in subsidiaries, joint ventures and associated companies	0	0	0	0
Financial instruments available for sale	46,357	0	0	46,357
Non-current assets held for sale	0	0	0	0
Total of positive market values	**46,357**	**0**	**0**	**46,357**
Shares in subsidiaries, joint ventures and associated companies	0	0	0	0
Financial instruments available for sale	0	0	0	0
Non-current assets held for sale	0	0	0	0
Total of negative market values	**0**	**0**	**0**	**0**

12.4.1 Credit quality of the portfolio

CREDIT QUALITY OF THE BOND PORTFOLIO

TEUR	2018	Share %	2017	Share %
Rating categoty of fixed income securities Available-for-sale				
AAA	7,750	30.6	5,595	15.4
AA	3,837	15.2	6,335	17.4
A	4,195	16.6	4,408	12.1
BBB	9,529	37.6	20,038	55.1
BB and lower	0	0.0	0	0.0
unrated	0	0.0	0	0.0
Total	**25,311**	**100.0**	**36,376**	**100.0**

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

12.4.2 Credit risk

CREDIT RISK (2018)

				Of which not impaired and overdue in the following intervalls					
TEUR	Carrying value as of December 31, 2018	Of which neither impaired nor overdue as of balance sheet date	Of which impaired on the balance sheet date	less than 30 days	between 30 and 60 days	between 60 and 90 days	between 90 and 180 days	between 180 and 360 days	More than 360 days
Balance sheet item									
Available-for-sale	90,053.0	88,887.6	1,165.4						
Receivables form direct insurance business	722.2	184.2	538.0						
Accounts receivables from resinsurance business	4,199.0	4,199.0							
Interest and rent receivables	728.4	728.4							
Total	**95,702.6**	**93,999.2**	**1,703.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

CREDIT RISK (2017)

				Of which not impaired and overdue in the following intervalls					
TEUR	Carrying value as of December 31, 2017	Of which neither impaired nor overdue as of balance sheet date	Of which impaired on the balance sheet date	less than 30 days	between 30 and 60 days	between 60 and 90 days	between 90 and 180 days	between 180 and 360 days	More than 360 days
Balance sheet item									
Available-for-sale	46,356.6	46,356.6							
Receivables form direct insurance business	1,122.5	605.0	517.5						
Accounts receivables from resinsurance business	89.3	89.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and rent receivables	692.8	692.8	0.0						
Total	**48,261.1**	**47,743.7**	**517.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

12.5 Disclosures on net income from financial instruments

Corresponding disclosures are not available.

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

12.6 Interest income and expenses, current income and expenses from financial instruments

INTEREST INCOME AND EXPENSES, CURRENT INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS (2018)

TEUR	Interest income	Current income	Interest expenses	Current expenses
Financial instruments, available-for-sale	759	72	0	209

INTEREST INCOME AND EXPENSES, CURRENT INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS (2017)

TEUR	Interest income	Current income	Interest expenses	Current expenses
Financial instruments, available-for-sale	1,054	53	0	378

12.7 Disclosures on leasing – DFV as lessee

Payments based on operating leases relate in particular to rents for office and business premises, operating and office equipment, IT equipment and software products.

The financial obligations resulting from these contracts are stated in the disclosure on other financial obligations.

12.8 Other financial commitments

2018 (DFV Group):
Other financial obligations consist of the long-term lease of the Reuterweg 47 until December 31, 2022. The expenses resulting from this obligation amount to TEUR 746 in fiscal year 2018 and likely TEUR 2,983 for the years until 2022.

In addition, other financial obligations from rental and leasing contracts with different terms for the use of hardware, communications and network technology as well as other technical aids, and office equipment exist. The obligations arising from these contracts likely amount to approximately TEUR 1,109.1 in 2018 and likely to TEUR 87.8 in fiscal year 2019.

2017 (DFV Group):
Other financial obligations consist of the long-term lease of the Reuterweg 47 until December 31, 2022. The expenses resulting from this obligation amount to TEUR 7,456 in fiscal year 2018 and likely TEUR 2,983 for the years until 2022.

In addition, other financial obligations from rental and leasing contracts with different terms for the use of hardware, communications and network technology as well as other technical aids, and office equipment exist. The obligations arising from these contracts likely amount to approximately TEUR 1,154 in 2018 and likely to TEUR 132 in fiscal year 2019.

12.9 Disclosures to contingent liabilities

No contingent liabilities exist as of the balance sheet date (December 31, 2018) in addition to the provisions recognized in the consolidated balance sheet that would have to be reported.

12.10 Relations to associated companies and persons (related parties)

Related parties include persons in key positions within the DFV Group and their close family members. Members of the Executive Board and the Supervisory Board are regarded as persons in key positions.

COMPENSATION OF KEY MANAGEMENT MEMBERS

Executive Board TEUR	Short-term benefits	Termination benefits	Total
Dr. Stefan Knoll thereof Special remuneration TEUR 1	569	0	569
Michael Morgenstern thereof Special remuneration TEUR 155	348	0	348
Stephan Schinnenburg thereof Special remuneration TEUR 138	365	0	365
Marcus Wollny thereof Special remuneration TEUR 100	205	0	205
Georg Jüngling	0	140	140

The compensation of the supervisory Board are exclusively short-term benefits.

COMPENSATION OF SUPERVISORY BOARD MEMBERS

TEUR	2018	2017
Dr. Hans-Werner Rhein	71.4	71.4
Georg Glatzel	35.7	23.8
Luca Pesarini	33.8	30.0
Herbert Pfennig	35.7	35.7

These disclosures relates to the members of the Executive Management and the Supervisory Board of DFV Familienversicherung AG. This group of persons comprised 9 persons in the reporting year (previous year 7 persons).

12.11 Auditor’s fee

2018:
As of the balance sheet date, the total fee charged by the auditor for services rendered in the fiscal year amounted to TEUR 83, which relates exclusively to auditing services.

2017:
As of the balance sheet date, the total fee charged by the auditor for services rendered in the fiscal year amounted to TEUR 83, which relates exclusively to auditing services.

12.12 Number of employees

On average Deutsche Famililenversicherung and its subsidiaries employed 111 staff.

12.13 Disclosures on the identity of the company and the consolidated financial statements

The parent company of the DFV Group, DFV Deutsche Familienversicherung AG, has its registered office in Frankfurt am Main and is recorded in the Commercial Register at the Local Court (Amtsgericht) of Frankfurt am Main under the number HRB 78012.

12.14 Disclosure

The IFRS consolidated financial statements have been prepared for the first time. It will be published in due time in the electronic Federal Gazette (Bundesanzeiger).

We have issued the declaration required by Sec. 161 of the German Stock Corporation Act. Our declaration is publicly available at:

https://ir.deutsche-familienversicherung.de/download/companies/dfv/CorporateGovernance/Entsprechungserklaerungen_zum_Corporate_Governance_Code_Deutsche_Familienversicherung_AG.pdf.

12.15 Supplementary report

On February 20, 2019, a capital increase from authorized capital in the amount of 507,745 no-par value bearer shares was entered in the commercial register in connection with the exercise of the over-allotment (greenshoe) option as part of the IPO. The corresponding shares were admitted for trading on the Frankfurt Stock Exchange on February 27, 2019. This capital increase generated net proceeds of TEUR 5,901 for DFV.

No other events of particular significance exist which occurred after the end of the consolidated financial year and have not been taken into consideration either in the consolidated income statement or in the consolidated balance sheet.

12.16 Disclosure pursuant to Sec. 297 para. 2 sent. 4 HGB ("balance sheet oath")

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the asset, financial and earnings situation of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Frankfurt am Main, March 25, 2019

DFV Deutsche Familienversicherung AG

Executive Board

Dr. Stefan M. Knoll CEO	Michael Morgenstern CFO	Stephan Schinnenburg CSO	Marcus Wollny COO

Note: This is a convenience translation of the German original. Solely the original text in German language is authoritative.

„INDEPENDENT AUDITOR'S REPORT

To the DFV Deutsche Familienversicherung AG, Frankfurt am Main

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

Audit Opinions

We have audited the consolidated financial statements of DFV Deutsche Familienversicherung AG, Frankfurt am Main, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31st, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1st, 2018, to December 31st, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of DFV Deutsche Familienversicherung AG, Frankfurt am Main, for the financial year from January 1st, 2018, to December 31st, 2018. In accordance with the German legal requirements we have not audited the "corporate governance report" in section 6 of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31st, 2018, and of its financial performance for the financial year from January 1st, 2018, to December 31st, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

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

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Key Audit Matters in the Audit of the Consolidated Financial Statements

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

In the following section we summarize the salient Key Audit Matters:

1 Valuation of the actuarial reserve (gross)

Relevant Information in the financial statements

The notes to the consolidated financial statements present the accounting and valuation methods on page 59 ff.

Facts and audit risks

Due to the significance of the item in the balance sheet (T€ 42,570, 27.4% of the balance sheet total) of the group, the audit of the actuarial reserve (gross) were an integral part of our audit of the group financial statements.

Risks in the valuation may arise from the recording of the insurance portfolio. Due to the complex calculation of the actuarial provision for a large number of different insurance rates with different valuation parameters, there is an increased risk of error. Of particular importance are assumptions about cost rates and biometric foundations.

Auditing procedure and findings

We have audited the system for collecting and changing insurance contracts in the inventory management system, and have been convinced of the complete and correct transfer of inventory to the calculation systems and the correct recording of the results in the general ledger. The focus of the audit was to examine the system for the existence and functionality of internal controls.

We determined the determination of the actuarial provision at individual contract level with our own calculation programs in random samples.

We convinced ourselves that the calculation bases used to calculate the aging provision corresponded to those for the premium calculation and that these were generally considered to be sufficiently cautious. In addition, we reviewed whether the regulatory requirements relating to the actuarial provision, in particular the granting of a direct credit from the over-interest rate, were met.

The applied calculation and valuation methods of the gross actuarial provision are appropriate overall. We consider the underlying assumptions to be balanced and proportionate.

2 Valuation of the acutarial reserve for outstanding claims – gross

Relevant Information in the financial statements

The notes to the consolidated financial statements present the accounting and valuation methods on page 59 ff.

Facts and audit risks

The audit of actuarial reserves for outstanding claims - gross amount - in accordance with § 341g HGB (gross claims reserves) was due to the significance of the item in the balance sheet (T€ 10,269, 6.6% of the balance sheet total) of the Group and the considerable scope for judgment the valuation of the individual partial provisions, an integral part of our audit of the group financial statements.

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The obligations recognized in gross claims reserves are estimated values, the estimation of which is the responsibility of the legal representatives of the Group. These estimates are based on past as well as expected future developments and include discretionary decisions and uncertainties in the assessment of events that are likely to have occurred but will only become known in the future. For estimated values, therefore, there is a priori increased risk of misstatements in accounting.

This applies in particular to the actuarial claim reserves for known and unknown insured events, which relate to a substantial part of the gross reserves for outstanding claims. The provision for claims settlement costs does not constitute a material part of the gross provision for outstanding claims in terms of scope and risk for the audit.

Auditing procedure and findings

We have audited the actuarial claim reserves for known and unknown insured events as following:

- actuarial claim reserves for known insured events:
  We examined the system of claims registration and settlement, in particular with regard to the existence and functionality of internal controls. The selection of claims files examined by us in the main types and types of insurance took place on the basis of a complete register on single file basis. In doing so, special features regarding the amount of the damage and the results of the settlement were taken into account. The selected files were selected according to various criteria. In principle, all major losses from the financial year and from previous years were examined in the individual classes of insurance, with the size of the random sample varying with the individual size of the insurance classes.
- actuarial claim reserves for unknown insured events:
  When assessing this reserve determined by mathematical-statistical procedures, we have assessed the information contained herein or the express or implied opinions of the legal representatives of the Group in this connection. In assessing the appropriateness of the actuarial reserve for unknown insured events, the methods used and the baseline data have been examined particularly critically by number and average amount of claims (fiscal year damage and late damage). We have verified that the data used for the calculations are accurate, complete and relevant and that they are consistent with the data processed by the accounting system.

In addition, we analyzed analytical procedures based on quantitative characteristics (number of claims, average amount of claims, ratios of claims reserves to other factors) and key figures such as frequency of claims, average claims, speed of settlement, settlement result at original loss provision, loss reserve or total claims expenditure. These analyzes were carried out on the different classes of insurance and on a multi-year comparison for the entire claims reserve and for the individual parts of the claims reserve.

Through our own actuarial investigations, we have subjected the total claims reserve per insurance branch to an additional analysis based on relevant mathematical-statistical procedures in terms of their respective sufficiency.

The applied calculation and valuation methods of the gross reserves for outstanding claims are on the whole appropriate. We consider the underlying assumptions balanced and appropriate.

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Other Information

The executive directors are responsible for the other information. The other information comprises:

- The confirmation pursuant to § 297 Abs. 2 Satz 4 HGB regarding the consolidated financial statements and the confirmation pursuant to § 315 Abs. 1 Satz 5 HGB regarding the group management report in section 12.16 of the notes and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor’s report

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

Regarding our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The supervisory board is responsible for overseeing the Group’s financial reporting process for the preparation of the consolidated financial statements and of the group management report.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our [audit] opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) [and supplementary compliance with the ISAs] will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an [audit] opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective [audit] opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express [audit] opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our [audit] opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate [audit] opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the supervisory board meeting on September 5th, 2018. We were engaged by the supervisory board on September 26th, 2018. We have been the group auditor of the DFV Deutsche Familienversicherung AG without interruption since the financial year 2018.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is WP/RA/StB Martin Lächele."

Frankfurt am Main, March 27, 2019

Signed	Dr. Thomas Varain German Public Auditor	Martin Lächele German Public Auditor

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FINANCIAL CALENDER 2019

May 23	Quarterly report Q1 as at 31 March 2019
May 23	Annual General Meeting 2019
September 13	Quarterly report Q2 as at 30 June 2019
September 15	Quarterly report Q3 as at 30 September 2019

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DISCLAIMER

This report contains forward-looking statements which are based on the current estimates and assumptions by the corporate management of DFV Deutsche Familienversicherung AG. Forward-looking statements are characterized by the use of words such as expect, intend, plan, predict, assume, believe, estimate, anticipate and similar formulations. Such statements are not to be understood as in any way guaranteeing that those expectations will turn out to be accurate. Future performance and the results actually achieved by DFV Deutsche Familienversicherung AG and its affiliated companies depend on a number of risks and uncertainties and may therefore differ materially from the forward-looking statements. Many of these factors are outside the Company's control and cannot be accurately estimated in advance, such as the future economic environment and the actions of competitors and others involved in the marketplace. The Company neither plans nor undertakes to update any forward-looking statements.

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