The digital insurance company

DFV Deutsche Familienversicherung AG

Group Annual Report 2020

DEUTSCHE
Familienversicherung

OUTSTANDING PRODUCT QUALITY

DFV-KLINIKSCHUTZ PREMIUM
VERY GOOD (0.8)
STIFTUNG WARENTEST 07/2020

DFV-ZAHNSCHUTZ EXKLUSIV
TEST WINNER (0.5)
STIFTUNG WARENTEST 06/2020

DFV-TIERKRANKENSCHUTZ
GERMANY'S BEST INSURER 2020
HANDELSBLATT 08/2020

DFV-DEUTSCHLANDPFLEGE FLEX
TEST WINNER (1.6)
STIFTUNG WARENTEST 01/2020

ABOUT DFV DEUTSCHE FAMILIENVERSICHERUNG AG

Deutsche Familienversicherung is a publicly listed, high-growth and digitised insurance company (insurtech company) which covers the entire value chain with its own insurance products and its own digital solutions. Deutsche Familienversicherung offers its customers award-winning supplementary health insurance (dental, health, supplementary care insurance) as well as accident and property insurance that people really need and understand immediately ('Simple. Sensible.'). Based on the state-of-the-art scalable IT system developed in-house, the company is setting 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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Executive Board

Dr Stefan Knoll
Founder, since 1 April 2007
Chief Executive Officer

Dr Karsten Paetzmann
since 1 February 2021
Chief Financial Officer

Stephan Schinnenburg
since 1 April 2018
Chief Sales Officer

Marcus Wollny,
since 1 August 2018
Chief Information Officer

Dear Shareholders,
Ladies and Gentlemen,

The year 2020 was an extraordinary one in many respects. We began the year with two primary objectives: on the one hand, with the awareness of being able to technically prepare and implement the largest success in company history in terms of acquisitions – namely, the membership in the CareFlex Chemie consortium for the implementation of the first industry-wide employer-financed supplementary long-term care insurance in the chemicals industry, as the joint head of the consortium with responsibility for product and administration. On the other hand, we hoped to keep our promise from the IPO – to spend € 30 million for sales within a year – with the aim of not only realising new business in the same amount, but also to generate 100,000 new contracts. And then many things did not go as planned.

While January and February were very successful, with the arrival of the COVID-19 crisis and the first lockdown we asked ourselves what effect this turn of events would likely have on the target volumes in new business. It was quickly clear that the foreign health insurance – which represents a planning figure in the achievement of the aforementioned goal in number of contacts – would not be able to be sold to the same extent as before, as long as travel restrictions are in effect. Additionally, we were optimistic that our digital sales channels would continue without being affected by the COVID-19 pandemic.

The effects of the COVID-19 pandemic on the capital market led us to massively reduce the stock portfolios of the company, which resulted in the realisation of losses of € –2.8 million. When we made the decision, we did not expect that the capital market would recover so quickly.

The COVID-19 pandemic was with us in many ways throughout the entire year. By introducing new devices in 2019, we were able – within a matter of a few hours – to offer all employees the option of working from home, which the majority of them chose to do. During the second lockdown at the end of 2020, somewhere between 5% and 10% of employees were in the office. The technical capability is one factor, but maintaining productivity in an entirely different working environment is another. In particular for work results which can be measured on a daily basis, it was clear that productivity, for instance in claims and benefits processing, was nearly the same as was measured here in the office before the beginning of the COVID-19 pandemic.

CareFlex Chemie also left its mark on the year 2020. As the joint head of the consortium with responsibility for product and administration, we allocated a significant portion of our IT, underwriting and organisational capacities to this project. So it was all the more regrettable that, in December 2020, we were forced to organise our withdrawal from the consortium through a termination agreement. The background for this situation was clearly and sufficiently detailed in the ad hoc release that was published on 30 December 2020. The management report also contains information on the subject, so I would like to conclude and say only that our withdrawal from CareFlex Chemie is our biggest disappointment of 2020. The fact that we intend to stay associated with a remaining CareFlex consortium member via a planned reinsurance contract does little to change this disappointment. A corresponding letter of intent (LOI) was concluded in conjunction with the aforementioned termination contract.

We were the inventors of the first company health insurance solution in the field of supplementary long-term care insurance for an entire industry and, without this idea, there would have been no corresponding collective agreement in 2019. The consequences of the withdrawal are not only economic for Deutsche Familienversicherung, because we were forced to postpone the levels profitability announced for 2021 and we have had to do without compensation for our expenses, in particular in IT. In addition to the disappointment of our employees – some of whom have shown extreme dedication to this project – it is just as much a disappointment that we lost a year in the digitisation progress as far as our original processes are concerned as well as a year in product development. We even lost a year with regard to the announced internationalisation.

A project like CareFlex Chemie can only be realised at a company of our size if the existing capacities are massively reallocated. This inevitably means that other projects that could have otherwise been realised have to be put on hold. We have to make up for this in 2021.

Our sales efforts continued without limitations and, in spite of the COVID-19 pandemic, we managed to generate a respectable result of nearly € 30 million in terms of new business. We have therefore kept the central promise of our IPO in 2020. As relates to new business, the COVID-19 pandemic only made itself felt through the loss of foreign health insurance. On the whole, we managed to realise around 90,000 new contracts – which contributed the same premiums to the portfolio as 100,000 new contracts in 2019, however, which is also down to the successful continuation of our pet health insurance introduced in 2019. The significantly higher premiums in pet health insurance are not only a major reason for the achievement of our targets in new premiums, but they are also the foundation for the promised expansion of the property insurance portfolio of Deutsche Familienversicherung. On the whole, Deutsche Familienversicherung was able to increase premium income by 26%. Our focus on digitisation is the primary reason why we were able to make it through the COVID-19 pandemic so unscathed – after all, 90% of new business is generated via digital channels. This ‘distance selling’ has shown its advantages even in times of contact restrictions and has thus proven to be crisis-resistant.

Our insurance products were once again singled out as test winners in 2020 by Stiftung Warentest, which also makes it easier for our sales team, as does the fact that our DFV customer app was rated as the best on the market. 98% of our new customers use the DFV customer portal for communication and, most recently, our DFV customer chat was named the best in the insurance sector.

In summary, it must be said that 2020 was a difficult year with many challenges, both in general as well as specific ones. Nevertheless, we have managed to continue our success story impressively. The loss of CareFlex Chemie is aggravating and disappointing, but it is only a temporary hurdle in our growth and development. Deutsche Familienversicherung will continue on the path to success in 2021 and remain among the fastest-growing insurance companies in Germany.

It is with therefore with deep conviction, and not as a matter of course, that I would like to thank our employees – also on behalf of the entire Executive Board – for their dedication, their hard work and their loyalty, as well as our shareholders for their faith in us. We will continue our growth powerfully in 2021 as well – the sales targets will once again correspond to those in the previous two years. This goes along with increased digitisation, new insurance products and, with our entry into a neighbouring country, the first step towards European internationalisation. And with a new CFO, our Executive Board now has additional capacities that will help us in the realisation of our ambitious goals.

To our Shareholders I would like to say that we still have a long way to go and we are not yet close to where we want to be in terms of digitisation and product variety. But to those who would be critical of this I would say that this is what the future is for –

and we look forward to this future!

Yours sincerely,

Dr Stefan Knoll
Chief Executive Officer (CEO)

Frankfurt am Main, 17 March 2021

REPORT OF THE SUPERVISORY BOARD

In the 2020 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 five members during the reporting year.

A total of six meetings of the Supervisory Board took place on 22 January 2020, 16 March 2020, 12 May 2020, 20 May 2020, 12 August 2020 and 9 November 2020. All members of the Supervisory Board attended the meetings. At the meeting on 16 March 2020 alone, one Supervisory Board member was excused.

In light of the COVID-19 pandemic and with the approval of all Supervisory Board members, the Supervisory Board meetings – with the exception of the meeting on 22 January 2020 – took place in the form of tele- and videoconferences within the meaning of section 14, paragraph 6, of the Articles of Association of the company.

In all Supervisory Board meetings, the Executive Board reported in detail on the current business development and sales results. 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. In each case, the current solvency ratios were explained as well as the risks relevant to the company and the risk management as well as the company's own risk and solvency assessment.

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

Additionally, the developments and progress with regard to IT infrastructure and digitisation were discussed in each Supervisory Board meeting along with the necessary measures and the estimated costs in this regard. Ultimately, the Supervisory Board was informed about the status and developments of the CareFlex Chemie project in every Supervisory Board meeting, because the business activities of the company were heavily influenced by the project during the reporting year.

In its meeting on 21 January 2020, the Executive Board also reported to the Supervisory Board on the effects of the CareFlex Chemie project on company planning for 2020, which had to be adjusted on short notice according to the requirements of the project. In this context, the Executive Board also presented a recruiting concept that successfully covered the planned resources in the subsequent time period.

In the meeting on 16 March 2020, the Executive Board gave the Supervisory Board a report on the special circumstances of the situation of the COVID-19 pandemic. The Supervisory Board was shown that, to date, the company had managed to handle all of the challenges well and was still in the position to maintain all underwriting functions.

During this Supervisory Board meeting, the Supervisory Board approved the audited annual and consolidated financial statements of the company for the 2019 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 2019 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.

The Supervisory Board decided to recommend to the Annual General Meeting that the members of the Executive Board of the company be discharged for the 2019 financial year.

In the extraordinary Supervisory Board meeting on 12 May 2020, the Supervisory Board received further comprehensive information from the Executive Board on the effects of the COVID-19 pandemic on the business operations of the company. It was able to be determined that the Executive Board took suitable measures in due time for the protection of the employees. Additionally, the majority of employees had been working from home since the beginning of the COVID-19 pandemic.

It was determined that, in spite of the relatively good quarterly results, the COVID-19 crisis had had a negative effect on sales during the first quarter of the reporting year, in particular with regard to foreign health insurance, as well as on net investment income and thus on group EBIT; this could be largely compensated for over the course of the reporting year, however.

The Supervisory Board meeting on 20 May 2020 took place immediately following the Annual General Meeting of the company, which was held virtually for the first time and in which the Supervisory participated. The Executive Board reported on activities in the individual departments as well as on the status of developments in the CareFlex Chemie project.

The Supervisory Board was presented with the half-yearly financial statements of the company in its meeting on 12 August 2020. The CEO also reported to the Supervisory Board on the past capital increase and the resulting new shareholder structure. The company had managed – in spite of the negative effects of the COVID-19 pandemic on the one hand and the high share price on the other hand – to realise a capital increase of 10% of the voting rights with gross proceeds amounting to € 32.36 million which, with the approval of the Supervisory Board, is to be used to continue the previous growth strategy, including the establishment of new risk carriers and the expansion of the product portfolio.

In the last Supervisory Board meeting on 9 November 2020, the Executive Board reported on the results of the third quarter as well as on the status of current business developments.

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. The Supervisory Board was closely involved in the decision to withdraw from CareFlex Chemie.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2020

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 22 July 2020, the Supervisory Board appointed the auditing firm Mazars & Co. KG as auditor of the company for the 2020 financial year.

Mazars has audited the annual financial statements of the company, the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) and the respective management reports for the 2020 financial year, and has issued unqualified audit opinions.

All members of the Supervisory Board have received the annual financial statement documents for the 2020 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 18 March 2021 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 18 March 2021. 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

There were no changes to the composition of the Supervisory Board or Executive Board during the reporting year.

However, during the reporting year, the Supervisory Board appointed Dr Karsten Paetzmann as a fourth member of the Executive Board responsible for the finance division effective from 1 February 2021.

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 2020 financial year.

For the Supervisory Board

March 2021

Hans-Werner Rhein

Dr Hans-Werner Rhein
Chairman of the Supervisory Board

CONSOLIDATED MANAGEMENT REPORT

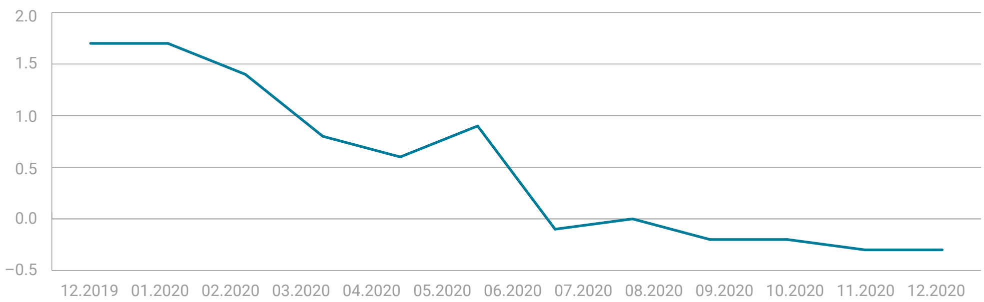
CONSOLIDATED MANAGEMENT REPORT

1 ECONOMIC ENVIRONMENT AND SECTOR DEVELOPMENT

Over the past year, the German economy underwent a severe recession due to the COVID-19 pandemic which was comparable to the financial crisis in the years 2008 and 2009. In the 2020 financial year, the gross domestic product (GDP) sank by 5.0% after having grown year on year over the preceding ten years. Following the historic collapse of 10.1% in GDP during the second quarter of 2020 brought on by the COVID-19 and the lockdown, a significant recovery process could be observed accompanying the step-by-step loosening of restrictions. The German economy recorded growth of 8.5% again in the third quarter, with the lockdown in the fourth quarter likely having caused stagnation in the gross domestic product.

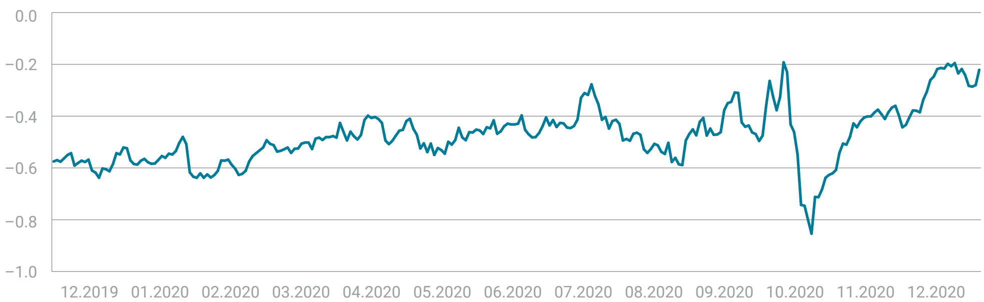
At 0.5%, the inflation rate in 2020 reached its lowest level since 2016, following a figure of 1.3% in the previous year. It was even negative in December 2020 and therefore significantly below the level strived for by the European Central Bank (ECB) of below but close to 2.0%.

INFLATION DEVELOPMENT IN %



As in the previous year, the continuation of low interest rates of the ECB led to negative interest rates in ten-year German government bonds, which closed at –0.56% (previous year: –0.21%) in 2020.

INTEREST RATES FOR TEN-YEAR GERMAN GOVERNMENT BONDS



In March 2020, the DAX experienced historic losses of some 40% within a single month due to uncertainties on the market caused by the COVID-19 crisis. This drop was followed by an equally historic rapid recovery. By the end of 2020, the DAX was once again at the level of before the COVID-19 crisis.

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 in the financial year marked by the COVID-19 crisis of nearly 1.2% – significantly weaker than the previous year, which recorded premium growth of 7%. Damage and accident insurance recorded growth in premiums of 2.1%. Private health insurance grew by 3.8%, while life insurance and pension funds recorded a decrease in premiums of 0.4%.

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 2020

Deutsche Familienversicherung can look back upon a successful financial year, albeit one which was impacted by the COVID-19 pandemic and most recently by our withdrawal from the CareFlex Chemie consortium.

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. Existing premiums rose in a year-on-year comparison by 23.3% from € 101,168 thousand to € 124,790 thousand. 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 2020. 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 fifth time in a row, DFV-ZahnSchutz (dental insurance) was the test winner at Stiftung Warentest in the spring of 2020. DFV-Deutschlandpflege FLEX was once again the test winner with Stiftung Warentest in 01/2020. And DFV-KlinikSchutz, too, managed a mark of ‘very good’ from Stiftung Warentest for its two-bed tariff. Additionally, with its pet health insurance product DFV-TierkrankenSchutz introduced in 2019, Deutsche Familienversicherung successfully established itself in the market for health insurance for dogs and cats. In August 2020, Handelsblatt honoured DFV-TierkrankenSchutz with the title of Germany' best insurer.

In 2020, 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. As a result, Deutsche Familienversicherung was awarded with the best score from among 36 insurance companies in the submission and fully automated regulation of dentist invoices via the DFV app. The Deutsche Familienversicherung mobile app has undergone continuous development and, was rated with 4.9 out of 5 stars by our customers in the respective app stores of Apple and Google in 2020, thus earning it the top spot. AssCompact named it the best insurance app of 2020.

Above all, however, the existing IT infrastructure was transitioned to a domestic server provider, thus once again significantly increasing its performance. This is 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.

In pure digital customer communication, Deutsche Familienversicherung succeeded in achieving the top score with 'Viktoria' in a chatbot comparison conducted by Aalen University of Applied Sciences. The simplicity of use, the correctness of answers and the scope of information were highlighted as reasons for the award.

A total of 98% of all new customers register in the Deutsche Familienversicherung customer portal, where they can manage their contacts, conveniently change master data, view documents and submit claims notifications. To continue this impressive level of acceptance, the range of functions and management of the portal were further improved in 2020.

The third pillar of growth is the sales expertise of Deutsche Familienversicherung. The financial year was once again characterised by strong development in new business, and digital sales proved its superiority in impressive fashion in an environment ruled by the pandemic. Foreign health insurance was the only area that recorded a significant decline of approximately 80%, from 16,652 to 3,769 new contracts, due to the travel restrictions brought on by the COVID-19 pandemic. In terms of new business volume, this decrease was nearly compensated for, however, by contracts with higher premiums compared to the previous year.

The sales success is distributed among the individual sales channels as follows: approximately 88% (previous year: 78%) to online sales, which also includes direct-response TV (DRTV). Approximately 12% (previous year: 11%) of the closings were done via insurance brokers in 2020. Online sales in connection with the completely digitised policy processes allows new business to consistently continue at the present level.

On 7 July 2020, as part of a capital increase in exchange for cash contributions, making partial use of the authorised capital and excluding the subscription rights of shareholders, Deutsche Familienversicherung issued 1,326,160 new no-par bearer shares at a price of € 24.40 per share by means of a private placement to institutional investors. The capital increase was significantly oversubscribed. Subscribed capital of the company increased by € 2,652,320 from € 26,523,240 to € 29,175,560, representing an increase of 10%. The company received gross proceeds of around € 32.36 million from the capital increase. The net proceeds from the capital increase are to be used for the continuation of the current growth strategy.

Deutsche Familienversicherung had the idea and was therefore the initiator of CareFlex Chemie, the first employer-financed supplementary long-term care insurance. As a result, the collective bargaining parties of the chemicals industry negotiated the agreement on the supplementary care insurance programme for the industry in November 2019. Deutsche Familienversicherung held a 35% participating interest in the consortium which was formed for the implementation of the collectively bargained supplementary long-term care insurance. From the second half of 2020, the Federal Financial Supervisory Authority (BaFin) also began an intensive exchange with Deutsche Familienversicherung with regard to the calculation of the CareFlex Chemie tariffs. The focus of this communication was on the question of whether Deutsche Familienversicherung had provided the calculated actuarial interest rate of 2% per annum with sufficient securities within the meaning of section 2, paragraph 3, of the Ordinance on the Supervision of Business Activities in Private Health Insurance (KVAV). The request made by BaFin in December 2020 to provide corresponding evidence by the end of the current year led to a fundamental discussion of methods as to how and whether the desired evidence would ultimately be deemed to have been provided by Deutsche Familienversicherung. This discussion could not be concluded by the project launch with the first pilot companies on 1 January 2021. In order not to jeopardise the CareFlex Chemie project as a whole, and against the backdrop of an additional investment volume of € 50 million per year expected from Deutsche Familienversicherung for the project alone, the Executive Board also reassessed the situation in light of the ongoing COVID-19 pandemic. In this context, the risk of generating the interest rate to be included in the calculation was also taken into account. The Executive Board assessed the overall risk – resulting from the lack of opportunity to conclude the methodological discussion that had arisen with BaFin by 31 December 2020 and from the differing legal opinions within the consortium on the legal assessment of the situation, as well as from the economic reassessment, in particular with regard to the effects of the COVID-19 pandemic within the continuing low-interest phase – as being higher than the potential benefit of remaining a primary insurer in the CareFlex consortium. At the request of Deutsche Familienversicherung, the collective bargaining parties and the members of the consortium agreed that Deutsche Familienversicherung would withdraw as the primary insurer of the CareFlex Chemie project. The corresponding termination agreement also means the exclusion of all claims for liability. At the same time, a letter of intent for a reinsurance contract was concluded with one consortium member which involves Deutsche Familienversicherung providing reinsurance for 20% of the total volume, amounting to approximately € 40 million.

Although Deutsche Familienversicherung is of the opinion that it had demonstrated sufficient certainty for the calculated actuarial interest rate, the fact remains that the CareFlex Chemie tariff was calculated and applied at the end of 2019, a time of economic prosperity. Brought on by the global COVID-19 pandemic, there were two waves of infections and two lockdowns of the German economy. At the end of December 2020, there was no foreseeable end to the second lockdown. Also in December 2020, experts predicted a third wave of infections and that so-called herd immunity would not be achieved until 2022. In light of these circumstances, the Executive Board considered the disproportionate increase in capital investment volume of € 50 million annually to be risky and no longer economically prudent for the size of Deutsche Familienversicherung.

As a result of the aforementioned discussion with regard to CareFlex Chemie, BaFin requested on 6 January 2021 that Deutsche Familienversicherung have an independent consulting firm review the calculation of its insurance products by type of life. The cause could be the indication made by Deutsche Familienversicherung that the requirement of section 2, paragraph 3, of the KVAV – which stipulates, among other things, that the actuarial interest rate be provided with sufficient certainty – was not met using the common, but not legally required, method of actuarial corporate interest rate, rather using an equivalent method for the initial calculation and for premium adjustments for the supplementary long-term care tariffs which adequately takes into account the character of a new or rapidly growing insurance company. In fact, by using an equivalent method, Deutsche Familienversicherung determined the actuarial interest rate under consideration of the value of the existing investments in security assets, their earning power and suitable stress tests in accordance with generally recognised methods. Investments in the security assets were covered as an additional measure of security. On the whole, the constant ability to meet obligations from all insurance contracts was ensured at all times, including those calculated by type of life insurance. The responsible actuary has ensured that the actuarial methods used to calculate premiums and underwriting reserves are applied and that the relevant legal regulations and laws are complied with.

Deutsche Familienversicherung closed the 2020 financial year with a loss before taxes of € 10,583 thousand (previous year: € 5,222 thousand). Earnings are therefore within the budgeted corridor for the financial year concluded, although the financial year was influenced by the COVID-19 and other unplanned one-time effects. The losses are primarily attributable to high sales expenses, COVID-19-related losses in investments, the conversion to an actuarial provision calculated on a monthly basis and expenses in conjunction with the CareFlex Chemie project, from the company withdrew at the end of the year.

In detail, the following developments made a significant contribution to this result:

2.1.1 Premium development

Gross written premiums of € 90,919 thousand increased by 26.2% (€ 23,818 thousand) from the previous year's figure to € 114,737 thousand. Three insurance segments in particular contributed to this positive premium development: for example, sales success in supplementary dental insurance continued in 2020, which led to an increase of € 14,285 thousand. Deutsche Familienversicherung managed an increase in written premiums by € 3,783 thousand in supplementary long-term care insurance. The pet health insurance launched in 2018 and advertised on TV, among other media, also underwent very positive development. With growth in written premiums of € 3,230 thousand, this area also made a major contribution to the success of Deutsche Familienversicherung.

The existing portfolio of insurance contracts in the health and long-term care segments increased by 28,059 or 6.8% from 412,001 at the end of the previous year to 440,060 at the end of 2020, also resulting in an even-greater increase in written premiums in these segments, which grew by 24.6% year on year from € 85,004 thousand to € 105,928 thousand.

Compared to the previous year, the share of the property classes increased significantly. In total, gross premiums written in the property classes rose by some 49% compared to the previous year. 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 established itself on the market for pet health insurance, with DFV-TierkrankenSchutz, an insurance product that follows the logic of the 16 Matrix. Compared to the previous year, written premiums for this product have increased ninefold.

As expected, written premiums in the electronics insurance class decreased by € 347 thousand. After sales of electronics insurance were discontinued effective on 31 May 2015 and the policies remaining in the portfolio are settled, a further improvement in the claims-and-expenses ratio has been recorded in the year under review. Deutsche Familienversicherung expects this positive development to continue in the remaining settlement period.

All in all, around 0.6 million customers place their trust in Deutsche Familienversicherung.

Development of new business

The target of Deutsche Familienversicherung for 2020 was to reach new business premiums of € 29.5 million. At € 29.3 million, Deutsche Familienversicherung achieved this target value (2019: € 29.9 million). Due to the decrease in foreign health insurance – some 12,500 contracts fewer compared to the previous year – caused by the pandemic, the total number of contracts acquired was lower than budgeted at 90,389 by the end of the year.

The result was driven by a very strong increase in online sales as well as sales via DRTV. Sales performance in the highly competitive broker and partner sales were continued at a stable level.

Development of the product portfolio

In 2020, Deutsche Familienversicherung also put itself to the test of the requirements of Stiftung Warentest: for example, the tariff 'DFV-ZahnSchutz Exklusiv 100' was crowned test winner by Stiftung Warentest for the fifth time in a row with the absolute top mark of 0.5. And DFV-KlinikSchutz, too, managed a mark of 'very good' from Stiftung Warentest for its two-bed tariff.

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. It is now established on the market for pet health insurance which, in part, was accomplished using an intense YouTube campaign.

After the revision of all relevant products in the property insurance segment, we managed to continue the positive development. The reorganisation of private liability and motor legal expenses insurance in particular aided this development.

2.1.2 Investments

Existing investments of Deutsche Familienversicherung increased by € 13,324 thousand (10.9%) compared to the previous year, from € 121,743 to € 135,067 at the end of 2020.

At € 864 thousand, investment revenue under IFRS was below the level of the previous year (€ 3,401 thousand). This was primarily due to the turbulent capital markets in the first quarter of 2020 caused by the COVID-19 pandemic. However, the unrealised recoveries in market value (€ 3,286 thousand; previous year: € 3,565 thousand) following the capital market crisis are not contained in the income statement, which must be taken into account accordingly when assessing the investment result.

Deutsche Familienversicherung disposed of its equity holdings early on in the capital market crisis in the first quarter of 2020 caused by COVID-19 and increased the proportion of cash as well as government and corporate bonds during the acute phase of the capital market crisis. The realised losses during this time were partially compensated for by realised capital gains over the course of the year. Altogether, Deutsche Familienversicherung generated a net capital losses of € 526 thousand (previous year: gains of € 2,813 thousand). When accounting for the unrealised gains in value of the securities outside of the income statement, the unrealised gains increased by € 3,286 thousand compared to the previous year (previous year: € 3,565 thousand), which means that Deutsche Familienversicherung generated positive investment development overall, even in a year as extraordinary as 2020.

At € 1,734 thousand, current investment revenue before costs was € 833 higher than the revenue of the previous year of € 901 thousand, which is due to the increased investment volume.

Under consideration of the change in unrealised gains and losses and the change in value of financial investments measured at fair value through profit or loss of € 80 thousand (previous year: € 0), the total yield of investments of Deutsche Familienversicherung amounted to € 4,150 thousand (previous year: € 6,966 thousand) or 3.2% (previous year: 6.6%) based on the average capital investment portfolio in 2020.

2.1.3 Insurance benefits

At € 73,239 thousand, insurance benefits increased by € 25,204 thousand (52%) from € 48,035 thousand in the previous year. Of this amount, € 19,596 thousand (previous year: € 8,508 thousand) can be attributed to the allocation to the actuarial provisions. Claims payments themselves increased by € 15,307 thousand from € 35,583 thousand in 2019 to € 50,890 thousand. This corresponds to expectations, because the portfolio grew significantly, in particular in the supplementary health segment.

The gross actuarial provisions of € 51,078 thousand reported as of 31 December 2020 increased by € 19,596 thousand to € 70,675 thousand. The provision for profit-related premium refunds in the amount of € 818 thousand (previous year: € 1,069 thousand) continues to relate mainly to the long-term care segment. The provision for non-profit-related premium refunds amounted to € 824 thousand (previous year: € 362 thousand) and relates exclusively to health insurance business by type of life.

Gross provisions for outstanding claims amounted to € 14,801 thousand as of the balance sheet date (previous year: € 13,047 thousand). The changes in these provisions are included in insurance benefits.

The valuation of the ageing provision is based on its strictly actuarial history. This value corresponds exactly to the value that is to be recognised in financial mathematics on the respective reporting date. As of the balance sheet date, this calculation is changed from the approximation method for determining the value of the ageing provision to be shown in the balance sheet, which was previously used in the prior reporting periods and is permissible under section 18, sentence 2, of the KVAV. The ageing provision is generally calculated prospectively in accordance with the statutory provisions of section 341f, paragraph 3, of the HGB. Both the value of the ageing provision recognised in the balance sheet and its calculation have been examined by the auditor and the company's responsible actuary and found to be correct.

This conversion meets the criteria of a change in estimation in accordance with IAS 8.39. Deutsche Familienversicherung converted the estimation procedure, because this leads to a more pronounced alignment of the allocation to provisions with premium income and, in particular, reduces revenue fluctuations throughout the year.

In the 2020 financial year, the ageing provision increased by € 2,314 thousand due to this change in estimation. After reinsurance, this change had a negative effect amounting to € 961 thousand on earnings before taxes (EBT). For future periods, Deutsche Familienversicherung does not expect any material differences in earnings.

2.1.4 Expenses for insurance operations

Expenses for insurance operations contain expenses for insurance operations in a narrower sense and sales. Net expenses increased by 18.9% from € 25,386 thousand to € 30,187 thousand, while earned premiums increased by 13.9% compared to the previous year. The slightly disproportionate increase in expenses is primarily due to the outsourcing of the IT infrastructure and the expansion of the level of staffing. Both of these items form the basis for future business.

The 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 and premiums. The considerable growth of the customer base creates the necessary conditions for the long-term economic success of Deutsche Familienversicherung.

2.1.5 Other expenses and other revenue

Deutsche Familienversicherung recorded other expenses of € 3,925 thousand (previous year: € 5,263 thousand) as well as other income of € 328 thousand (previous year: € 630 thousand). Other expenses are primarily made up of the personnel and non-personnel expenses allocated to the company as a whole in the amount of € 2,991 thousand (previous year: € 4,431 thousand) as well as the interest on deposits of reinsurers in the amount of € 934 thousand (previous year: € 832 thousand).

In the reporting year, as in the previous year, other income is primarily made up of contributions from the provision for premium refunds in the amount of € 250.7 thousand (previous year: € 526.1 thousand).

With the 10% capital increase carried out in July 2020, Deutsche Familienversicherung generated gross proceeds of € 32.36 million. The accompanying external costs of € 1,181 thousand are directly offset against equity, taking into account the tax-related effects.

2.1.6 Total comprehensive income

Deutsche Familienversicherung closes the 2020 financial year with a scheduled loss before taxes of € 10,583 thousand (previous year: loss of € 5,222 thousand). 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 € 7,434 thousand (previous year: loss of € 2,100 thousand). Due to unrealised gains from capital investments after taxes in the amount of € 2,238 thousand (previous year: € 1,466 thousand), comprehensive income amounts to € –5,196 thousand (previous year: € –634 thousand).

It should be emphasised that the loss was caused by, and planned for, the growth of the portfolio of Deutsche Familienversicherung and the high sales expenses that came with it. At its core, Deutsche Familienversicherung is characterised by its profitable insurance business.

2.1.7 Digitisation

Deutsche Familienversicherung realised all technical and complex requirements for the automation of creating and managing portfolios of CareFlex Chemie contracts. Specifically, this involved system adaptations, the set-up of a dedicated infrastructure and the development of new system components.

Deutsche Familienversicherung is thus capable of processing masses of data with real-time response via a newly developed interface platform. This platform will continue to be expanded and, going forward, will be the standard interface for our insurance platform.

The infrastructure outsourcing measures begun in 2019 were expanded due to the need to create and manage between 500,000 and 700,000 new customers as quickly as possible. To this end, a powerful infrastructure was set up at our service provider and the systems, such as the contract management system, were adapted to the infrastructure. The result of this measure is that Deutsche Familienversicherung now has faster systems and sufficient storage capacities at its disposal for future growth.

In addition to the introduction of complex group insurance processes in the contract management system, the customer portal and the mobile apps were developed to make them capable of handling multiple clients in future.

Even if the CareFlex Chemie project is not implemented, Deutsche Familienversicherung benefits to a significant degree from the realised improvements and newly introduced systems.

Along with the implementation of CareFlex Chemie requirements, our digital services for our customers undergo continuous development.

For example, the DFV app received a rating of 4.9 out of 5 stars in both the Google Play Store as well as the Apple App Store, and it was named the best insurance app by AssCompact. The Deutsche Familienversicherung app offers our customers the ability to view and change all of their existing contracts, personal data and the DFV product world. Additionally, insurance cover can be flexibly adjusted and family, friends and acquaintances can easily be covered depending on the situation.

Deutsche Familienversicherung was also honoured as the best service for the submission and automatic processing of dentist invoices from among 37 insurance companies.

All the customer has to do is take a picture of the invoice in the DFV app and submit it. The subsequent processing then takes place fully automatically and the customer receives email confirmation just a few minutes later of the regulation of their claim.

Our chatbot 'Viktoria' garnered top honours in the comparison of insurance companies conducted by Aalen University. The DFV chatbot provides our customers with comprehensive information about insurance products as well as our service, and supports them in concluding an insurance contract.

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 policies		Changes		Written premiums		Changes	
	2020	2019	in units	in %	2020	2019	in € thousand	in %
Total supplementary health insurance	**440,060**	**412,001**	**28,059**	**6.8**	**105,928**	**85,004**	**20,924**	**24.6**
Health by type of loss	**352,125**	**331,191**	**20,934**	**6.3**	**69,246**	**54,835**	**14,411**	**26.3**
Supplementary dental insurance	281,876	253,185	28,691	11.3	67,303	53,018	14,285	26.9
Other health insurance by type of loss	70,249	78,006	−7,757	−9.9	1,943	1,817	126	6.9
Health by type of life	**87,935**	**80,810**	**7,125**	**8.8**	**36,682**	**30,170**	**6,512**	**21.6**
Supplementary care insurance	50,025	50,344	−319	−0.6	26,872	23,089	3,782	16.4
Other health insurance by type of benefit	37,910	30,466	7,444	24.4	9,810	7,080	2,730	38.6
Total property insurance	**113,387**	**102,103**	**11,284**	**11.1**	**8,809**	**5,915**	**2,894**	**48.9**
Pet health insurance	12,844	2,442	10,402	426.0	3,631	401	3,230	804.5
Electronics insurance	35,988	44,182	−8,194	−18.5	1,498	1,845	−347	−18.8
Other property insurance	64,555	55,479	9,076	16.4	3,680	3,668	12	0.3
Total	**553,447**	**514,104**	**39,343**	**7.7**	**114,737**	**90,919**	**23,818**	**26.2**

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

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 in € thousand		Changes		Net loss ratio in % of the earned premiums		Changes
	2020	2019	in units	in %	2020	2019	in % absolute
Total supplementary health insurance	**50,198**	**35,849**	**14,349**	**40.0**	**67.3**	**61.7**	**5.6**
Health by type of loss	**42,317**	**31,659**	**10,659**	**33.7**	**64.7**	**67.4**	**−2.7**
Supplementary dental insurance	41,053	30,125	10,928	36.3	65.2	67.1	−1.9
Other health insurance by type of loss	1,264	1,534	−270	−17.6	48.6	76.3	−27.7
Health by type of life	**7,881**	**4,190**	**3,691**	**88.1**	**73.0**	**44.6**	**28.4**
Supplementary care insurance	2,918	1,782	1,136	63.8	76.5	47.5	28.9
Other health insurance by type of benefit	4,963	2,409	2,555	106.1	66.1	38.7	27.4
Total property insurance	**2,446**	**2,512**	**−66**	**−2.6**	**25.7**	**50.0**	**−24.3**
Pet health insurance	1,835	210	1,625	775.0	55.9	60.0	−4.1
Electronics insurance	−57	326	−383	−117.4	−4.0	19.7	−23.7
Other property insurance	668	1,976	−1,308	−66.2	22.2	48.7	−26.5
Total	**52,644**	**38,361**	**14,283**	**37.2**	**63.0**	**60.6**	**2.5**

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

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
29.7%	41.0%	49.6%	59.1%	66.5%	61.5%	57.3%	56.0%	60.6%	63.0%

GROSS ACCOUNT RESULTS IN PRECEDING YEARS BY INSURANCE SEGMENT

Insurance segments	Account result in T€		Changes	
	2020	2019	in units	in %
Total supplementary health insurance	**−2,732**	**−832**	**−1,900**	**228.4**
Health by type of loss	−1,565	−833	−732	87.9
Health by type of life	−1,167	1	−1,168	n.a.
Total property insurance	**1,330**	**444**	**886**	**199.5**
Pet health insurance	28	0	28	n. a.
Electronics insurance	85	−81	166	−204.9
Other property insurance	1,217	525	692	131.8
Total	**−1,402**	**−388**	**−1,014**	**261.3**

2.2.1 Reinsurance

Deutsche Familienversicherung uses reinsurance for risk control. In the 2020 financial year, the company generated a positive result of € 3,968 thousand (previous year: € 786 thousand). Due to the increased premiums, higher reinsurance cessions also had to be recognised. At the same time, however, the reinsurers' shares in insurance benefits increased disproportionately.

2.2.2 Asset situation

Intangible assets amounted to € 8,848 thousand as of the reporting date (previous year: € 8,665 thousand). The change results from scheduled depreciation of the contract management system BSN for which investments continue to be made in the development.

Brought on by the capital increase in July 2020, which led to net proceeds – without taking income taxes into account – of € 31,177 thousand, the ongoing growth of the business and the resulting allocation to security assets, investments of € 121,742 thousand rose by € 13,325 thousand, or 10.9%, to € 135,067 thousand. Bank balances rose more significantly, increasing by € 34,023 from € 3,763 thousand to € 37,786 thousand. Cash and cash equivalents follow the investment strategy of Deutsche Familienversicherung and are primarily intended to be used to invest in property. As of 31 December 2020, some € 21 million deposits committed to property funds had not yet been called that were to be financed from the above-mentioned cash and cash equivalents.

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 2020 in the amount of € 17,673 thousand (previous year: € 14,331 thousand). The operating cash flow and the liquid funds raised from the capital increase (net proceeds of € 31,177 thousand) were used in particular to expand the investment portfolio of Deutsche Familienversicherung (net of € 12,721 thousand; previous year: € 26,667 thousand) and additional investments in intangible assets (€ 3,289 thousand; previous year: € 1,158 thousand). Cash and cash equivalents rose by € 34,023 thousand from € 3,763 thousand to € 37,786 thousand and is primarily intended to be used to servicing capital calls from property funds.

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

Earnings before taxes of € –10,583 thousand were below the previous year's figure (€ –5,222 thousand), but still within expectations. Earnings development was caused by the following factors:

- The targeted premium volume was achieved in terms of 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.
- The number of contracts acquired by the end of the year of 90,389 came in below the budgeted figure. However, the travel restrictions brought on by the COVID-19 crisis caused some 12,500 fewer foreign health insurance contracts to be concluded compared to the previous year.
- Efficiency in business processes and the high level of performance of employees led to lower personnel expenses than originally planned.
- Going forward, the conversion to an actuarial provision now calculated using the inflow of premiums will lead to more accrual-based and linear results; in the financial year, however, this had a negative impact of € 1.0 million on the company.

In consideration of tax effects, this means an annual result of € –7,434 thousand (previous year: € –2,100 thousand). With a loss before taxes of € 10,583 thousand, the company finished the year within the expected loss corridor of between € 9 million and € 11 million.

In light of the turbulence on the market due to the COVID-19, the situation of the company and consolidated income should be considered quite positive. On the one hand, Deutsche Familienversicherung managed to increase written premiums by 26.2%, while the market as a whole only grew by 1.2%. On the other hand, earnings were influenced by extraordinary items without which consolidated income would have been significantly better:

1. One-time CareFlex Chemie expenses (approx. € 3.0 million)
2. The realisation of losses through the sale of investments at the beginning of the COVID-19 crisis, while the subsequent market recovery is presented outside of the income statement in other income (before taxes: € 3.3 million)
3. The conversion of the calculation of the ageing provision to follow the inflow of premiums (approximately € 1.0 million)

The asset situation of Deutsche Familienversicherung improved once again as a result of the capital increase and the positive course of business in spite of the pandemic, with investments increasing by € 13,325 thousand to € 135,067 thousand.

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.

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 October 2021. 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 2020 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.

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 reinstatement 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.

For information on the request from BaFin that Deutsche Familienversicherung have an independent consulting firm review the calculation of its insurance products by type of life, in particular the determination of the calculation interest rate, please refer to section 2.1.

Although Deutsche Familienversicherung, in agreement with its legal advisors, is of the opinion that if the actuarial interest rate on which the premium calculation is based is too high, it will be possible to change this rate at the next premium adjustment, there is a latent risk that it will not be possible to adjust the premium adjustment required as a result of a shortfall in the interest result or a structural failure to achieve the actuarial interest rate in accordance with the tariff – at the expense of the policyholders. In this case, where Deutsche Familienversicherung believes it is unlikely that it will be necessary to increase the present value of benefits of all tariffs with an actuarial interest rate of more than 1.75% at the expense of equity, the latent risk for the contract portfolio as of 31 December 2020 amounts to approximately € 11.4 million gross or € 4.3 million net after compensatory effects (including reinsurance).

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. Deutsche Familienversicherung received gross proceeds in the amount of € 32.36 million in conjunction with the capital increase in July 2020.

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 € 1,830 thousand existed as of the balance sheet date (previous year: € 1,263 thousand). Receivables from policyholders were revalued by 49.6% as of the balance sheet date (previous year: 45.9%). 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 accrued interest receivables and 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
- Munich Re of Malta p.l.c. – Ta' Xbiex, Malta
- Partner Reinsurance Europe SE – Zurich, Switzerland
- R+V Versicherung AG – Wiesbaden, Germany
- SCOR Global Life Deutschland, Cologne, branch of SCOR Global Life SE – Paris, France
- Swiss Re Europe S.A. – Munich, Germany
- VIG Re as – Prague, Czech Republic

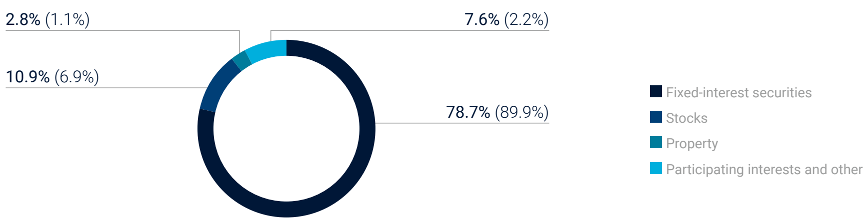
As part of the ORSA process and the regular determination of counterparty default risks, Deutsche Familienversicherung reviews the economic development of its reinsurance partners, in particular possible changes in the ratings of the above-mentioned reinsurance companies. The risk strategy of Deutsche 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 capital 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 2020.

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 2020, total investment assets totalled € 135,067 thousand (previous year: € 121,742 thousand) which were, in particular, invested in the 'HI DFV Master Fund' as of the reporting date. The DFV Multi-Asset Fund was renamed during 2020 due to a change in the capital management company. At the end of 2020, the funds generated from the capital increase in July 2020 were still largely invested as cash and cash equivalents. These funds will be reallocated to longer-term investments over the course of 2021 in accordance with the investment strategy of Deutsche Familienversicherung.

The investment policy of the HI DFV Master 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 HI DFV Master 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 HI DFV Master 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 € thousand
Fixed-interest securities	Interest increase of 1%	–5,275
Fixed-interest securities	Interest decrease of 1%	+5,275
Stocks	Price increase of 10%	+1,744
Stocks	Price decrease of 10%	–1,744

The calculation of interest rate risk is based on circular 11/2011 of the German Federal Financial Supervisory Authority entitled 'Zinsänderungsrisiken im Anlagebuch; Ermittlung der Auswirkungen einer plötzlichen und unerwarteten Zinsänderung' ('Interest rate risk in the banking book; determining the effects of a sudden and unexpected change in interest rates'). The calculation is made without options on annuities and swap options.

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 2020. 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.

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 HI DFV Master Fund in accordance with long-term planning to hedge underwriting liabilities. The availability of investments in the HI DFV Master 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. 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 Reputational 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.

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 scheduled 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 2020

As expected, gross premiums written rose by 26.2% from € 90,919 thousand to € 114,737 thousand thanks to the significant increase in new business.

With earnings before taxes of € –10,583 thousand, Deutsche Familienversicherung also falls within the corridor of between € –9 million and € –11 million despite the COVID-19 pandemic and significantly decreased sales figures with regard to foreign health insurance.

It should also be noted that Deutsche Familienversicherung reached this corridor, although it was well under (approximately € 2.0 million) expectations in this area with income from capital investments under IFRS in the amount of € 864 thousand. From an economic perspective, however, earnings expectations were met in this area. From a perspective of total return, Deutsche Familienversicherung generated investment revenue of 3.2% based on the average capital investment portfolio in 2020. At the beginning of the COVID-19 crisis, losses were realised through profit and loss in the income statement, while the recoveries of market values in the subsequent months in the amount of € 3,286 thousand are presented after taxes in other income.

Adjusted for this effect, Deutsche Familienversicherung met the earnings forecast of the previous year. Other one-time effects on earnings in 2020 are explained under 2.4 of this group management report.

5 OUTLOOK 2021

5.1 Macroeconomic and industry-specific framework conditions

In January 2021, the German government forecast GDP growth for the German economy of 3.0% for 2021.

According to the Gesamtverband der Deutschen Versicherungswirtschaft e. V. (German Insurance Association – GDV), German insurers recorded an increase in premium income of 1.2% to some € 220 billion in the financial year. German insurers look to the year 2021 with confidence in spite of the uncertainty about the coming developments in the economy. The GDV expects a noticeable increase in premium development in 2021.

5.2 Company forecast

For 2021, Deutsche Familienversicherung plans linear continuation of the growth begun in 2019. New business volume of around € 30 million is thus to be realised again. In light of this, high contract conclusion costs in 2021 are also expected in the same amount as the planned volume of new business. For all insurance segments, a significant increase in the portfolio of policies and gross premiums earned will be realised again in 2021, 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.

The persistence of low interest rates, in particular for European bonds, the weakening of global growth, continued uncertainty about future trade relations between the United Kingdom and the European Union, still-unpredictable effects from the political objective of the carbon-neutral restructuring of the European economy and the restrictions due to the COVID-19 pandemic do not lessen the challenges of generating sustainable investment revenue.

Provided that the uncertain political and economic conditions described above do not lead to any extraordinary negative influences on results, Deutsche Familienversicherung expects a significant improvement in earnings in 2021 and a positive result in 2022, taking into account the planned further expansion of existing policies through new contracts.

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

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 2020 financial year, the Executive Board of Deutsche Familienversicherung consisted of three 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 of five members during the 2020 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 at least 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 DFV Deutsche Familienversicherung AG and the consolidated financial statements for the 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 for an exchange-listed company 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 Declaration on Corporate Governance

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

Compliance with the German Corporate Governance Code

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.

In March 2021, 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:

‘Declaration 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 (DCGK) 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 (version dated 16 December 2019) with the following exceptions:

Recommendation A.5
In the event of a takeover offer, the Management Board should convene an Extraordinary General Meeting at which shareholders will discuss the takeover offer and may decide on corporate actions.

The Company does not follow this recommendation because over 60% of shares are held by the Founder and existing shareholders, who will take any decision about a takeover offer independently of an Extraordinary General Meeting.

Recommendation B.5
An age limit shall be specified for members of the Management Board and disclosed in the Corporate Governance Statement.

The Company does not follow this recommendation because it believes this would represent a violation of the German General Equal Treatment Act (AGG).

Recommendation C.2
An age limit shall be specified for members of the Supervisory Board and disclosed in the Corporate Governance Statement.

The Company does not follow this recommendation because it believes this would represent a violation of the German General Equal Treatment Act (AGG).

Recommenation C.7
More than half of the shareholder representatives shall be independent from the company and the Management Board.

The Company does not follow this recommendation because the material shareholdings are represented by their own representatives on the Supervisory Board.

Recommendations D.2 to D.5
Depending on the specific circumstances of the enterprise and the number of Supervisory Board members, the Supervisory Board shall form committees of members with relevant specialist expertise (including Audit and Nomination Committees).

The Company does not follow this recommendation because it believes that forming committees would represent an unreasonable organisational burden for the Company from a proportionality perspective, due to its size and the number of Supervisory Board members.

Recommendation D.11
The Audit Committee shall conduct an evaluation of the quality of the audit on a regular basis.

The Company does not follow this recommendation. This duty is attended to by the Executive and Supervisory Boards given the lack of an Audit Committee.

Recommendation G.6
The share of variable remuneration achieved as a result of reaching long-term targets shall exceed the share from short-term targets.

The Company does not follow this recommendation because the Company has not developed to such an extent that it would be appropriate to set long-term targets as the predominant basis for variable remuneration.

Recommendation G.7
Referring to the forthcoming financial year, the Supervisory Board shall establish performance criteria for each Management Board member covering all variable remuneration components; besides operating targets, such performance criteria shall be geared mainly to strategic goals. The Supervisory Board shall determine to what extent individual targets for each Management Board member – or targets for the Management Board as a whole – are decisive for the variable remuneration components.

The Company does not follow this recommendation because the Company does not consider individual Executive Board member targets appropriate. Targets apply for the Executive Board as a whole in its function as a collegiate body.

Recommendation G.8
Subsequent changes to the target values or comparison parameters shall be excluded.

The Company does not follow this recommendation because it believes that it must have the option of adapting target values or comparison parameters to the prevailing conditions if they should subsequently change.'

Frankfurt/Main, March 2021

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. Additionally, all key functions report directly to the Executive Board in a key function meeting held regularly every four weeks.

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 2020 were as follows:

- Accounting, Solvency II, Controlling, Capital Investments, Human Resources, Legal and Compliance (key function), Data Protection, IP/PR, Independent Risk Control Unit[1] (key function) (Dr Knoll)
- Sales, Marketing, Product Development, Reinsurance, Operations, Actuarial Services, Actuarial Mathematics (key function) (Schinnenburg)
- IT (including Data Management, IT Project Management, Application Development), Digital Development, Document Management, Claim/Payment, Internal Audit (key function), Facility Management (Wollny)

[1] According to BaFin circular 2/2017 (VA), section 8.1.3 (no. 30), as a solution for the Executive Board as a whole.

The Executive Board meets regularly, at least once 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 2020 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 firmly embedded in the company's corporate policy. That means that the only criteria taken into consideration when appointing leadership as well as all other 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, non-substitutive by type of life insurance	02.8.3
— 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	29.03.05

CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET AS OF 31 DECEMBER 2020

ASSETS

In €	Notes	31.12.2020	31.12.2019 adjusted	31.12.2018 adjusted
A. Intangible assets	10.1	**8,847,905**	**8,664,778**	**9,204,617**
B. Rights of use for property pursuant to IFRS 16	10.2	**1,368,874**	**2,053,311**	**0**
C. Investments				
I. Loans receivable		0	0	0
II. Financial investments held for sale		132,564,689	121,742,488	90,053,043
III. Financial investments measured at fair value through profit or loss		2,502,500	0	0
Total C.	10.3	**135,067,189**	**121,742,488**	**90,053,043**
D. Receivables				
I. Receivables from direct insurance business				
1. From policyholders		1,791,125	1,227,211	538,022
2. From insurance brokers		39,326	35,386	183,906
		1,830,451	**1,262,598**	**721,928**
II. Other receivables		2,295,182	3,987,406	4,199,093
Total D.	10.4	**4,125,633**	**5,250,004**	**4,921,021**
E. Current bank balances		**37,786,113**	**3,763,249**	**9,033,485**
F. Share of reinsurers in underwriting provisions				
I. Unearned premiums	10.5.1	877,789	558,987	558,144
II. Actuarial provisions	10.5.2	49,235,319	37,021,379	30,487,674
III. Provisions for outstanding claims	10.5.3	5,724,612	2,904,870	3,970,737
IV. Other underwriting provisions		12,194	14,655	1,903
Total F.	10.5	**55,849,914**	**40,499,892**	**35,018,458**
G. Tax receivables				
I. From current taxes		1,358	0	0
II. From deferred taxes		5,026,653	5,873,839	2,010,171
Total G.	10.6	**5,028,011**	**5,873,839**	**2,010,171**
H. Other assets	10.7	**2,550,882**	**2,755,912**	**5,074,447**
Total assets		**250,624,521**	**190,603,473**	**155,315,242**

LIABILITIES

In €	Notes	31.12.2020	31.12.2019 adjusted	31.12.2018 adjusted
A. Equity				
I. Subscribed Capital		29,175,560	26,523,240	25,507,750
II. Capital reserve		72,737,638	43,835,735	38,889,088
III. Loss carried forward		−6,558,264	−4,457,904	−2,135,969
IV. Unrealised gains and losses	11.1	2,933,527	695,670	−770,357
V. Consolidated net loss for the year attributable to the shareholders of the parent company		−7,434,202	−2,100,360	−2,321,935
Total A.		**90,854,260**	**64,496,381**	**59,168,577**
B. Gross underwriting provisions				
I. Unearned premiums	11.2.1	3,338,300	2,965,818	2,537,001
II. Actuarial provisions	11.2.2	70,674,538	51,078,393	42,570,283
III. Provisions for outstanding claims	11.2.3	14,801,380	13,046,828	10,268,949
IV. Other underwriting provisions	11.2.4	2,256,308	1,507,888	867,942
Total B.	11.2	**91,070,526**	**68,598,927**	**56,244,175**
C. Other provisions	11.3	**3,447,524**	**3,372,293**	**871,556**
D. Liabilities				
I. Liabilities from direct insurance business				
1. To policyholders		453,588	237,180	195,886
2. To insurance brokers		962,127	891,643	1,416,530
		1,415,715	**1,128,823**	**1,612,417**
II. Deposits retained		51,753,759	42,567,519	32,840,383
III. Liabilities from reinsurance business		6,636,664	126,910	159,472
III. Other liabilities		5,446,072	6,484,884	3,255,219
Total D.	11.4	**65,252,210**	**50,308,136**	**37,867,491**
E. Tax liabilities				
I. From current taxes		0	550,510	197,820
II. From deferred taxes		0	3,277,226	965,622
Total E.	10.6	**0**	**3,827,737**	**1,163,442**
Total liabilities		**250,624,521**	**190,603,473**	**155,315,242**

With regard to the equity structure adjusted in the values carried forward, please refer to section 2 of the notes.

STATEMENT OF COMPREHENSIVE INCOME

In €	Notes	2020	2019
I. Income statement			
1. Written premiums			
a) Gross		114,736,817	90,919,027
b) Share of reinsurers		52,786,925	36,125,527
		61,949,892	**54,793,500**
2. Change in unearned premiums			
a) Gross		−372,482	−428,817
b) Share of reinsurers		318,801	843
		−53,681	**−427,973**
3. Net earned premiums		**61,896,211**	**54,365,526**
4. Income from capital investments	12.2	**863,617**	**3,401,055**
Of which: income from associates		0	0
5. Other revenue	12.3	**328,069**	**629,608**
Total revenue		**63,087,896**	**58,396,189**
6. Insurance benefits			
a) Gross		73,239,397	48,035,322
b) Share of reinsurers		33,700,060	15,084,904
	12.4	**39,539,337**	**32,950,418**
7. Expenses for insurance operations			
a) Gross		52,920,550	47,224,132
b) Share of reinsurers		22,733,470	21,838,522
	12.6	**30,187,080**	**25,385,610**
8. Other expenses	12.7	**3,924,703**	**5,263,494**
Total expenses		**73,651,120**	**63,599,522**
9. Operating income		**−10,563,224**	**−5,203,333**
10. Financing expenses for leases	13.8	**19,406**	**19,098**
11. Annual result before income taxes		**−10,582,630**	**−5,222,431**
12. Income taxes	12.8 and 12.9	**−3,148,428**	**−3,122,071**
13. Annual income		**−7,434,202**	**−2,100,360**
Of which attributable to shareholders in the parent company		−7,434,202	−2,100,360
Earnings per share	12.10	**−0.53**	**−0.16**
II. Other income			
14. Unrealised gains and losses from capital investments		**2,237,858**	**1,466,027**
Total other comprehensive income		**2,237,858**	**1,466,027**
III. Total comprehensive income		**−5,196,344**	**−634,333**
Of which attributable to shareholders in the parent company		−5,196,344	−634,333

DEVELOPMENT OF CONSOLIDATED EQUITY

In € thousand	Subscribed capital	Capital reserve	Loss and loss carried forward	Unrealised gains and losses	Expenses for the procurement of equity	Consolidated equity
As of 31 December 2018	**25,508**	**39,775**	**–2,872**	**–770**	**–2,473**	**59,168**
Error correction, IAS 8.41 et seq. (IPO costs)	0	–886	–1,587	0	2,473	0
As of 31 December 2018 (corrected)	**25,508**	**38,889**	**–4,459**	**–770**	**0**	**59,168**
Consolidated comprehensive income	0	0	–2,100	1,466	0	–634
Capital increase	1,015	5,077	0	0	–130	5,962
As of 31 December 2019 (corrected)	**26,523**	**43,966**	**–6,559**	**696**	**–130**	**64,496**
Error correction, IAS 8.41 et seq. (overallotment transaction costs)	0	–130	0	0	130	0
As of 31 December 2019 (corrected)	**26,523**	**43,836**	**–6,559**	**696**	**0**	**64,496**
Consolidated comprehensive income	0	0	–7,434	2,238	0	–5,196
Capital increase	2,652	28,902	0	0	0	31,554
As of 31 December 2020	**29,175**	**72,738**	**–13,993**	**2,934**	**0**	**90,854**

With regard to changes in equity, we also refer to the notes in the management report and to section 2 and 3 of the notes with regard to the adjustment of the previous year's figures.

STATEMENT OF CASH FLOW

In €	2020	2019
1. Income for the period	−7,434,202	−2,100,360
2. Change in net underwriting provisions	7,121,578	6,855,752
3. Change in deposit receivables and liabilities as well as accounts receivable and payable	18,457,069	10,396,029
4. Change in other receivables and liabilities	1,821,825	3,186,788
5. Gains and losses from the disposal of capital investments	526,200	−3,407,687
6. Change in other balance sheet items	−5,877,788	1,335,223
7. Other expenses and revenue recognised through profit or loss	3,058,637	−1,934,288
I. Cash flow from operating activities	**17,673,319**	**14,331,457**
8. Incoming payments for the sale and maturity of other capital investments	127,148,740	2,814,805
9. Outgoing payments for the acquisition of other capital investments	−139,869,297	−26,666,642
10. Other payments received	1,885,141	0
11. Other outgoing payments	−3,288,988	−1,158,359
II. Cash flow from investing activities	**−14,124,404**	**−25,010,196**
12. Incoming payments from additions to equity	31,177,484	6,092,940
13. Repayment of lease liabilities	−703,535	−684,437
III. Cash flow from financing activities	**30,473,949**	**5,408,503**
Change in funds for financing purposes	34,022,864	−5,270,236
Funds for financing purposes at the beginning of the period	3,763,249	9,033,485
Funds for financing purposes at the end of the period	**37,786,113**	**3,763,249**

Cash and cash equivalents include current credit balances with credit institutions.

2020 SEGMENT REPORTING

BALANCE SHEET – ASSETS	Supplementary health		Damage/accident		Total	
In €	2020	2019	2020	2019	2020	2019
A. Intangible assets	**8,168,617**	**7,486,220**	**679,288**	**1,178,559**	**8,847,905**	**8,664,778**
B. Rights of use for property pursuant to IFRS 16	**1,263,780**	**1,919,736**	**105,094**	**133,575**	**1,368,874**	**2,053,311**
C. Investments						
I. Loans receivable		0		0		0
II. Financial investments held for sale	122,387,185	116,642,136	10,177,504	5,100,352	132,564,689	121,742,488
III. Financial investments measured at fair value through profit or loss	2,502,500	0	0	0	2,502,500	0
IV. Other capital investments		0		0		0
Total C.	**124,889,685**	**116,642,136**	**10,177,504**	**5,100,352**	**135,067,189**	**121,742,488**
D. Receivables						
I. Receivables from direct insurance business						
1. From policyholders	1,653,614	632,073	137,512	595,139	1,791,125	1,227,211
2. From insurance brokers	36,307	28,309	3,019	7,077	39,326	35,386
	1,689,920	660,382	140,531	602,216	1,830,451	1,262,598
3. Other receivables	2,118,972	3,728,011	176,210	259,395	2,295,182	3,987,406
Total D.	**3,808,892**	**4,388,393**	**316,741**	**861,611**	**4,125,633**	**5,250,004**
E. Share of reinsurers in underwriting provisions						
I. Unearned premiums	810,397	387,859	67,391	171,128	877,789	558,987
II. Actuarial provisions	49,235,319	37,021,379	0	0	49,235,319	37,021,379
III. Provisions for outstanding claims	5,285,111	1,729,275	439,501	1,175,596	5,724,612	2,904,870
IV. Other underwriting provisions	11,258	13,702	936	953	12,194	14,655
Total E.	**55,342,086**	**39,152,214**	**507,828**	**1,347,677**	**55,849,914**	**40,499,892**
F. Other segment assets	**41,882,160**	**11,586,792**	**3,482,847**	**806,208**	**45,365,007**	**12,393,000**
Total segment assets	**235,355,220**	**181,175,490**	**15,269,301**	**9,427,983**	**250,624,521**	**190,603,473**

BALANCE SHEET – LIABILITIES	Supplementary health		Damage/accident		Total	
In €	2020	2019	2020	2019	2020	2019
A. Gross underwriting provisions						
I. Unearned premiums	3,082,006	1,842,053	256,294	1,123,765	3,338,300	2,965,818
II. Actuarial provisions	70,674,538	51,078,393	0	0	70,674,538	51,078,393
III. Provisions for outstanding claims	13,665,021	7,963,400	1,136,359	5,083,427	14,801,380	13,046,828
IV. Other underwriting provisions	2,125,308	1,497,896	131,000	9,992	2,256,308	1,507,888
Total A.	**89,546,873**	**62,381,742**	**1,523,653**	**6,217,185**	**91,070,526**	**68,598,927**
B. Other provisions	**3,182,845**	**3,152,914**	**264,680**	**219,380**	**3,447,524**	**3,372,293**
C. Other segment liabilities	**64,215,882**	**53,383,310**	**1,036,328**	**752,562**	**65,252,210**	**54,135,873**
Total segment liabilities	**156,945,600**	**118,917,966**	**2,824,661**	**7,189,126**	**159,770,261**	**126,107,092**

2020 SEGMENT REPORTING

INCOME STATEMENT	Supplementary health		Damage/accident		Total	
In €	2020	2019	2020	2019	2020	2019
1. Written premiums from insurance business	105,928,028	85,004,423	8,808,789	5,914,604	114,736,817	90,919,027
2. Net earned premiums	55,457,444	49,356,283	6,438,767	5,009,243	61,896,211	54,365,526
3. Income from capital investments	797,313	3,258,569	66,303	142,486	863,617	3,401,055
4. Other revenue	322,130	620,073	5,938	9,535	328,069	629,608
Total revenue	**56,576,888**	**53,252,488**	**6,511,008**	**5,161,263**	**63,087,896**	**58,369,189**
5. Claim payments to customers	37,884,050	30,446,914	1,655,287	2,503,504	39,539,337	32,950,418
6. Expenses for insurance operations	22,388,463	22,193,199	7,798,617	3,192,410	30,187,080	25,385,609
7. Other expenses	3,623,388	4,778,515	301,315	484,979	3,924,703	5,263,494
Total expenses	**63,895,901**	**57,418,628**	**9,755,219**	**6,180,893**	**73,651,120**	**63,599,521**
8. Operating income	**−7,319,014**	**−4,183,704**	**−3,244,210**	**−1,019,630**	**−10,563,224**	**−5,203,333**
9. Financing expenses	17,916	17,339	1,490	1,759	19,406	19,098
10. Net income for the year before income taxes	**−7,336,930**	**−4,201,043**	**−3,245,700**	**−1,021,389**	**−10,582,630**	**−5,222,431**
11. Income taxes	−2,906,711	−2,511,466	−241,717	−610,604	−3,148,428	−3,122,070
12. Annual income	**−4,430,218**	**−1,689,574**	**−3,003,983**	**−410,785**	**−7,434,202**	**−2,100,360**

ADDITIONAL INFORMATION	Supplementary health		Damage/accident		Total	
In €	2020	2019	2020	2019	2020	2019
Interest revenue	2,648	3,165	220	321	2,868	3,486
Interest expenses	878,394	834,163	73,046	231	951,440	834,394
Scheduled depreciation and amortisation	2,806,181	824,060	233,357	305,522	3,039,538	1,129,582
Significant non-cash revenue (+) and expenses (−)[1]	0	0	0	0	0	0
Loss ratio (in %)	67.3	61.7	25.7	50.0	63.0	60.6

[1] Excluding scheduled depreciation and amortisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2020 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 2020 but were not mandatory for the 2020 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, 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 health insurance
- Electronics insurance

Private supplementary health insurance and long-term care insurance

- **Supplementary health insurance, underwritten according to the type of life insurance**
  - Supplementary long-term care insurance
  - State-aided care provision insurance
  - 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 Changes to standards and interpretations in the reporting year

The standards presented in the table below were applicable from 1 January 2020 onwards. Where they concerned the DFV Group, they have been incorporated into these consolidated financial statements.

FIRST-TIME APPLICATION	NEW OR AMENDED STANDARDS AND INTERPRETATIONS
01.01.2020	Definition of a Business (Amendments to IFRS 3 'Business Combinations')
	Definition of Material (Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors')
	Amendments to IFRS 9 – 'Financial Instruments', IAS 39 – 'Financial Instruments: Recognition and Measurement' and IFRS 7 – 'Financial instruments: Disclosures' – Amendments to the general concept of accounting

Adopting these standards had no or no significant effect on the net assets, financial position and earnings situation of the DFV Group.

Amendments to IFRS 3 – Definition of a business

On 22 October 2018, the IASB published amendments to IFRS 3 relating to the definition of a business.

Deutsche Familienversicherung is not affected by these amendments.

Amendments to IAS 1 and IAS 8 – Definition of material

The amendments published on 31 October 2018 regarding the definition of material as relates to information contained in financial statements affect IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Together with additional explanations of their application, they are intended to make it easier to determine materiality when preparing financial statements pursuant to IFRS. Additionally, the amendment ensures a consistent definition of material throughout financial statements pursuant to IFRS. This was endorsed by the EU on 29 November 2019.

Deutsche Familienversicherung is not affected by these amendments.

Amendments to IAS 39, IFRS 9 and IFRS 7 – Interest benchmark reform

The reason for the amendments to IAS 39 and IFRS 9, as well as the IBOR reform, is the removal of the interbank offered rates (IBOR) as a benchmark interest rate. In particular, this affects the presentation of hedging relationships in the balance sheet pursuant to IFRS, the forward-looking assessment of effectiveness of hedging relationships, the adjustment of the 'highly probably' criterion with regard to cash flow hedges and the IBOR risk component.

Deutsche Familienversicherung is not affected by these amendments.

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

IFRS 17 – Insurance Contracts (EU endorsement procedure complete)

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.

The final new standard IFRS 17 (Insurance Contracts) must be applied for the first time as of 1 January 2023.

IFRS 17 largely applies to all insurance and reinsurance contracts written by an entity. The definition of insurance contracts was adopted from IFRS 4.
- Financial guarantees, provided the user exercises the option to treat them as financial instruments,
- product warranties, assets and liabilities from pension plans,
- contingent contractual rights and obligations arising from non-financial items,
- residual value guarantees,
- contingent payments from business combinations and
- companies as policyholders.

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. Under the VFA, 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. 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.

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 standards of Deutsche Familienversicherung'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 DFV consolidated financial statements. This affects large parts of the company, in particular also with regard to planning and simulation processes.

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

Challenges in the future interaction of IFRS 9 and IFRS 17

The main challenge in the joint application of IFRS 9 and IFRS 17 is to avoid an accounting mismatch. In this context, the possibility to exercise the OCI option for financial instruments on the assets side and for insurance contracts on the liabilities side mostly congruently is of major importance.

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. Companies that primarily conduct insurance business have the option of utilising the temporary exemption from applying IFRS 9. DFV meets the requirements for this (insurance had a 100% share of the Group's activities on 31 December 2015, there has not been any change in business in the meantime) and takes advantage of the deferral for reasons including the interaction of financial-instrument and insurance policy recognition. The disclosures for the deferral approach (fair value of the financial instruments currently in the portfolio, subdivided by the SPPI criterion, and disclosures about the payment default risks for securities passing the SPPI test) are presented in section 13.5 of the notes 'Disclosures on the temporary exemption from IFRS 9' and aim to enable a level of comparability with companies already applying IFRS 9. 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 9 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:

- Creation of a project group
- Inclusion of the departments involved
- Workshop on the implement with external consultants
- Evaluation of tools for the calculation of cash flows

2 FINDINGS OF THE GERMAN FINANCIAL REPORTING ENFORCEMENT PANEL (FREP) FOR THE 2018 CONSOLIDATED FINANCIAL STATEMENTS

The German Financial Reporting Enforcement Panel (FREP) has found that the consolidated financial statements as of the reporting date 31 December 2018 and the consolidated management report for the 2018 financial year of DFV Deutsche Familienversicherung AG, Frankfurt am Main, contain errors. These findings were published in the Federal Gazette (Bundesanzeiger) on 9 February 2021 and are also available on the company website at https://ir.deutsche-familienversicherung.de/websites/dfv/German/2000/publikationen.html.

The findings of the FREP with regard to the costs of the IPO not recognised in profit or loss are presented in the following. Pursuant to the IDW statement on accounting 'Changes to annual and consolidated financial statements' (IDW RS HFA 6), consolidated financial statements must generally be adjusted on an ongoing basis (IDW RS HFA 6 Rn. 43 in conjunction with IDW RS HFA 6 Rn. 21). In the financial statements under commercial law, the costs of the IPO were already recognised in profit or loss in 2018, so there is no change in this regard. In accordance with IFRS 8.14, the changes are reflected by adjusting the value from the previous year in these consolidated financial statements.

'Costs of the IPO

Consolidated earnings before taxes is too high in the consolidated income statement for the 2018 financial year, because costs in conjunction with the IPO in December 2018 were not subtracted as expenses, but as transaction costs (IAS 39.9 'Transaction Costs') directly in equity. At approximately € 0.8 million, this item concerns costs which did not meet the criteria for recognition directly in equity under IAS 32.35 and IAS 32.37, on which € 0.6 million was for the issue of shares to employees. Of the other costs in the amount of € 2.8 million, approx. € 2.2 million thereof relates to the issue of 3.8 million new shares as well as to the first-time exchange listing of 9.0 million shares already in existence. These costs in the amount of € 2.2 million are attributable to both the creation of equity as well as the IPO as a whole, as two independent transactions in terms of cost allocation. Because these costs were not allocated to the two transactions using a sensible allocation formula, and were therefore not recognised pro rata as an expense, this represents a violation of IAS 32.35 and IAS 32.38.

Additionally, other income of approximately € 2.5 million was too low, because the costs of the IPO offset in equity in the amount of € 3.6 million, less tax effects in the amount of € 1.1 million, were included. This is in violation of IAS 1.109.

The recognition in the statement of changes in equity of the transaction costs as independent equity components is also in violation of IAS 1.106 (d) (iii) in conjunction with IAS 1.109.’

In this context, we note the following explanatory points:

- In accordance with IFRS, the costs of the IPO – these amounted to approx. € 3.6 million for the IPO of Deutsche Familienversicherung in 2018 – are to be divided according to sensible formulas in the event of simultaneous placement of existing and new shares (IAS 32.38). The portion which relates to the raising of new capital – that is, which relates to the placement of new shares – is to be recognised directly in equity, while the portion for enabling the trading of existing shares is to be recognised in expenses.
- Deutsche Familienversicherung carried out the IPO exclusively for the acquisition of new capital. Existing shares were not disposed of as part of the IPO and could not be disposed of by shareholders within the first twelve months after their listing. In light of this, the total costs of the IPO were allocated to the new shares and recognised in equity.
- Until the consolidated financial statements for the 2019 financial year, these expenses of € 3.6 million, less income taxes of € 1.1 million, have been reported under expenses for the procurement of equity of € 2.5 million. Furthermore, the amount of € 2.5 million has been recognised as other comprehensive income in the statement of comprehensive income for the 2018 financial year.

In this context, the FREP made the following findings of error:

A. Changes in recognition

- The item ‘Expenses for the procurement of equity’ is to be offset directly against the capital reserve.
- Expenses in conjunction with the procurement of equity must be offset against equity without no effect on profit or loss and may not be reported as other comprehensive income in the statement of comprehensive income.

B. Valuation changes

- Of the expenses of € 3.6 million, € 0.8 million relate to expenses which, in the opinion of the FREP, do not meet the requirements for recognition directly in equity, as there is no direct link to the capital increase. Of this amount, € 0.6 million relates to the issue of shares to employees in the form of share-based remuneration. (However, these shares were issued to employees exclusively in connection with the IPO, which means that DFV believes it has been appropriate to recognise them directly under equity.)
- Furthermore, the expenses of € 3.6 million include expenses of € 2.2 million which the FREP considers to have not been allocated in accordance with ‘sensible formulas’ and, as a result, at least some of these costs should have been included in the 2018 expenditure. On the basis of a breakdown of this total expenditure in proportion to the number of shares in the two transactions (i.e. the issue of 3.8 million new shares and the initial listing of 9.0 million existing shares), it now emerges that a share of € 1.5 million of the € 2.2 million was allocated to the IPO and should therefore have been recognised directly as an expense (from DFV’s point of view, however, these expenses were almost exclusively caused by the issue of the 3.8 million new shares, which meant that, in DFV’s view, it was appropriate to recognise them in directly in equity).

C. Total comprehensive income

- Nevertheless, Deutsche Familienversicherung has followed the opinion of the FREP in these consolidated financial statements, which results in the following effects:
  a) The item 'Expenses for the procurement of equity' in the amount of € 2.5 million (expenses of € 3.6 million less € 1.1 million in income taxes) was dissolved.
  b) The loss carried forward was increased by € 1.6 million (expenses of € 2.3 million less € 0.7 million in income taxes): € –0.6 million due to full recognition in profit or loss (expenses of € 0.8 million less € 0.2 million in income taxes) and € –1.0 million due to proportional recognition in profit or loss (expenses of € 1.5 million less € 0.5 million in income taxes).
  c) The difference of € 0.9 million (expenses of € 1.3 million less € 0.4 million in income taxes) was offset against the capital reserve.
  d) The determination has no effect on the future ability to pay dividends, because the costs had already been included in expenses under the HGB.

3 ADJUSTMENT OF THE MEASUREMENT AND REPORTING

No measurement adjustments were made in the reporting year.

Due to the findings of the FREP for the 2018 consolidated financial statements, the costs after taxes from 2019 – which related to the issue of overallotment shares (€ 130 thousand) – from the item 'Expenses for the procurement of equity' were reclassified within other reserves in equity to the capital reserve. The item 'Expenses for the procurement of equity' is thus no longer visible in these consolidated financial statements. In total, equity remained unchanged by this reclassification.

The recognition of deferred taxes has also been corrected. The deferred tax assets for the income tax loss carried forward, recognised in table 10.6 'Deferred taxes', were reclassified from the 'Thereof recognised in the income statement' column to the 'Thereof directly in equity' column at the previous year's recognised amount of € 480 thousand, as the corresponding costs of procuring equity for the 2018 IPO and 2019 overallotment shares were also taken directly to equity. The taxes were recognised directly in equity for this reason.

The reconciled amount in table 12.9 'Reconciliation of expected income taxes to reported income taxes' was allocated to capital investments. This is an error correction in the reporting according to IAS 8.41 et seq. in the amount of € 1,491 thousand.

4 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:

- Determination of the underwriting reserves
- Determination of the provision for onerous contracts
- 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
- Determination of deferred tax assets for losses carried forward

Any and all estimates and use of discretion are reviewed on an ongoing basis and are based on past experience and other factors, including expectations that are of future events with the potential to influence the Company financially and that are considered proper in the given circumstances.

5 RECOGNITION AND DERECOGNITION OF ASSETS AND LIABILITIES

Assets are recognised if it is likely that their future economic benefits will flow to the company, the company can control the inflow of economic benefits 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.

6 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. When fair values are determined on the basis of non-market-related input factors, by nature there is scope for discretion, 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.

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

7.1 Impairment pursuant to IAS 36

Pursuant to IAS 36 (Impairment of Assets), all intangible and tangible assets used over the long term 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. 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. 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 from continued use). 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.

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.

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 and then proportionately to the other assets on the basis of their carrying amounts, and is immediately recognised in the result for the period.

Impairments of goodwill are shown in a separate item in the income statement. Allowances on other intangible assets, other receivables and other assets are recognised 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.

7.2 Impairment pursuant to IAS 39

The impairment concept under IAS 39 applies to capital investments. This concept depends on the classification of the financial instruments, which are described in more detail in subsection 9.3. Deutsche Familienversicherung categorises its capital investments as 'financial investments held for sale' and 'financial investments measured at fair value through profit or loss'; their impairment concept is described below.

7.2.1 Financial investments held for sale

The 'financial investments held for sale' include fixed-interest securities and non-fixed-interest securities which Deutsche Familienversicherung does not intend to sell directly and are not assigned any other category. They are recognised at fair value on the balance sheet (IFRS 13), which is explained in subsection 13.4.

For **fixed-interest securities**, the premium and discount amounts are distributed over the term using the effective-interest method and taken to profit or loss in income from capital investments. Unrealised gains and losses from changes in fair value are recognised within equity through the 'unrealised gains and losses' line item, factoring in accrued interest and deferred taxes in other comprehensive income and on the balance sheet. Changes in value from impairment losses, on the other hand, are recognised through profit or loss.

An indication of fixed-interest security impairment is when the debtor's creditworthiness reduces drastically or is at risk. Signs of this can include its rating being lowered by two notches or more, non-payment of interest income, the likelihood of insolvency and the current market situation. Deutsche Familienversicherung makes an individual assessment that incorporates the above signs to determine if market interest rate fluctuation directly in equity or an impairment loss is relevant. Impairment losses reflect fair value when they are recognised. If the fair value increases during a subsequent period and this increase can objectively be attributed to an event occurring after the impairment is recorded in profit or loss, the impairment expense is reversed.

A write-down 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 20% on the balance sheet date. For equity instruments recognised at acquisition cost, an impairment write-down is also carried out at fair value through profit or loss if there is a significant decline in the fair value. Deutsche Familienversicherung assesses this case by case, using the same rules as for actively traded equity instruments. Appreciations through profit or loss of equity instruments are not permitted.

7.2.2 Financial investments measured at fair value through profit or loss

All changes in the value of these financial instruments and interest and dividends are recognised through profit or loss (line item: 'income from capital investments'). This also includes impairment pursuant to IAS 39.

8 CONSOLIDATION PRINCIPLES AND GROUP REPORTING ENTITY

8.1 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, provided the aforementioned requirements have been met. 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 generally 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.

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 Deutsche Familienversicherung 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.

8.2 Group reporting entity

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

Deutsche Familienversicherung (Group) consists of six (previous year: five) consolidated companies. This includes, in addition to the parent company and the four subsidiaries, one special fund (HI DFV Master Fund, 100% share).

There are no joint ventures or associated companies.

LIST OF CONSOLIDATED SUBSIDIARIES	**Registered office**	**Investment carrying amount**	**Investment quota**	**Subscribed capital**	**Equity**	**Last year's result**
COMPANY		In € thousand	In %	In € thousand	In € thousand	In € thousand
DFVS Deutsche Familienversicherung Servicegesellschaft mbH	Frankfurt am Main	25.0	100.00	25.0	255.8	−49.4
DFVV Deutsche Familienversicherung Vertriebsgesellschaft mbH	Frankfurt am Main	135.0	100.00	25.0	143.9	0
DFVR Deutsche Familienversicherung Rechtsschutz-Schadenabwicklungsgesellschaft mbH	Frankfurt am Main	25.0	100.00	25.0	26.4	−1.6
DFV Deutsche Familienversicherung Krankenversicherung-Vermittlungs-AG	Frankfurt am Main	50.0	100.00	50.0	49.4	−0.6

9 ACCOUNTING AND VALUATION METHODS

9.1 Intangible assets

Other intangible assets include purchased software. Purchased software is recognised at amortised acquisition 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.

9.2 Right of use pursuant to IFRS 16

IFRS 16 sets out principles for the recognition, valuation, disclosure and notes on leases with the aim of ensuring that lessees and lessors provide relevant information on the effects of leases. A lease exists if the lessee is contractually granted the right to control an identified asset by the lessor for a specified period of time and the lessor receives consideration from the lessee in return.

As a lessee, Deutsche Familienversicherung recognises an asset for the right of use obtained and a lease liability. The right of use is measured at an acquisition cost which is equivalent to the lease liability when first measured. The right of use is amortised on a straight-line basis as of the subsequent measurement until the lease expires. Impairment write-downs are performed where necessary. The lease liability amount recognised is the present value of the remaining lease payments. Discounting is generally assessed using the lessee's incremental borrowing rate. The lease liabilities are measured at amortised cost using the effective-interest method.

DFV 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. Additionally, pursuant to the provisions of IFRS 16, no low-value assets nor those which are not directly attributable to Deutsche Familienversicherung are recognised.

Only the rented office building is presented on the balance sheet in the 2020 financial year.

9.3 Investments

Financial instruments

At the time of acquisiton, financial instruments are allocated to the four categories according to IAS 39. They include 'loans and receivables', 'held-to-maturity investments', 'available-for-sale financial assets' and 'financial assets at fair value through profit or loss'.

The capital investments at Deutsche Familienversicherung are currently only categorised as 'available for sale' or 'financial investments measured at fair value through profit or loss'. Financial instruments are initially recognised on the fulfilment date.

'Financial instruments available for sale'

The 'available-for-sale' category 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 bonds, shares, investment shares and other shareholdings.

Measurement within this category is done at either fair value or acquisition cost.

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). Pursuant to IFRS 13, the method to determine the fair values results in an allocation to a specific hierarchy level. The hierarchy levels are explained and quantified in subsection 13.4. The measurement methods for identifying the fair value are also explained there if there are no quoted market prices (levels 2 and 3).

'Financial instruments available for sale' measured at fair value

'Financial instruments available for sale' are recognised at fair value if this fair value can be calculated reliably. For listed securities, this is generally the market value. This category represents a material component of the Deutsche Familienversicherung capital investment portfolio, with listed bonds, shares and investment shares.

For fixed-interest securities, the premium and discount amounts are distributed over the term using the effective-interest method and taken to profit or loss in income from capital investments.

Changes in value resulting from the difference between fair value and amortised acquisition cost are recognised after tax in other comprehensive income. If there is objective evidence of impairment, a write-down is carried out through profit or loss. Please refer to subsection 7.2 for information regarding the recognition of impairment and potential appreciation.

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.

'Financial instruments available for sale' measured at acquisition cost

Equity instruments for which no quoted prices or observable market data are available are recognised at acquisition cost.

Changes in fair value are generally not recognised for these assets. A write-down to the fair value through profit or loss is only done if there is objective evidence of impairment. Such write-downs are not reversed.

Financial investments measured at fair value through profit or loss

At Deutsche Familienversicherung, convertible bonds in particular fall into this category. They are recognised at fair value, which is usually the market rate. All changes in value and interest and dividends are recognised through profit or loss (line item: 'income from capital investments').

9.4 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.

9.5 Cash and cash equivalents

Cash and cash equivalents are reported at the nominal value.

9.6 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.

9.7 Current and 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).

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. In addition, deferred tax assets are formed for unused tax losses carried forward provided they can likely be used within five years.

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. If the taxes can be offset against each other, deferred tax assets and liabilities are recognised net.

Current taxes are calculated based on the taxable income of the Group's companies. Should this produce payment obligations to tax authorities, they are recognised as current tax liabilities. If overpayment or refund entitlements should arise, they are recognised as current tax assets.

9.8 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.

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

9.9 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. 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. They reduce capital reserves after offsetting tax effects.

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

Reserve for unrealised gains and losses
The reserve for unrealised gains and losses includes changes recognised in other comprehensive income in the value of financial assets measured at fair value that are available for sale at any time, less deferred taxes.

9.10 Underwriting provisions (gross)

9.10.1 Unearned premiums
For short-term insurance policies such as property and accident insurance, premiums for future years that have already been collected are recognised pro rata temporis on an accrual basis as provisions for unearned premiums. These unearned premiums are earned in future periods in proportion to the insurance coverage provided. Deferred premium income is generally recognised for policies on a day-for-day basis.

9.10.2 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 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).

The valuation of the ageing provision is based on its strictly actuarial history. This value corresponds exactly to the value that is to be recognised in financial mathematics on the respective reporting date. As of the balance sheet date, this calculation is changed from the approximation method for determining the value of the ageing provision to be shown in the balance sheet, which was previously used in the prior reporting periods and is permissible under section 18, sentence 2, of the KVAV. The ageing provision is generally calculated prospectively in accordance with the statutory provisions of section 341f, paragraph 3, of the HGB. Both the value of the ageing provision recognised in the balance sheet and its calculation have been examined by the company's responsible actuary and found to be correct.

This conversion meets the criteria of a change in estimation in accordance with IAS 8.39. Deutsche Familienversicherung converted the estimation procedure, because this leads to a more pronounced alignment of the allocation to provisions with premium income and, in particular, reduces revenue fluctuations throughout the year.

In the 2020 financial year, the ageing provision increased by € 2,314 thousand due to this change in estimation. After reinsurance, this change had a negative effect amounting to € 961 thousand on earnings before taxes (EBT). For future periods, Deutsche Familienversicherung does not expect any material differences in earnings.

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 insurance, 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.

9.10.3 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 in the manner of life assurance, 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 the responsible actuary.

9.10.4 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 created for reported claims, but also 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 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.

With the exception of a few partial reserves such as annuity reserves, the provision for outstanding claims is generally not discounted.

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

We check all underwriting provisions at least once per year with an adequacy test in accordance with IFRS 4. If this review shows that future income will likely not cover the forecast expenses at calculation cluster level, we form a provision for onerous contracts after reversing the associated deferred conclusion costs and present value of future profits.

For the provision for unearned premiums and the claims reserve, the calculation is based on the currently realistic, estimated future settlement amount and uses the segment business models for orientation, considering future term and condition adjustments, reinsurance coverage and, if applicable, enhancement of individual policy profitability. Capital gains are not included in this calculation. For the actuarial provision, we test adequacy based on current assumptions of the calculation bases, including the proportional investment result as well as future profit participation (where relevant).

9.11 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.

9.12 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.

9.13 Gross premiums written

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

9.14 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.

9.15 Investment income and expenses

9.15.1 Income and expenses from financial investments held for sale

Investment income and expenses include current income, revenue from the appreciation of debt instruments and gains from the disposal of capital investments. Current income mainly includes interest income from fixed-interest securities and dividend income. Interest income can be generated from ongoing interest payments, accrued interest and the amortisation of fixed-interest security acquisition costs. The date of the dividend resolution 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 and losses from the disposal of capital investments.

9.15.2 Income and expenses from 'financial investments measured at fair value through profit or loss'

This line item recognises all changes in value, depreciation, interest and dividends.

9.16 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 after deducting reinsurers' shares.

9.17 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.

9.18 Other expenses

Pursuant to section 43 of the RechVersV, expenses that cannot be allocated to any of the functional areas listed in the ordinance are shown here. The same procedure is used for the presentation under IFRS.

10 NOTES TO THE CONSOLIDATED BALANCE SHEET – ASSETS

10.1 Development of other intangible assets

DEVELOPMENT OF OTHER INTANGIBLE ASSETS	Insurance-specific software	Other intangible assets	Total	Insurance-specific software	Other intangible assets	Total
In € thousand		2020			2019	
Gross carrying amount as of 1 January	**12,625**	**3,248**	**15,873**	**12,449**	**2,330**	**14,779**
Cumulative deprecation as of 1 January	5,523	1,685	7,208	4,602	972	5,574
Balance sheet value as of 1 January	**7,102**	**1,563**	**8,665**	**7,847**	**1,358**	**9,205**
Additions	885	1,403	2,288	176	918	1,094
Disposals of gross carrying amounts	133	222	355	0	0	0
Depreciation and amortisation	833	1,273	2,106	921	713	1,634
Disposals of depreciation and amortisation	133	222	355	0	0	0
Balance sheet value as of 31 December	**7,154**	**1,693**	**8,848**	**7,102**	**1,563**	**8,665**
Cumulative depreciation as of 31 December	6,223	2,736	8,959	5,523	1,685	7,208
Gross carrying amount as of 31 December	**13,377**	**4,429**	**17,806**	**12,625**	**3,248**	**15,873**

10.2 Rights of use for property pursuant to IFRS 16

RIGHTS OF USE		
In € thousand	2020	2019
Gross carrying amount as of 1 January	**2,738**	**0**
Cumulative deprecation as of 1 January	685	0
Balance sheet value as of 1 January	**2,053**	**0**
Additions (from first-time application)	0	2,738
Disposals of gross carrying amounts	0	0
Depreciation and amortisation	685	685
Disposals of depreciation and amortisation	0	0
Balance sheet value as of 31 December	**1,369**	**2,053**
Cumulative depreciation as of 31 December	1,370	685
Gross carrying amount as of 31 December	**2,738**	**2,738**

Other liabilities of the same amount were formed on acquisition of the right of use as of 1 January 2019. As of 31 December 2020, other liabilities from applying IFRS 16 amounted to € 1,377 thousand (previous year: € 2,061 thousand).

10.3 Financial instruments

FINANCIAL INSTRUMENTS – AVAILABLE FOR SALE

In € thousand	31.12.2020	31.12.2019
Stocks	2,250	2,250
Investment shares	21,358	9,767
Bonds	108,557	109,325
	132,165	**121,342**
Fixed-term deposits	400	400
Total	**132,565**	**121,742**

FINANCIAL INSTRUMENTS – FAIR VALUE THROUGH PROFIT OR LOSS

In € thousand	31.12.2020	31.12.2019
Convertible bonds	2,503	0
Total	**2,503**	**0**

Securities lending

No securities were lent as of the reporting date.

10.4 Receivables

RECEIVABLES

In € thousand	31.12.2020	31.12.2019
Receivables from direct insurance business		
Thereof from policyholders	1,791	1,227
Thereof from insurance brokers	39	35
Receivables from insurance business	**1,830**	**1,262**
Accounts receivable from reinsurance business	536	3,297
Receivables from long-term care insurance allowance	465	476
Other receivables	1,294	215
Miscellaneous receivables from insurance business	**2,295**	**3,987**
Total	**4,126**	**5,250**

10.5 Shares of reinsurers in underwriting provisions

SHARE OF REINSURERS IN UNDERWRITING PROVISIONS

In € thousand	31.12.2020	31.12.2019
Unearned premiums	878	559
Actuarial provisions	49,235	37,021
Provision for outstanding claims	5,725	2,905
Other underwriting provisions	12	15
Total	**55,850**	**40,500**

10.5.1 Shares of reinsurers in the development of unearned premiums

SHARES OF REINSURERS IN THE DEVELOPMENT OF UNEARNED PREMIUMS

In € thousand	2020	2019
As of 1 January	**559**	**558**
Additions	878	559
Reversal/utilisation	559	558
As of 31 December	**878**	**559**

10.5.2 Shares of reinsurers in the development of actuarial provisions

SHARE OF REINSURERS IN THE DEVELOPMENT OF ACTUARIAL PROVISIONS

In € thousand	31.12.2020	31.12.2019
Actuarial provisions for previous year	**37,021**	**30,488**
Addition	14,484	8,522
Reversal	2,270	1,989
Actuarial provisions for financial year	**49,235**	**37,021**

10.5.3 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 € thousand	2020	2019
As of 1 January	**2,905**	**3,971**
Claims expenses		
For the financial year	20,498	9,619
For previous years	990	–1,080
Total	**21,488**	**8,539**
Less payments		
For the financial year	15,901	7,804
For previous years	2,767	1,801
Total	**18,668**	**9,605**
As of 31 December	**5,725**	**2,905**

10.6 Deferred taxes

DEFERRED TAX ASSETS	Deferred tax assets, total	Thereof recognised in other compre-hensive income	Thereof recognised in the income statement	Thereof directly in equity	Deferred tax assets, total	Thereof recognised in other compre-hensive income	Thereof recognised in the income statement	Thereof directly in equity
In € thousand	31.12.2020				31.12.2019			
Intangible assets	0	0	0	0	0	0	0	0
Investments								
Financial instruments	1,317		1,317	0	0	0	0	0
Derivative financial instruments	0	0	0	0	0	0	0	0
Underwriting provisions	452	0	452	0	127	0	127	0
Other	279	0	279	0	1,658	0	1,658	0
Income tax loss carried forward	6,829	0	5,972	857	4,089	0	3,609	480
	8,877	**0**	**8,020**	**857**	**5,874**	**0**	**5,394**	**480**

DEFERRED TAX LIABILITIES	Deferred tax liabilities, total	Thereof recognised in other compre-hensive income	Thereof recognised in the income statement	Thereof directly in equity	Deferred tax liabilities, total	Thereof recognised in other compre-hensive income	Thereof recognised in the income statement	Thereof directly in equity
In € thousand	31.12.2020				31.12.2019			
Intangible assets	645	0	645	0	734	0	734	0
Investments								
Financial instruments	3,027	3,002	25	0	1,953	1,953	0	0
Derivative financial instruments	0	0	0	0	0	0	0	0
Underwriting provisions	137	0	137	0	0	0	0	0
Other	40	0	40	0	590	0	590	0
	3,849	**3,002**	**848**	**0**	**3,277**	**1,953**	**1,324**	**0**

Deferred taxes are shown net for the financial year.

Please refer to subsection 12.8 for the ways that deferred taxes can be used.

10.7 Other assets

OTHER ASSETS		
In € thousand	31.12.2020	31.12.2019
Operating and office equipment	704	530
Accruals and deferrals	1,134	409
Tax prepayments	40	356
Other assets	673	1,461
Total	**2,551**	**2,756**

10.8 Development of operating and office equipment

DEVELOPMENT OF OPERATING AND OFFICE EQUIPMENT

In € thousand	2020	2019
Gross carrying amount as of 1 January	**2,271**	**2,206**
Cumulative deprecation as of 1 January	1,741	1,530
Balance sheet value as of 1 January	**530**	**677**
Additions	413	65
Disposals of gross carrying amounts	0	0
Depreciation and amortisation	239	212
Disposals of depreciation and amortisation	0	0
Balance sheet value as of 31 December	**704**	**530**
Cumulative depreciation as of 31 December	1,980	1,741
Gross carrying amount as of 31 December	**2,684**	**2,271**

11 NOTES TO THE CONSOLIDATED BALANCE SHEET – LIABILITIES

11.1 Equity

Other reserves

UNREALISED GAINS AND LOSSES

In € thousand	01.01.2020	Change	31.12.2020
Investments	2,649	3,286	5,935
Deferred taxes	–1,953	–1,048	–3,002
	696	**2,238**	**2,933**

UNREALISED GAINS AND LOSSES

In € 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**

For further explanation, please refer to the development of consolidated equity.

The capital increase carried out on 7 July 2020 by issuing a total of 1,326,160 new no-par bearer shares at a price of € 24.40 per share led to an increase of € 2,652,320 in share capital to a total of € 29,175,560 (€ 2 per share). Proceeds of € 29,706 thousand generated in excess of the increase in share capital were recognised directly in equity in the capital reserve after subtraction of the transaction costs in the amount of € 1,181 thousand, after deducting the taxes attributable to these costs (€ 377 thousand). Pursuant to IAS 32.37, equity procurement costs such as issue costs and consulting fees, as well as the taxes accrued on them, were not recognised as expenses in the income statement.

11.2 Underwriting provisions (gross)

UNDERWRITING PROVISIONS (GROSS)

In € thousand	31.12.2020	31.12.2019
Unearned premiums	3,338	2,966
Actuarial provisions	70,675	51,078
Provision for outstanding claims	14,801	13,047
Provision for premium refunds	1,642	1,430
Provision for contingent losses	550	0
Other underwriting provisions	64	78
Total	**91,070**	**68,599**

11.2.1 Development of unearned premiums

DEVELOPMENT OF UNEARNED PREMIUMS

In € thousand	31.12.2020	31.12.2019
As of 31 December of the previous year/1 January of the financial year	**2,966**	**2,537**
Additions	3,338	2,966
Reversal/utilisation	−2,966	−2,537
As of 31 December of the financial year/previous year	**3,338**	**2,966**

The provision for unearned premiums does not essentially involve future cash flows. Therefore, we do not disclose the term of the provision.

11.2.2 Development of actuarial provisions

DEVELOPMENT OF ACTUARIAL PROVISIONS

In € thousand	31.12.2020	31.12.2019
Actuarial provisions for previous year	**51,078**	**42,570**
Addition	21,554	10,201
Reversal	3,132	2,777
Interest portion	1,174	1,084
Actuarial provisions for financial year	**70,675**	**51,078**

The interest portion is calculated using the 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.

11.2.3 Development of the provision for outstanding claims

DEVELOPMENT OF THE PROVISION FOR OUTSTANDING CLAIMS

In € thousand	2020	2019
As of 1 January	**13,047**	**10,269**
Claims expenses		
For the financial year	51,242	37,973
For previous years	1,402	388
Total	**52,644**	**38,361**
Less payments		
For the financial year	39,875	28,064
For previous years	11,015	7,519
Total	**50,890**	**35,583**
As of 31 December	**14,801**	**13,047**

The provision for outstanding claims will be used mainly within the next two to three years. Benefits for claims from earlier periods are relatively low due to the risks that are written.

11.2.4 Other underwriting provisions

DEVELOPMENT OF THE PROVISION FOR PREMIUM REFUNDS

In € thousand	2020	2019
As of 31 December of the previous year/1 January of the financial year	**1,430**	**836**
Additions	463	1,120
Utilisation	251	526
As of 31 December of the financial year/previous year	**1,642**	**1,430**

The provision for premium refunds will be used mainly within the next two to three years. Benefits for claims from earlier periods are relatively low due to the insured risks.

OTHER UNDERWRITING PROVISIONS

In € thousand	31.12.2020	31.12.2019
Cancellation provision	34	53
Other underwriting provisions	30	25
Total	**64**	**78**

ACTUARIAL PROVISION FOR CONTINGENT LOSSES

In € thousand	31.12.2020	31.12.2019
Actuarial provision for contingent losses	550	0
Total	**550**	**0**

The actuarial provision for contingent losses was created as a precautionary measure in order to be able to meet the policyholders' obligations at all times, even if interest rates continue to fall over a four-year period starting in 2020. The valuation of this provision is based on assumptions for which there is scope for judgement. If the estimates or assumptions prove to be no longer current or incorrect, they will be adjusted or reversed in the future. If, contrary to expectations, a shortfall in the interest result or a structural non-achievement of the tariff-based calculation base cannot be remedied or can only be remedied in part by premium adjustments, the company has calculated a latent risk of approximately € 4.3 million for the contract portfolio after compensatory effects.

11.3 Other provisions

DEVELOPMENT OF OTHER PROVISIONS

In € thousand	2020	2019
As of 31 December of the previous year	**3,373**	**872**
Utilisation	3,185	835
Reversal	188	37
Addition	3,448	3,373
As of 31 December of the financial year	**3,448**	**3,373**

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

11.4 Liabilities

LIABILITIES

In € thousand	31.12.2020	31.12.2019
Liabilities from direct insurance business	1,416	1,129
Thereof to policyholders	454	237
Thereof to insurance brokers	962	892
Deposits retained on ceded reinsurance business	51,754	42,568
Accounts payable from reinsurance business	6,636	127
Other liabilities	5,446	6,484
Total	**65,252**	**50,300**

OTHER LIABILITIES

In € thousand	31.12.2020	31.12.2019
Taxes	415	360
Personnel and social security	26	32
Trade liabilities	3,242	3,115
Liabilities from applying IFRS 16	1,377	2,061
Other	386	916
Total	**5,446**	**6,484**

LIABILITIES

		Remaining time to maturity			
In € thousand	31.12.2020	Up to one year	1 to 5 years	More than 5 years	31.12.2019
Liabilities from direct insurance business	1,416	1,416	0	0	1,129
Thereof to policyholders	454	454	0	0	237
Thereof to insurance brokers	962	962	0	0	892
Deposits retained on ceded reinsurance business	51,754	0	0	51,754	42,568
Accounts payable from reinsurance business	6,636	6,636	0	0	127
Other liabilities	5,446	4,069	1,377	0	6,484
Total	**65,252**	**12,121**	**1,377**	**51,754**	**50,308**

OTHER LIABILITIES

		Remaining time to maturity			
In € thousand	31.12.2020	Up to one year	1 to 5 years	More than 5 years	31.12.2019
Taxes	415	415	0	0	360
Personnel and social security	26	26	0	0	32
Trade liabilities	3,242	3,242	0	0	3,115
Liabilities from applying IFRS 16	1,377	0	1,377	0	2,061
Other	386	386	0	0	916
Total	**5,446**	**4,069**	**1,377**	**0**	**6,484**

MATURITIES OF LEASE LIABILITIES

	2020			2019		
In € thousand	Future minimum lease rates	Interest	Present value of minimum lease rates	Future minimum lease rates	Interest	Present value of minimum lease rates
Less than 1 year	704	10	694	704	10	694
Between 1 and 5 years	704	20	684	704	20	684
More than 5 years	0	0	0	704	20	684
Total	**1,407**	**30**	**1,377**	**2,111**	**50**	**2,061**

12 NOTES TO THE CONSOLIDATED INCOME STATEMENT

12.1 Earned premiums

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

12.2 Income from capital investments

INCOME FROM CAPITAL INVESTMENTS

In € thousand	2020	2019
Revenue from capital investments		
Current revenue from capital investments	1,885	901
Gain from changes in fair value	135	0
Gains from the disposal of capital investments	2,909	3,066
Total	**4,929**	**3,967**
Expenses for capital investments		
Expenses for the management of capital investments, other expenses	575	313
Depreciation and impairments of capital investments	0	0
Losses from changes in fair value	55	253
Losses from the disposal of capital investments	3,435	0
Total	**4,065**	**566**
Income from capital investments	**864**	**3,401**

12.3 Other revenue

OTHER REVENUE

In € thousand	2020	2019
Other underwriting revenue	251	526
Other non-underwriting revenue	77	104
Total	**328**	**630**

12.4 Insurance benefits

INSURANCE BENEFITS

In € thousand	2020	2019
Payments for insurance claims		
Gross amount	50,890	35,583
Share of reinsurers	18,669	9,604
Net amount	32,221	25,979
Change in the provision for outstanding claims		
Gross amount	1,755	2,778
Share of reinsurers	2,820	–1,066
Net amount	–1,065	3,844
Change in actuarial provisions		
Gross amount	19,596	8,508
Share of reinsurers	12,214	6,534
Net amount	7,382	1,974
Change in other underwriting provisions		
Gross amount	537	46
Share of reinsurers	–2	14
Net amount	535	32
Expenses for premium refunds		
Gross amount	463	1,121
Share of reinsurers	0	0
Net amount	463	1,121
Total	**39,539**	**32,950**

12.5 Claims development

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

PROPERTY 2020

Gross In € thousand	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1	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	3,774,493
2	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	2,001,782	
3	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	1,972,263		
4	1,562,441	1,800,128	1,920,747	2,522,659	6,355,112	12,431,976	14,777,473	11,279,378	8,735,920			
5	1,609,993	1,397,156	2,119,935	2,678,135	6,278,786	12,431,363	14,736,006	11,170,985				
6	1,575,836	1,406,534	2,386,331	2,678,718	6,279,341	12,473,441	14,733,879					
7	1,605,113	1,395,791	2,379,763	2,675,674	6,307,965	12,482,093						
8	1,602,246	1,389,839	2,440,052	2,678,021	6,290,219							
9	1,602,246	1,389,932	2,449,307	2,692,520								
10	1,601,746	1,363,826	2,448,122									
11	1,601,746	1,380,401										
12	1,601,746											
Run-off profit	**−17,610**	**−77,201**	**−381,838**	**542,320**	**−229,482**	**−723,807**	**−321,395**	**553,589**	**486,848**	**434,015**	**954,113**	**0**

Net In € thousand	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1	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	2,830,948
2	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	1,852,873	
3	681,352	538,340	594,131	1,966,178	4,995,109	9,072,907	7,369,049	5,193,118	3,583,506	1,846,414		
4	687,792	596,570	691,645	1,960,761	5,028,103	9,107,952	7,432,170	5,116,768	3,616,169			
5	763,444	499,048	739,013	1,998,989	5,000,262	9,103,791	7,413,313	5,053,189				
6	757,153	537,412	750,264	1,996,341	5,000,558	9,145,869	7,411,097					
7	774,845	528,538	745,441	1,994,679	5,029,182	9,114,928						
8	770,910	527,029	752,480	1,997,025	5,011,436							
9	770,910	527,059	761,735	2,011,525								
10	770,060	523,834	760,549									
11	770,060	540,409										
12	770,060											
Run-off profit	**−104,540**	**−150,135**	**−266,389**	**247,620**	**−199,920**	**−437,049**	**−322,298**	**55,139**	**−12,083**	**408,031**	**917,872**	**0**

HEALTH INSURANCE 2020

Gross In € thousand	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1	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	47,467,962
2	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	37,415,931	
3	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	24,702,607		
4	213,831	1,513,529	3,761,255	5,114,898	6,466,153	10,222,046	12,618,126	16,282,013	19,420,767			
5	213,831	1,569,215	3,765,725	5,121,749	6,500,050	10,254,318	12,625,336	16,301,862				
6	221,353	1,573,216	3,765,332	5,122,511	6,503,766	10,259,529	12,627,767					
7	221,741	1,572,750	3,768,528	5,122,800	6,503,462	10,260,380						
8	221,728	1,572,749	3,768,475	5,122,549	6,505,226							
9	221,728	1,573,012	3,768,475	5,122,609								
10	221,728	1,572,762	3,768,739									
11	221,728	1,572,762										
12	221,728											
Run-off profit	**−43,515**	**−377,245**	**−503,724**	**−674,492**	**−355,936**	**−970,924**	**122,242**	**−307,611**	**−1,042,931**	**−901,899**	**−2,398,582**	**0**

Net In € thousand	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1	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	27,913,485
2	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	26,900,415	
3	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	15,695,178		
4	129,596	596,926	2,140,595	2,887,822	3,502,338	6,906,740	7,874,304	9,401,668	11,579,974			
5	129,596	629,763	2,143,280	2,891,591	3,516,162	6,925,319	7,880,231	9,417,131				
6	134,092	632,418	2,143,029	2,892,036	3,518,670	6,928,461	7,882,517					
7	134,331	632,104	2,144,872	2,892,205	3,518,486	6,929,002						
8	134,319	632,103	2,144,819	2,892,074	3,520,102							
9	134,319	632,233	2,144,819	2,892,109								
10	134,319	631,983	2,145,077									
11	134,319	631,983										
12	134,319											
Run-off profit	**−11,924**	**−245,898**	**−317,514**	**−579,432**	**−230,000**	**−749,145**	**−33,710**	**−265,704**	**−815,762**	**−1,804,904**	**−1,316,706**	**0**

12.6 Expenses for insurance operations (net)

EXPENSES FOR INSURANCE OPERATIONS (NET)

In € thousand	2020	2019
Acquisition expenses	42,007	39,625
Administrative expenses	10,913	7,599
Share of reinsurers	–22,733	–21,838
Total	**30,187**	**25,386**

12.7 Other expenses

OTHER EXPENSES

In € thousand	2020	2019
Other underwriting expenses		
Deposit interest for reinsurance	934	832
Fire protection tax	17	16
Other underwriting expenses	0	0
	951	**848**
Other non-underwriting expenses	2,974	4,416
Thereof Supervisory Board remuneration	209	209
Total	**3,925**	**5,264**

12.8 Main components of income tax expense and income

MAIN COMPONENTS OF INCOME TAX EXPENSE AND INCOME

In € thousand	2020	2019
Current taxes		
Reporting year	22	–40
Previous year	–171	121
	–149	**81**
Deferred taxes		
Deferred taxes from losses carried forward	–2,740	–1,184
Deferred taxes on the formation or reversal of temporary differences	–259	–2,019
	–2,999	**–3,203**
	–3,148	**–3,122**

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 item.

Deutsche Familienversicherung floated in 2018 to finance its strong growth targets with the capital raised. Under current law, the sales expenses required for this cannot be capitalised for tax purposes or under the accounting standards applied by Deutsche Familienversicherung, but must be expensed. These contract conclusion costs are the prime driver of the Company's accumulated carried-forward tax loss. At its core, Deutsche Familienversicherung underwrites profitable business. If it were possible to capitalize acquisition costs under IFRS, the IFRS result would also already be positive. The conclusion costs will come to represent a relatively lower amount in proportion to the premiums earned over the coming years, so the Company's planning shows a positive result beginning in 2022. The tax loss carryforward will likely be able to be fully used at the minimum tax rate during the five-year planning period, which means that the deferred tax assets are seen as retaining value and deferred tax assets have been formed for the 2020 tax loss. As a precaution, the reinsurance solution for CareFlex Chemie was not included in this planning because there is currently no signed contract for a reinsurance solution as part of CareFlex Chemie, despite there being a letter of intent with a consortium member.

In principle, the planning of premiums from the acquired contracts can be carried out reliably, as there are only a few cancellations on the part of the customers.

Deutsche Familienversicherung also performed a sensitivity analysis on the use of deferred taxes. When doing this, it reduced new business to 50% of the quantity originally planned. The tax loss carryforward could be used in full even in this scenario.

There are current tax receivables resulting from refunds due from tax authorities, which are in turn based on overcharged tax prepayments made by subsidiaries consolidated with the Group.

12.9 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 € thousand	2020	2019
Consolidated income	−7,434	−2,100
Income taxes	−3,148	−3,122
Results before income taxes	−10,583	−5,222
Group tax rate in %	32.00	32.00
Expected income taxes	−3,386	−1,671
Adjusted for tax effects from		
Off-balance-sheet capital investment corrections	0	−1,491
Non-deductible expenses	234	0
Income taxes for other accounting periods	4	40
	238	**−1,451**
Reported income taxes	−3,148	−3,122
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 29.8%, compared to 59.8% in the previous year.		
Effective Group income tax rate in %	29.8	59.8

12.10 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:

DISCLOSURES UNDER IAS 33 – EARNINGS PER SHARE

In €	2020	2019
Net result for the period	**−7,434,202**	**−2,100,360**
	Units	Units
Weighted average number of ordinary shares in circulation during the period		
Existing shareholders	13,261,620	12,753,875
Weighting		
Number of days	360	360
Weighted number	**13,261,620**	**12,753,876**
New shareholders	1,326,160	507,745
Weighting		
Number of days	174	304
Weighted number	**640,977**	**428,762**
Total	**13,902,597**	**13,182,638**
EPS in €	−0.53	−0.16

13 OTHER INFORMATION

13.1 Capital management under IFRS 4

Capital structure

As of 31 December 2020, the DFV Group had total equity of € 90.9 million (previous year: € 64.5 million). The equity was comprised of the following components:

Due to the capital increase carried out on 7 July 2020, subscribed capital increased by € 2.7 million to € 29.2 million (previous year: € 26.5 million); the capital reserve was also increased by € 28.9 million – from € 43.8 million to € 72.7 million – due to the capital increase. The loss carried forward amounted to € 6.6 million (previous year: € 4.5 million). Consolidated income amounts to € −7.4 million (previous year: € −2.1 million).

The reserve for unrealised gains and losses in which 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 € 2.9 million (previous year: € −0.7 million) in the course of the reporting year due to capital market factors. € 0.7 million). The 'provision for expenses for the procurement of equity', from the previous year in the amount of € −2.6 million was reclassified to the capital reserve and the loss carried forward.[1]

[1] See also section 2 and 3 of the notes.

The equity ratio – defined as the ratio of total equity in the amount of € 90.9 million (previous year: € 64.5 million) to the earned premiums (net) in the amount of € 61.9 million (previous year: € 54.4 million) – has risen significantly due to the capital increase, from 119% in the previous year to 147%. The return on equity decreased to –12% (previous year: –8.2%). It is calculated as the ratio of earnings before income taxes of € –10.6 million (previous year: € –5.2 million) to equity adjusted for other reserves in the amount of € 87.9 million (previous year: € 63.8 million).

Risk reporting

This report meets the requirements for risk reporting pursuant to IAS 1.134 to 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).

Deutsche Familienversicherung's risk management 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 respectively 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 (Versicherungsaufsichtsgesetz – VAG).

Risk management system

The objective of Deutsche Familienversicherung s risk management 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 are 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.

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

Deutsche Familienversicherung's risk management is embedded in the business strategy as an integral component of corporate management. It builds on the risk strategy approved by the Executive Board and is based on the three interlinked functions embedded in the control and monitoring system: operational risk management, risk monitoring and internal 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.

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.

At Deutsche Familienversicherung, the Independent Risk Controlling Unit (IRCU) reports to the Chief Executive Officer (CEO).

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, 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).

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 pet health, 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 insurance – 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 Deutsche Familienversicherung's actuarial department, 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.

At Deutsche Familienversicherung, the Internal Audit department reports to the member of the Executive Board responsible for IT/Claim/Payment (COO).

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 a member of the Executive Board appointed by the entire Executive Board. The Internal Audit department reports exclusively to the Executive Board as a whole. 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.

13.2 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).

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 DFV 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 2020 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.

Deutsche Familienversicherung takes care to tailor its offering to a broad range of customers right from the product development stage, which means that cumulative and major risks can almost be ruled out.

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.

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 a permanent increase in mortality of 15%.

For insurance contracts subject to longevity risk, the risk is shown by a permanent decrease in mortality 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 one percentage point. Furthermore, a one-off decrease of 5% in insurance benefits and one percentage point annually in medical inflation is assumed.

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

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

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

The pandemic risk assumes that a large number of people will require health care or disability benefits as a result of a 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 Deutsche Familienversicherung'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.

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

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.

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, Deutsche Familienversicherung uses 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.

13.3 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.

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.

13.4 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 fair-value 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 fair-value 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 used valuation models due to a lack of market transactions. On each reporting date, it is reviewed whether the allocation to the levels of the fair-value hierarchy is still appropriate. If changes have occurred, for example due to inactive markets, 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 or multiplier methods. Overnight deposits are recognised at their acquisition costs.

ASSETS AND LIABILITIES BY LEVEL (2020)

In € thousand	Level 1	Level 2	Level 3	Total
Shares in subsidiaries, joint ventures and associates	0	0	0	0
Financial instruments available for sale (measured at fair value)	129,914	400	2,250	130,315
Financial instruments available for sale (measured at acquisition cost)	0	0	2,250	2,250
Financial instruments measured at fair value through profit or loss	2,503	0	0	2,503
Non-current assets held for sale	0	0	0	0
Total positive market values	**132,417**	**400**	**2,250**	**135,067**
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 (2019)

In € thousand	Level 1	Level 2	Level 3	Total
Shares in subsidiaries, joint ventures and associates	0	0	0	0
Financial instruments available for sale (measured at fair value)	115,329	4,163	0	119,492
Financial instruments available for sale (measured at acquisition cost)		2,250	0	2,250
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**

RECONCILIATION OF FINANCIAL ASSETS CLASSIFIED IN LEVEL 3

In € thousand	Available-for-sale financial assets	Total
Carrying amount (fair value) as of 1 January 2019	0.00	0.00
Reclassification (net) to (+)/ from (–) Level 3	0.00	0.00
Carrying amount (fair value) as of 1 January 2020	**0.00**	**0.00**
Reclassification (net) to (+)/ from (–) Level 3	2,250.00	2,250.00
Carrying amount (fair value) as of 31 December 2020	**2,250.00**	**2,250.00**
Net gains (losses) for financial instruments held at the balance sheet date, recognised in the consolidated income statement	0.00	0.00

The fair value is equal to acquisition cost for financial investments measured at acquisition cost.

The 10% interest in BCA AG (€ 2,250 thousand) is recognised at level 3. This interest is measured at acquisition cost. The interest was recognised at level 2 in the previous year as a comparable transaction was performed close to that reporting date, producing an observable quoted market price.

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 € thousand
Fixed-interest securities	Interest increase of 1%	−5,275
Fixed-interest securities	Interest decrease of 1%	+5,275
Stocks	Price increase of 10%	+1,744
Stocks	Price decrease of 10%	−1,744

The calculation of interest rate risk is based on circular 11/2011 of the German Federal Financial Supervisory Authority entitled 'Zinsänderungsrisiken im Anlagebuch; Ermittlung der Auswirkungen einer plötzlichen und unerwarteten Zinsänderung' ('Interest rate risk in the banking book; determining the effects of a sudden and unexpected change in interest rates'). The calculation is made without options on annuities and swap options.

13.4.1 Credit quality of the portfolio

CREDIT QUALITY OF THE PORTFOLIO

In € thousand	2020	Share in %	2019	Share in %
Rating categories of interest-bearing financial instruments available for sale				
AAA	14,369	12.9	7,159	6.5
AA	9,100	8.2	6,667	6.1
A	2,850	2.6	8,407	7.7
BBB	62,629	56.4	84,023	76.9
BB and lower	14,365	12.9	2,054	1.9
No rating	7,745	7.0	1,015	0.9
Total	**111,059**	**100.0**	**109,325**	**100.0**

13.4.2 Credit risk

CREDIT RISK (2020)				Thereof not impaired and overdue in the following intervals					
In € thousand	Balance sheet value as of 31.12.2020	Thereof neither impaired nor overdue as of the balance sheet date	Thereof impaired as of the balance sheet date	Less than 30 days	Between 30 and 60 days	Between 60 and 90 days	Between 90 and 180 days	Between 180 and 360 days	More than 360 days
Balance sheet item									
Available for sale	132,564.7	132,564.7							
Financial instruments measured at fair value through profit or loss	2,502.5	2,502.5							
Receivables from direct insurance business	1,830.5	607.2	1,223.3						
Accounts receivable from reinsurance business	536.3	536.3							
Total	**137,434.0**	**136,210.7**	**1,223.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

CREDIT RISK (2019)				Thereof not impaired and overdue in the following intervals					
In € thousand	Balance sheet value as of 31.12.2019	Thereof neither impaired nor overdue as of the balance sheet date	Thereof impaired as of the balance sheet date	Less than 30 days	Between 30 and 60 days	Between 60 and 90 days	Between 90 and 180 days	Between 180 and 360 days	More than 360 days
Balance sheet item									
Available for sale	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							
Total	**126,778.1**	**3,808.4**	**1,227.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

13.5 Disclosures on the temporary exemption from IFRS 9

The following table shows the financial instruments to be recognised on the assets side of the balance sheet in accordance with IFRS 9 and divides them into a group that meets the cash flow criterion for financial instruments as well as other financial instruments. In addition to financial instruments currently measured at fair value through profit or loss, these include in particular equity instruments held and shares in investment funds which, due to their nature, cannot meet the cash flow criterion set out in IFRS 9. The cash flow criterion is met if the contractual terms of the financial instrument give rise to cash flows at specified dates that are solely payments of interest and principal on the principal outstanding (Solely Payments of Principal and Interest – SPPI test).

FAIR VALUE DISCLOSURES ON FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS 9

In € thousand	31.12.2020	31.12.2019
Financial instruments that meet the SPPI criterion		
Financial investments available for sale		
Fixed-income securities	108,956.20	109,724.80
All other financial instruments		
Financial investments available for sale		
Non-fixed-income securities	23,608.40	12,017.20
Financial instruments measured at fair value through profit or loss		
Financial instruments designated at fair value through profit or loss	2,502.50	0.00
	135,067.10	**121,742.00**

13.6 Disclosures on net income from financial instruments

No corresponding disclosures are available.

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

INTEREST INCOME AND EXPENSES, CURRENT INCOME AND EXPENSES (2020)

In € thousand	Interest income	Current income	Interest expenses	Current expenses
Financial instruments available for sale	1,737	178	32	575

INTEREST INCOME AND EXPENSES, CURRENT INCOME AND EXPENSES (2019)

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

13.8 Disclosures on leases

DISCLOSURES ON LEASES – DEUTSCHE FAMILIENVERSICHERUNG AS LESSEE

In € thousand	2020	2019
Depreciation amount	685	684
Interest expenses	19	19
Lease payments	**704**	**703**
Non-capitalised assets	385	433
Outgoing payments from leases	1,088	1,136

In the reporting year, lease payments for rights of use recognised pursuant to IFRS 16 amounted to € 703 thousand (previous year: € 703 thousand).

Additionally, other lease expenses in the amount of € 385 thousand (previous year: € 433 thousand) were incurred which did not lead to the capitalisation of a right of use because the value of underlying asset is not clearly attributable to Deutsche Familienversicherung or 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.

13.9 Other financial obligations

There are other obligations of € 2,893 thousand (previous year: € 3,979 thousand) due to various IT outsourcing contracts, some of which run until 31 October 2023.

13.10 Disclosures regarding contingent liabilities

As of the reporting date (31 December 2020), there were no contingent liabilities in addition to the provisions recognised in the consolidated balance sheet that would have to be reported.

13.11 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 – 2020 VALUES In € thousand	Short-term benefits	Termination benefits	Total
Dr Stefan Knoll	652	0	652
Michael Morgenstern (until 31.12.2019)	0	331	331
Stephan Schinnenburg	418	0	418
Marcus Wollny	314	0	314

REMUNERATION OF KEY MANAGEMENT MEMBERS

EXECUTIVE BOARD – 2019 VALUES In € 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 € 209 thousand (previous year: € 209 thousand) consists exclusively of short-term benefits. These disclosures relate to the members of the Executive Board and the Supervisory Board of DFV Deutsche Familienversicherung AG. This group of persons comprised eight persons in the reporting year (previous: nine persons).

13.12 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 € 90 thousand (previous year: € 90 thousand), which relates exclusively to auditing services.

13.13 Number of employees

Without the employees outsourced via service contracts with DFVS Deutsche Familienversicherung Servicegesellschaft mbH and DFVV Deutsche Familienversicherung-Vertriebsgesellschaft mbH, around 77 staff members (previous year: 66) were employed with the company during the financial year. Including the outsourced service personnel (approximately 73 employees (previous year: 56), the average number of employees during the reporting year was 150 (previous year: 122).

13.14 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.

13.15 Disclosure

The consolidated financial statements in accordance with IFRS were prepared on 17 March 2021. 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
- DFV Deutsche Familienversicherung-Krankenversicherung-Vermittlungs-AG

13.16 Events after the reporting date

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.

13.17 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, 17 March 2021

DFV Deutsche Familienversicherung AG

Executive Board

Dr Stefan M. Knoll
Chief Executive Officer

Dr Karsten Paetzmann
Member of the Executive Board (CFO)

Stephan Schinnenburg
Member of the Executive Board (CSO)

Marcus Wollny
Member of the Executive Board (COO)

"INDEPENDENT AUDITOR'S REPORT

To DFV Deutsche Familienversicherung AG, Frankfurt am Main:

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

Audit conclusions

We have audited the consolidated financial statements of DFV Deutsche Familienversicherung AG, Frankfurt am Main, and its subsidiaries (of the group), consisting of the consolidated balance sheet dated 31 December 2020, statement of comprehensive income from 1 January to 31 December 2020, development of consolidated equity and statement of cash flow for the financial year from 1 January to 31 December 2020 as well as the notes to these statements, including a summary of significant accounting methods. In addition, we have audited the group management report of DFV Deutsche Familienversicherung AG, Frankfurt am Main, for the financial year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the corporate governance report in section 6 of the management report.

Our opinion, on the basis of the knowledge obtained in the audit, is as follows:

- The accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e, paragraph 1, of the German Commercial Code (Handelsgesetzbuch – HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the group as of 31 December 2020 and of its financial performance for the financial year from 1 January 2020 to 31 December 2020.
- The accompanying group management report as a whole provides a fair presentation of the group's position. This group management report is consistent with the consolidated financial statements, complies with German legal regulations and presents the opportunities and risks of future developments fairly in all material respects. Our audit conclusion regarding the group management report does not extend to the declaration of compliance included in the corporate governance report in section 6 of the management report.

Pursuant to section 322, paragraph 3 of the HGB, sentence 1, we declare that our audit has not produced any objections with regard to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the audit conclusions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with section 317 of the 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 Auditing promulgated by the Institute of Public Auditors in Germany (IDW), while additionally observing the International Standards on Auditing (ISA). Our responsibilities under these rules, principles and standards are further described in the section of our audit report entitled 'Responsibility of the auditor for the audit of the consolidated financial statements and group management report'. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional regulations, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10, paragraph 2 (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5, paragraph 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 conclusions regarding the consolidated financial statements and the group management report.

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

Note emphasising a matter – legal risks from adjusting premiums

Please refer to the statements made by the Executive Board in section 4 of the notes and section 3.2 of the group management report, which describe the consequences of determining an inappropriate actuarial base interest rate as part of a premium adjustment. There exist legal risks regarding the nature and extent of any revision of this base under section 155, paragraph 3 of the German Insurance Supervision Act (VAG), sentence 4. We consider the company's approach appropriate. We also note that if section 155, paragraph 3, sentence 4 of the VAG were to be applicable, something that the company and its legal advisers do not believe, the consequences described in detail in this law (increase of the provision for onerous contracts) would arise for the consolidated financial statements. Our audit conclusions for the consolidated financial statements and group management report have not been modified in this respect.

Key matters arising during the audit of the consolidated financial statements

Key matters are matters that, in our due consideration, were the most significant in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. These matters were considered in connection with our audit of the consolidated financial statements as a whole and when forming our audit conclusion about them; we are not issuing any separate audit conclusion for these issues.

In the following section, we summarise the matters that we believe are key:

1 Valuation of the gross actuarial provision
The accounting and valuation methods are presented in section 9.10.2 of the notes.

Matter and audit risks
The audit of the actuarial provision – gross amount was a material element of our audit of the consolidated financial statements due to the item's significance to the group's balance sheet (€ 70.674 million, 28.2% of the total liabilities).

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 calculation bases.

The review of the actuarial base interest rate by the Federal Financial Supervisory Authority, in particular for the premium adjustments made in the 2020 financial year, and the legal disputes regarding the nature and extent of the revision of any inappropriate actuarial base interest rate that would need to be decided as a result represent a legal risk when considering that section 155, paragraph 3, sentence 4 of VAG has not yet been upheld by the final court of appeal; this risk could have significant impacts on the valuation of the actuarial provision.

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

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 reproduced the determination of the actuarial provision at an individual-contract level with our own calculation programs in random samples.

We were satisfied that the calculation bases used to calculate the ageing 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.

To audit the line item, we used an actuarial balance sheet approach, offering us certainty in relation to the consistency between the balance sheet and the income statement. This approach is recognised and proven for actuarial purposes.

Furthermore, the margins for the available profit breakdowns were inspected so as to determine a rating with regard to the safety margins present in the risk and cost profit sources. We reproduced the aggregation of the actuarial provision at an individual-contract level using suitable random samples. The tariff reports submitted were drawn on in conjunction with the available profit breakdown to review compliance with the requirements under section 7 of the Health Insurance Supervision Regulation (KVAV) for the safety loadings.

We used suitable methods to examine compliance with the specifications for profit participation in accordance with the supervisory regulations, which includes a control calculation of the compliance with the minimum allocation from historical forms (Nachweisungen) under the schema provided in section 22 of the KVAV.

In accordance with the requirement under section 47 of the Audit Report Regulation (PrüfV), we inspected the control documents, generated portfolio analyses and obtained reasonable assurance that the underwriting provisions were complete by aggregating individual policies for parts of the portfolio.

With regard to the actuarial base interest rate applied for the premium adjustments made in the 2020 financial year, we audited the conclusions made by DFV Deutsche Familienversicherung AG with our own analyses of market data. We have verified the assessment of the legal risk made by DFV Deutsche Familienversicherung AG.

The supervisory authority performed a critical review of the actuarial base interest rate during the 2020 financial year and it has not yet finished it. The documents submitted by DFV Deutsche Familienversicherung AG contain extensive appraisals by the supervisory authority and produce a potential supervisory risk, which the company has actively addressed by making allowances as security for obligations under the tariffs that underwent a premium adjustment in the 2020 financial year.

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

The applied calculation and valuation methods of the gross actuarial provision are appropriate overall. We consider the assumptions used for the tariff calculation appropriate, except for the actuarial base interest rate for the premium adjustments made in the 2020 financial year. A provision for onerous contracts was formed to cater for what DFV Deutsche Familienversicherung AG believes is a legal risk arising from any inappropriate application of the actuarial base interest rate for the calculation of the premium adjustments during the 2020 financial year. With regard to the additional legal risk that more extensive adjustments could be necessary in the tariffs affected by the premium adjustments, something that DFV Deutsche Familienversicherung AG does not believe is the case, we refer to our 'note emphasising a matter'.

2 Valuation of the provision for outstanding claims – gross amount

The accounting and valuation methods are presented in section 9.10.4 of the notes.

Matter and audit risks

The audit of the provisions for outstanding claims – gross amount pursuant to section 341g of the HGB (gross claims reserves) was a material element of our audit of the consolidated financial statements due to the item's significance to the group's balance sheet (€ 14.801 million, 5.9% of the total liabilities) and the considerable margins of discretion that can arise when measuring individual parts of provisions.

The obligations recognised in gross claims reserves are estimated values, the estimation of which is the responsibility of the group's Executive Board. 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 provision 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 follows:

— 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 segments and types of insurance took place on the basis of a complete register on single-claim basis. In doing so, special features regarding the amount of the damage and the results of the settlement were taken into account. The files reviewed were selected according to various criteria. In principle, all major losses from the financial year and from previous years were examined in the individual segments of insurance, with the size of the random sample varying with the individual size of the insurance segments.
— Actuarial claim reserves for unknown insured events:
  When assessing this reserve determined by mathematical-statistical procedures, we have assessed the information contained herein and/or the express or implied opinions of the group's Executive Board in this context. When 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 (financial-year damage and unknown 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.

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

In addition, we analysed 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 to original claim provision, loss reserve and/or total claims expenditure. These analyses were carried out on the different segments of insurance and on a multi-year comparison for the entire claims reserve and for the individual parts of the claims reserve.

We have performed our own actuarial examination and subjected the total claims reserve for each segment to an additional analysis of its adequacy based on mathematical and statistical methods.

Other information

The Executive Board are responsible for the other information. Other information comprises the following:

- The confirmation of the Executive Board in accordance with section 264, paragraph 2, sentence 3, and section 289, paragraph 1, sentence 5 of the HGB in section 13.17 of the annual report
- The remaining parts of the annual report, with the exception of the audited financial statements and management report and our audit opinion
- The corporate governance report according to section 3.10 of the German Corporate Governance Code (DCGK)
- The declaration of compliance included in the corporate governance report in section 6 of the management report

The Supervisory Board is responsible for the other information below:

- The Supervisory Board's report in the section of the annual report entitled 'Report of the Supervisory Board'

Our audit conclusions about the consolidated financial statements and about the group management report do not cover the other information, and consequently we do not issue an audit conclusion or any other form of assurance thereon.

In connection with our audit, we have the responsibility of reading the other information and assessing whether the other information displays significant discrepancies with the consolidated financial statements, group management report or findings obtained by us during the audit or appears to be significantly misrepresented in some other way.

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

Responsibility of the Executive Board and Supervisory Board for the consolidated financial statements and group management report

The Executive Board are responsible for the preparation of consolidated financial statements that comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e, paragraph 1 of the HGB, and for ensuring that the consolidated financial statements, in compliance with these requirements, present a true and fair view of the assets, liabilities and financial position as well as financial performance of the group.

In addition, the Executive Board 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.

When preparing the consolidated financial statements, the Executive Board are responsible for assessing the group's ability to continue as a going concern. They also have responsibility for disclosing, as applicable, matters related to its continuation as a 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 Board are responsible for the preparation of a 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 Board 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.

Responsibility of the auditor for the audit of the consolidated financial statements and 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 audit opinion that includes our audit conclusions regarding the consolidated financial statements and the group management report. Reasonable assurance consists of a high degree of certainty, though no guarantee, that an audit conducted in accordance with section 317 of the HGB and the EU Audit Regulation, following Germany's Generally Accepted Auditing Principles as set down by the Institute of Public Auditors in Germany (IDW) in addition to observation of the ISA, will always uncover a misstatement of a material nature.

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

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 judgement and maintain professional scepticism 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 conclusions. 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 issuing an audit conclusion about the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the Executive Board and the reasonableness of estimates made by the Executive Board and related disclosures.
- Conclude on the appropriateness of the Executive Board' 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 audit opinion 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 conclusions. Our conclusions are based on the audit evidence obtained up to the date of our audit opinion. However, future events or circumstances may result in the group no longer being able to remain 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 such that the consolidated financial statements give a true and fair view of the assets, liabilities and financial position as well as financial performance of the group in compliance with the German Generally Accepted Standards for Auditing.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to issue audit conclusions about the consolidated financial statements and about the group management report. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit conclusions.
- 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 presents.
- Perform audit procedures on the prospective information presented by the Executive Board in the group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the Executive Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not issue a standalone audit conclusion about the prospective information and about the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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 reporting period and are therefore the key audit matters. We describe these matters in our audit opinion unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion on the audit of the electronic format to be created for the purposes of disclosing the consolidated financial statements and group management report pursuant to section 317, paragraph 3b of the HGB

Audit conclusion

We have performed a reasonable-assurance audit in accordance with section 317, paragraph 3b of the HGB of whether the presentation of the consolidated financial statements and group management report contained in the attached file [dfv_187568 210325.zip], created for disclosure purposes, (hereinafter also 'ESEF documents') meets the requirements that section 328, paragraph 1 of the HGB places on the electronic reporting format ('ESEF format') in all material respects. In accordance with German statutory provisions, this audit only extends to the transfer of the information in the consolidated financial statements and group management report to the ESEF format. Accordingly, this audit does not include the information delivered in this format or other information included in the above file.

Based on our assessment, the presentation of the consolidated financial statements and group management report contained in the attached file, created for disclosure purposes, meets the requirements that section 328, paragraph 1 of the HGB places on the electronic reporting format in all material respects. We are not issuing any kind of audit conclusion about the information delivered in this format or other information included in the above file beyond this audit conclusion and the audit conclusions about the enclosed consolidated financial statements and group management report for the financial year from 1 January 2020 to 31 December 2020 that are included in preceding 'Report on the audit of the consolidated financial statements and of the group management report'.

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

Basis for the audit conclusion
We performed our audit of the presentation of the consolidated financial statements and group management report contained in the aforementioned attached file in accordance with section 317, paragraph 3b of the HGB and following the draft IDW audit standard: Audit of the Electronic Format to Be Created for the Purposes of Disclosing Financial Statements and Management Reports Pursuant to HGB section 317, paragraph 3b (IDW EPS 410). Our responsibility under this standard is described in more detail in the section entitled 'Responsibility of the group auditor for auditing ESEF documents'. Our audit firm applies the quality control system specifications set out in the IDW Standard on Quality Control: Requirements for Quality Control in Audit Firms (IDW QS 1).

Responsibilities of the Executive Board and the Supervisory Board for the ESEF documents
The company's Executive Board are responsible for preparing the ESEF documents with the electronic format for the consolidated financial statements and group management report based on section 328, paragraph 1, sentence 4, number 1 of the HGB and for the markup based on section 328, paragraph 1, sentence 4, number 2 of the HGB.

Furthermore, the company's Executive Board are responsible for the internal controls that they believe are necessary to enable creation of the ESEF documents, which must be free of material violations, whether intended or unintended, of the specifications provided in section 328, paragraph 1 of the HGB for the electronic reporting format.

The company's Executive Board are also responsible for submitting the ESEF documents to the operator of the Federal Gazette together with the audit opinion, the attached audited consolidated financial statements, the audited group management report and other disclosable documents.

The Supervisory Board is responsible for monitoring the preparation of the ESEF documents as part of the accounting process.

Responsibility of the group auditor for auditing ESEF documents
Our objectives are to obtain reasonable assurance about whether the ESEF documents are free from material violations, whether intended or unintended, of the specifications provided in section 328, paragraph 1 of the HGB. We exercise professional judgement and maintain professional scepticism throughout the audit. Furthermore, we:
- Identify and assess the risks of violations, whether intended or unintended, of the specifications provided in section 328, paragraph 1 of the HGB, plan and perform audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to form the basis of our audit conclusion.
- Obtain an understanding of the internal controls relevant for auditing the ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of issuing an audit conclusion about the effectiveness of these controls.
- Assess the technical validity of the ESEF documents, i.e. if the file containing the ESEF documents fulfils the technical specifications for this file as set out in Delegated Regulation (EU) 2019/815 in the version applicable for the reporting date.
- Assess if the ESEF documents' XHTML format enables presentation of the same content as the audited consolidated financial statements and group management report.
- Assess if the markup on the ESEF documents using Inline XBRL (iXBRL) technology enables a full, appropriate, machine-readable XBRL copy of the presentation in XHTML format.

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

Further information pursuant to Article 10 of the EU Audit Regulation

We were selected to audit the group through a resolution dated 22 July 2020. We have been the group auditor of DFV Deutsche Familienversicherung AG without interruption since the 2018 financial year.

We declare that the audit conclusions provided in this audit opinion are consistent with the additional report to the Supervisory Board in accordance with Article 11 of the EU Audit Regulation (long-form audit report)."

Note about supplementary audit

We are issuing this audit opinion on the consolidated financial statements, group management reports and ESEF documents based on our professional audit concluded on 18 March 2021 and our supplementary audit concluded on 30 March 2021, the latter of which concerned the now submitted ESEF documents.

German public auditor responsible for the engagement

The German public auditor responsible for the engagement is Martin Lächele.

Cologne, 18 March 2021/Limited to ESEF documents referred to in the 'Note about supplementary audit': 30 March 2021

Mazars GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr Varain
Wirtschaftsprüfer
(German Public Auditor)

Lächele
Wirtschaftsprüfer
(German Public Auditor)

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

FINANCIAL CALENDAR 2021

12 May	Quarterly report for Q1 as of 31 March 2021
19 May	Annual General Meeting 2021 in Frankfurt am Main
12 August	Quarterly report for Q2 as of 30 June 2021
11 November	Quarterly report for Q3 as of 30 September 2021

IMPRINT/CONTACT

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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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