The leading digital insurance company

DFV Deutsche Familienversicherung AG

Group Annual Report 2019

OUTSTANDING PRODUCT QUALITY

DFV DENTAL CARE
TEST WINNER
FINANCIAL TEST 05/2019

DFV FOREIGN TRAVEL PROTECTION
VERY GOOD (0.8)
FINANCIAL TEST 05/2019

DFV LIABILITY PROTECTION
VERY GOOD (1.4)
FINANCIAL TEST 10/2019

DFV SICKNESS BENEFIT
TEST WINNER
FINANCIAL TEST 06/2018

DFV INPATIENT CARE
TEST WINNER
FINANCIAL TEST 12/2018

DFV ACCIDENT CARE EXCLUSIVE
THIRD PLACE
FINANCIAL TEST 05/2018

FIVE REASONS TO INVEST IN DEUTSCHE FAMILIENVERSICHERUNG:

— Because we will achieve a net growth in new business of 100,000 units annually.

— Because we will achieve portfolio growth in 2020 of at least EUR 25 million to EUR 125 million in premium volume.

— Because we are the first digitised insurance company.

— Because we cover the entire value chain of an insurance company with unique digital capabilities.

— Because we are the only insurtech with a reinsurance licence.

ABOUT DFV DEUTSCHE FAMILIENVERSICHERUNG AG

DFV Deutsche Familienversicherung AG (ISIN DE000A0KPM74) is a high-growth insurtech company which, as a digital insurance company, covers the entire value chain with its own products. The goal of the company is to offer insurance products that people really need and understand immediately ('Simple. Sensible.'). DFV offers its customers award-winning supplementary health insurance (dental, health, supplementary care insurance) as well as accident and property insurance. Based on the state-of-the-art scalable IT system developed in-house, the company 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

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Dr Stefan Knoll, CEO

Dr jur. Stefan M. Knoll is a lawyer, an Officer in the German Army and an entrepreneur with over thirty years of leadership experience. He is the founder and CEO of DFV Deutsche Familienversicherung AG, which he took public in 2018 as the first functioning InsurTech in Europe after successful digital transformation and positioning. His new book 'Thinking and Leading in the Digital Age' was published in 2019 by Deutscher Fachverlag (dfv).

Stephan Schinnenburg, CSO

Since 2018, Stephan Schinnenburg is Chief Sales Officer of DFV Deutsche Familienversicherung AG. His responsibilities include sales, marketing and product development. Before becoming CSO, the professional insurance salesman was a member of the Board of Management of various ERGO companies.

Marcus Wollny, COO

Marcus Wollny is an expert in artificial intelligence and is a member of the board of directors of DFV Deutsche Familienversicherung AG since 2018. In his position as COO, he is responsible for the progressive digitalization of insurance products, IT and the claims and benefits department. Since 2010 Marcus Wollny is a member of the Arbeitskreis Evangelischer Unternehmer in Deutschland e.V. (AEU).

Dear Shareholders,
Ladies and Gentlemen,

The successful IPO on 4 December 2018 marked the beginning of a new era for Deutsche Familienversicherung. The 2019 financial year was characterised in particular by the listing on the Prime Standard of the Frankfurt Stock Exchange and the associated reporting and information obligations as well as our promise to double figures in new business compared to the previous year.

And we kept our promise: 100,000 new customers and portfolio growth of more than EUR 25 million. On an absolute scale, Deutsche Familienversicherung has already become one of the major players in the industry with this level of development in new supplementary health insurance business.

In addition to growing our existing products, the introduction of health insurance for pets – which we have been marketing since May 2019 – also contributed to the success. We also managed – for the fourth time in a row – to come in as the test winner with Stiftung Warentest with our supplementary dental insurance product, a segment which is crucial to the company. Additionally, we made significant efforts to restructure the capital investments of the company and to get the ball rolling on the outsourcing of our IT infrastructure.

Taking into consideration the fact that we managed all of this – on top of the other tasks typical of an insurance company such as claim and benefit processing, IT operations, customer service, product development and many more – with a mere 122 employees on average, this not only demonstrates the high level of digitisation of the company but also, and in particular, the willingness and desire of our team to perform. My colleagues on the Executive Board and I are especially proud of this.

The prerequisite for this is the high degree of digitisation in particular in the processes involved in contract conclusion as well as superior insurance products characterised primarily by their understandability. Deutsche Familienversicherung can therefore stand not only with those competitors that describe themselves as insurtech companies, but it is also a major player among traditional insurance companies.

With a market share of 15% in new business in supplementary long-term care insurance, Deutsche Familienversicherung has already established itself as one of the giants nationally, at least in this segment. A key contributor to this was the acquisition success with Henkel which involved, for the first time in the history of the German insurance industry, the installation of an employer-funded supplementary long-term care insurance programme for an entire professional group.

The experiences gathered during this process and the cooperation with IG BCE Bonusagentur – a subsidiary of IG BCE, the industry union for mining, chemicals and energy – made it possible to establish a consortium whose bid was accepted by the tariff parties of the chemicals and pharmaceuticals industries in November 2019 to implement, following the Henkel model, an employer-funded long-term care insurance programme for all employees in these industries. With a share of 35%, Deutsche Familienversicherung jointly leads the consortium and is responsible for the product and portfolio management. This project, which goes by the name of CareFlex, will have a positive impact on the books of Deutsche Familienversicherung from mid 2021. We are already making intensive preparations for this special challenge for our organisation – after all, it will involve the integration of some 1,900 companies with around half a million employees.

The growth rates from 2019 should absolutely be continued, and Deutsche Familienversicherung intends to acquire approximately 100,000 new customers in the next two years, with an additional portfolio volume of EUR 25,000,000 to EUR 30,000,000. The linear continuation of these ambitious objectives make it possible for Deutsche Familienversicherung to close out the 2021 financial year with a positive result, in spite of the high level of investment in growth. This development does not yet factor in the volume expected from June 2021 associated with the CareFlex programme.

Altogether, this means that Deutsche Familienversicherung, as the first fully digital insurance company, is well on its way to becoming one of the major players in the German insurance industry – a characteristic of Deutsche Familienversicherung which is to be emphasised more in the future than the title of insurtech indicates. This is in spite of the fact that the incomplete and trial-and-error nature inherent in the designation of insurtech company has never applied to Deutsche Familienversicherung.

Our employees are crucial to our success. On behalf of the Executive Board, I extend to them my heartfelt appreciation for their dedication, professionalism and their excellent performance over the challenging last year. We also appreciate all of our customers and would also like to thank you, honoured shareholders, for your continued trust and support.

We look forward to the future!

Yours sincerely,

Dr Stefan M. Knoll
Chairman of the Executive Board (CEO)

Frankfurt am Main, 19 March 2020


DEUTSCHE
Der DFV-KlinikSchutz
Privatpatient im Krankenhaus
DEUTSCHE
Der DFV-ZahnSchutz
Privatpatient beim Zahnarzt

REPORT OF THE SUPERVISORY BOARD

In the 2019 financial year, the Supervisory Board performed the duties incumbent upon it by law and the articles of association. In particular, it 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.

In the process, the Executive Board 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 policies, including financial and staff planning and the condition of the company.

Throughout the reporting year, the collaboration between the Executive Board and Supervisory Board was open and trusting in all phases.

TASKS OF THE SUPERVISORY BOARD

The Supervisory Board of the company consisted of four members up to the Annual General Meeting on 23 May 2019, after which the number grew to five.

Four scheduled regular meetings of the Supervisory Board took place on 21 February 2019, 3 April 2019, 17 September 2019 and 14 November 2019. All members of the Supervisory Board attended the meetings. Only for the meeting on 17 September 2019 was one member of the Supervisory Board excused.

The Executive Board reported in detail on the current course of business and about sales results in each meeting of the Supervisory Board. In particular, the existing and new business figures as well as premium development were presented to the Supervisory Board.

The key business figures as well as earnings performance, in particular in light of revenue, cost, and income situation, were discussed in every meeting. The Supervisory Board was also constantly informed about the solvency and financial position of the company, including the investment result. To this end, the current solvency indicators – such as the risks relevant to the company and risk management as well as the company's own-risk and solvency assessment – were discussed.

Furthermore, the Supervisory Board regularly discussed with the Executive Board the operating and claims payments including claims ratios and reserves, also in relation to comparable industry figures.

Additionally, the developments and progress with regard to IT and digitisation were discussed in each Supervisory Board meeting along with the necessary measures and the estimated costs in this regard.

In the meeting on 21 February 2019, the Executive Board reported to the Supervisory Board on the IPO and the current shareholder structure. The Executive Board also presented the capital increase for the creation of 507,745 new shares from the authorised capital for the purpose of exercising the overallotment ('green shoe') option.

Furthermore, the Executive Board presented the operational plan for the 2019 financial year in the meeting on 21 February 2019, which involved the discussion of the sales investments and the additional marketing costs, such as the introduction of new products and investments in IT for the fundamental change of the system landscape and for the replacement of old systems.

In the meeting of 3 April 2019, the Supervisory Board in particular approved the audited annual financial statements, including the auditor's report, for the 2018 financial year. The auditor was present at the meeting and confirmed in advance that both the annual financial statements and the management report as well as the consolidated financial statements and the consolidated management report for the 2018 financial year were each given the unqualified audit opinion.

Additionally, the responsible actuary submitted a report and determined that the actuarial opinions for the non-substitutive health and long-term care insurance business conducted by the company could be issued without qualification and that it could be confirmed that the obligations arising from insurance contracts could be met at all times.

In the meeting on 17 September 2019, the Supervisory Board discussed with the Executive Board the status and effects of the CareFlex Chemie project. As things stood at the time, in addition to salary adjustments, the collective bargaining negotiations in 2019 of the trade union for the chemicals industry were also to include the obligatory insurance of the long-term care risk as part of company health insurance. This obligatory employer-funded supplementary care insurance programme for employees in the chemicals and pharmaceuticals industry was to be handled by a consortium consisting of three insurance companies, including the participation of Deutsche Familienversicherung. In the meeting, the Supervisory Board and Executive Board discussed the infrastructure necessary for the processing of business, in particular the requirements of the IT and personnel structure, as well as – using a simulation – the effects of this consortium business on the key figures, in particular the coverage rate of the company.

Altogether, the Supervisory and the Executive Board reached the conclusion that participation in the consortium is a fundamentally strategic decision and has an enormous impact on company planning and structure as a whole, but that it is a great opportunity for the company, provided there is sufficient infrastructure and capital.

In its meeting on 14 November 2019, the Supervisory Board primarily addressed – in addition to the status and development of the CareFlex Chemie project – the restructuring of the IT infrastructure and the work on the systems for the further expansion of automation of claims processing.

COMMITTEE TASKS

In coordination with the Executive Board, the Supervisory 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 organisational effort for the company in light of proportionality and that plenary deliberations are more efficient.

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

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2019

The auditor of the annual and consolidated financial statements for insurers is appointed by the Supervisory Board of the company, not the Annual General Meeting.

By resolution of 17 May 2019, the Supervisory Board appointed the auditing firm Mazars & Co. KG as auditor of the company for the 2019 financial year.

Mazars has audited the annual financial statements of the company, the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and the respective management reports for the 2019 financial year, and has issued unqualified audit opinions.

All members of the Supervisory Board have received the annual financial statement documents for the 2019 financial year and the 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 16 March 2020 within the scope of the Supervisory Board meeting. The auditor attended the discussions of the annual financial statements, reported on the essential results of the audits and was available to the Supervisory Board for supplementary information. In particular, the especially important audit facts and the audit activities performed described in the audit opinion were also discussed.

No objections were raised after the final review by the Supervisory Board. The consolidated financial statements of the company prepared by the Executive Board were approved by the Supervisory Board by resolution of 16 March 2020. On the same date, the annual financial statements of the company were also approved by the Supervisory Board.

COMPOSITION AND CHANGES IN THE SUPERVISORY BOARD AND EXECUTIVE BOARD

In the Annual General Meeting on 23 May 2019, Dr Ulrich Gauß was elected as the fifth member of the Supervisory Board for the period until the end of the Annual General Meeting that adopts the resolution on the discharge for the 2022 financial year.

On the Executive Board, Michael Morgenstern resigned from his position as CFO for personal reasons effective on 31 December 2019.

The Supervisory Board expresses great thanks and appreciation for the Executive Board as a whole and all employees of Deutsche Familienversicherung for their great personal commitment and their dedicated performance and successes in the 2019 financial year.

For the Supervisory Board

March 2020

Hans-Werner Rhein

Dr Hans-Werner Rhein
Chairman of the Supervisory Board

CONSOLIDATED MANAGEMENT REPORT

CONSOLIDATED MANAGEMENT REPORT

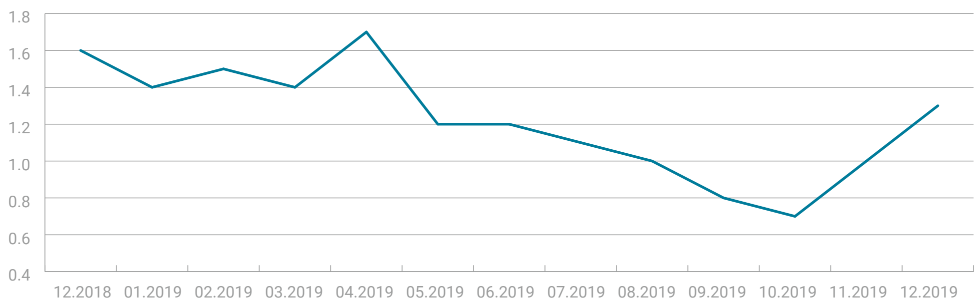
1 ECONOMIC ENVIRONMENT AND SECTOR DEVELOPMENT

After 2018 was the tenth year of an economic upswing in Germany with growth in gross domestic product (GDP) of 1.6%, 2019 was impacted by fears of recession. These fears were fed in Germany in particular by the decrease in gross domestic product during the second quarter of the year. However, economic performance once again increased in the second half of the year, which helped the year as a whole close with a growth rate of 0.6%. In spite of the slowing economic indicators, the number of gainfully employed people and the unemployment rate still managed to record very positive figures again.

However, growth was well below the previous year's rates due to rising political uncertainties such as the issue of the United Kingdom's withdrawal from the European Union, which went unresolved until late December, and due to the continuation of global trade disputes. While consumer spending remained at a stable level, the losses suffered by the automotive industry last year only worsened over the course of 2019, and industrial production decreased overall.

After a rise in inflation towards the end of 2018 up to 1.9%, the rate decreased over the course of 2019 back to significantly below the targets set by the European Central Bank (ECB) of less than 2.0%, closing the year at a mere 1.3%. Although the ECB had intended to end its bond purchase programme at the end of 2018, the regression in inflation figures as well as fears of recession caused bond purchasing to be resumed. As a result, interest rates sank considerably over the course of the year, with the interest rate for ten-year German government bonds, for example, decreasing from 17 basis points at the end of 2018 to –70 basis points over the course of the 2019 financial year.

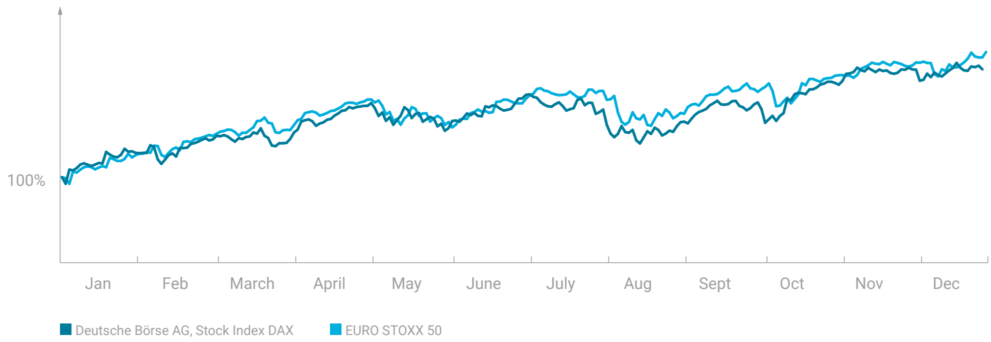
DEVELOPMENT OF INFLATION IN %



TEN-YEAR GERMAN GOVERNMENT BONDS

Following the significant losses of the previous year, stock markets around the world recorded considerable growth, with the DAX increasing by some 25% compared to the previous year, and EURO STOXX even rising by some 28%.

DAX PERFORMANCE INDEX/EURO STOXX 50



In addition to global policy challenges, demographic change in the eurozone on the one hand – with low birth rates in the baby boomer generation and an expected corresponding ageing of society, particularly in Germany – poses a major problem for social security systems. On the other hand, this change and the associated increase in awareness will result in greater growth potential for the health and long-term care insurance products of Deutsche Familienversicherung.

The preliminary figures of the Gesamtverband der Deutschen Versicherungswirtschaft (German Insurance Association – GDV) show premium growth of nearly 7% for the German insurance industry was significantly higher than the average of previous years. The primary drivers of this growth were life insurance products with one-time premiums which became more attractive in light of the low interest rates.

2 DEVELOPMENT OF BUSINESS PERFORMANCE AND NET ASSETS, FINANCIAL POSITION AND EARNINGS SITUATION OF THE GROUP

2.1 Overview of the course of business in 2019

Deutsche Familienversicherung can look back on an extremely successful financial year. The year was characterised by the continued excellent assessment of the insurance products of Deutsche Familienversicherung by Stiftung Warentest, groundbreaking progress in the digitisation of the company, very strong portfolio growth once again – in particular in supplementary health insurance – and the successful implementation of an industry-wide employer-funded nursing care insurance programme for all employees in the chemical industry under the collective bargaining agreements.

Existing premiums rose in a year-on-year comparison by 33.7% from EUR 75,657,000 to EUR 101,168,000. The strong growth of Deutsche Familienversicherung is based on three pillars: product, digitisation and sales expertise.

The outstanding quality of the products was also proved in 2019. Following the principle of ‘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 fourth time in a row, DFV-ZahnSchutz (dental insurance) was the test winner at Stiftung Warentest in the spring of 2019. But the tariffs DFV-KrankenGeld and DFV-KlinikSchutz were also able to finish as test winner with Stiftung Warentest, and DFV-UnfallSchutz Exklusiv was rated ‘very good’ in the fourth quarter of 2018. Additionally, with its product DFV-TierkrankenSchutz, Deutsche Familienversicherung successfully entered the market for health insurance for dogs and cats.

In 2019, Deutsche Familienversicherung consistently continued its digitisation. The digital closing and policy processes were perfected, and the claims settlement processes underwent constant further development over the course of the year. These are an important prerequisite for the broader scalability of the business. Irrespective of this, Deutsche Familienversicherung has been a pioneer in the use of voice-controlled media such as Amazon Echo since 2018. In addition, since the fourth quarter of 2018, 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 sales expertise of Deutsche Familienversicherung. The sales success is distributed among the individual sales channels as follows: Approximately 78% (previous year: 73%) to online sales, which also includes direct-response TV (DRTV). Around 11% of new business (previous year: 19%) comes from cooperations and partnerships. Approximately 11% (previous year: 8%) of the closings were done via insurance brokers. Online sales in connection with the completely digitised policy processes allows new business to continue at the present level.

Deutsche Familienversicherung closed the financial year with a loss before taxes of EUR 5,222,000 (previous year: loss of EUR 4,104,000), which is primarily due to the increase in sales expenses. The following developments made a significant contribution to this result:

2.1.1 Premium development

Gross written premiums of EUR 90,919,000 were up 36.7% (EUR 24,396,800) from the previous year's figure of 66,522,200. Three insurance segments in particular contributed to this positive premium development: on the one hand, sales success in supplementary dental insurance continued in 2019. On the other hand, the cooperation regarding nursing care insurance with Henkel AG & Co. KGaA started at the beginning of the year made positive contributions to premium development. Additionally, Deutsche Familienversicherung was able to increase revenue from property insurance compared to the previous year, with the primary contributors being the addition of pet health insurance to the product range as well as the revision of the other property insurance products.

The existing portfolio of insurance contracts in the health and long-term care segments increased by 67,528 (19.6%) from 344,473 at the end of the previous year to 412,001 at the end of 2019, also resulting in an even-greater increase in written premiums in these segments, which grew by 37.2% year on year from EUR 61,952,000 to EUR 85,004,000.

Compared to the previous year, the share of the property classes increased significantly, with the fundamental revision of the insurance products, which was well received by customers, being the primary contributor to this. This revision made it possible to replace the insurance products of the first generation and also to sell them better online via language assistance systems. Additionally, Deutsche Familienversicherung successfully entered the market for pet health insurance with DFV-TierkrankenSchutz, an innovative product that follows the logic of 16 Matrix. Gross premiums written in the property classes rose by some 30% compared to the previous year.

As expected, written premiums in the electronics insurance class decreased by EUR 533,000. Due to the poor earnings performance, sales of electronics insurance were discontinued effective on 31 May 2015; the policies remaining in the portfolio will be settled, with an additional improvement of the claims-and-expense ratio recorded in the year under review. Deutsche Familienversicherung expects this positive development to continue in the remaining settlement period. All in all, around half a million customers place their trust in Deutsche Familienversicherung. The low development of this figure in spite of a 17.8% increase in the number of policies in the health and property segments is due to the run-off of electronics insurance, where around 12,000 customers terminated their existing insurance policies as expected in 2019.

Development of new business

The target of Deutsche Familienversicherung for 2019 was to reach 100,000 new policies with new business premiums of EUR 30,000,000. The financial year was concluded with 100,034 new policies and thus a target achievement rate of 100.03%. In terms of new business premiums, EUR 29,965,000 was achieved, which corresponds to a target achievement rate of 99.9%.

The result was driven by a very strong increase in online sales and the use of our cooperation with ProSiebenSat.1. The increase in sales performance in broker and partner sales as well as in cooperation sales, with the successful placement of the Henkel Group insurance contract for nursing care, is responsible for this outstanding result.

The 2019 financial year was also the most successful year in the company's history in terms of new business.

Development of the product portfolio

In 2019, DFV also had to meet the requirements of Stiftung Warentest: for example, the tariff DFV-ZahnSchutz Exklusiv 100 was crowned test winner by Stiftung Warentest for the fourth time in a row with the absolute top mark of 0.5. The tariff DFV-AuslandsreiseSchutz managed a rating of 'very good'. For the first time, Deutsche Familienversicherung participated in the test of personal liability insurance and was able to achieve a score of 'very good' with its DFV-HaftpflichtSchutz tariff.

DFV DENTAL CARE

DFV FOREIGN TRAVEL PROTECTION

DFV LIABILITY PROTECTION

On 1 May 2019, the DFV-TierkrankenSchutz product for dogs was newly introduced and, due to the positive response from customers, the insurance cover was extended to cats on 1 November 2019. The all-inclusive principle of Deutsche Familienversicherung was also implemented in the pet health insurance product. This addition fills a gap in the range of pet health insurance products, which is reflected in the new business figures.

In the property insurance segment, the revision of the relevant products was completed with the reorganisation of private liability and motor legal expenses insurance. This created the basis for the prompt repositioning of the DFV-KombiVersicherung 5 plus product.

2.1.2 Claim payments to customers

At EUR 48,035,000, claims payments to customers increased by EUR 9,398,000 (24.3%) from EUR 38,637,000 in the previous year. Of this amount, EUR 8,508,000 (previous year: EUR 11,629,000) can be attributed to the allocation to the actuarial provisions. Claims payments themselves increased by EUR 8,180,000 from EUR 27,403,000 in 2018 to EUR 35,583,000. This corresponds to expectations, because the portfolio grew significantly, in particular in the supplementary health segment.

The gross actuarial provisions of EUR 42,570,200 reported as of 31 December 2019 increased by EUR 8,508,000 to EUR 51,078,000. The provision for profit-related premium refunds in the amount of EUR 1,069,000 (previous year: EUR 836,000) continue to relate mainly to the long-term care segment. The provision for non-profit-related premium refunds in the amount of EUR 362,000 had to be formed for the first time in the reporting year, and relates exclusively to health insurance business by type of life.

Gross provisions for outstanding claims amounted to EUR 13,047,000 as of the balance sheet date (previous year: EUR 10,269,000). The changes in these provisions are included in claims payments to customers.

2.1.3 Underwriting income

The strong premium growth is accompanied by a corresponding increase in net sales expenses for insurance operations, which rose by EUR 10,849,000 (74.6%) from EUR 14,537,000 in the previous year to EUR 25,386,000. The additional sales expenses – which are directly recognised through profit or loss – result in an underwriting loss, although the acquisition expenses are offset economically by longer-term insurance contracts. The considerable growth of the customer base, the launch of long-term care insurance for employees in the chemical industry (CareFlex) and the new investment strategy, which has now been implemented, create the necessary conditions for the long-term economic success of Deutsche Familienversicherung.

2.1.4 Capital investments

Unlike 2018, which was characterised by considerable volatility and losses across all investment classes, the bond and stock markets saw prices soar over the course of 2019.

Stock markets around the globe recorded significant growth over the course of the financial year, with the DAX gaining some 25% and thus more than compensating for the losses suffered in 2018. Share price development was somewhat volatile along the way, however. The primary reasons for the sharp corrections in valuations over the course of the year were reoccurring worries, in particular about trade policy disputes as well as uncertainty about the United Kingdom's withdraw from the European Union. On the other hand, in light of the gradually weakening price rise, the European Central Bank underscored its willingness to carry out measures of monetary policy. Furthermore, the ECB prepared market participants for the fact that interest rates in the first half of 2020 would remain at their current level, or be even lower, and paved the way for further bond purchasing.

Existing investments of Deutsche Familienversicherung increased by EUR 31,690,000 (35.2%) compared to the previous year, from EUR 90,053,000 in 2018 to EUR 121,743,000 at the end of 2019. In light of its considerable growth, Deutsche Familienversicherung revised its investment strategy from the ground up and used the movements on the capital markets to carry out the necessary transactions. For the new investment strategy, under consideration of the supervisory provisions, more emphasis was placed on an appropriate risk-to-yield profile as well as ensuring the constant ability to meet obligations to insurance companies. In this regard, the investments previously held in the DFV Special Fund were reallocated to a newly created special fund, the DFV Multi-Asset Fund.

Investment revenue for the 2019 financial year was pleasing: in spite of interest rates dropping further, Deutsche Familienversicherung generated investment revenue which, at EUR 3,401,000, was significantly higher than the previous year (loss of EUR 2,345,000). At EUR 901,000, current investment revenue was EUR 379,000, or 72.6%, higher than the income from the previous year of EUR 522,000.

Deutsche Familienversicherung took advantage of the recovery on the capital markets to dispose of investments which no longer suited the strategic direction. Net profits of EUR 2,813,000 were realised in this process, after net losses and valuation haircuts in the amount of EUR 2,656,000 were realised in the previous year.

Under consideration of the change in unrealised gains and losses, the total yield of investments of Deutsche Familienversicherung amounted to EUR 6,966,000 (previous year: EUR –2,419,000) or 6.6% (previous year: –3.5%) based on the average portfolio in 2019.

2.1.5 Other expenses and other revenue

In other income, Deutsche Familienversicherung recorded other expenses of EUR 5,263,000 (previous year: EUR 4,104,000) as well as other revenue in the amount of EUR 630,000 (previous year: EUR 1,028,000). Other expenses are primarily made up of the personnel and non-personnel expenses allocated to the company as a whole in the amount of EUR 2,751,000 (previous year: EUR 1,500,000) as well as the interest on deposits of reinsurers in the amount of EUR 832,000 (previous year: EUR 597,000). In the reporting year, other income is primarily made up of contributions from the provision for premium refunds in the amount of EUR 526,100 (previous year: EUR 0), while remuneration in kind for employee shares dominated the other income item in the previous year.

Over the course of the first quarter, Deutsche Familienversicherung received gross proceeds in the amount of EUR 6,092,000 from the overallotment option ('green shoe') as part of the IPO. The accompanying external costs of EUR 193,000 (previous year: EUR 3,636,000) are directly offset against equity, taking into account the tax-related effects.

2.1.6 Comprehensive income

Deutsche Familienversicherung closes the 2019 financial year with a loss before taxes of EUR 5,222,000 (previous year: loss of EUR 4,104,000). After offsetting taxes, which were primarily characterised by the capitalisation of tax losses carried forward in the reporting year, the net loss for the year amounts to EUR 2,100,000 (previous year: loss of 3,338,000 euros). It should be emphasised here that Deutsche Familienversicherung achieved an underwriting profit despite the strong growth and the associated significant increase in sales expenses. Due to unrealised gains from capital investments in the amount of EUR 1,466,000 (previous year: loss of EUR 71,000), the company closed the year with comprehensive income of EUR –634,000 (previous year: EUR –3,410,000).

3.1.7 Digitisation

Deutsche Familienversicherung is a functioning insurtech company. Insurtech companies are defined as a combination of an insurance undertaking in accordance with section 1, paragraph 1 (1), in conjunction with section 7 (33), of the German Insurance Supervision Act (Versicherungsaufsichtsgesetz – VAG) and a technology company for the digitisation of the insurance product range and all underlying processes. Since the term 'insurtech' is not generally defined and is often used by market participants without an insurance licence to create an apparent proximity to insurance companies, Deutsche Familienversicherung has decided to increasingly dispense with this moniker. Deutsche Familienversicherung is a largely digitised insurance company that handles all typical processes of such a company itself and with its own staff.

When business operations commenced in 2007, Deutsche Familienversicherung used the IT infrastructure of Helvetia Versicherungs-AG; however, when this cooperation agreement was terminated, Deutsche Familienversicherung established its own contract management system. This new contract management system (CMS) was gradually introduced starting in January 2014 and, today, represents the heart of the company's IT infrastructure. The contract management system is, on the one hand, characterised by the fact that it was programmed in a modern language (Java) and, on the other hand, by the fact that it works on an event basis. 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 for which 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 once the increased risk no longer exists. 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 – and Deutsche Familienversicherung is prepared for this.

In 2014, the first digitisation concept was created, the focus of which was the realisation that digitisation must begin with the insurance product whenever the sales focus is online sales. This is mainly due to the fact that, in online sales, the customer must be able to see immediately, practically at a glance, which insurance cover they are buying as well as, on the one hand, which risks are covered and, on the other, which risks are associated with it 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 in this respect is that, in general, the customer always has complete insurance cover in each product family (dental, outpatient, inpatient and nursing care) and only selects the amount of insurance cover depending on their financial responsibilities. 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 they wish to have 50%, 70%, 90% or 100% reimbursed of what their statutory insurance does not cover. This principle applies to all product families offered by Deutsche Familienversicherung, which is why Deutsche Familienversicherung can quote customers all prices for all products they offer after the customer has entered their age.

After the conversion of the offered insurance products – Deutsche Familienversicherung calls this the product digitisation phase – all processes were aligned based on this, automated and thus also digitised. The details of this are as follows:

Digital advice

The 16 Matrix concept came with a significant reduction of the scope of advice because, for example, supplementary dental insurance that includes all treatment options that a dentist offers is easier to explain than supplementary dental insurance that differentiates between different treatment types, such as dentures, tooth preservation or implants.

Digital conclusion process

The contract conclusion process is paperless. Deutsche Familienversicherung foregoes receiving a signature and uses Login with Amazon, Amazon Pay and PayPal to make it easier to gather customer and payment information. Since 1 January 2018, applications for insurance have only been concluded to policies if communication with the customer is possible via email. It can be assumed that customers with an email address also have an Amazon account; however, the customer still has the option of entering the necessary information in the traditional way.

Digital policy process

Depending on the contract management system, applications to conclude an insurance contract are processed in real time and, provided that there are no indications against accepting the application, are directly entered into the system (policy issue). Once the policy is issued, the customer receives an email with two links.

The first link is for the DFV portal, which is the digital version of the previously used analogue letter box. Using the DFV customer portal, the customer has access to all of their policy documents and is not required to print out the paperwork and store them in an analogue file. Instead, customers can access all policy documents at any time.

The second link is for the DFV customer app, which is a mobile version of the DFV customer portal. The app can also be used for insurance on demand, i.e. the ability to increase insurance cover on a situational basis, the DFV customer wallet can also be accessed in the app. and is the digital replacement of the previously used plastic cards that serve as evidence of the customer's insurance cover.

Digital customer service

The DFV customer portal can also be used as a way to access digital customer service. This primarily takes the form of allowing the customer to access their policy at any time using the portal and, if necessary, make changes regarding their personal life circumstances or to alter their payment methods. Calls as well as correspondence, regardless whether via email or on paper, are no longer necessary if the customer consistently uses the DFV customer portal. Customers can also receive messages, product information, etc. via the DFV customer portal without having to be bothered by traditional means of communication (telephone or letter).

Digital claims processing

The scope of digital claims processing is heavily dependent upon the respective insurance product. Deutsche Familienversicherung already uses artificial intelligence (AI) for claims processing; however, this AI has a much broader scope of application in the field of claims settlement in supplementary health insurance than in household or liability insurance, for example. Deutsche Familienversicherung has therefore reached an 80% automation level for certain benefit types of supplementary dental insurance, while digital claims processing for liability and household insurance is still limited to the support of the respective claims adjuster for claims processing.

In the future, the development of automation will be crucial, in particular in the field of claims processing. The goal for supplementary health insurance is for 80% of claims to be processed automatically. Today, a claim for a professional cleaning at the dentist can be automatically processed in mere minutes – and this ability needs to be expanded to all supplementary health insurance claims. Processing a claim within 48 hours nevertheless remains the measuring stick of the company.

Outsourcing of the IT infrastructure

At the beginning of 2019 – with the decision to market the own IT of Deutsche Familienversicherung as an insurance platform to third parties, to outsource the IT infrastructure and to concentrate the company's resources on application development – the foundation for the IT future of Deutsche Familienversicherung had already been laid. In the first half of the year, the contract for outsourcing the IT infrastructure was signed and subsequently the entire IT infrastructure management was transferred to an external service provider. As a result, the first IT services were transferred to the computer centre and operated there under the direction of the service provider. In addition, all workstations have been equipped with a new generation of modern hardware and all communication has been converted to Skype for Business. The company is thus always in a position to reflect the above-average growth of Deutsche Familienversicherung over the long term and to account for the increasing regulatory requirements. Expansion of the already-high security standards of Deutsche Familienversicherung also comes with this step.

Advancement of digitisation

The digital processes of Deutsche Familienversicherung are one of the core elements of the company. Although Deutsche Familienversicherung serves as a pioneer in this regard, not all processes have been fully digitised, especially with regard to claims and benefits. For this reason, the increase of the dark processing rate was achieved in the financial year with new technical solutions.

Some 98% of all new customers actively use the customer portal of Deutsche Familienversicherung. To improve communication with customers, a messenger was developed in the first half of the year and integrated into the portal. This messenger enables our customers to communicate with us easily, conveniently and in accordance with the General Data Protection Regulation (GDPR). Thus we are able to quickly and simply answer all the questions our customers have. In addition, the login procedure has been improved and filing claims has been simplified and made clearer.

Altogether, this means that Deutsche Familienversicherung is, on the one hand, an insurance company that covers all of the processes typical of an insurance undertaking – from product design and product calculation through to claims processing and capital investment – and, on the other hand, has largely digitised the entirety of insurance technology as a sum of all company processes. Deutsche Familienversicherung is an insurtech company because it combines the functional aspects of an insurance company with the functional aspects of a company at the forefront of the digital transformation.

2.2 Segment and portfolio allocation as of the balance sheet date

The portfolio and claims 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 with regard to the distribution of gross premiums written and the number of policies.

PORTFOLIO DEVELOPMENT

Insurance segments	Number of insurance contracts of at least one-year duration		Changes		Gross premiums written		Changes	
In EUR thousand	2019	2018	In units	In %	2019	2018	In EUR thousand	In %
Health total	412,001	344,473	67,528	19.6	85,004.4	61,951.6	23,052.9	37.2
Health by type of property	332,758	289,595	43,163	14.9	55,217.6	40,478.3	14,739.3	36.4
Health by type of life	79,243	54,878	24,365	44.4	29,786.8	21,473.3	8,313.6	38.7
Accident	14,632	14,370	262	1.8	1,121.4	1,124.3	−3.0	−0.3
Liability	14,530	12,757	1,773	13.9	738.0	719.0	19.0	2.6
Legal expense	9,001	9,317	−316	−3.4	756.0	1,058.3	−302.3	−28.6
Glass breakage	7,818	8,103	−285	−3.5	93.6	94.1	−0.5	−0.5
Household	9,498	9,739	−241	−2.5	571.1	594.3	−23.2	−3.9
Residential building	0	0	0	0.0	0.0	−1,996.9	1,996.9	100.0
Electronics insurance	44,182	56,187	−12,005	−21.4	1,845.3	2,377.9	−532.6	−22.4
Pet health insurance	2,442	0	2,442	100.0	401.5	0	401.5	100.0
Other property insurance	0	18	−18	−100.0	387.7	599.6	−211.9	−35.3
Total	**514,104**	**454,964**	**59,140**	**13.0**	**90,919.0**	**66,522.2**	**24,396.8**	**36.7**

Due to the presentation in thousands of euros, rounding differences may occur in the totals.

Beginning with this financial year, Deutsche Familienversicherung has defined the loss ratio as a net loss ratio, because Deutsche Familienversicherung believes that this represents the economic loss situation of Deutsche Familienversicherung better than a gross loss ratio. The net loss ratio corresponds to the ratio of claims expenditure including claims settlement expenses, expenditure for premium refunds, the change in the actuarial provision and the claims reserves – in each case net – to the earned premiums (net).

CLAIMS DEVELOPMENT

Insurance segments	Gross expenses for claims		Changes		Net loss claims ratios in % of earned premium		Changes
In EUR thousand	**2019**	**2018**	**In EUR thousand**	**In %**	**2019**	**2018**	**In % absolute**
Health total	35,849.4	24,943.8	10,905.6	43.7	61.6	58.8	2.8
Health by type of property	31,659.2	22,176.6	9,482.6	42.8	67.3	58.1	9.2
Health by type of life	4,190.2	2,767.2	1,423.0	51.4	44.6	60.9	−16.3
Accident	195.9	359.3	−163.5	−45.5	18.2	35.9	−17.7
Liability	143.4	104.8	38.6	36.9	22.8	9.1	13.7
Legal expense	1,284.4	912.6	371.8	40.7	182.6	89.1	93.5
Glass breakage	20.4	13.7	6.7	49.0	23.0	15.2	7.8
Household	303.3	79.7	223.6	280.4	56.2	13.9	42.3
Residential building	−136.7	−428.4	291.7	68.1	n.a	n.a	n.a
Electronics insurance	326.2	263.1	63.1	24.0	19.7	12.3	7.4
Pet health insurance	209.7		209.7	100.0	60.0	–	60.0
Other property insurance	165.2	709.6	−544.4	−76.7	42.6	118.3	−75.8
Total	**38,361.2**	**26,958.2**	**11,403.0**	**42.3**	**60.5**	**56.0**	**4.5**

Due to the presentation in thousands of euros, rounding differences may occur in the totals.

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

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
20.2%	29.7%	41.0%	49.6%	59.1%	66.5%	61.5%	57.3%	56.0%	60.5%

2.2.1 Reinsurance

Deutsche Familienversicherung uses reinsurance for risk control. In the 2019 financial year, the company generated a positive result of EUR 786,000 (previous year: EUR 653,400) from reinsured business, whereby higher reinsurance cessions in connection with the significant increase in new business were offset by reduced cessions from previous underwriting years.

2.2.2 Asset situation

Intangible assets amounted to EUR 8,665,000 in the 2019 financial year (previous year: EUR 9,205,000). The reduction is mainly due to scheduled depreciation of the contract management system BSN. Owing to the ongoing growth of business, the positive development of the market values of securities and inflows of funds from the overallotment option in connection with the IPO, investments increased by EUR 31,689,000, or 35.2%, from EUR 90,053,000 to EUR 121,742,000. Current bank balances were reduced by EUR 5,270,000 to EUR 3,763,000 in favour of investments compared with the end of 2018. Accounts receivable from reinsurance business decreased by EUR 209,000 from EUR 3,506,000 to EUR 3,297,000 compared to the previous year.

2.3 Cash flow and liquidity position

The ongoing strong growth of Deutsche Familienversicherung also resulted in a further increase in operating cash flow in 2019. The operating cash flow and the liquid funds raised from the overallotment option were used in particular to expand the investment portfolio of Deutsche Familienversicherung (EUR 26,667,000; previous year: EUR 46,715,000) and additional investments in intangible assets (EUR 1,158,000; previous year: EUR 1,843,000). Cash and cash equivalents were decreased by EUR 5,270,000 compared to the previous year.

2.4 Summary of the overall statement on the situation of the company

Although earnings before taxes were below the previous year's figure of EUR –4,104,000, the total of EUR –5,222,000 for 2019 exceeded the budgeted figure. Earnings development was caused by the following factors:

- The target figure of 100,000 new policies was slightly exceeded in new business.
- Due to the conclusion costs, new business had a substantial but planned impact on the result of Deutsche Familienversicherung.
- This is offset by sustained premium payments in the subsequent years.
- In spite of the considerable increase in new business, Deutsche Familienversicherung managed to achieve its targets with regard to sales expenses and, in some areas, performed even better than planned.
- Efficiency in business processes and the high level of performance of employees led to lower personnel expenses than originally planned.
- The favourable development of capital markets led to investment income above original expectations.

In consideration of tax effects, this results in a loss of EUR 2,100,000 (previous year: EUR 3,338,000). The marked improvement of the result compared to the expected pre-tax loss of between EUR 9,000,000 and EUR 11,000,000 is attributable to, among other things, lower personnel expenses (EUR 9,500,000 instead of EUR 11,000,000), lower marketing and sales expenses (EUR 33,000,000 instead of EUR 35,000,000) as well as the investment result, which was some EUR 1,000,000 better than planned.

The asset situation of Deutsche Familienversicherung improved once again as a result of achieving its growth targets, with investments increasing by 35.2% from EUR 90,053,000 to EUR 121,743,000.

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 all its payment obligations in the future would be impaired.

With its successful IPO at the end of 2018, Deutsche Familienversicherung created the conditions for long-term growth. In this context, a gradual change in the reinsurance structure may also be undertaken. The digitisation scope of Deutsche Familienversicherung is well advanced above the market average. Building on this, further additions to the IT systems will be made in 2020.

3 OPPORTUNITY AND RISK REPORT

3.1 Introduction and description of the risk structure

The core business of Deutsche Familienversicherung involves the assessment, assumption and ongoing monitoring of risks. It is therefore important to take risks in a targeted manner based on the existing ability to bear risks, insofar as the opportunities associated with this allow for the expectation of sufficient added value. Risk management at Deutsche Familienversicherung aims to identify product and contractual risks at an early stage, to monitor them and, ultimately, to manage them in a systematic manner. Active risk management is carried out by the members of the Executive Board and managers. Department heads routinely report to the member of the Executive Board responsible for their department, or the Executive Board as a whole, about the current course of business, including from a risk perspective.

The risk strategy of Deutsche Familienversicherung also includes the use of solvent reinsurance companies with very good credit ratings by means of pro rata risk assumption and flexibly expandable cover for major losses and natural catastrophes, as well as annually adjusted insurance cover for loss of revenue or business interruptions, business liability, cyber risks and commercial buildings and inventory.

An internal own-risk and solvency assessment (ORSA) process exists pursuant to the Solvency II Framework Directive and the delegated acts as part of pillar 2. This so-called regular ORSA process is to be carried out annually and will be concluded in March 2020. In addition, the ORSA process of Deutsche Familienversicherung stipulates that an assessment of 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 are informed on a rotating basis about the quarterly solvency figures. The solvency ratio as of 31 December 2019 was well above the statutory requirements.

Deutsche Familienversicherung has an independent risk control unit (IRCU) that is tasked with the continuous, independent and objective implementation and development of the risk management system of the company. The principle of proportionality is applied when designing the IRCU 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 capital investments, in particular market risks
- Operational risks
- Liquidity risks
- Reputational risks
- Strategic opportunities and risks

3.2 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. This 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. Deutsche Familienversicherung mitigates these risks through the risk-sensitive calculation of premiums, a targeted underwriting policy and stringent underwriting guidelines.

Another risk is reserve risk, which means that the claims expenditure to be paid may be higher than expected at the time of 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.

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 claims risk by concluding suitable proportional reinsurance contracts, particularly in the supplementary health insurance, long-term care insurance, electronics insurance and pet health insurance segments. In addition, non-proportional reinsurance contracts for the segments of foreign health insurance, accident, household, liability and legal expenses exist, under which the own 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 earnings situation will provide an opportunity to reduce the ratio of proportional reinsurance in order to fully capture the positive underwriting results.

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 recognised accounting principles. Nevertheless, these can deviate from the actual course of events and result in an increased risk of loss. Pursuant to section 155, paragraph 3, of the 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 section 155, paragraph 3, of the VAG, 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 analysed. The underwriting risks are recalculated and assessed in the quarterly reports to the supervisory authority using the standard formulas 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 its successful IPO carried out on 4 December 2018, Deutsche Familienversicherung laid the foundation for its further growth. In connection with the IPO of Deutsche Familienversicherung, the company received income in the amount of EUR 6,092,000 in the first quarter of 2019 from exercising the overallotment option ('green shoe').

3.3 Risks from the default of receivables from insurance business

Risks exist due to payment default on behalf of policyholders as well as due to commission refund claims against insurance brokers. The receivables are reviewed on an ongoing basis for impairment, and receivables which are questionable and past due are revalued. The risk of default of commission refund claims is adequately countered by sufficient cancellation reserves and cancellation liability periods.

Receivables from insurance business in the amount of EUR 1,263,000 existed as of the balance sheet date (previous year: EUR 722,000). Receivables from policyholders were revalued by 45.9% as of the balance sheet date (previous year: 62.0%). 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.

Other receivables are primarily comprised of accounts receivable from reinsurance partners. When selecting reinsurance companies, creditworthiness is a key factor in decision-making. As of 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 – Paris, France
- Echo Rückversicherungs-AG – Zurich, Switzerland
- E+S Rückversicherung AG – Hanover, Germany
- HanseMerkur Reiseversicherung AG – Hamburg, Germany
- Helvetia Schweizerische Versicherung AG, directorate for Germany – Frankfurt am Main, Germany
- Partner Reinsurance Europe SE – Zurich, Switzerland
- SCOR Global Life Deutschland, Cologne, branch of SCOR Global Life SE – Paris, France
- VIG Re as – Prague, Czech Republic
- Swiss Re Europe S.A. – Munich, Germany

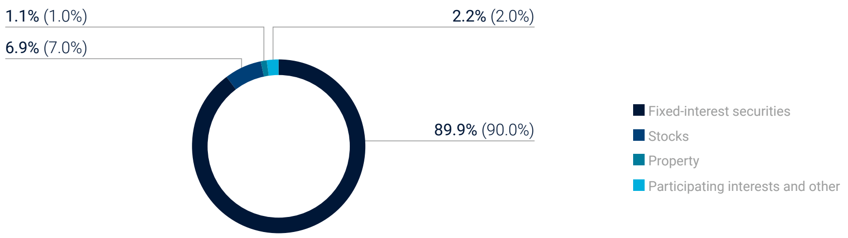
As part of the ORSA process and the regular determination of counterparty default risks, Deutsche Familienversicherung reviews the economic development of its reinsurance partners, in particular possible changes in the ratings of the above-mentioned reinsurance companies. The risk strategy of Deutsche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

3.4 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 overview shows the composition of the investment portfolio of Deutsche Familienversicherung as of 31 December 2019.

COMPOSITION OF INVESTMENTS



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). Deutsche Familienversicherung can, however, participate in positive market price developments and also sees this risk as an opportunity through active investment management.

- **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**
  This means that the company's ability to meet its payment obligations would be jeopardised by delayed inflows of liquidity.

Investment management is performed by an external funds manager; a function outsourcing agreement exists for this purpose. As of 31 December 2019, total investment assets totalled EUR 121,473,000 (previous year: EUR 90,053,000) which were, in particular, invested in the DFV Multi-Asset Fund as of the reporting date. The assets invested in the DFV Special Fund as of the end of the previous year were reinvested in the newly created DFV Multi-Asset Fund over the course of the 2019 financial year. At the end of 2018, the funds generated from the IPO in December 2018 were still largely invested in overnight and fixed-term deposits. These funds were reallocated to longer-term investments over the course of 2019 in accordance with the investment strategy of Deutsche Familienversicherung.

The investment policy of the DFV Multi-Asset 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 Multi-Asset 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 recognised ratings (investment-grade ratings from recognised 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 stipulates to the fund manager in writing fixed rules on permissible asset classes (e.g. derivatives for hedging purposes only), distribution and concentration limits as well as investment specifications. 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 as well as 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 Multi-Asset Fund, which are intended to cover the obligations from supplementary health and long-term care insurance by type of life, are monitored by an independent trustee in accordance with section 128 of the VAG.

The following overview shows the changes in the market values of the investments depending on the market interest rates and/or the relevant stock indexes:

Investment class	Assumption	Change in market value in EUR thousand
Fixed-interest securities	Interest increase of 1%	−8,345
Fixed-interest securities	Interest decrease of 1%	+1,179
Stocks	Price increase of 10%	+77
Stocks	Price decrease of 10%	−77

3.5 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 authorisation 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, the internal audit department checks systems, procedures and individual cases independently of processes.

The company continued with outsourcing of the IT infrastructure over the course of 2019. As part of an existing outsourcing of IT security, Deutsche Familienversicherung benefits from the high levels of security and functionality 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 decentralised compliance organisation. 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 organisation, 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) and 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 organisational conditions and measures for compliance with and implementation of these regulations.

Due to the nature and scope of the business, the CareFlex Chemie project offers attractive and secure income opportunities. The project also opens up opportunities for other industries, but it also involves certain risks. At present, there is still a residual risk of concluding the contracts, but this can be classified as low because the parties involved have agreed on the essential modalities and are closing in on signing the contracts.

In addition, there are also operational risks associated with a reputation risk with regard to the procedural handling of this major project, but this is also considered to be manageable due to the state of the art and the level of digitisation and automation in the company.

3.6 Liquidity risks

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

In general, a steady inflow of liquidity occurs by direct debit of the insurance premiums, which are, inter alia, allocated to the DFV Multi-Asset Fund in accordance with long-term planning to hedge underwriting liabilities. The availability of investments in the DFV Multi-Asset 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.

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

The share of reinsurers to cover the ageing provisions of health and supplementary long-term care products by type of life is made available as a deposit of Deutsche Familienversicherung. Deutsche Familienversicherung records the liability to the reinsurer as a deposit liability, which is recognised in other liabilities. Deutsche Familienversicherung significantly reduces liquidity risks from the reinsurance relationship in the segment for health and supplementary long-term care products by type of life through management of funds.

3.7 Reputation risks

Reputation risks can arise not least from negative public presentations caused by, for example, dissatisfied customers or sales partners, legal proceedings and ultimately defamation.

Deutsche Familienversicherung mitigates these risks with an adequate internal compliance management system, ongoing monitoring and active public relations work. Customer behaviour 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 to business processes. This measure is supported by online marketing, which evaluates activity on social networks using software tools.

As part of its public relations work, Deutsche Familienversicherung continuously monitors the most popular 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.

Reputational risks also include failure to comply with the required level of sustainability with regard to environmental protection, the treatment of employees and general market behaviour. Deutsche Familienversicherung will therefore formulate sustainability principles for the 2020 financial year and then, for the first time, prepare a sustainability-related income statement. In anticipation of this, the corporate and management principles were developed and implemented in 2019. Since then, managers have been guided by this and employees have an expectation of compliance.

3.8 Strategic opportunities and risks

The strategic risks result from the fact that strategically necessary objectives and measures from the corporate environment are not recognised or are recognised 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 systematised.
- 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.
- 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.

3.9 Summary of the opportunity and risk situation

The main opportunities and risks are described in the previous sections. In summary, based on the current information and the described conditions, Deutsche Familienversicherung determines that there are no present developments which would endanger the existence of the company or which would significantly hinder the asset, financial and earnings position of the company or its ability to bear risks.

4 COMPARISON OF FORECAST WITH ACTUAL RESULT FOR 2019

As expected, gross premiums written rose by 36.7% from EUR 66,522,000 to EUR 90,919,000 thanks to the significant increase in new business.

The expansion of new business was offset by an increase in operational and management costs that was lower than first planned, which resulted in underwriting income being better than expected.

Additionally, efficiency in business processes and the high level of performance of employees led to lower personnel expenses than planned.

The further fall of interest rates led to the expected pressure on the current return on investments in European bonds. On the other hand, investors responded to the considerable price drops of 2018 with increased activities on the stock market. Deutsche Familienversicherung used the market movements to make the reallocations which are necessary as part of the strategic realignment of its investments, and realised investment profits along the way.

Overall, Deutsche Familienversicherung closed with a result before taxes of EUR –5,222,000, significantly better than the expected loss before taxes of between EUR 9,000,000 and EUR 11,000,000. This is attributable to lower personnel expenses (EUR 9,500,000 instead of EUR 11,000,000), lower marketing and sales expenses (EUR 33,000,000 instead of EUR 35,000,000) and the investment result, which was some EUR 1,000,000 better than planned.

5 OUTLOOK 2020

5.1 Macroeconomic and industry-specific framework conditions

In January 2020, the German government forecast GDP growth for the German economy of 1.1% for 2020. In its forecast from the autumn, the European Commission predicted that GDP growth for the eurozone would also grow by 1.1% in 2020.

According to the Gesamtverband der Deutschen Versicherungswirtschaft e. V. (German Insurance Association – GDV), German insurers recorded an increase in premium income of 6.7% to some EUR 216 billion in the financial year. The insurance industry is cautiously optimistic about 2020. Despite the generally gloomy economic outlook, the German insurance industry expects business to remain stable, with the GDV expecting 2020 to be characterised by topics such as climate change, reform in old-age care programmes and zero-interest policies.

5.2 Company forecast

Deutsche Familienversicherung plans linear continuation of the growth begun in 2019 by once again achieving the target figure of 100,000 new policies for 2020. In light of this, high contract conclusion costs in 2020 are also expected for the 2020 financial year. For all insurance segments, Deutsche Familienversicherung expects the portfolio of policies and gross premiums earned to significantly increase again in 2020, with cancellation rates remaining constant. For the run-off business of the technical insurance division (electronics), a further scheduled decline in the existing policies is expected. Overall, an increase in gross premiums earned of 30% is planned. Additionally, over the course of 2020, Deutsche Familienversicherung will make systematic, organisational and personnel-related arrangements for the successful implementation of CareFlex – a supplementary care insurance programme for employees in the chemical industry under the collective bargaining agreements – which is planned from mid 2021 and will generate as many as 580,000 new policies in the care insurance segment. To this end, Deutsche Familienversicherung has launched an innovative applicant initiative and plans to increase staff up to 55 employees over the course of 2020. However, the costs associated with these preparations will not be offset by any premiums from the CareFlex offer in 2020, which means that the costs are expected to have a significant negative effect on income for the 2020 financial year.

The persistently low level of interest rates in European bonds in particular will also negatively affect investment income in other asset classes. The weakening of global growth, continued uncertainty about future trade relations between the United Kingdom and the European Union and still-unpredictable effects from the political objective of the carbon-neutral restructuring the European economy are likely to lead to investment income at a lower level than that of the 2019 financial year, relative to the investment portfolio. It is also not yet possible to estimate what effects the outbreak of the coronavirus will have on the overall economic situation.

Provided that the uncertain political and economic conditions described above do not lead to any extraordinary negative influences on results, Deutsche Familienversicherung expects a loss before taxes of between EUR 9,000,000 and EUR 11,000,000 for the following financial year, taking into account the planned further expansion of existing policies through new contracts and additional expenses, in particular in connection with CareFlex. Thanks to the significant growth in premiums expected for 2021 primarily driven by the new CareFlex policies, Deutsche Familienversicherung expects the preparation expenses from 2020 to be compensated for. Overall, Deutsche Familienversicherung expects results to be positive result from 2021 onwards.

6 CORPORATE GOVERNANCE REPORT ACCORDING TO SECTION 3.10 OF THE GERMAN CORPORATE GOVERNANCE CODE AND REPORT ON CORPORATE MANAGEMENT ACCORDING TO SECTIONS 315D AND 289F OF THE GERMAN COMMERCIAL CODE

6.1 Corporate governance report

Both the Executive Board and the Supervisory Board are to provide an annual corporate governance report, which is to be published together with the declaration of corporate management.

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 an executive board on the one hand and a supervisory board on the other. The executive board is responsible for the management and orientation of the company. The supervisory board is responsible for appointing and determining the remuneration of the members of the executive board, as well as advising and supervising their activities. At Deutsche Familienversicherung, both of these bodies work together in the best interest of the company on a spirit of trust.

In the 2019 financial year, the Executive Board of Deutsche Familienversicherung consisted of four members and determines the business policy and the company's strategic orientation. The Executive Board manages the company in its own responsibility, with the aim of creating sustainable value in the best interest

of the company. It is also responsible for the preparation of the annual financial statements and the consolidated financial statements. Details of the functioning of the Executive Board are included in the corporate governance report.

The Supervisory Board of the company consisted most recently of five members during the 2019 financial year. The Supervisory Board consists of members that will ensure comprehensive advice and supervision of the Executive Board. 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 may neither demand nor accept payments or other unjustified advantages from third parties in connection with their function, either for themselves or for other persons, nor must they grant unjustified advantages to third parties.

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

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

Annual General Meeting

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

The AGM is chaired by the chairperson of the Supervisory Board or another member of the Supervisory Board designated by them.

Resolutions of the AGM are passed by a simple majority of the votes cast, unless mandatory statutory provisions or the company's articles of association prescribe a higher majority.

Accounting and audit

Accounting for the consolidated financial statements at Deutsche Familienversicherung including its subsidiaries (DFV Group) is carried out in accordance with section 315e of the German Commercial Code (HGB) and based on the International Financial Reporting Standards (IFRS) 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 as well as and open communication have 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 the confidence of investors and the general public.

Whenever it publishes new information, the Executive Board therefore 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 statements and other financial reports. Members of the Executive Board also communicate financial information with relevant market participants at both domestic and international conferences and roadshows.

The Executive Board has committed itself to reporting to employees once a quarter on the business results as well as on the challenges that lie ahead.

6.2 Report on corporate management

Listed corporations are required to include a declaration of their corporate management in their management report.

Declaration on the German Corporate Governance Code pursuant to section 161 of the 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 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 is being complied with or which recommendations are not being applied and why not.

In March 2020, the Executive Board and Supervisory Board of Deutsche Familienversicherung issued the following statement on the German Corporate Governance Code in accordance with section 161 of the AktG:

‘Declarations of compliance with the German Corporate Governance Code

Pursuant to section 161, paragraph 1, of the 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, paragraph 2 (2)
The Code recommends that the monetary remuneration components of executive board salaries include both fixed and variable components.

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

Clause 4.2.3, paragraph 4 (1)
The Code recommends that payments to a member of the executive board in the event of premature termination of their contract, including fringe benefits, be limited to the value of two years’ remuneration.

The contract of the chairperson of the Executive Board, as founder and majority shareholder of the company, is excluded from this regulation.

Clause 5.3.1 (1)
The Code recommends that the supervisory board 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 committees from five Supervisory Board members represents an organisational effort that is unreasonable for the company in consideration of proportionality.

Clause 5.3.2, paragraph 1 (1)
The Code recommends that the supervisory board establish an audit committee.

The company is of the opinion that the formation of such a committee represents an unreasonable organisational effort for the company in light of proportionality.

Clause 5.3.3
The Code recommends that the supervisory board establish a nomination committee.

The company is of the opinion that the formation of such a committee represents an unreasonable organisational effort for the company in light of proportionality.

Frankfurt am Main, March 2020

Executive Board Supervisory Board'

Corporate governance 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: risk management, compliance, actuarial mathematics and internal audit. 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 organisation.

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 embodied by the company.

The compliance management system of Deutsche Familienversicherung is responsible for the 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 compliance key 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 articles of association 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 in 2019 were 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, Operations
- Claim/Payment, IT, IT Security, Digital Transformation

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

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

Minutes are to 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 company 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 and 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 chairperson 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 email 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 are passed by a simple majority of the votes cast.

The activities of the Supervisory Board for the 2019 financial year are described in more detail in the report of the Supervisory Board.

Compliance with section 76 (4) and section 111 (5) of the AktG

According to section 76, paragraph 4, and section 111, paragraph 5, of the 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 target of 0% for women for both the Supervisory and Executive Board to be achieved by 31 August 2023.

The Executive Board has set a target of 50% of women in the top two management tiers below the Executive Board to be achieved by 31 March 2024.

Diversity policy for the Executive Board and Supervisory Board

Deutsche Familienversicherung has no separate diversity policy with regard to the composition of either the 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' qualifications and competence. Other factors, such as gender, race, age, colour, religion, marital status, sexual orientation and origin, are of no relevance.

7 ANNEX TO THE MANAGEMENT REPORT

List of insurance classes and insurance segments operated during the financial 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

Damage 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
— Electronics insurance	17
— Other property insurance	28
— Other damage insurance	29
— Pet health insurance	29.3.05

CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET AS OF 31 DECEMBER 2019

ASSETS

In EUR	Notes	31.12.2019	31.12.2018
A. Intangible assets			
I. Goodwill		0	0
II. Other intangible assets		8,664,778	9,204,617
Total A.	9.1	**8,664,778**	**9,204,617**
B. Rights of use pursuant to IFRS 16	9.2	**2,053,311**	**0**
C. Investments			
I. Loans receivable		0	0
II. Financial investments held for sale		121,742,488	90,053,043
III. Financial investments measured at fair value through profit or loss		0	0
IV. Other capital investments		0	0
Total C.	9.3	**121,742,488**	**90,053,043**
D. Receivables			
I. Receivables from direct insurance business			
1. From policyholders		1,227,211	538,022
2. From insurance brokers		35,386	183,906
		1,262,598	721,928
3. Other receivables		3,987,406	4,199,093
Total D.	9.4	**5,250,004**	**4,921,021**
E. Current bank balances		**3,763,249**	**9,033,485**
F. Share of reinsurers in underwriting provisions			
I. Unearned premiums	9.5.1	558,987	558,144
II. Actuarial provisions	9.5.2	37,021,379	30,487,674
III. Provisions for outstanding claims	9.5.3	2,904,870	3,970,737
IV. Other underwriting provisions		14,655	1,903
Total F.	9.5	**40,499,892**	**35,018,458**
G. Tax receivables			
I. From current taxes		0	0
II. From deferred taxes		5,873,839	2,010,171
Total G.	9.6	**5,873,839**	**2,010,171**
H. Other assets	9.7	**2,755,912**	**5,074,447**
Total assets		**190,603,473**	**155,315,242**

LIABILITIES

In EUR	Notes	31.12.2019	31.12.2018
A. Equity			
I. Share capital		26,523,240	25,507,750
II. Capital reserves		44,852,139	39,774,689
III. Loss carried forward/retained earnings		−2,870,904	467,435
IV. Other reserves			
1. Unrealised gains and losses	10.1	695,670	−770,357
2. Expenses for the procurement of equity	10.1	−2,603,404	−2,472,601
Total IV.		**−1,907,735**	**−3,242,958**
V. Consolidated net loss for the year attributable to the shareholders of the parent company		−2,100,360	−3,338,339
Total A.		**64,496,381**	**59,168,577**
B. Gross underwriting provisions			
I. Unearned premiums	10.2.1	2,965,818	2,537,001
II. Actuarial provisions	10.2.2	51,078,393	42,570,283
III. Provisions for outstanding claims	10.2.3	13,046,828	10,268,949
IV. Other underwriting provisions	10.2.4/5	1,507,888	867,942
Total B.	10.2	**68,598,927**	**56,244,175**
C. Other provisions	10.3.1	**5,433,460**	**871,556**
D. Liabilities			
I. Liabilities from direct insurance business			
1. To policyholders		237,180	195,886
2. To insurance brokers		891,643	1,416,530
		1,128,823	1,612,417
3. Other liabilities		47,118,146	36,255,074
Total D.	10.4	48,246,969	37,867,491
E. Tax liabilities			
I. From current taxes		550,510	197,820
II. From deferred taxes		3,277,226	965,622
Total E.	9.6	**3,827,737**	**1,163,442**
Total liabilities		**190,603,473**	**155,315,242**

STATEMENT OF COMPREHENSIVE INCOME

In EUR	Notes	2019	2018
I. Income statement (with effect on income)			
1. Written premiums			
a) Gross		90,919,027	66,522,190
b) Share of reinsurers		36,125,527	30,814,588
		54,793,500	**35,707,603**
2. Change in unearned premiums			
a) Gross		428,817	−1,801,024
b) Share of reinsurers		843	−1,448,667
		427,973	**−352,357**
3. Net earned premiums		**54,365,526**	**36,059,960**
4. Income from capital investments	11.2	**3,401,055**	**−2,344,840**
Of which: Income from associates		0	0
5. Other revenue	11.3	**629,608**	**1,027,729**
Total revenue		**58,396,189**	**34,742,848**
6 Claim payments to customers			
a) Gross		48,035,322	38,636,560
b) Share of reinsurers		15,084,904	18,429,581
	11.4	**32,950,418**	**20,206,979**
7. Expenses for insurance operations			
a) Gross		47,224,132	29,024,219
b) Share of reinsurers		21,838,522	14,487,040
	11.6	**25,385,610**	**14,537,179**
8. Other expenses	11.7	**5,263,494**	**4,103,110**
Total expenses		**63,599,522**	**38,847,267**
9. Operating income		**−5,203,333**	**−4,104,419**
10. Financing expenses for leases	12.7	**19,098**	**0**
11. Annual profit before taxes		**−5,222,431**	**−4,104,419**
12. Income taxes	11.8	**−3,122,071**	**−766,080**
13. Annual income		**−2,100,360**	**−3,338,339**
Of which attributable to shareholders in the parent company		−2,100,360	−3,338,339
Earnings per share	11.10	**−0.16**	**−0.36**
II. Other income (no effect on profit or loss)			
14. Unrealised gains and losses from capital investments		**1,466,027**	**−71,282**
Total other comprehensive income		**1,466,027**	**−71,282**
III. Total comprehensive income		**−634,333**	**−3,409,620**
Of which attributable to shareholders in the parent company		−634,333	−3,409,620

DEVELOPMENT OF CONSOLIDATED EQUITY

In EUR thousand	Subscribed capital	Capital reserves	Loss carried forward including net loss	Reserve from currency conversion	Reserve for unrealised gains and losses	Expenses for the procurement of equity	Consolidated equity
As of 31 December 2017	**34,110**	**3,894**	**−17,854**	**0**	**−699**	**0**	**19,451**
Change to the scope of consolidation	0	0	0	0	0	0	0
Gains and losses recognised directly in equity	0	0	0	0	−71	−2,473	−2,544
Consolidated income	0	0	−3,339	0	0	0	−3,339
Consolidated comprehensive income	**0**	**0**	**−3,339**	**0**	**−71**	**−2,473**	**−5,883**
Dividends paid	0	0	0	0	0	0	0
Capital decrease	16,202	2,119	−18,321				0
Capital increase	7,600	38,000	0	0	0	0	45,600
As of 31 December 2018	**25,508**	**39,775**	**−2,872**	**0**	**−770**	**−2,473**	**59,168**
Change to the scope of consolidation	0	0	0	0	0	0	0
Gains and losses recognised directly in equity	0	0	0	0	1,466	−130	1,336
Consolidated income	0	0	−2,100	0	0	0	−2,100
Consolidated comprehensive income	**0**	**0**	**−2,100**	**0**	**1,466**	**−130**	**−764**
Dividends paid	0	0	0	0	0	0	0
Capital decrease	0	0	0	0	0	0	0
Capital increase	1,015	5,077	0	0	0	0	6,092
As of 31 December 2019	**26,523**	**44,852**	**−4,972**	**0**	**696**	**−2,603**	**64,496**
Notes					10.1	10.1	

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

STATEMENT OF CASH FLOW

In EUR	2019	2018
1. Income for the period before extraordinary items	–2,100,360	–3,338,339
2. Change in net underwriting provisions	6,855,752	3,827,138
3. Change in deposit receivables and liabilities as well as accounts receivable and payable	10,396,029	6,108,033
4. Change in other receivables and liabilities	3,186,788	2,726,476
5. Gains and losses from the disposal of capital investments	–3,407,687	2,044,651
6. Change in other balance sheet items	1,335,223	–7,714,578
7. Other expenses and revenue recognised through profit or loss	–1,934,288	2,972,252
I. Cash flow from operating activities	**14,331,457**	**6,625,633**
8. Incoming payments for the sale and maturity of other capital investments	2,814,805	–144,772
9. Outgoing payments for the acquisition of other capital investments	–26,666,642	–46,714,732
10. Other outgoing payments	–1,158,359	–1,842,853
II. Cash flow from investing activities	**–25,010,196**	**–48,702,357**
11. Incoming payments from additions to equity	6,092,940	45,599,866
12. Repayment of lease liabilities	–684,437	0
III. Cash flow from financing activities	**5,408,503**	**45,599,866**
Change in funds for financing purposes	–5,270,236	3,523,143
Funds for financing purposes at the beginning of the period	9,033,485	5,510,342
Funds for financing purposes at the end of the period	**3,763,249**	**9,033,485**

SEGMENT REPORTING 2019

BALANCE SHEET

	Supplementary health		Damage/accident	
In EUR	**2019**	**2018**	**2019**	**2018**
A. Intangible assets				
I. Goodwill	–	–	–	–
II. Other intangible assets	7,486,219.60	7,941,940.48	1,178,558.76	1,251,986.02
Total A.	**7,486,219.60**	**7,941,940.48**	**1,178,558.76**	**1,251,986.02**
B. Rights of use	**1,919,735.78**	**0**	**133,575.12**	**0**
C. Investments				
I. Loans receivable	–	–	–	–
II. Financial investments held for sale	116,642,135.90	84,809,794.26	5,100,352.49	5,453,249.09
III. Financial investments measured at fair value through profit or loss	–	–	–	–
IV. Other capital investments	–	–	–	–
Total C.	**116,642,135.90**	**84,809,794.26**	**5,100,352.49**	**5,453,249.09**
D. Receivables				
I. Receivables from direct insurance business				
1. From policyholders	632,072.53	242,064.07	595,138.68	295,958.16
2. From insurance brokers	28,309.08	174,007.46	7,077.27	7,177.02
	660,381.61	416,071.53	602,215.95	303,135.18
3. Other receivables	3,728,011.17	3,567,108.86	259,394.83	667,322.39
Total D.	**4,388,392.78**	**3,983,180.40**	**861,610.78**	**970,457.57**
E. Share of reinsurers in underwriting provisions				
I. Unearned premiums	387,859.27	347,950.44	171,127.73	210,193.56
II. Actuarial provisions	37,021,379.00	30,487,673.56	–	–
III. Provisions for outstanding claims	1,729,274.53	2,341,359.31	1,175,595.92	1,629,377.95
IV. Other underwriting provisions	13,701.64	1,810.27	953.36	91.89
Total E.	**39,152,214.44**	**33,178,793.58**	**1,347,677.01**	**1,839,663.40**
F. Other segment assets	**11,586,791.75**	**11,955,408.40**	**806,208.39**	**2,238,714.10**
Total segment assets	**181,175,490.26**	**141,869,117.12**	**9,427,982.55**	**11,754,070.18**

Other		Consolidation		Total	
2019	2018	2019	2018	2019	2018
	–	–	–	–	–
	10,690.00			8,664,778.36	9,204,616.50
	10,690.00	**–**	**–**	**8,664,778.36**	**9,204,616.50**
				2,053,310.90	
			–210,000.00	**121,742,488.39**	**90,053,043.35**
–	–	–		–	–
–	–				
–	–	–	–	–	–
–	–	–	–	–	–
–	**–**		**–210,000.00**	**121,742,488.39**	**90,053,043.35**
–	–	–	–	1,227,211.21	538,022.23
–	2,721.24	–	–	35,386.35	183,905.72
–	2,721.24	–	–	1,262,597.56	721,927.95
–	1,074,022.81		–1,109,360.72	3,987,406.00	4,199,093.34
–	**1,076,744.05**		**–1,109,360.72**	**5,250,003.56**	**4,921,021.29**
–	–	–	–	558,987.00	558,144.00
–	–	–	–	37,021,379.00	30,487,673.56
–	–	–	–	2,904,870.45	3,970,737.26
–	–	–	–	14,655.00	1,902.16
–	**–**	**–**	**–**	**40,499,891.45**	**35,018,456.98**
	1,923,980.61	**–**	**–**	**12,393,000.14**	**16,118,103.12**
	3,011,414.66	**–**	**–1,319,360.72**	**190,603,472.80**	**155,315,241.24**

SEGMENT REPORTING 2019

	Supplementary health		Damage/accident	
In EUR	**2019**	**2018**	**2019**	**2018**
A. Gross underwriting provisions				
I. Unearned premiums	1,842,052.97	1,306,202.60	1,123,765.14	1,230,798.77
II. Actuarial provisions	51,078,393.16	42,570,283.27	–	–
III. Provisions for outstanding claims	7,963,400.04	5,567,597.84	5,083,427.48	4,701,351.14
IV. Other underwriting provisions	1,497,895.97	865,134.15	9,992.03	2,807.54
Total A.	**62,381,742.14**	**50,309,217.86**	**6,217,184.65**	**5,934,957.45**
B. Other provisions	**5,079,994.25**	**457,662.95**	**353,465.75**	**97,890.01**
C. Other segment liabilities	**51,456,229.65**	**36,490,482.05**	**618,476.01**	**1,161,597.39**
Total segment liabilities	**118,917,966.04**	**87,257,362.85**	**7,189,126.41**	**7,194,444.84**

INCOME STATEMENT

	Supplementary health		Damage/accident	
In EUR	**2019**	**2018**	**2019**	**2018**
1. Written premiums from insurance business	85,004,423.08	61,951,558.85	5,914,603.52	4,570,631.48
2. Net earned premiums	49,373,849.06	30,480,812.52	5,009,242.90	5,579,146.99
3. Income from capital investments	3,258,569.04	−1,793,251.51	142,485.82	−231,514.21
4. Other revenue	620,069.65	432,701.75	9,535.27	79,200.86
Total revenue	**53,234,922.22**	**29,120,262.76**	**5,161,266.96**	**5,426,833.64**
5. Claim payments to customers	30,446,913.92	17,927,804.04	2,503,503.91	2,279,174.85
6 Expenses for insurance operations	22,193,199.45	13,277,710.28	3,192,410.55	1,271,052.41
7. Other expenses	4,778,515.01	3,392,219.63	484,978.61	511,705.80
Total expenses	**57,418,628.37**	**34,597,733.95**	**6,180,893.07**	**4,061,933.06**
8. Operating income	−4,183,706.70	−5,477,471.19	−1,019,626.11	1,364,900.58
9. Financing expenses for leases	17,338.84	–	1,759.12	–
10. Annual profit before taxes	−4,201,044.97	−5,477,471.19	−1,021,385.80	1,364,900.58
11. Income taxes	−2,511,466.29	−1,022,854.30	−610,604.27	254,879.38
12. Annual income	−1,689,578.67	−4,454,616.89	−410,781.53	1,110,021.21

ADDITIONAL INFORMATION

	Supplementary health		Damage/accident	
In EUR	**2019**	**2018**	**2019**	**2018**
Interest revenue	3,164.69	4,649.73	321.19	851.08
Interest expenses	834,162.66	506,108.52	231.62	92,637.09
Scheduled depreciation and amortisation	2,190,113.18	1,554,868.50	305,521.51	284,600.02
Significant non-cash revenue (+) and expenses (−)*	–	−2,106,268.75	–	−272,466.53

* Excluding scheduled depreciation and amortisation.

	Other		Consolidation		Total	
	2019	2018	2019	2018	2019	2018
	–	–	–	–	2,965,818.11	2,537,001.37
	–	–	–	–	51,078,393.16	42,570,283.27
	–	–	–	–	13,046,827.52	10,268,948.98
			–	–	1,507,888.00	867,941.69
	–	**–**	**–**	**–**	**68,598,926.79**	**56,244,175.31**
	–	**316,003.34**	**–**	**–**	**5,433,460.00**	**871,556.29**
	–	**2,488,213.48**	**–**	**–1,109,360.72**	**52,074,705.66**	**39,030,932.19**
			–			
	–	**2,804,216.82**	**–**	**–1,109,360.72**	**126,107,092.45**	**96,146,663.80**

	Other		Consolidation		Total	
	2019	2018	2019	2018	2019	2018
	–		–	–	90,919,026.60	66,522,190.33
	–		–	–	54,365,526.32	36,059,959.51
	–		–	–320,074.32	3,401,054.86	–2,344,840.04
	–	15,023,029.69	–	–14,507,203.46	629,608.00	1,027,728.84
	–	**15,023,029.69**	**–**	**–14,827,277.78**	**58,396,189.18**	**34,742,848.31**
	–	–	–	–	32,950,417.83	20,206,978.89
	–	13,493,918.96	–	–13,505,502.78	25,385,610.00	14,537,178.87
	–	1,520,959.20	–	–1,321,775.00	5,263,493.62	4,103,109.63
	–	**15,014,878.16**	**–**	**–14,827,277.78**	**63,599,522.00**	**38,847,267.39**
	–	8,151.53	–	–	–5,203,332.81	–4,104,419.08
	–	–	–	–	19,097.95	–
	–	8,151.53	–	–	–5,222,430.76	–4,104,419.08
	–	1,894.46	–		–3,122,070.56	–766,080.47
	–	6,257.07	–	–	–2,100,360.20	–3,338,338.61

	Other		Consolidation		Total	
	2019	2018	2019	2018	2019	2018
					3,485.88	5,500.81
					834,394.28	598,745.61
					2,495,634.69	1,811,196.00
					–	–2,378,735.28

CONSOLIDATED NOTES

1 PRINCIPLES OF PREPARATION AND LEGAL PROVISIONS

1.1 General information

The consolidated financial statements of Deutsche Familienversicherung 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 19 July 2002 and section 315e, paragraph 3, of the German Commercial Code (HGB). The consolidated financial statements comply with all IFRS and applicable International Accounting Standards (IAS) valid in the European Union (EU) in the 2019 financial year and the corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretation Committee (SIC). The new standards, amendments to existing standards and interpretations that came into force in 2019 but were not mandatory for the 2019 financial year were not applied early.

Uniform accounting and valuation methods were applied to the reporting and comparative periods, unless prospective method changes were expressly permitted for the year under review. The consolidated financial statements were prepared under the assumption of a going concern. The reporting currency is the euro. The consolidated financial statements are presented in whole euros, which could result in rounding differences.

IFRS 4 (Insurance Contracts), which is currently still applicable for insurance companies, permits the accounting and valuation of underwriting items during a transitional phase, phase I, in accordance with IFRS 4.13, in principle in accordance with the accounting rules applied prior to the introduction of IFRS. Accordingly, Deutsche Familienversicherung AG, in accordance with IFRS 4.25, has applied the national accounting standards applicable to insurance contracts under the German Commercial Code (HGB) and other additional national accounting standards for 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
- Electronics insurance

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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
  - Supplementary insurance for inpatient treatment
  - Daily hospital insurance

- **Supplementary health insurance, underwritten according to the type of damage insurance**
  - Supplementary dental insurance for dentures and tooth preservation
  - Supplementary 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 to assume 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 16 – Leases

On 13 January 2016, the IASB published IFRS 16 (Leases), which must be applied from 1 January 2019 onward. Deutsche Familienversicherung has applied the new standard according to the modified retrospective approach. To date, Deutsche Familienversicherung has only entered into operating leases for movable assets such as IT and office equipment. Until now, the payment obligations for operating leases only had to be disclosed in the notes. Beginning this financial year, however, the rights and obligations resulting from these leases must be recognised as assets (right of use for the leased asset) and liabilities (lease liabilities) in the balance sheet. Exceptions to this are short-term leases with terms of up to 12 months and leases for low-value assets. The new regulations result in a slight increase in the balance sheet total, measured by total assets, at the time of initial application.

Depreciation on the right of use and interest expenses for leasing liabilities are reported in the income statement.

Interest payments are reported under cash flow from operating activities in the statement of cash flow, while principal payments are allocated to cash flow from financing activities.

The transitional provisions contain instances of relief to the effect that a so-called simplified procedure – which does not include full retrospective accounting – can be applied for the first-time application of IFRS 16. An adjustment of the previous year's figures is not be necessary if the simplified procedure is applied. If the simplified procedure is applied, existing policies do not have to be fully reassessed retroactively.

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IFRIC 23 – Uncertainty over Income Tax Treatments

The interpretation was published in June 2017 and must be applied to the recognition of income taxes in accordance with IAS 12 if there are uncertainties regarding the treatment of income taxes. It does not apply to taxes or duties that do not fall within the scope of IAS 12, and does not contain provisions on interest and late-payment penalties associated with uncertain tax treatment. The interpretation requires an entity to decide whether it should assess uncertain tax treatments individually. In addition, assumptions must be made with regard to the review of tax treatments by the tax authorities. In addition, the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates are issues of interpretation, as are the consideration of changes in facts and circumstances.

Entities must determine whether to assess each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach chosen should be that which allows the best prediction of the resolution of the uncertainty. The interpretation is effective for reporting periods beginning on or after 1 January 2019; however, certain instances of transitional relief may be used.

The changes have no effects on the consolidated financial statements.

IAS 19 – Employee Benefits

The IASB issued the amendments in February 2018, addressing one of the two issues relating to IAS 19 that were filed with the IFRS Interpretations Committee and published as a joint draft in June 2015. The following modifications to plan amendments, curtailments or settlements (amendments to IAS 19) were adopted:

- It is mandatory that, in the event of an amendment, curtailment or settlement of a defined benefit plan, the current service cost and the net interest for the remainder of the financial year be recalculated using the current actuarial assumptions used for the required revaluation of the net liability (asset).
- Furthermore, additions have been made to clarify how a plan amendment, curtailment or settlement affects the requirements for asset value ceilings.

An entity is to apply the changes to plan amendments, curtailments or settlements that begin on or after 1 January 2019. Early adoption is permitted but should be disclosed. The changes relate to future plan amendments, curtailments or settlements.

None of these issues is currently relevant to Deutsche Familienversicherung, so that no effects can be determined.

IAS 28 – Investments in Associates and Joint Ventures

These changes were published in October 2017 and 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 to be applied subsequently. The amendments must be applied retrospectively for financial years beginning on or after 1 January 2019. Early application is permitted. The transitional provisions provide for some instances of transitional relief. There are no effects for the Deutsche Familienversicherung.

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Improvements to IFRS (2015–2017)

The improvements to IFRS for 2015 to 2017 are an omnibus standard issued in December 2017 that addresses amendments to various IFRS that are effective for annual periods beginning on or after 1 January 2019. The improvements to IFRS contain the following changes:

- IAS 12: Clarification regarding the recognition of income tax consequences of financial instruments reported under equity: Tax effects on dividends should be recognised when liabilities for taxes are recognised. The reporting of corporate taxes on dividends is based on the (generally recognised through profit or loss) origination of past transactions that are 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: From the point in time when an asset is completed or procured for which borrowed capital has been raised and not fully utilised, these borrowing costs are included in the interest rate for general borrowing for other qualifying assets for which no specific borrowing has been raised.
- 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. In the latter case, it is treated as a successive business combination with a revaluation of the shares previously held.

The changes have no effects on the consolidated financial statements of Deutsche Familienversicherung.

IFRS 9 – Financial Instruments

These amendments were published in October 2017 and take into account the classification requirements of IFRS 9 for financial assets with negative settlement payments in the event of early repayment. According to the clarification, such assets meet the cash flow conditions. Subject to the EU endorsement still outstanding, the amendments must be applied retrospectively for financial years beginning on or after 1 January 2019. Early application is permitted. The transitional provisions allow certain instances of transitional relief. Due to the following explanations regarding IFRS 17, this regulation has no effect within the DFV Group.

1.4 Significant new IFRS standards to be applied by Deutsche Familienversicherung 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 ten years.

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

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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 are generally to 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 three-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 recognised as the contractual service margin (CSM). Negative margins must be recognised 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 three-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 three-block approach. However, the simplified approach does not apply to contracts for which the PAA is not a reasonable estimate for the three-block approach. These include unprofitable contracts as well as contracts that contain embedded options or guarantees or that 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 three-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.
- A significant portion of the insurer's cash flows to the policyholder fluctuates with the development of the underlying values.

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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 of 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 recognised 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 recognised 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 recognised 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 Deutsche Familienversicherung, which also represents a paradigm shift from the accounting method previously used for insurance contracts. In the future, all incoming and outgoing payments from an insurance contract have to be estimated and mapped at the beginning of the contract. Misjudgements in regard to cash flows result in increased volatility of profit and loss. 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 sub-ledger 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 reorganisation of processes for the preparation of future consolidated financial statements of Deutsche Familienversicherung. 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.

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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.

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 not introduce IFRS 9 until the first-time application of IFRS 17. Deutsche Familienversicherung will introduce IFRS 9 together with IFRS 17. Due to the delay in introducing IFRS 17, the timing of the implementation of IFRS has also been delayed.

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 reorganisation of IFRS accounting for insurance companies, which will lead to a completely new picture of the consolidated financial statements under IFRS. However, many specific questions regarding the introduction of IFRS 17 remain unanswered. The answers to these questions over time will have additional consequences that are not yet foreseeable.

Deutsche Familienversicherung has initiated and/or carried out the following measures for the implementation of IFRS 17 and IFRS 9:

- Basic IFRS training
- Workshop on the future system architecture with external consultants
- Evaluation of tools for the calculation of cash flows

1.5 Other changes for which the EU endorsement process has 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 sharpen the concept of materiality and, in particular, to facilitate the assessment of materiality for users of IFRS. In addition, the amendments ensure that the definition of materiality is uniform in the IFRS rules and regulations.

IFRS 3 – Business Combinations

Clarification of the business definition in IFRS 3 Appendix B5 ff. The amendment provides guidance 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 capitalisation of goodwill.

2 ADJUSTMENT OF THE MEASUREMENT AND REPORTING

No measurement adjustments were made in the reporting year.

Unlike in the previous year, expenses for the procurement of equity are no longer reported in other income as part of the statement of comprehensive income.

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

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 recognised 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 derecognised when risks and rewards transfer to third parties or when power of disposition is lost.

Liabilities are recognised 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 derecognised 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:

- Amortised acquisition costs
- Fair values

These valuation bases are often combined with other valuation bases, for example when determining present values and net realisable 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 input parameters used.

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

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 realisable 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, 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 recognised 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 is immediately recognised 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. Alternatively, 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 of capital investments are reported under depreciation and amortisation and impairments of capital investments, while allowances on other intangible assets, other receivables and other assets are included in operating expenses, claims and insurance benefits expenses, investment expenses and other expenses by function. Impairment losses are recognised directly by reducing the carrying amounts of the assets.

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

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

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

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 entities 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 31 December of each calendar year.

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

Inter-company 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 Deutsche Familienversicherung 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 recognised 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 financial 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 capitalised as goodwill. Differences on the liabilities side are immediately recognised through profit or loss after the carrying amounts have been reassessed.

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

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 derecognised at their carrying amounts, the carrying amount of all non-controlling interests in the former subsidiary is derecognised and the fair value of the received consideration is recognised. The shares held in the former subsidiary are recognised at fair value and any resulting difference is recognised as a profit or loss in the consolidated income statement. Amounts recognised in other comprehensive income directly in equity in prior periods associated with this subsidiary are transferred to the consolidated income statement or, if required by other standards, directly to retained earnings.

7.2 Group reporting entity

Deutsche Familienversicherung 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 all subsidiaries in addition to DFV Versicherung AG as the parent company. 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.

The DFV Group consists of five (previous year: five) consolidated companies. This includes, in addition to the parent company and the three subsidiaries, one special fund (DFV Multi-Asset Fund, 100% share).

There are no joint ventures or associated companies.

LIST OF CONSOLIDATED SUBSIDIARIES

Company	Registered office	Investment carrying amount	Investment quota	Subscribed capital	Equity	Last year's result
		In EUR thousand	In %	In EUR thousand	In EUR thousand	In EUR thousand
DFVS Deutsche Familienversicherung Servicegesellschaft mbH	Frankfurt am Main	25.0	100.00	25.0	305.2	265.1
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	27.9	4.8

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

8 ACCOUNTING AND VALUATION METHODS

8.1 Intangible assets

Other intangible assets

Other intangible assets include purchased software. Purchased software is recognised at amortised acquisition costs 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 amortisation and impairment losses. The additions and disposals of the financial year to other intangible assets with limited useful lives are generally amortised pro rata temporis.

8.2 Investments

Financial instruments

Financial instruments are currently held exclusively in the category 'available for sale' and are reported pursuant to IAS 39. Financial instruments are initially recognised 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 the sales price (i.e. 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). 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 calculation parameters used are presented below.

The category 'financial instruments available for sale' is a residual and 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 amortised acquisition cost are recognised directly in equity.

An impairment loss is recognised through profit or loss if the fair value of equity instruments in an active market is below acquisition cost for more than nine months or more than 30% on the balance sheet date. Appreciations through profit or loss of equity instruments are not permitted. Reversals of impairment losses are recognised 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 recognised directly in equity are realised upon sale.

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

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 receivables, receivables from direct insurance business (DIB) and accounts receivable from reinsurance business and are reported at nominal value less payments made. A standardised specific allowance based on past experience 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. Derecognition through profit and loss is generally only made in case of insolvency. No further allowances are made based on past experience, even with regard to essential items.

In the DFV Group, allowances are made through profit and loss and reduce the premium income and the carrying amount 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 recognised 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 recognised through profit or loss, the deferred taxes are recognised through profit or loss; if they are recognised in directly equity, the related deferred taxes are also recognised directly in equity. In addition, deferred tax assets are formed for unused tax losses carried forward 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 as of the balance sheet date are taken into consideration. If a realisation of the respective deferred tax refund claim is not likely, an allowance is made for the deferred tax asset.

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

8.7 Other assets

Other assets include operating and office equipment, accruals and deferrals and other assets.

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

The company makes use of the option to immediately write off independently usable assets with acquisition costs of less than EUR 800 plus value added tax.

Accruals and deferrals are reported pro rata temporis at nominal value.

8.8 Equity

Consolidated equity

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

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

Loss carried forward/retained earnings
The loss carried forward contains the previous year's cumulative non-settled results of the Group.

Reserve for unrealised gains and losses
Unrealised gains and losses in the reserve include unrealised 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
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 in this regard.

8.9 Underwriting provisions (gross)

8.9.1 Actuarial provisions
For health insurance business by type of 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 German Calculation Regulation (KVAV)[1] are strictly observed. 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).

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

Statistics on the course of claims and cancellation behaviour are drawn from existing data as far as possible. If the internal data is not sufficient to produce its own statistics, external statistics from BaFin, the private health insurance association (PKV) or other appropriate data sources are used. The calculations are also based on the current mortality tables of the PKV.

For tariffs which are calculated according to the type of life, a provision for future policy benefits (ageing provision) is formed with part of the premiums received and is used to finance increased claims payments that exceed the calculated risk premium at the age of the policyholders. This actuarial provision 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 premium refunds

Non-profit-related provision for premium refunds

In accordance with legal and supervisory provisions, Deutsche Familienversicherung maintains a non-profit-related provision for premium refunds. This provision is comprised of the following amounts:

- The portion of excess interest earned in accordance with section 150, paragraph 4, of the VAG for the entire health insurance business by type of life
- The excess premium payments earned for a part of the employer-funded obligatory daily long-term care insurance

Profit-related provision for premium refunds

For health insurance business conducted by type of life, policyholders are entitled to underwriting 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 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 Provision for outstanding claims

The provision for outstanding claims represents benefit obligations from claims for which the amount and/or time of payment cannot yet be reliably determined. The provision 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 provision 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 (incurred but not reported) provision 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 as of the balance sheet date are assessed with a lump sum. The provision for outstanding claims is not discounted. The provisions for claims settlement expenses also included in this item are determined using a lump-sum method. The share of reinsurers in the provision is determined pursuant to the reinsurance contracts.

In the segments for legal expenses insurance and residential building insurance, provisions are formed for already-reported claims by external service providers.

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

8.10 Other provisions

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 recognised and measured in consideration of all identifiable risks in the amount of the expected settlement amount, insofar 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 recognised 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 recognised through profit or loss, the deferred taxes are recognised through profit or loss; if they are recognised in directly equity, the related deferred taxes are also recognised directly in equity.

8.13 Gross premiums written

Gross premiums written are premiums and premium rates due in the financial year for direct insurance business.

8.14 Earned premiums (net)

Earned premiums (net) correspond to gross premiums written less 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 cover.

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

8.15 Investment income and expenses

Investment income and expenses include current income, revenue from appreciations, gains from changes in fair value and gains from the disposal of capital investments. Current income mainly includes interest income from fixed-interest securities and dividend income. The inflow principle applies to dividends; interest income is recognised on an accrual basis.

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

8.16 Expenses for insurance operations (net)

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

8.17 Insurance benefits (net)

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

8.18 Leases

From the 2019 financial year, the new standard IFRS 16 is to be applied, which is relevant for reporting leases. Deutsche Familienversicherung AG applied this standard for the first time in 2019 according to the modified retrospective approach. An adjustment of the previous year's figures is not necessary.

Previously, all leases had been classified as operating leases pursuant to IAS 17, which were merely reported as other financial obligations in the notes.

Deutsche Familienversicherung AG makes use of the relief in practice pursuant to IFRS 16.5 and does not recognise any leases with a basic term of less than one year. Nor are low-value assets recognised in accordance with the provisions of IFRS 16.

Accordingly, only the rented office building is presented on the balance sheet in the 2019 financial year.

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

9 NOTES TO THE CONSOLIDATED BALANCE SHEET – ASSETS

9.1 Development of other intangible assets

DEVELOPMENT OF OTHER INTANGIBLE ASSETS

In EUR thousand	Purchased software (2019)	Other intangible assets (2019)	Total (2019)	Purchased software (2018)	Other intangible assets (2018)	Total (2018)
Gross carrying amount as of 1 January	**12,449**	**2,330**	**14,779**	**12,151**	**1,222**	**13,373**
Cumulative depreciation as of 1 January	4,602	972	5,574	3,417	636	4,053
Balance sheet value as of 1 January	**7,847**	**1,358**	**9,205**	**8,734**	**586**	**9,320**
Additions	176	918	1,094	310	1,108	1,418
Disposals of gross carrying amounts	0	0	0	–12	0	–12
Depreciation and amortisation	921	713	1,634	1,185	336	1,521
Disposals of depreciation and amortisation	0	0	0	0	0	0
Balance sheet value as of 31 December	**7,102**	**1,563**	**8,665**	**7,847**	**1,358**	**9,205**
Cumulative depreciation as of 31 December	5,523	1,685	7,208	4,602	972	5,574
Gross carrying amount as of 31 December	**12,625**	**3,248**	**15,873**	**12,449**	**2,330**	**14,779**

9.2 Rights of use

RIGHTS OF USE

In EUR	2019
Additions (first-time application of IFRS 16)	2,737,748
Carrying amount as of 31 December 2019	**2,053,311**

Due to the relief relating to the simplified procedure contained in the transitional provisions of IFRS 16, which does not include full retrospective accounting, the previous year's figures and the disclosures in the notes have not been adjusted.

With the addition of rights of use as of 1 January 2019, other liabilities in the same amount were formed. As of 31 December 2019, other liabilities from the application of IFRS 16 amounted to EUR 2,061,000 and are contained in the other provisions. The weighted average value of the marginal interest rate for discounting the lease liability was 1.1%.

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

9.3 Financial instruments – available for sale

FINANCIAL INSTRUMENTS – AVAILABLE FOR SALE

In EUR thousand	31.12.2019	31.12.2018
Stocks	2,250	8,342
Investment shares	9,767	0
Bonds	109,325	25,311
	121,342	**33,653**
Fixed-term deposits	400	56,400
Total	**121,742**	**90,053**

Securities lending
No securities were lent as of the reporting date.

9.4 Receivables

RECEIVABLES

In EUR thousand	31.12.2019	31.12.2018
Receivables from direct insurance business	1,262	722
Of which from policyholders	1,227	538
Of which from insurance brokers	35	184
Accounts receivable from reinsurance business	3,297	3,506
Receivables from insurance business	**4,559**	**4,228**
Receivables from long-term care insurance allowance	476	575
Other receivables	215	118
Total	**5,250**	**4,921**

9.5 Shares of reinsurers in underwriting provisions

SHARE OF REINSURERS IN UNDERWRITING PROVISIONS

In EUR thousand	31.12.2019	31.12.2018
Unearned premiums	559	558
Actuarial provisions	37,021	30,488
Provision for outstanding claims	2,905	3,970
Other underwriting provisions	15	2
Total	**40,500**	**35,018**

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

9.5.1 Shares of reinsurers in the development of unearned premiums

SHARES OF REINSURERS IN THE DEVELOPMENT OF UNEARNED PREMIUMS

In EUR thousand	2019	2018
As of 1 January	**558**	**2,007**
Additions	559	558
Reversal/utilisation	558	2,007
As of 31 December	**559**	**558**

9.5.2 Shares of reinsurers in the development of actuarial provisions

SHARE OF REINSURERS IN THE DEVELOPMENT OF ACTUARIAL PROVISIONS

In EUR thousand	31.12.2019	31.12.2018
Actuarial provisions for previous year	**30,488**	**22,030**
Addition	8,522	8,733
Reversal	1,989	275
Actuarial provisions for financial year	**37,021**	**30,488**

9.5.3 Shares of reinsurers in the development of the provision for outstanding claims

SHARES OF REINSURERS IN THE DEVELOPMENT OF THE PROVISION FOR OUTSTANDING CLAIMS

In EUR thousand	31.12.2019	31.12.2018
As of 31 December of the previous year/1 January of the financial year	**3,971**	**5,375**
Claims expenses		
For the financial year	9,619	10,062
For previous years	–1,080	–91
Total	**8,539**	**9,971**
Less payments		
For the financial year	7,804	7,691
For previous years	1,801	3,685
Total	**9,605**	**11,375**
As of 31 December	**2,905**	**3,971**

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

9.6 Deferred taxes

DEFERRED TAX ASSETS

In EUR thousand	Total deferred tax assets	Of which directly in equity	Of which through profit or loss	Total deferred tax assets	Of which directly in equity	Of which through profit or loss
		31.12.2019			31.12.2018	
Intangible assets	0	0	0	0	0	0
Investments						
Financial instruments	0	0	0	151	145	6
Derivative financial instruments	0	0	0	0	0	0
Underwriting provisions	127	0	127	34	0	34
Other	1,658	0	1,658	0	0	0
Income tax loss carried forward	4,089	0	4,089	1,825	0	1,045
	5,874	**0**	**5,874**	**2,010**	**145**	**1,085**

DEFERRED TAX LIABILITIES

In EUR thousand	Total deferred tax liabilities	Of which directly in equity	Of which through profit or loss	Total deferred tax liabilities	Of which directly in equity	Of which through profit or loss
		31.12.2019			31.12.2018	
Intangible assets	734	0	734	801	0	801
Investments						
Financial instruments	1,953	1,953	0	0	0	0
Derivative financial instruments	0	0	0	64	0	64
Underwriting provisions	0	0	0	0	0	0
Other	590	0	590	101	0	101
	3,277	**1,953**	**1,324**	**966**	**0**	**966**

9.7 Other assets

OTHER ASSETS

In EUR thousand	31.12.2019	31.12.2018
Operating and office equipment	530	677
Accruals and deferrals	409	350
Tax prepayments	356	1,961
Other assets	1,461	2,086
Total	**2,756**	**5,074**

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

9.8 Development of operating and office equipment

DEVELOPMENT OF OPERATING AND OFFICE EQUIPMENT

In EUR thousand	2019	2018
Gross carrying amount as 1 January	**2,206**	**1,791**
Cumulative depreciation as of 1 January	1,530	1,225
Balance sheet value as of 1 January	**677**	**565**
Additions	65	416
Disposals of gross carrying amounts	0	0
Depreciation and amortisation	212	304
Disposals of depreciation and amortisation	0	0
Balance sheet value as of 31 December	**530**	**677**
Cumulative depreciation as of 31 December	1,742	1,530
Gross carrying amount as of 31 December	**2,271**	**2,206**

10 NOTES TO THE CONSOLIDATED BALANCE SHEET – LIABILITIES

10.1 Equity

Other reserves

UNREALISED GAINS AND LOSSES

In EUR thousand	01.01.2019	Change	31.12.2019
Investments	−915	3,564	2,649
Deferred taxes	145	−2,098	−1,953
	−770	**1,466**	**696**

UNREALISED GAINS AND LOSSES

In EUR thousand	01.01.2018	Change	31.12.2018
Investments	−840	−75	−915
Deferred taxes	141	4	145
	−699	**−71**	**−770**

EXPENSES FOR THE PROCUREMENT OF EQUITY

In EUR thousand	01.01.2019	Change	31.12.2019
Investments	−3,636	−193	−3,829
Deferred taxes	1,164	62	1,226
	−2,472	**−131**	**−2,603**

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

EXPENSES FOR THE PROCUREMENT OF EQUITY

In EUR thousand	01.01.2018	Change	31.12.2018
Investments	0	−3,636	−3,636
Deferred taxes	0	1,164	1,164
	0	**−2,472**	**−2,472**

10.2 Underwriting provisions (gross)

UNDERWRITING PROVISIONS (GROSS)

In EUR thousand	31.12.2019	31.12.2018
Unearned premiums	2,966	2,537
Actuarial provisions	51,078	42,570
Provision for outstanding claims	13,047	10,269
Provision for premium refunds	1,430	836
Other underwriting provisions	78	32
Total	**68,599**	**56,244**

10.2.1 Development of unearned premiums

DEVELOPMENT OF UNEARNED PREMIUMS

In EUR thousand	31.12.2019	31.12.2018
As of 31 December of the previous year/1 January of the financial year	**2,537**	**4,338**
Additions	2,966	2,537
Reversal/utilisation	−2,537	−4,338
As of 31 December of the financial year/previous year	**2,966**	**2,537**

10.2.2 Development of actuarial provisions

DEVELOPMENT OF ACTUARIAL PROVISIONS

In EUR thousand	31.12.2019	31.12.2018
Actuarial provisions for previous year	**42,570**	**30,941**
Addition	10,201	11,181
Reversal	2,777	386
Interest portion	1,084	833
Actuarial provisions for financial year	**51,078**	**42,570**

The interest portion is calculated using the respective discount rate from the financial year in relation to the mean value of the actuarial balance sheet provision for the previous year and the financial year.

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

10.2.3 Development of the provision for outstanding claims

DEVELOPMENT OF THE PROVISION FOR OUTSTANDING CLAIMS

In EUR thousand	2019	2018
as of 1 January	**10,269**	**10,714**
Claims expenses		
For the financial year	37,973	26,207
For previous years	388	751
Total	**38,361**	**26,958**
Less payments		
For the financial year	28,064	19,483
For previous years	7,519	7,920
Total	**35,583**	**27,403**
As of 31 December	**13,047**	**10,269**

10.2.4 Development of the provision for premium refunds

DEVELOPMENT OF THE PROVISION FOR PREMIUM REFUNDS

In EUR thousand	31.12.2019	31.12.2018
As of 31 December of the previous year/1 January of the financial year	836	812
Additions	1,120	24
Utilisation	526	0
As of 31 December of the financial year/previous year	1,430	836

10.2.5 Other underwriting provisions

OTHER UNDERWRITING PROVISIONS

In EUR thousand	31.12.2019	31.12.2018
Cancellation provision	53	7
Other underwriting provisions	25	25
Total	**78**	**32**

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

10.3 Other provisions

10.3.1 Development of other provisions

DEVELOPMENT OF OTHER PROVISIONS

In EUR thousand	2019	2018
As of 31 December of the previous year	**872**	**484**
Utilisation	835	483
Reversal	37	1
Additions	5,434	872
As of 31 December of the financial year	**5,434**	**872**

Additions to provisions include EUR 2,061,000 in lease liabilities pursuant to IFRS 16 (previous year: EUR 0).

10.3.2 Terms of other provisions

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

10.4 Liabilities

LIABILITIES

In EUR thousand	31.12.2019	31.12.2018
Liabilities from direct insurance business	1,129	1,612
Of which to policyholders	237	195
Of which to insurance brokers	892	1,417
Accounts payable from reinsurance business	127	159
Deposits retained on ceded reinsurance business	42,568	32,840
Liabilities from insurance business	**43,824**	**34,611**
Other liabilities	4,423	3,256
Total	**48,247**	**37,867**

10.4.1 Other liabilities

OTHER LIABILITIES

In EUR thousand	31.12.2019	31.12.2018
Taxes	360	264
Payroll tax	32	31
Trade liabilities	3,115	1,162
Other	916	1,799
Total	**4,423**	**3,256**

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

11 NOTES TO THE CONSOLIDATED INCOME STATEMENT

11.1 Earned premiums

With regard to premiums written, change in unearned premiums and earned premiums (each gross, re- and net), we refer you to the income statement.

11.2 Income from capital investments

INCOME FROM CAPITAL INVESTMENTS

In EUR thousand	2019	2018
Revenue from capital investments		
Current revenue from capital investments	901	522
Revenue from appreciations	0	0
Gains from changes in fair value	0	253
Gains from the disposal of capital investments	3,066	0
Total	**3,967**	**775**
Expenses for capital investments		
Expenses for the management of capital investments, other expenses	313	209
Depreciation and impairments of capital investments	0	865
Losses from changes in fair value	253	0
Losses from the disposal of capital investments	0	2,044
Total	**566**	**3,118**
Income from capital investments	**3,401**	**–2,344**

11.3 Other revenue

OTHER REVENUE

In EUR thousand	2019	2018
Other underwriting revenue	526	39
Other non-underwriting revenue	104	989
Total	**630**	**1,028**

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

11.4 Insurance benefits

INSURANCE BENEFITS

In EUR thousand	2019	2018
Payments for insurance claims		
Gross amount	35,583	27,403
Share of reinsurers	9,604	11,375
Net amount	25,979	16,027
Change in the provision for outstanding claims		
Gross amount	2,778	−445
Share of reinsurers	1,066	1,404
Net amount	3,844	959
Change in actuarial provisions		
Gross amount	8,508	11,629
Share of reinsurers	6,534	8,458
Net amount	1,974	3,171
Change in other underwriting provisions		
Gross amount	46	25
Share of reinsurers	14	0
Net amount	32	25
Expenses for premium refunds		
Gross amount	1,121	24
Share of reinsurers	0	0
Net amount	1,121	24
Total	**32,950**	**20,207**

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 provisions plus claims payments made (in each case including claims settlement)) for direct damage/accident insurance business:

PROPERTY 2019

Gross in EUR thousand	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
1	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	2,955,895
2	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	2,187,818	
3	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	8,805,652		
4	1,154,497	1,562,441	1,800,128	1,920,747	2,522,659	6,355,112	12,431,976	14,777,473	11,279,378			
5	1,105,409	1,609,993	1,397,156	2,119,935	2,678,135	6,278,786	12,431,363	14,736,006				
6	1,104,546	1,575,836	1,406,534	2,386,331	2,678,718	6,279,341	12,473,441					
7	1,123,063	1,605,113	1,395,791	2,379,763	2,675,674	6,307,965						
8	1,123,063	1,602,246	1,389,839	2,440,052	2,678,021							
9	1,123,063	1,602,246	1,389,932	2,449,307								
10	1,123,063	1,601,746	1,363,826									
11	1,123,063	1,601,746										
12	1,123,063											
Run-off profit	**86,880**	**−17,610**	**−60,626**	**−383,024**	**556,819**	**−247,229**	**−715,155**	**−323,522**	**445,196**	**417,117**	**218,461**	**0**

Net in EUR thousand	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
1	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	2,770,745
2	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	2,053,675	
3	522,346	681,352	538,340	594,131	1,966,178	4,995,109	9,072,907	7,369,049	5,193,118	3,583,506		
4	526,376	687,792	596,570	691,645	1,960,761	5,028,103	9,107,952	7,432,170	5,116,768			
5	502,491	763,444	499,048	739,013	1,998,989	5,000,262	9,103,791	7,413,313				
6	511,873	757,153	537,412	750,264	1,996,341	5,000,558	9,145,869					
7	520,351	774,845	528,538	745,441	1,994,679	5,029,182						
8	520,351	770,910	527,029	752,480	1,997,025							
9	520,351	770,910	527,059	761,735								
10	520,351	770,060	523,834									
11	520,351	770,060										
12	520,351											
Run-off profit	**−34,013**	**−104,540**	**−133,560**	**−267,574**	**262,120**	**−217,667**	**−467,990**	**−324,514**	**−8,440**	**20,580**	**200,770**	**0**

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

HEALTH INSURANCE

Gross in EUR thousand	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1	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	35,017,349
2	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	24,488,090	
3	0	214,170	1,508,026	3,649,782	5,099,164	6,487,045	10,167,826	12,550,516	16,226,707	19,328,307		
4	0	213,831	1,513,529	3,761,255	5,114,898	6,466,153	10,222,046	12,618,126	16,282,013			
5	0	213,831	1,569,215	3,765,725	5,121,749	6,500,050	10,254,318	12,625,336				
6	0	221,353	1,573,216	3,765,332	5,122,511	6,503,766	10,259,529					
7	0	221,741	1,572,750	3,768,528	5,122,800	6,503,462						
8	0	221,728	1,572,749	3,768,475	5,122,549							
9	0	221,728	1,573,012	3,768,475								
10	0	221,728	1,572,762									
11	0	221,728										
12	0											
Run-off profit	**0**	**−43,515**	**−377,245**	**−503,461**	**−674,433**	**−354,172**	**−970,073**	**124,673**	**−287,762**	**−950,471**	**−687,382**	**0**

Net in EUR thousand	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1	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	25,583,708
2	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	15,523,064	
3	0	129,670	594,272	2,074,693	2,877,765	3,516,378	6,882,622	7,828,273	9,356,490	11,500,835		
4	0	129,596	596,926	2,140,595	2,887,822	3,502,338	6,906,740	7,874,304	9,401,668			
5	0	129,596	629,763	2,143,280	2,891,591	3,516,162	6,925,319	7,880,231				
6	0	134,092	632,418	2,143,029	2,892,036	3,518,670	6,928,461					
7	0	134,331	632,104	2,144,872	2,892,205	3,518,486						
8	0	134,319	632,103	2,144,819	2,892,074							
9	0	134,319	632,233	2,144,819								
10	0	134,319	631,983									
11	0	134,319										
12	0											
Run-off profit	**0**	**−11,924**	**−245,898**	**−317,256**	**−579,398**	**−228,384**	**−748,604**	**−31,425**	**−250,242**	**−736,623**	**−1,632,790**	**0**

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

PROPERTY 2018

Gross in EUR thousand	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	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	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	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	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	1,105,409	1,609,993	1,397,156	2,119,935	2,678,135	6,278,786	12,431,363				
6	1,104,546	1,575,836	1,406,534	2,386,331	2,678,718	6,279,341					
7	1,123,063	1,605,113	1,395,791	2,379,763	2,675,674						
8	1,123,063	1,602,246	1,389,839	2,440,052							
9	1,123,063	1,602,246	1,389,932								
10	1,123,063	1,601,746									
11	1,123,063										
Run-off result	**86,880**	**−17,610**	**−86,732**	**−373,769**	**559,166**	**−218,605**	**−673,077**	**−364,988**	**310,059**	**311,947**	**0**

Net in EUR thousand	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	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	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	522,346	681,352	538,340	594,131	1,966,178	4,995,109	9,072,907	7,369,049	5,193,118		
4	526,376	687,792	596,570	691,645	1,960,761	5,028,103	9,107,952	7,432,170			
5	502,491	763,444	499,048	739,013	1,998,989	5,000,262	9,103,791				
6	511,873	757,153	537,412	750,264	1,996,341	5,000,558					
7	520,351	774,845	528,538	745,441	1,994,679						
8	520,351	770,910	527,029	752,480							
9	520,351	770,910	527,059								
10	520,351	770,060									
11	520,351										
Run-off result	**−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

Gross in EUR thousand	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	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	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	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	213,831	1,513,529	3,761,255	5,114,898	6,466,153	10,222,046	12,618,126			
5	0	213,831	1,569,215	3,765,725	5,121,749	6,500,050	10,254,318				
6	0	221,353	1,573,216	3,765,332	5,122,511	6,503,766					
7	0	221,741	1,572,750	3,768,528	5,122,800						
8	0	221,728	1,572,749	3,768,475							
9	0	221,728	1,573,012								
10	0	221,728									
11	0										
Run-off result	**0**	**−43,515**	**−377,495**	**−503,461**	**−674,683**	**−354,476**	**−964,862**	**131,883**	**−232,456**	**−872,805**	**0**

Net in EUR thousand	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	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	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	129,670	594,272	2,074,693	2,877,765	3,516,378	6,882,622	7,828,273	9,356,490		
4	0	129,596	596,926	2,140,595	2,887,822	3,502,338	6,906,740	7,874,304			
5	0	129,596	629,763	2,143,280	2,891,591	3,516,162	6,925,319				
6	0	134,092	632,418	2,143,029	2,892,036	3,518,670					
7	0	134,331	632,104	2,144,872	2,892,205						
8	0	134,319	632,103	2,144,819							
9	0	134,319	632,233								
10	0	134,319									
11	0										
Run-off result	**0**	**−11,924**	**−246,148**	**−317,256**	**−579,529**	**−228,568**	**−745,462**	**−25,497**	**−205,064**	**−679,982**	**0**

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

11.6 Expenses for insurance operations (net)

EXPENSES FOR INSURANCE OPERATIONS

In EUR thousand	2019	2018
Acquisition expenses	39,625	21,977
Administrative expenses	7,599	7,047
Of which: Share of reinsurers	21,838	14,487
Total	**25,386**	**14,537**

11.7 Other expenses

OTHER EXPENSES

In EUR thousand	2019	2018
Other underwriting expenses		
Deposit interest for reinsurance	832	596
Fire protection tax	16	0
Other underwriting expenses	0	36
	848	**632**
Other non-underwriting expenses	4,416	3,471
Of which Supervisory Board remuneration	209	177
Total	**5,264**	**4,104**

11.8 Main components of income tax expense and income

MAIN COMPONENTS OF INCOME TAX EXPENSE AND INCOME

In EUR thousand	2019	2018
Current taxes		
Reporting year	–40	2
Previous year	121	–89
	81	**–87**
Deferred taxes		
Deferred taxes on the formation or reversal of temporary differences	–3,203	–679
	–3,122	**–766**

Income taxes are comprised of current taxes from corporation tax along with solidarity surcharge and trade tax from each domestic group company. Additionally, 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 income taxes, the following reconciliation of expected income taxes to reported taxes applies:

RECONCILIATION OF EXPECTED INCOME TAXES TO REPORTED INCOME TAXES

In EUR thousand	2019	2018
Consolidated income	–2,100	–3,339
Income taxes	–3,122	–766
Results before income taxes	–5,222	–4,104
Group tax rate in %	32.00	32.00
Expected income taxes	–1,671	–1,313
Adjusted for tax effects from		
Tax-exempt income	0	0
Non-deductible expenses	0	0
Recognised losses carried forward	–2,265	–1,825
Inverse effects from the recognition of IPO expenses	130	1,164
Income taxes for other accounting periods	40	89
Allowances for deferred tax assets	0	0
Omission of deferring tax losses for the financial year	0	0
Other effects	644	25
	–1,451	**547**
Reported income taxes	–3,122	–766
Expected income taxes were determined using the group tax rate of 32% (previous year: 32%). In the reporting year, the average effective group income tax rate amounted to 59.78%, compared to 18.66% in the previous year.		
Effective group income tax rate	59.78	18.66

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 is derived as follows:

EARNINGS PER SHARE

In EUR	2019	2018
Net result for the period	**–2,100,360**	**–3,338,339**
		Number of shares
Weighted average number of ordinary shares in circulation during the period		
In place:		
Existing shareholders	12,753,875	8,953,875
Weighting		
Number of days	360	360
Weighted number	**12,753,876**	**8,953,876**
New shareholders	507,745	3,800,000
Weighting		
Number of days	304	26
Weighted number	**428,762**	**274,444**
Total	**13,182,638**	**9,228,320**
EPS in EUR	–0.16	–0.36

12 OTHER INFORMATION

12.1 Capital management under IFRS 4

Capital structure

As of 31 December 2019, the DFV Group had total equity of EUR 64,500,000 (previous year: EUR 59,200,000). With regard to the changes in equity in connection with the exercise of the overallotment option ('green shoe') in spring of 2019, we refer to the comments in the management report under section 3.2. The equity was comprised of the following components:

Subscribed capital amounted to EUR 26,500,000 (previous year: EUR 25,500,00) and the capital reserve EUR 44,900,000 (previous year: EUR 39,800,000). The loss carried forward amounted to EUR 2,900,000 (previous year: retained earnings of EUR 500,000). Consolidated income amounts to EUR –2,100,000 (previous year: EUR –3,400,000).

The reserve for unrealised gains and losses where changes in the fair value of financial instruments classified as available for sale, in consideration of deferred tax effects, are recognised directly in equity increased to EUR 700,000 (previous year: EUR –800,000) 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 –2,600,000 (previous year: EUR –2,500,000) was formed. The allocation to this reserve in the amount of EUR –100,000 is due to the emission costs related to the overallotment option.

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

The equity ratio – defined as the ratio of total equity in the amount of EUR 64,500,000 (previous year: EUR 59,200,000) to earned premiums (net) in the amount of EUR 54,400,000 (previous year: EUR 36,100,000) – decreased from 164.1% in the previous year to 118.6% due to significantly higher earned premiums (net). The return on equity decreased to –7.8% (previous year: –6.6%). It is calculated as the ratio of earnings before income taxes of EUR –5,200,000 (previous year: EUR –4,100,000) to equity adjusted for other reserves in the amount of EUR 66,400,000 (previous year: EUR 62,400,000).

Risk reporting

This report meets the requirements for risk reporting pursuant to IAS 1.134 through 136 (Capital), IFRS 4.38 to 39A (Nature and Extent of Risks Arising from Insurance Contracts) and IFRS 7.31 to 42 (Nature and Extent of Risks Arising from Financial Instruments).

The risk management of Deutsche Familienversicherung includes all relevant risk types. This approach is reflected in the present opportunity and risk report. 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 centre of reporting.

Deutsche Familienversicherung focuses on an overall approach when using risk management instruments and when assessing the risk situation pursuant to the requirements of the German Insurance Supervision Act (Versicherungs-aufsichtsgesetz – VAG).

Risk management system

The objective of the risk management of Deutsche Familienversicherung is to ensure that the obligations arising from insurance policies – and in this regard 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 organisation 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 position and earnings situation are analysed 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.

The objective of the annual risk inventory is to identify risks and assess their materiality. The subject of the risk inventory is to review and document all individual and cumulative risks. The results of the risk inventory are recorded in the risk profile, with the identified risks being assigned to risk categories.

Following this categorisation, 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.

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

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 to 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 analysed 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

The risk management of Deutsche Familienversicherung 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 audit. The control environment is completed by the Supervisory Board and external auditors.

The guideline for 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 organisation 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 organisational aspects.

Risk monitoring

Insurance companies must have an effective risk management system that is well integrated into the organisational structure and decision-making processes of the company and that reasonably considers 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.

In particular, 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 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 risks in a targeted manner based on the existing ability to bear risks, insofar as the opportunities associated with this allow for the expectation of sufficient added value.

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

- Underwriting risks
- Market risks, in particular in connection with investments
- Credit risks, in particular from the default of receivables from insurance business
- Liquidity risks
- Operational risks
- Reputational risks
- Strategic risks

Risk management at Deutsche Familienversicherung aims to identify these risks at an early stage, to monitor them and, ultimately, to manage them in a systematic manner. Active risk management is carried out by the members of the Executive Board and managers. Department heads routinely report to the member of the Executive Board responsible for their department, or the Executive Board as a whole, about the current course of business, including from a 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 risk strategy of the company also includes the transfer of risk to solvent reinsurance companies with first-class credit ratings by means of pro rata risk assumption and flexibly expandable cover for major losses and natural catastrophes, as well as annually adjusted insurance cover for loss of revenue or business interruptions, business liability, commercial buildings and inventory, and cyber risks.

During the reporting period, Deutsche Familienversicherung 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 the ORSA procedure and the individual overall solvency requirement is determined based on this. Furthermore, the forecast for the next three to five years runs through certain stress scenarios to ensure a stable solvency of Deutsche Familienversicherung even under considerable pressure.

The Executive Board commissions the performance of 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 summarise 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 head of the Controlling department has been appointed for independent risk control at Deutsche Familienversicherung.

The head of the Legal/Compliance department of the company was appointed for the compliance function of Deutsche Familienversicherung. They are a fully qualified lawyer, attorney and in-house counsel. As part of the compliance function, they perform the tasks according to section 29, paragraph 2, of the German Insurance Supervision Act (VAG), which include 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).

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Procedures to implement compliance and the reports to be created are defined in a compliance plan. Through resolution, the Executive Board can implement the approved audit plan 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 Deutsche Familienversicherung, the AF has been 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. Within the framework of a function outsourcing agreement dated 29 October 2015, the AF for the insurance segments by type of loss – in particular supplementary health products by type of loss and personal and property insurance such as liability, accident, glass breakage and household – was outsourced to Meyerthole Siems Kohlruss Gesellschaft für aktuarielle Beratung mbH, Cologne, where Ms. Marion Beiderhase, actuary (DAV), fulfils the responsibility. Within the framework of a function outsourcing agreement dated 24 November 2015, the AF for the insurance segments by type of life – in particular for the supplementary products for non-substitutive health and long-term care by type of life insurance – was outsourced to the actuary (DAV) Dr Berthold Ströter from the actuarial firm Bek Ströter PartG. The outsourcing officer for the AF is the head of the department of Deutsche Familienversicherung, who 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 organisation 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. The outsourcing officer is the head of the Legal/Compliance department of the company. They are a fully qualified lawyer, attorney and in-house counsel. From the 2020 financial year, the internal audit function will be fulfilled by an employee who is suitably qualified for this purpose.

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 organisation, in particular the internal control system, risk management and the management and monitoring processes. To ensure its independence, the Internal Audit department works directly under the chairperson 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 the outsourcing officer. Within the scope of their auditing activities, the persons tasked with internal auditing are not subject to any restrictive instructions and have to perform these tasks autonomously and independently.

12.2 Regulatory risk-bearing capacity and underwriting risks

It is the objective of capital management at Deutsche Familienversicherung 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 capitalisation represents the regulatory risk-bearing capacity of Deutsche Familienversicherung as a ratio of eligible own funds to the risks resulting from business activities. The risk-bearing capacity is analysed at least quarterly on the basis of supervisory regulations and under consideration of internal limits.

Deutsche Familienversicherung's own funds 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 and claims equalisation provisions).

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

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 the value at risk with a confidence level of 99.5%.

The regulatory risk-bearing capacity of Deutsche Familienversicherung is shown as a ratio of eligible own funds to the risks resulting from business activities. The development of the regulatory risk-bearing capacity is analysed at least quarterly.

In the 2019 financial year, Deutsche Familienversicherung meets the statutory minimum solvency requirements pursuant to Solvency II and/or the solvency ratio is well above the minimum requirements.

Underwriting risks

General information

Currently, Deutsche Familienversicherung 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
- Property belonging to persons.

Cumulative 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 on this, 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 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 segments 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, which 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.

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Measurement of underwriting 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 unfavourable progressions in the development of business and investments, and their impact on the result and possible negative effect 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 by type of non-life insurance, health by type of life insurance and catastrophe risk health.

The risk measurement in the subcategory health by type of 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 Deutsche Familienversicherung 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.

For the risk of illness, differentiation is made between cost reimbursement insurance and income reimbursement insurance.

The risk of illness in income reimbursement insurance is represented by an increase in expected-loss 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.

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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 (e.g. 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 is 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 behaviour of insured persons and service providers.

As part of its property and casualty insurance business, Deutsche Familienversicherung conducts business that covers catastrophes, which 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.

Unfavourable 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. In no event did these calculations show a result that even remotely exhausts the company's equity.

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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.
- 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 analysed 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 expectations and understanding of the policyholder and the risk of legal disputes and damage to the company's image is kept to a minimum as a result.

Supplementary health insurance

Deutsche Familienversicherung 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 unfavourable 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 (ageing 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 by type of life insurance (supplementary long-term 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 by type of 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. However, it is 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.

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Damage and accident insurance

Deutsche Familienversicherung offers insurance cover for property, liability, legal protection, animal and accident insurance. The policyholders of Deutsche Familienversicherung are therefore 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 the form of liability insurance. Accident insurance covers personal injury resulting from accidents.

Each contract entered into by Deutsche Familienversicherung can be terminated with notice at the end of a defined term. The respective policyholder has a right of termination at any time. Under certain conditions, Deutsche Familienversicherung 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; it is therefore unlikely that the risk contributions to cover the losses are insufficient. This counteracts the risk of underpricing. In addition, adjustment rights exist for all tariffs of property and accident 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 reincorporated into the current estimates.

Claims development in the segment for property and accident insurance 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 an 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 amortised acquisition 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.

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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 opportunity and risk report.

12.4 Fair value hierarchy

IFRS 13 defines the fair value as the sales price (i.e. 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). All assets and liabilities measured at fair value are assigned to a measurement hierarchy (level) pursuant to IFRS 13. 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 possible the application 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 BCA AG is reported at the last transaction price from 2018. Overnight deposits are recognised at their acquisition costs.

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 recognised 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. Pre-purchases 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. Among other sources, implied volatilities and forecast dividend payments from Bloomberg serve as the data basis. The valuation of forward exchange transactions corresponds to the discounted delta between the agreed forward rate and the forward rate on the valuation date.

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

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ASSETS AND LIABILITIES BY LEVEL (2019)

In EUR thousand	Level 1	Level 2	Level 3	Total
Shares in subsidiaries, joint ventures and associates	0	0	0	0
Financial instruments available for sale	115,329	6,413	0	121,742
Non-current assets held for sale	0	0	0	0
Total positive market values	**115,329**	**6,413**	**0**	**121,742**
Shares in subsidiaries, joint ventures and associates	0	0	0	0
Financial instruments available for sale	0	0	0	0
Non-current assets held for sale	0	0	0	0
Total negative market values	**0**	**0**	**0**	**0**

ASSETS AND LIABILITIES BY LEVEL (2018)

In EUR thousand	Level 1	Level 2	Level 3	Total
Shares in subsidiaries, joint ventures and associates	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 positive market values	**90,263**	**0**	**0**	**90,263**
Shares in subsidiaries, joint ventures and associates	0	0	0	0
Financial instruments available for sale	0	0	0	0
Non-current assets held for sale	0	0	0	0
Total negative market values	**0**	**0**	**0**	**0**

12.4.1 Credit quality of the portfolio

CREDIT QUALITY OF THE PORTFOLIO

In EUR thousand	2019	Share in %	2018	Share in %
Rating categories of interest-bearing financial instruments available for sale				
AAA	7,159	6.5	7,750	30.6
AA	6,667	6.1	3,837	15.2
A	8,407	7.7	4,195	16.6
BBB	84,023	76.9	9,529	37.6
BB and lower	2,054	1.9	0	0.0
No rating	1,015	0.9	0	0.0
Total	**109,325**	**100.0**	**25,311**	**100.0**

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12.4.2 Credit risk

CREDIT RISK (2019)

In EUR thousand	Balance sheet value as of 31.12.2019	Of which neither impaired nor overdue as of the balance sheet date	Of which impaired as of the balance sheet date	Of which not impaired and overdue in the following intervals					
				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	121,742.5								
Receivables from direct insurance business	1,262.6	35.4	1,227.2						
Accounts receivable from reinsurance business	3,773.0	3,773.0							
Interest and rent receivables	0.0	0.0							
Total	**126,778.1**	**3,808.4**	**1,227.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

CREDIT RISK (2018)

In EUR thousand	Balance sheet value as of 31.12.2018	Of which neither impaired nor overdue as of the balance sheet date	Of which impaired as of the balance sheet date	Of which not impaired and overdue in the following intervals					
				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 from direct insurance business	722.2	184.2	538.0						
Accounts receivable from reinsurance 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**

12.5 Disclosures on net income from financial instruments

No corresponding disclosures are 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 (2019)

In EUR thousand	Interest income	Current income	Interest expenses	Current expenses
Financial instruments available for sale	867	34	19	313

INTEREST INCOME AND EXPENSES, CURRENT INCOME AND EXPENSES (2018)

In EUR thousand	Interest income	Current income	Interest expenses	Current expenses
Financial instruments available for sale	759	72	0	209

12.7 Disclosures on leases – Deutsche Familienversicherung as lessee

DISCLOSURES ON LEASES – DEUTSCHE FAMILIENVERSICHERUNG AS LESSEE

In EUR thousand	2019
Depreciation amount	694
Interest expenses	19
Lease expenses	
Non-capitalised assets	1,021
Outgoing payments from leases	1,734

In the reporting year, lease expenses for rights of use recognised pursuant to IFRS 16 amounted to EUR 703,000.

Additionally, other lease expenses in the amount of EUR 1,021,000 were incurred which did not lead to the capitalisation of a right of use because the value of underlying asset is too low or the term of the agreement is less than one year.

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

12.8 Other financial obligations

2019 (DFV Group):

Other financial obligations in the amount of EUR 2,111,000 consist of the long-term lease for the offices at Reuterweg 47 until 31 December 2022. Due to the first-time application of IFRS 16, a right of use in the amount of EUR 2,738,000 was capitalised at the beginning of the financial year and a corresponding liability was recognised.

In addition, various IT outsourcing contracts were concluded during the financial year, some of which run until 31 October 2023, from which further obligations of EUR 3,979,000 arose.

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

2018 (DFV Group):
Other financial obligations consist of the long-term lease for the offices at Reuterweg 47 until 31 December 2022. The expenses resulting from this obligation amount to EUR 746,000 in the 2018 financial year and likely EUR 2,983,000 for the years until 2022.

In addition, other financial obligations from rental contracts and leases 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 EUR 1,109,100 in 2018 and likely to EUR 87,800 in the 2019 financial year.

12.9 Disclosures regarding contingent liabilities

As of the balance sheet date (31 December 2019), there were no contingent liabilities in addition to the provisions recognised 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.

REMUNERATION OF KEY MANAGEMENT MEMBERS

Executive Board In EUR thousand	Short-term benefits	Termination benefits	Total
Dr Stefan Knoll	605	0	605
Michael Morgenstern	277	0	277
Stephan Schinnenburg	306	0	306
Marcus Wollny	256	0	256

The Supervisory Board remuneration of EUR 209,000 (previous year: EUR 177,000) consists exclusively of short-term benefits. These disclosures relate to the members of the Executive Board and the Supervisory Board of DFV Familienversicherung AG. This group of persons comprised nine persons in the reporting year (previous year: nine persons).

12.11 Auditor’s fee

As of the balance sheet date, the total fee charged by the auditor for services rendered in the financial year amounted to EUR 90,000 (previous year: EUR 83,000), which relates exclusively to auditing services.

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

12.12 Number of employees

Without the employees outsourced via service contracts with DFVS Servicegesellschaft mbH and DFVV Deutsche Familienversicherung-Vertriebsgesellschaft mbH, around 66 staff members (previous year: 66) were employed with the company during the financial year. Including the outsourced service personnel (approximately 56 employees (previous year: 45)), the average number of employees during the reporting year was 122 (previous year: 111).

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, Germany, 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 consolidated financial statements in accordance with IFRS were prepared on 4 March 2020. It will be published in due time in the electronic Federal Gazette (Bundesanzeiger).

We have issued the declaration required by section 161 of the German Stock Corporation Act (AktG). Our declaration is available to the public at:

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

For the following subsidiaries of DFV Deutsche Familienversicherung AG included in these consolidated financial statements, separate disclosure in accordance with section 264, paragraph 3 (1), of the HGB has been waived:

- DFVS Deutsche Familienversicherung Servicegesellschaft mbH
- DFVV Deutsche Familienversicherung-Vertriebsgesellschaft mbH
- DFVR Deutsche Familienversicherung Rechtsschutz-Schadenabwicklungsgesellschaft mbH

12.15 Events after the reporting date

On the Executive Board, Michael Morgenstern resigned from his position as CFO for personal reasons effective on 31 December 2019.

There have been no other events of particular significance since the end of the group’s financial year that have not been included in either the consolidated income statement or the consolidated balance sheet.

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

12.16 Disclosure pursuant to section 297, paragraph 2 (4), of the HGB – 'Balance sheet oath'

'We assure to the best of our knowledge that – in accordance with the applicable reporting principles – the consolidated financial statements give a true and fair view of the asset, financial and earnings position of the group, and the management report of the group 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, 4 March 2020

DFV Deutsche Familienversicherung AG

Executive Board

Dr Stefan M. Knoll	Stephan Schinnenburg	Marcus Wollny
CEO	CSO	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, 2019, 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, 2019, to December 31st, 2019, 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, 2019, to December 31st, 2019. 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, 2019, and of its financial performance for the financial year from January 1st, 2019, to December 31st, 2019, 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.

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

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, 2019, to December 31st, 2019. 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.

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 26 ff.

Facts and audit risks
Due to the significance of the item in the balance sheet (T€ 51,078, 26.9% 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 28 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€ 13,047, 6.9% 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.

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

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.

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

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

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.

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.

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

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.
- 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, 2019. We were engaged by the supervisory board on September 26th, 2019. We have been the group auditor of the DFV Deutsche Familienversicherung AG without interruption since the financial year 2019.

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."

Köln, 9 March 2020

Mazars GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Varain	Lächele
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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FINANCIAL CALENDAR 2020

14 May	Quarterly report for Q1 as of 31 March 2020
20 May	Annual General Meeting 2020 in Frankfurt am Main
13 August	Quarterly report for Q2 as of 30 June 2020
12 November	Quarterly report for Q3 as of 30 September 2020

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DISCLAIMER

This group report also 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 characterised 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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