Interim Financial Report 2017

SOVAG
Schwarzmeer und Ostsee
Versicherungs-Aktiengesellschaft
Hohe Bleichen 11
20354 Hamburg, Germany

Hamburg District Court HRB 3560

Interim Financial Report
for the first six months of 2017

Contents

Please note:

Discrepancies may appear in the tables and reports as a result of rounding.

The present document is an unofficial translation for information purposes only. If there is a discrepancy between the English translation and the German original, the German version shall prevail.

Interim management report

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BUSINESS ACTIVITY AND GENERAL BACKGROUND CONDITIONS

About the company

Schwarzmeer und Ostsee Versicherungs-Aktiengesellschaft, or SOVAG, is a long-established insurance company regulated by the German insurance supervisory authority with its registered office in Hamburg. It was founded in 1927 by the USSR and maintains a wide range of contacts on the German and international insurance markets.

The company operates both as a direct insurer and a reinsurer. Its range of insurance covers all major areas including vehicle, liability, accident, transport and all major forms of property insurance.

SOVAG's direct insurance business is conducted exclusively from its central office in Hamburg and its reinsurance business is conducted from its branch office in London. Its products are distributed primarily through national and international brokers.

Legal background

In December 2015, GAZPROM Germania GmbH, Berlin, acquired 9,770 shares in SOVAG from its two previous shareholders. Since then, 50.1% of the shares have been held by GAZPROM Germania GmbH (GPG), Berlin, 25.1% by INSURANCE COMPANY OF GAZ INDUSTRY SOGAZ (SOGAZ), Moscow, and 24.8% by VOLGA Resources Investments S. A. (VOLGA), Luxembourg. The majority shareholder, GPG, is in turn a fully-owned subsidiary of Gazprom Export, St. Petersburg, and (indirectly) of PJSC Gazprom, Moscow.

In line with international financial reporting standards (IFRS), SOVAG is included in the consolidated group financial statements of SOGAZ and the consolidated (sub-)group financial statements of GAZPROM Germania GmbH in each case "at equity".

SOVAG also issues its own company accounts in accordance with the regulations of the German commercial code (HGB) and the regulation governing accounting practices of insurance companies (RechVersV).

Significant events

In December 2016, the board of SOVAG in consultation with the supervisory board passed a resolution to suspend all of the company's ongoing business, and since June 2017 it has not taken on any new business. All remaining insurance contracts remain valid until expiry or are being proactively terminated on their due dates. The last contract, based on the current situation and subject to the restructuring measures initiated, is due to expire in the 2019 financial year.

There is no plan to run-off the company. SOVAG's shareholders are currently looking at various strategic options to give the company a new direction.

In April, the supervisory board initiated a fundamental restructuring process. Prior to this, in February 2017, the company's share capital was strengthened by a contribution of EUR 10 million paid in by its shareholders.

The form and implementation of this restructuring process has been entrusted to a new board under the chairmanship of the newly appointed Arndt Gossmann. Dr Gerd Meyer (chairman of the board up until August 2016) has also been reappointed to the board. The previous board members, Mr Michel Schade and Mr Alexander Jeßnitzer, were dismissed from the Management Board with effect from 27/04/2017.

The central aim of the restructuring process initiated by the new board is to neutralise insurance risks resulting from the company's previous business, modify the operational structure and reduce costs.

The key restructuring measures introduced include:

- Implementing the resolution passed in December 2016, bringing forward the suspension of new business
- Harmonising the reinsurance structure and reducing concentrations
- Preparations of a portfolio transfer
- Downsizing
- Modifying the business structure

SOVAG's B+ rating, which had been under review, was checked and affirmed in March by AM Best.

Our employees

At the end of the first six months of 2017, SOVAG employed a total of 51 members of staff (end of 2016: 74 employees). Consultation between the board and the works council to reach an acceptable conclusion that balances the interests of everyone involved began in the first half of 2017 and will be concluded in the third quarter of 2017.

Association membership

SOVAG is a member of the German Insurance Association (Gesamtverband der Deutschen Versicherungswirtschaft e. V.), of the Association for Assisting Traffic Accident Victims (Verein Verkehrsopferhilfe e. V.) as well as of the Eastern and Central European Association (Ost- und Mitteleuropaverein e. V.). SOVAG is a guest member of the Employers' Federation of the Insurance Companies in Germany (Arbeitgeberverband der Versicherungsunternehmen in Deutschland e. V.).

DEVELOPMENTS AT SOVAG

The restructuring measures of May 2017 were introduced quickly and effectively. They have no impact on financial performance as at 30 June 2017.

Similarly, the decision to suspend new business dating from December is also not reflected in the accounts as at 30 June 2017. Rather, the performance in terms of premiums has shown itself to be unaffected by the resolution and the steps taken in the first few months of the year. An effective approach was prioritised accordingly by the new board.

Development in premiums (excluding fronting)
Without taking the fronting business into account[1)], gross premiums earned in the first half of 2017 amounted to EUR 23.1 million, which was EUR 6.0 million or 20.6% under the comparable value for the first half of 2016. In its direct insurance business, gross premiums earned fell 22.2%, or EUR 5.0 million, compared to the same period of the previous year, while in inward reinsurance the decline amounted to EUR 1.0 million, or 15.1%. Following changes in its outward reinsurance structures in 2016, a total of EUR 11.4 million (half year (HY) 2016: EUR 13.8 million) in premiums was ceded to reinsurers representing a reinsurance ratio of 49.7%. Net premiums earned thus amounted to EUR 11.7 million (HY 2016: EUR 15.4 million).

Insurance benefits (excluding fronting)
During the previous year, gross expenditure for claims during the business year was dominated in particular by the occurrence of several major natural loss events. At the end of the first half of 2017, claims expenses for reporting year claims lay at EUR 18.0 million, EUR 19.8 million or 52.4% under the comparable value of the previous year. A profit of EUR 4.8 million was recorded from settlement of provisions for prior year claims (HY 2016: loss of EUR 1.0 million). Overall, the gross expenditure for claims fell from EUR 38.8 million to EUR 13.2 million, a decline of 65.9%. The gross total claims ratio fell from 133.1% to its current level of 57.1%. The proportion of reinsurers in the overall expenditure amounted to EUR 4.0 million (HY 2016: EUR 28.8 million). Total net loss expenditure constituted EUR 9.2 million (HY 2016: EUR 9.9 million) of this figure. This corresponds to a net total loss ratio of 78.8% (HY 2016: 64.6%).

[1)] Comparables for the first half of 2016 include reverse premiums on a large scale based on the final settlement from Southstream Pipeline Project. This was an extraordinary event, so a better comparison can be drawn in each case without taking the fronting business into account.

Costs (excluding fronting)

Gross underwriting expenses for the insurance business fell by EUR 2.1 million or 20.0% to EUR 8.4 million. The gross cost ratio increased from 35.8% to 36.2%. SOVAG received EUR 1.0 million in commission from reinsurers (HY 2016: EUR 1.6 million) corresponding to a decline of 36.1%. Net expenditure for the insurance business amounted to EUR 7.3 million (HY 2016: EUR 8.8 million). In total, compared to the same period last year, the net cost ratio increased from 57.3% to 62.7%.

The combined ratio (combined loss and cost ratio to net premiums earned) therefore increased from 121.9% last year to its current level of 141.5%.

Technical result

Without taking the fronting business into account, the gross result for the company's insurance business (prior to the adjustment to the equalisation reserve and similar provisons) was a profit of EUR 1.4 million (HY 2016: loss of EUR 20.4 million).

From its outward reinsurance business, the company recorded expenditure of EUR 6.3 million (HY 2016: income of EUR 16.9 million). The net result from insurance, prior to the adjustment to the equalisation reserve and similar provisions, shows a loss of EUR 4.9 million (loss at HY 2016: EUR 3.5 million).

An amount of EUR 2.7 million net was released from the equalisation reserve during the first half year of 2017 (HY 2016: allocation of EUR 1.0 million). Following the adjustment to the equalisation reserve and similar provisons, the net result for insurance business excluding fronting recorded a loss of EUR 2.3 million (HY 2016: loss of EUR 4.5 million).

The fronting business recorded a net profit for fronting of EUR 0.1 million (HY 2016: loss of 0.4 million due to reverse postings).

In total, a net loss of EUR 2.1 million was incurred for the insurance business (HY 2016: loss of EUR 4.9 million).

Non-technical result

The non-technical result in the amount of EUR –2.4 million (HY 2016: loss of EUR 1.8 million) was composed of a profit of EUR 0.8 million from investments (HY 2016: EUR 1.7 million) and a loss of EUR 3.2 million from the balance of other revenue and other expenditure (HY 2016: loss of EUR 3.5 million). Other expenses totalled EUR 2.7 million for the company as a whole (HY 2016: EUR 2.5 million).

The proportional raising of the pension reserve caused by the initial application of the German Accounting Law Modernisation Act (BilMoG) in 2010 resulted in an extraordinary expense for the first half of 2017 in the amount of EUR 50,000.

Overall, SOVAG recorded a deficit before tax of EUR 4.5 million for the first half year of 2017 (HY 2016: deficit of EUR 6.7 million).

A tax expense of EUR 0.1 million was calculated for the first six months of 2017 (HY 2016: income of EUR 0.1 million). This was primarily due to anticipated subsequent tax payments for taxes from income and revenue based on the company audit carried out during the reporting period for the assessment years 2012–2015. These are balanced in part by anticipated VAT refunds.

In total, the loss after tax as at 30 June 2017 amounted to EUR 4.6 million (HY 2016: EUR 6.6 million).

In summary, the overall result for the first half of the year can be presented as follows:

in EUR thousands (TEUR)	HY 2016	FY 2016	HY 2017
Technical operating result for own account prior to the adjustment to the equalisation reserve and similar provisions	**– 3,912**	**– 8,470**	**– 4,788**
Change in equalisation reserve and similar provisions	983	3,074	– 2,650
Technical operating result for own account	**– 4,895**	**– 11,544**	**– 2,138**
Non-technical ordinary income	3,401	7,051	1,689
Non-technical ordinary expenses	5,175	10,699	4,043
Non-technical ordinary result	**– 1,774**	**– 3,648**	**– 2,354**
Extraordinary income	0	0	0
Extraordinary expenses	– 50	– 101	– 50
Extraordinary result	**– 50**	**– 101**	**– 50**
Pre-tax result	**– 6,720**	**– 15,293**	**– 4,542**
Taxes	– 85	– 390	58
Net loss for the (half) year	**– 6,635**	**– 14,903**	**– 4,600**

BUSINESS PERFORMANCE BY LINES OF BUSINESS

Measured against the recorded gross premiums of TEUR 25,243 (FY 2016: TEUR 52,988), the insurance portfolio can be broken down as follows:

in %	HY 2016	HY 2017
Direct insurance business (excluding fronting)	**81.7**	**73.6**
Liability insurance	7.7	6.8
Third party motor insurance	17.6	18.1
Other motor insurance	3.9	3.9
Fire and property insurance	31.0	23.6
of which:		
Fire insurance	6.2	7.0
Comprehensive homeowner's insurance	15.0	5.5
Other property insurance	9.8	11.1
Transport insurance	10.4	11.2
Other insurance types	11.1	10.1
Fronting*	**– 4.0**	**12.5**
Inward reinsurance business (excluding fronting)	**22.3**	**13.9**

* Reversed entry from South Stream Pipeline Project.

All of the types and classes of insurance we operate with are detailed on page 21–23 of this report.

PERFORMANCE OF DIRECT INSURANCE BUSINESS

Liability insurance
In terms of liability insurance, the gross premiums earned fell by 34.2% to TEUR 1,431, of which TEUR 148 represented supplementary premiums accounted for in years after they were written.

With financial year claims expenses in the amount of TEUR 1,139 and a run-off profit of TEUR 50, a gross loss ratio of 76.1% was recorded for the first half of 2017, which was higher than the previous year's value (HY 2016: 47.9%).

Gross expenditure for insurance operations lay at TEUR 910, around 1.1% lower than the first half year of 2016.

In terms of gross figures, the insurance result prior to the adjustment to the equalisation reserve deteriorated from a profit of TEUR 212 for the first half year of 2016 to a loss of TEUR 568. Following reinsurance expenditure of TEUR 193 (HY 2016: TEUR 213) and taking into consideration a withdrawal from the equalisation reserve of TEUR 175 (HY 2016: allocation of TEUR 395), this business area closed with a loss for insurance business for own account in the amount of TEUR 586 (HY 2016: loss of TEUR 395).

Third party motor insurance

In the third party motor liability insurance sector, gross premiums earned increased by 3.2% to TEUR 4,860.

Financial year claims expenses lay at TEUR 4,464 at 30 June 2017. The loss reserves taken over from the previous year recorded run-off profits of TEUR 1,478. The gross loss ratio increased to 61.4% (HY 2016: 54.7%) for the first half of 2017. The gross cost ratio of 19.7% was almost identical to the previous year's value (19.8%).

Prior to adjustment to the equalisation reserve, a gross profit of TEUR 915 was recorded for the insurance business (HY 2016: TEUR 1,198). Following reinsurance expenditure in the amount of TEUR 1,559 (HY 2016: revenue of TEUR 1,813) and a withdrawal from the equalisation reserve in the amount of TEUR 95 (HY 2016: allocation of TEUR 3,609) this business area closed with a net loss for insurance business of TEUR 549 (HY 2016: loss of TEUR 597).

Other motor insurance

Gross premiums received under this insurance class increased by 28.9% to TEUR 1,020.

Expenditure for claims increased by 17.8% to TEUR 706. This includes TEUR 64 in run-off profits for insured events from the previous year (HY 2016: TEUR 144). As a result, compared to the same period the previous year, a reduced loss rate of 69.2% was recorded at 30 June 2017 (HY 2016: 75.8%).

The gross cost ratio was 20.4% (HY 2016: 26.5%).

Prior to the adjustment to the equalisation reserve, a gross profit of TEUR 106 (HY 2016: loss of TEUR 18) was recorded for insurance business. After reinsurance revenues of TEUR 94 (HY 2016: TEUR 105) and an allocation to the equalisation reserve of TEUR 177 (HY 2016: TEUR 221), this business area closed with a loss for insurance business for own account of TEUR 165 (HY 2016: loss of TEUR 135).

Transport insurance

In the field of marine insurance, the gross premiums earned in the first six months of 2017 fell by 14.5% from TEUR 3,298 to TEUR 2,820, of which TEUR 1,400 related to supplementary premiums accounted for in years after they were written.

Expenditure for insured claims reduced in this regard by 62.1% to TEUR 383. This led to an improved loss ratio, compared to the previous year, of 13.6% (HY 2016: 30.6%). Income totalling TEUR 1,677 (HY 2016: income of TEUR 784) is related to settlement of prior-year claims.

Conversely, gross expenditure for the insurance operations increased during the six months to 30 June 2017 by 17.3% to TEUR 954.

Prior to the adjustment to the equalisation reserve, a positive gross result in the amount of TEUR 1,483 was recorded (HY 2016: profit of TEUR 1,475). After taking into account reinsurance expenditure of TEUR 919 (HY 2016: TEUR 683) plus an allocation to the equalisation reserve of TEUR 932 (HY 2016: TEUR 1,036), this business area closed with a loss for own account of TEUR 368 (HY 2016: loss of TEUR 244).

Fire insurance

In the fire insurance sector, gross premiums earned fell by 19.2% to TEUR 1,411.

Expenditure for claims reduced overall by 73.7% to TEUR 1,291. A gross total loss ratio of 91.5% was recorded for the first half year of 2017 (HY 2016: 280.7%).

Gross expenditure for insurance business lay at TEUR 1,009, in other words 10.8% over the previous year's level.

The gross result for insurance operations prior to adjustment to the equalisation reserve improved following a loss in the first six months of 2016 of TEUR 4,236 to a loss of TEUR 1,042. Taking the reinsurance expenditure of TEUR 136 into account (HY 2016: income of TEUR 1,777) and an allocation to the equalisation reserve of TEUR 133 (HY 2016: withdrawal of TEUR 1,577), this business area recorded a net loss for insurance business of TEUR 1,039 (HY 2016: loss of TEUR 882).

Comprehensive homeowners' insurance

Premiums earned in the comprehensive homeowners' insurance sector fell by 74.4% to TEUR 1,246.

Compared to the comparable period of the previous year, total claims expenses declined by 49.8% to TEUR 1,730, whereby settlement of the previous year's reserves resulted in a loss of TEUR 248 (HY 2016: TEUR 467). As a result, a higher loss ratio of 138.9% was recorded at 30 June 2017 compared to 30 June 2016 (70.9%).

The gross cost ratio remained unchanged at 51.6%.

At the end of the first half year of 2017, a net loss for insurance business of TEUR 1,134 (HY 2016: loss of TEUR 2,562 following allocations to the equalisation reserve in the amount of TEUR 827) was recorded with the equalisation reserve remaining unchanged and the reinsurance sector making a profit of TEUR 22 (HY 2016: expenditure of TEUR 465).

Other property insurance and other insurance classes

The insurance classes compiled under this category include travel health, accident, comprehensive contents, burglary, theft and robbery, mains water, glass, storm, technical, extended coverage, interruptions to business operations, aviation and other forms of insurance, plus legal services as well as travel assistance insurance.

Gross premiums earned amounted to TEUR 5,642 of which TEUR 791 relate to the fronting business (this figure was negative in the previous year to the tune of TEUR 7,963 as a result of the reverse settlement of the South Stream Project). Earned premiums, excluding fronting business, of TEUR 4,851 lay 7.3% under the previous year's level.

With financial year loss expenses of TEUR 5,283 and run-off losses of TEUR 2,838 (HY 2016: run-off gain of TEUR 273), this collective business area recorded a gross loss ratio of 143.9% for 2017. The fronting business recorded loss expenditure of TEUR 4,509 (HY 2016: TEUR 0). Discounting the fronting business, the gross loss ratio fell from 125.6% to 74.4%.

At TEUR 2,315, gross expenditure for insurance operations remained at the same level as the comparable period to 30 June 2016.

Discounting the fronting business, a gross loss was recorded for insurance business, prior to the adjustment to the equalisation reserve, of TEUR 1,092 (HY 2016: TEUR 3,793). After taking account of a withdrawal from the equalisation reserve in the amount of TEUR 2,481 (HY 2016: TEUR 1,476) and reinsurance expenditure of TEUR 968 (HY 2016: income of TEUR 2,000), this collective business area closed with a net profit for insurance business of TEUR 421 (HY 2016: loss of TEUR 318). Taking the fronting business into account, the profit recorded for the insurance business in this collective business area as at 30 June 2017 amounted to TEUR 522 (HY 2016: loss of TEUR 693).

INWARD REINSURANCE BUSINESS PERFORMANCE

Assumed reinsurance business by SOVAG mainly concerns facultative assumptions of risks from insurance companies and is underwritten through the London market.

The majority of this indirect business, with 42.4% of the gross premiums written, lies in other indemnity insurance, followed by other property insurance (34.7%) and fire insurance (11.9%).

Across all insurance classes, the gross premiums earned lay at TEUR 7,912, 3.1% above the previous year's level (HY 2016: TEUR 7,676). Financial year claims expenses fell by TEUR 16,741 to TEUR 3,161 (due to an extraordinarily large claims burden in 2016). As a result of settlement gains from loss reserves formed in the previous year in the amount of TEUR 735 (HY 2016: losses of TEUR 1,904), a gross loss ratio of 30.7% was recorded for the half-year to 30 June 2017 (HY 2016: 242.9%).

Prior to the adjustment to the equalisation reserve, a gross profit for insurance business of TEUR 3,329 (HY 2016: loss of TEUR 13,056) was recorded. After reinsurance expenditure of TEUR 3,290 (HY 2016: relief of TEUR 11,617) has been taken into account, along with a withdrawal from the equalisation reserve of TEUR 1,142 (HY 2016: TEUR 2,052), a net profit for insurance business in the amount of TEUR 1,182 was recorded (HY 2016: profit of TEUR 613).

BUSINESS PERFORMANCE SUMMARY

With a total of EUR 25.2 million in gross premiums written, the volume of premiums as at 30 June 2017 lay only 3.9% under the comparable value from the previous year of EUR 26.3 million.

In regard to losses, no major unforeseen events have occurred to date. The gross loss ratio at the halfway point in the year lay more or less at the predicted level. The gross loss ratio on the balance sheet has been reduced considerably compared to the previous year (101.0 percentage points) to 71.1%. As a result of the reinsurance structure, the net loss ratio deteriorated by 12.3 percentage points compared to the first half of 2016. The settlement of loss reserves for the previous year's losses resulted in a net profit for the first six months of 2017 of EUR 1.1 million.

The net cost ratio rose slightly compared to last year's value from 58.7% to 61.5%. The combined ratio lay at 140.2% (HY 2016: 125.2%).

Direct insurance recorded a gross loss for insurance business prior to the adjustment to the equalisation reserve of a total of EUR 5.1 million following a loss of EUR 14.3 million the previous year.

In regard to the company's inward reinsurance business, a gross profit for insurance business of EUR 3.3 million was recorded prior to adjustment to the equalisation reserve (HY 2016: loss of EUR 13.1 million).

Profit of the reinsurers amounted to EUR 3.0 million (HY 2016: loss of EUR 23.4 million); excluding fronting business this represents a profit of EUR 6.3 million (HY 2016: loss of EUR 16.9 million).

Overall, a net loss prior to adjustment to the equalisation reserve of EUR 4.8 million was recorded (HY 2016: loss of EUR 3.9 million).

Following withdrawal from the equalisation reserve, the first half of the year closed with a net loss for insurance business of EUR 2.1 million (HY 2016: EUR 4.9 million).

NET ASSETS AND FINANCIAL POSITION

Investments

Investments not including deposits with ceding insurers from inward reinsurance business fell during the reporting period by EUR 20.1 million or 20.9% to EUR 76.4 million. Deposits with ceding insurers from inward reinsurance business reduced during the same period by EUR 1.4 million to EUR 0.9 million. Total investment holdings thus declined by 21.8% to EUR 77.3 million. Gross new assets not including deposits with ceding insurers from inward reinsurance business achieved an overall volume of EUR 1.6 million.

Holdings of land, land rights and buildings, including buildings on third-party land fell by TEUR 8 during the reporting period in accordance with scheduled depreciations. With a book value of EUR 0.4 million, the proportion of investments excluding deposits with ceding insurers from inward reinsurance business amounted to 0.5% (previous year: 0.4%).

Investments in affiliated companies and shareholdings remained unchanged at EUR 0.3 million, representing a proportion of investments excluding deposits with ceding insurers from inward reinsurance business of 0.4% (previous year: 0.3%).

Holdings of shares, equities and units in investment funds and other non-fixed-income securities only altered slightly (+ TEUR 60) during the reporting period, taking appreciations and depreciations into account. With a total volume of EUR 33.8 million, this position represented 44.3% (previous year: 35.0%) of the investments excluding deposits with ceding insurers from inward reinsurance business. Directly-held shareholdings accounted for EUR 4.5 million or 5.9% of the volume of investments. Other equities relate to units in investment funds (primarily units in a special fund), which in turn are predominantly invested in bonds.

Holdings in bearer bonds and other fixed-interest securities reduced during the reporting period by EUR 16.7 million from EUR 46.8 million to EUR 30.2 million. The relevant proportion of capital investments excluding deposits with ceding insurers from inward reinsurance business thus amounts to 39.5% (previous year: 48.5%).

Holdings of other loans declined during the reporting period, taking account of appreciations and depreciations, by EUR 3.5 million from a total of EUR 15.1 million to EUR 11.6 million. The proportion of capital investments not including deposits with ceding insurers from inward reinsurance business amount to 15.2% (previous year: 15.6%).

The calculation of the security and tied assets as at 30 June 2017 features an excess coverage.

Current ordinary investment income amounted to EUR 0.7 million during the first six months of 2017. Minus the ordinary expenditure of EUR 0.3 million (including depreciation on property) this resulted in an ordinary result of EUR 0.4 million (HY 2016: EUR 0.5 million). The fall in income is primarily due to the erosion of the average investment portfolio held and the lower interest rates from reinvestment.

At the balance sheet date, write-downs on SOVAG's investments of EUR 0.1 million were recognised; conversely, income of EUR 0.1 million was posted from the reversal of impairment losses recognised in prior periods. Overall, this resulted in a profit of TEUR 12. The sale of assets recorded, on the one hand, disposal gains of EUR 0.5 million, but on the other hand resulted in disposal losses of TEUR 13. Appreciations and depreciations plus the divestment of investments resulted in an extraordinary profit of EUR 0.5 million (HY 2016: EUR 1.2 million of which EUR 1.4 million came from the sale of land).

The net investment result ran to EUR 0.8 million in total (HY 2016: EUR 1.7 million). Current gross interest yield on investments excluding deposits with ceding insurers from inward reinsurance business, extrapolated for the whole year, amounted to 1.7% (previous year: 2.0%) and therefore is within our expectations. Net interest yield at the balance sheet date sank from 1.9% to 1.0%. Adjusted to remove special effects, it lay 0.7 percentage points above the comparable value from the previous year.

During the half year, net hidden reserves fell by EUR 1.0 million from EUR 4.8 million to EUR 3.8 million, with these reserves amounting to 4.0% of the capital assets excluding deposit receivables from reinsurance business. Hidden net reserves can be broken down as follows: land, land rights and buildings, including buildings on third-party land represented EUR 1.5 million in net hidden reserves, with other investments accounting for the remaining EUR 2.3 million. The net hidden reserves included hidden burdens of EUR 0.3 million.

Capital structure

SOVAG's equity capital at the balance date amounted to EUR 20,814,155.19. The equity capital ratio in proportion to the balance sheet total represented 17.5% (previous year: 11.4%).

At the extraordinary general meeting of 07/02/2017, a resolution was passed to further strengthen SOVAG's capital by paying EUR 10.0 million into the capital reserve in accordance with Section 272 (2) no. 4 HGB (German Commercial Code).

Technical provisions
The gross technical provisions as at 30 June 2017 amounted to EUR 147.3 million, representing a decline of EUR 34.1 million or 18.8% compared with the previous year. After deduction of shares attributable to reinsurers, the remaining net technical provisions amounted to EUR 79.2 million (previous year: EUR 89.4 million).

The largest proportion of the total net technical provisions, with 58.6 million, was recorded by the outstanding claims reserve (previous year: EUR 65.6 million).

The equalisation reserve and similar reserves at the balance sheet date showed a balance of EUR 14.6 million (previous year: EUR 17.3 million).

OUTLOOK

The restructuring process initiated this year will have a substantial impact on the results for the 2018 financial year at the earliest. Cost reductions, the majority of which will not take effect until 2018, one-off restructuring costs and the now continuous decline in premium volumes will, on the other hand, all have an impact on the overall result for the 2017 financial year.

The only direct positive effects to be expected relate to an improvement in the run-off result.

The board is therefore anticipating a loss for the 2017 financial year, the extent of which will be determined above all by the result achieved from the transfer of the insurance portfolio.

SOLVENCY REQUIREMENTS
The solvency requirements set out in the Solvency II Directive have been binding since 01/01/2016. The risk that SOVAG's solvency does not meet the Solvency II criteria first became an issue on 01/01/2016.

The company fell within the required solvency range set out in the previous law valid until 31/12/2015. Pursuant to Section 348 of the "Law to modernise the financial supervision of insurance companies of 1 April 2015" (VAG new version), SOVAG has applied for an extended period, to 31/12/2017, to meet the new solvency requirements. This application was approved by the Federal Financial Supervisory Authority (BaFin), in a letter dated 29/03/2016.

In February 2017, the capital reserve was increased by 10.0 million, which was paid in by shareholders to strengthen the solvency situation during the restructuring phase.

During the period from February to August 2017, the largest reinsurer, SOGAZ, temporarily did not have two approved ratings of investment grade level. SOVAG therefore did not meet the solvency capital requirements set out in the Solvency II Directive at the balance sheet dates of 31/03/2017 and 30/06/2017. Coverage of the minimum capital requirement and the solvency capital requirement pursuant to Solvency I was not jeopardised at any point.

OVERALL RISK SITUATION

SOVAG assesses its overall risk position by considering the individual risks and the correlations between these risks and diversification effects as part of its own risk and solvency assessment (ORSA). SOVAG gains its knowledge of the interdependencies between these risks from observing market data and statistics as well as from analysis reports from GDV, EIOPA and other trusted sources plus assessments and analyses of the company's internal data.

All significant opportunities and risks as at 30 June 2017 continue to match those in the management report in the 2016 annual report.

The major risks for the company relate to uncertainty regarding the settlement of loss reserves and unforeseen events affecting restructuring.

Annex to interim management report

INSURANCE LINES AND BRANCHES HANDLED

Health insurance

Other forms of individual non-mandatory insurance

- Travel health insurance

General accident insurance

Individual accident insurance without premium refund

- Travel accident insurance

Group accident insurance without premium refund

- Comprehensive group accident insurance

Liability insurance

Personal liability insurance
(including pleasure boating and dog-handling liability insurance)

Business and professional liability insurance

- Industrial and commercial operations
- Construction
- Other business and professional liability insurance

Environmental liability insurance

- Water damage liability insurance

Radiation and nuclear installation liability insurance

- Nuclear installation liability insurance

Transport liability insurance

- Traffic liability insurance
- Sea, lake and river transport liability insurance

Other liability insurance not listed

- Home- and landowner liability insurance

Motor insurance

Third party motor insurance
Fully comprehensive motor insurance
Part comprehensive motor insurance
Motor accident insurance
Other motor insurance not listed

Fire insurance

Industrial fire insurance
Other fire insurance

Burglary, theft and robbery insurance

Mains water insurance

Glass insurance

Storm insurance

Comprehensive contents insurance

Comprehensive home insurance

Engineering insurance
Machinery insurance (including construction machinery insurance)
Electronics insurance
Assembly insurance
Construction insurance
Other technical insurance not listed

Aviation insurance
Liability insurance
Hull insurance
Aviation accident insurance

Transport insurance
Hull insurance

- Marine hull insurance
- Inland waterway and river navigation hull insurance
- Railway rolling stock full comprehensive insurance
- Sports boat hull insurance
- Construction risk insurance
- Other fully comprehensive insurance

Cargo insurance

- Cargo insurance
- Fully comprehensive container insurance
- Travel storage insurance
- Other goods insurance

Securities insurance (commercial)
War risk insurance
Other transport insurance not listed
(including insurance for offshore risks)

Credit and guarantee insurance

Other credit and guarantee insurance not listed
(only for acquired insurance business)

Extended Coverage (EC) insurance

Business interruption insurance

- Insurance for business interruptions caused by fire
- Technical business interruption insurance
- Other business interruption insurance

Legal assistance insurance

Other indemnity insurance

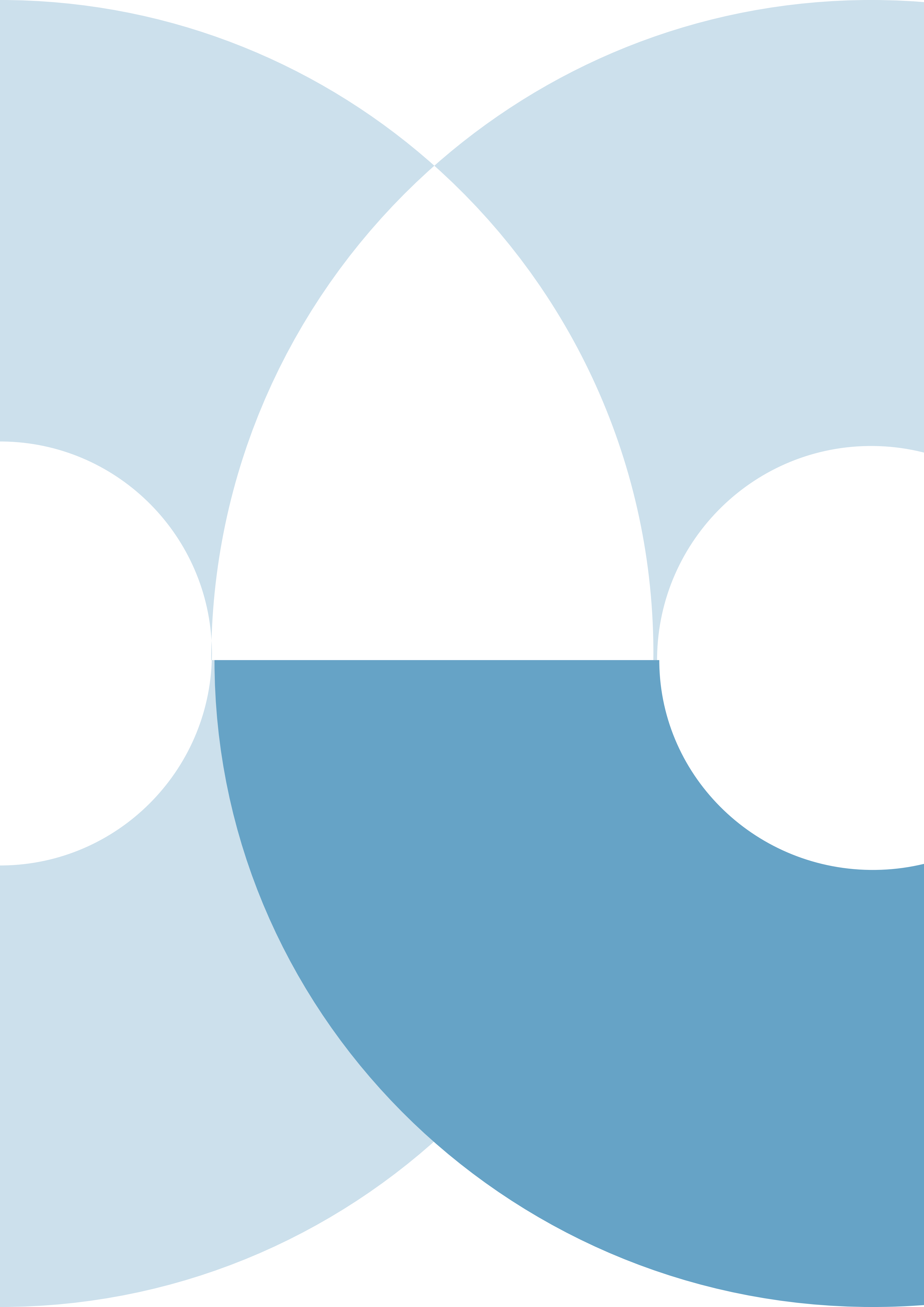
Other insurance for property damage

- Exhibition insurance
- Chilled cargo insurance
- Property insurance for nuclear installations
- Luggage insurance
- Vehicle luggage insurance
- Insurance for works of art
- Other property insurance not listed

Other insurance for financial loss

- Boycott and strike insurance
- Travel cancellation insurance
- Equipment guarantee insurance
- Loss of rent insurance

Other indemnity insurance not listed



Condensed interim financial statements

Balance Sheet

as at 30.06.2017

ASSETS

	First HY 2016	FY 2016	First HY 2017
A. Intangible assets	3,690,866.40	3,113,402.51	2,389,889.05
B. Investments			
I. Land, land rights and buildings, including buildings on third-party land	415,189.81	407,002.09	398,814.38
II. Investments in affiliated companies and other short-term and long-term equity investments			
1. Shares in affiliated companies	3,834,689.11	303,168.03	303,168.03
2. Other short-term and long-term equity investments	0.00	0.00	0.00
	3,834,689.11	303,168.03	303,168.03
III. Other investments			
1. Shares, equity investments or interests in investment funds and other non-fixed-interest securities	38,279,000.33	33,788,523.21	33,846,974.78
2. Bearer bonds and other fixed-interest securities	30,210,717.08	46,847,079.84	30,169,753.70
3. Other loans			
a) Registered bonds	2,200,000.00	2,200,000.00	2,200,000.00
b) Loans and promissory notes	12,997,379.18	11,497,743.27	8,998,110.64
c) Miscellaneous loans	1,315,625.12	1,383,366.57	384,959.85
	16,513,004.30	15,081,109.84	11,583,070.49
4. Deposits with banks	120,424.98	100,349.54	92,921.38
5. Other investments	0.00	0.00	0.00
	85,123,146.69	95,817,062.43	75,692,720.35
IV. Deposit with ceding insurers from inward reinsurance business	6,307,231.38	2,352,334.99	909,502.92
	95,680,256.99	98,879,567.54	77,304,205.68
C. Receivables			
I. Receivables from direct insurance business due from:			
1. Policyholders	691,837.41	867,812.04	992,585.99
2. Brokers	6,327,636.10	3,017,102.82	3,754,702.13
	7,019,473.51	3,884,914.86	4,747,288.12
II. Accounts receivable from reinsurance business	18,495,508.45	18,382,306.74	16,993,150.01
III. Other receivables	5,859,048.98	2,716,320.73	2,094,731.81
	31,374,030.94	24,983,542.33	23,835,169.94
D. Other assets			
I. Fixed assets and stocks	758,506.39	598,644.71	531,708.13
II. Current accounts at banks, cheques and cash	23,869,177.90	6,581,117.05	14,683,518.36
	24,627,684.29	7,179,761.76	15,215,226.49
E. Deferred charges and prepaid expenses			
I. Deferred interest and rent	394,408.91	659,250.06	284,252.11
II. Other deferred items	205,558.71	117,913.10	192,714.44
	599,967.62	777,163.16	476,966.55
Total assets	**155,972,806.24**	**134,933,437.30**	**119,221,457.71**

LIABILITIES

	First HY 2016	FY 2016	First HY 2017
A. Shareholders' equity			
I. Subscribed capital	9,984,000.00	9,984,000.00	9,984,000.00
II. Capital reserve	19,369,633.72	19,369,633.72	29,369,633.72
III. Revenue reserves			
1. Statutory reserve	963,086.31	963,086.31	963,086.31
2. Other revenue reserves	0.00	0.00	0.00
	963,086.31	963,086.31	963,086.31
IV. Net retained profits	– 6,634,897.44	– 14,902,724.86	– 19,502,564.84
	23,681,822.59	15,413,995.17	20,814,155.19
B. Technical provisions			
I. Unearned premiums			
1. Gross amount	16,736,884.07	10,207,093.39	9,108,491.14
2. less: reinsurers' share	9,323,934.48	5,572,631.39	5,016,957.55
	7,412,949.59	4,634,462.00	4,091,533.59
II. Outstanding claims reserve			
1. Gross amount	148,125,703.54	151,532,475.78	121,223,928.47
2. less: reinsurers' share	80,539,515.70	85,951,543.44	62,589,273.37
	67,586,187.84	65,580,932.34	58,634,655.10
III. Reserve for profit-related and non-profit-related refunds			
1. Gross amount	102,362.00	0.00	0.00
2. less: reinsurers' share	0.00	0.00	0.00
	102,362.00	0.00	0.00
IV. Equalisation reserve and similar provisions	15,208,340.01	17,299,469.00	14,649,111.00
V. Other provisions for insurance business			
1. Gross amount	3,686,266.85	2,387,554.17	2,313,438.81
2. less: reinsurers' share	445,651.70	497,035.28	497,035.28
	3,240,615.15	1,890,518.89	1,816,403.53
	93,550,454.59	89,405,382.23	79,191,703.22
C. Other provisions			
I. Provision for pensions and similar obligations	9,162,727.49	8,710,570.00	9,025,393.90
II. Tax provisions	7,000.00	0.00	246,000.00
III. Other provisions	1,830,051.98	4,537,756.94	4,050,068.28
	10,999,779.47	13,248,326.94	13,321,462.18
D. Deposits retained from ceding insurers for outward reinsurance business	7,792,470.27	4,205,333.86	3,165,512.95
E. Other liabilities			
I. Liabilities arising from direct insurance business due to			
1. Policyholders	597,541.98	349,708.00	362,184.12
2. Brokers	9,833,539.14	8,114,184.81	473,591.03
	10,431,081.12	8,463,892.81	835,775.15
II. Accounts payable from reinsurance business	2,966,521.62	3,035,050.56	433,282.06
III. Other liabilities	19,948,279.32	1,161,455.73	1,459,566.96
	19,948,279.32	12,660,399.10	2,728,624.17
F. Deferred income	0.00	0.00	0.00
Total liabilities	**155,972,806.24**	**134,933,437.30**	**119,221,457.71**

Profit and Loss Account

From 01.01.2017 to 30.06.2017

	First HY 2016	FY 2016	First HY 2017
I. Technical account			
1. Earned premiums			
a) Gross premiums posted	26,265,964.80	52,987,673.22	25,243,145.41
b) Reinsurance premiums ceded	10,414,607.05	26,758,282.90	14,082,743.78
c) Change in gross unearned premiums	– 3,737,420.38	2,792,370.30	1,098,602.25
d) Change in ceded unearned premiums	2,835,504.05	– 915,799.04	– 555,673.84
	14,949,441.42	28,105,961.58	11,703,330.04
2. Other underwriting income for own account	2,764.03	4,103.06	1,193.37
3. Claims expenses for own account			
a) Payments for claims			
aa) Gross amount	23,200,625.49	48,682,208.47	47,937,426.03
bb) Reinsurers’ share	8,108,514.90	20,833,744.91	31,954,876.72
b) Change in provisions for unsettled claims	15,092,110.59	27,848,463.56	15,982,549.31
aa) Gross amount	15,570,736.46	16,561,192.99	– 29,205,989.10
bb) Reinsurers’ share	20,733,484.38	24,053,361.81	– 22,440,486.33
	– 5,162,747.92	– 7,492,168.82	– 6,765,502.77
	9,929,362.67	20,356,294.74	9,217,046.54
4. Change in other technical insurance provisions (net)	552.89	– 1,079,944.61	0.00
5. Expenses for premium refunds on own account whether performance-related or not	0.00	– 102,362.00	0.00
6. Expenses for insurance operations on own account			
a) Gross expenses for insurance operations	10,693,405.72	20,340,101.30	9,170,491.94
Acquisition costs	*7,105,002.30*	*12,626,991.19*	*5,664,164.15*
Administrative costs	*3,588,403.42*	*7,713,110.11*	*3,506,327.79*
b) less: commissions and profit shares received on ceded reinsurance business	1,912,036.03	3,135,042.72	1,975,264.39
	8,781,369.69	17,205,058.58	7,195,227.55
7. Other underwriting for own account	153,098.20	200,612.65	80,532.17
8. Subtotal	**– 3,912,178.00**	**– 8,469,594.72**	**– 4,788,282.85**
9. Change in equalisation reserve und other provisions	983,232.01	3,074,361.00	– 2,650,358.00
10. Technical operating result for own account	**– 4,895,410.01**	**– 11,543,955.72**	**– 2,137,924.85**

	First HY 2016	FY 2016	First HY 2017
II. Non-technical account			
1. Investment income			
a) Income from investments	0.00	0.00	0.00
b) Income from other investments			
aa) Income from land, land rights and buildings including buildings on third-party land	2,229.52	2,229.52	0.00
bb) Income from other long-term equity investments	774,397.51	1,907,871.69	715,421.54
c) Income from appreciations	293,556.98	359,441.80	131,820.80
d) Gains on disposals of investments	1,635,359.32	2,594,415.76	481,698.53
e) Income from profit transfer agreements	0.00	0.00	0.00
	2,705,543.33	4,863,958.77	1,328,940.87
2. Investment expenses	495,712.09		
a) Investment management costs and other investment expenses	280,914.94	711,012.63	341,404.27
b) Impairment losses on investments	680,520.01	769,123.06	127,600.46
c) Losses from disposal of investments	14,239.49	120,576.75	13,233.71
d) Expenses for loss assumption	0.00	0.00	0.00
	975,674.44	1,600,712.44	482,238.44
	1,729,868.89	3,263,246.33	846,702.43
3. Other income	695,543.16	2,187,065.73	360,267.39
4. Other expenses	4,199,694.01	9,098,320.41	3,560,374.12
	– 3,504,150.85	– 6,911,254.68	– 3,200,106.73
5. Result from ordinary operating activities	**– 6,669,691.97**	**– 15,191,964.07**	**– 4,491,329.15**
6. Extraordinary income	0.00	0.00	0.00
7. Extraordinary expenses	50,482.50	100,965.00	50,482.50
8. Extraordinary result	**– 50,482.50**	**– 100,965.00**	**– 50,482.50**
9. Taxes on income	13,757.85	– 185,852.94	257,013.66
10. Other taxes	– 99,034.88	– 204,351.27	– 198,985.33
11. Net loss for the (half) year	**– 6,634,897.44**	**– 14,902,724.86**	**– 4,599,839.98**
12. Profit carried forward from previous year	0.00	0.00	– 14,902,724.86
13. Net accumulated loss	– 6,634,897.44	– 14,902,724.86	**– 19,502,564.84**

Selected notes

The interim financial statements were drawn up in accordance with the German Commercial Code (HGB), the Stock Corporation Act (Aktiengesetz – AktG), the Act on the Supervision of Insurance Undertakings (Versicherungaufsichtgesetz – VAG) and the Ordinance Governing the Accounting Practices of Insurance Companies (Verordnung über die Rechnungslegung von Versicherungsunternehmen – RechVersV), each in their relevant valid version.

Material changes to the items of the condensed balance sheet and the condensed income statement in relation to the comparables presented and material developments in the reporting period are explained in the interim management report.

INFORMATION ON PREPARING THE BALANCE SHEET AND ACCOUNTS

The data processing programs included under **intangible assets** were assessed at acquisition cost less pro rata linear depreciation. Depreciation only occurs once the corresponding assets have been completed.

Land and buildings were recognised at cost, less depreciation for buildings. If permanent impairment is likely, land and buildings were carried where applicable less depreciation at the lower of cost or market value pursuant to HGB 253 (3).

Shares in affiliated companies and shareholdings were assessed at their acquisition costs or in the case of impairment at the fair value pursuant to Section 253 (3) HGB.

Securities classified as current assets were assessed at acquisition cost or the lower of the fair value or market value pursuant to Section 341b (2), first phrase, HGB in conjunction with Section 253 (1), sentence 1, and (4) HGB. In the event of the fair value or market value rising, or an improvement in the exchange rate, appreciations are undertaken in accordance with Section 253 (5) HGB up to the maximum value of the relevant acquisition cost.

Securities classified as fixed assets were assessed at acquisition cost, where necessary minus the depreciation required in connection with calculating the fair value due to impairment pursuant to Section 341b (2), second phrase, HGB in conjunction with Section 253 (3) HGB. Impairment occurs with bearer bonds and other fixed-interest securities if the issuer's credit rating deteriorates to a significant extent, namely if the rating is reduced by two or more classifications within a financial year or falls below investment grade. Impairment in regard to shares, equities or units in investment funds and other non-fixed-interest securities can occur if the fair value over the past six months has persistently remained below 80% of the book value at the assessment date. In the case of purely bond-based funds, in order to assess impairment the bond securities in the fund were checked for their creditworthiness. In the case of mixed funds, the securities held in the funds were used for this purpose. Following the removal of causes of depreciation, write-ups are effected in line with Section 253 (5) HGB up to the maximum level of the acquisition price.

Other loans were generally valued at their acquisition cost or continued acquisition cost including amortisation or at the lower fair value where this results from exchange rate fluctuations or impairments anticipated due to a downgrade in credit rating. Following the removal of causes of depreciation, write-ups are effected in line with Section 253 (5) HGB up to the maximum level of the acquisition price.

Registered bonds were posted at the nominal value pursuant to Section 341c (1) HGB and are only written down in the case of anticipated impairment caused by a downgrading of the credit rating. Following the removal of causes of depreciation, write-ups were effected in line with Section 253 (5) HGB up to the maximum level of the acquisition price.

Loans and promissory notes were assessed at the acquisition cost or fair value if lower as a result of exchange rate fluctuations or anticipated impairment brought about by a downgrading in credit rating. Following the removal of causes of depreciation, write-ups were effected in line with Section 253 (5) HGB up to the maximum level of the acquisition price.

Miscellanous loans were posted at their acquisition cost and only written down in the event of falling exchange rates or anticipated impairment caused by a downgrading in credit rating. In the event of an increase in exchange rates, write-ups were effected in line with Section 253 (5) HGB up to the maximum amount of the acquisition cost.

Deposits with banks denominated in foreign currencies were valued at the reference rate of the European Central Bank (ECB) at year end. Deposits in euros were posted at their nominal amount.

Deposit with ceding insurers from inward reinsurance business were valued at their nominal value.

Receivables from direct insurance business and **accounts receivables** were posted at their nominal value less adjustments made to account for existing risks that might occur in connection with the continuous settlement of current accounts (receivables and payables from direct insurance business).

In the case of **other receivables** and **other assets,** valuations were based on acquisition cost or nominal value. Fixed assets are posted at their acquisition cost minus scheduled straight-line depreciation, taking account of the provisional useful life. Low-value economic goods up to a value of EUR 150.00 are fully written down in the year of acquisition. Low-value economic goods with an acquisition cost of between EUR 150.00 and EUR 1,000.00 were compiled in a collective item under assets and were written down over a five-year period irrespective of whether they remain in the assets column and regardless of when they were acquired within the financial year. Depreciations on all acquisitions of property assets with an acquisition value of more than EUR 1,000.00 were generally effected on a pro rata basis. In the year of acquisition, depreciation was still carried out on just a pro rata basis for the full month of acquisition and the following months.

Current accounts at banks, cheques and cash were assessed at their nominal value.

Deferred charges and prepaid expenses consist of deferred interest from the last due date as at the balance sheet date and expenditure to be posted in the following accounting period on a proportional straight-line basis.

Unearned premium reserve for direct insurance business were as a general rule calculated on a pro rata basis. The specifications from the Coordinated Decree of the Tax Authorities of the Federal States (koordinierter Ländererlass) dated 30 April 1974have been taken into account. In terms of direct transport business, the premium reserve was taken into account when calculating the loss reserve.

In regard to **inward reinsurance business**, the unearned premiums reserve was suspended on the basis of figures provided by the cedents. In the motor third party liability insurance sector, the premium reserve for the border policies in its reinsurance business was calculated for mandatory contracts based on the 1/8 method. In regard to mandatory contracts from the London branch in the property, technical and transport business areas, the 1/24 method was used. The shares of reinsurers in the unearned premium reserves in both direct and inward reinsurance business were calculated using the same calculation methods.

Outstanding claims reserve in the company's direct insurance business were, in general, posted to liabilities based on the envisaged expense for each individual loss. Receivables from recoveries, salvages and partial agreements were deducted from reserves. For as yet unknown loss events, the incurred but not reported reserves (IBNR) have been taken into account, calculated using actuarial methods. The internal provisions for claims management expenses were determined on a lumpsum basis, taking into account the ratio of the paid claims settlement expenses to the loss expenses and the total loss reserve.

In the direct transport insurance sector, the forming of reserves was fundamentally based on the principle of individual assessment. In cases in which no individual reserve could be formed, the zero position was used for the business year. For older underwriting years, a flat-rate calculation was made based on empirical values based on a fall in percentage rates. Within three years, at the latest, a reserve for all losses will be formed in accordance with general principles.

In its **inward reinsurance business**, proportional reserves were generally formed at the request of the initial insurer; in all other cases, based on estimates of the loss payments made in previous years for known insured events with the addition of surcharges for claims incurred but not reported.

The **reinsurers' shares** in the loss reserves, including claims handling costs, were calculated based on contractual agreements.

The **equalisation reserve** in Section 341h HGB in conjunction with Section 29 RechVersV and the **nuclear installation reserve** were formed based on the statutory provisions and based on the instructions of the Federal Financial Supervisory Authority (BaFin).

The **cancellation reserve** was formed in case of the discontinuation or reduction in the technical risk corresponding to likely future default. The proportion of this reserve relating to reinsurance business corresponds to the reinsurer's share in the risk.

The **reserve for obligations from membership of the Verein Verkehrsopferhilfe e. V.** [association for victims of traffic accidents] was formed based on the instructions of this association. It corresponds to the proportion set out in our articles of association.

The basis for measuring the **provision for contingent liabilities** was formed by the expected premium, loss and cost development in the relevant insurance business. The remaining insurance reserves were calculated based on the expected requirement.

Contractual obligations to reinstate reinsurance premiums were taken into account by creating a corresponding **reserve for reinstatement premiums**.

The **pension provisions** were calculated in accordance with the recognised principles of actuarial mathematics using the projected unit credit method (PUC method). The amount in this reserve, using the PUC method, is defined as the cash value of the pension obligation, calculated using actuarial mathematics, accrued to date by employees in accordance with pension formulas and vesting practices based on their past service to the company. The amount in this reserve is calculated taking account of trend assumptions regarding future developments in regard to pensions and retirement plus any likely fluctuations. The 2005 G reference tables drawn up by Professor Klaus Heubeck were used as a biometric calculation basis. The following additional assumptions underpin the assessment: average interest rate of 4.01% (2015: 3.89%) based on the last 10 years (previous year: 7 years), based on a remaining life of 10 (2015: 15) years, salary trend remains unchanged at 2.50% p.a, assessment ceiling trend remains unchanged at 2.00% p.a. and retirement trend remains unchanged at 2.00% p.a.

The pension obligation at 30 June 2017 was calculated using a forecast of the actuarial report to year-end 2017 and the expenditure included in the provision on a pro rata temporis basis.

The 1/15 rule was used when reporting the pension reserves. The difference in the pension obligation as at 01/01/2010 was reported at the minimum amount (1/15 of EUR 1.5 million). The remaining difference will be reported over the following years. In the first half year of 2017, the minimum amount of EUR 0.05 million was reversed. The remaining difference in the amount of EUR 0.95 million corresponds to 9/15. Expenditure from the initial application of the BilMoG on 01/01/2010 is recorded as an extraordinary result in accordance with Art. 67 (1) sentence 1 of the Introductory Act to the German Commercial Code (EGHGB).

The provision for anniversaries was assessed in accordance with the principles of actuarial mathematics using the PUC method. The amount in the reserve is defined based on the PUC method as the cash value of the anniversary bonuses accrued pro rata as at the balance sheet date. The amount in this reserve is calculated taking account of trend assumptions regarding future developments in regard to pensions and retirement plus any likely fluctuations. The 2005 G reference tables drawn up by Professor Klaus Heubeck were used as a biometric calculation basis. The following additional assumptions underpin the assessment: calculation interest of 3.24% p.a. (2015: 3.89%) based on an assumed remaining life of 15 years, salary trend remains unchanged at 2.25% p.a and assessment ceiling trend remains unchanged at 2.00% p.a. The amount was recorded in the accounts in accordance with commercial law.

The other non-technical reserves are posted at the amount needed to fulfil this requirement based on a reasonable commercial assessment. Where the other non-technical reserves related to a period of more than one year, the reserves were subject to interest in accordance with Section 253 (2) HGB on the basis of the interest rates published by Deutsche Bundesbank.

Deposits retained from ceding insurers for outward reinsurance business and liabilities from direct insurance business plus **accounts payable from reinsurance business** and **other liabilities** are posted at the relevant amount to be paid.

Hamburg, 24 August 2017

The Board

Arndt Gossmann | Dr Gerd Meyer

Review Report

To Schwarzmeer und Ostsee Versicherungs-Aktiengesellschaft

We have reviewed the condensed interim financial statements – comprising condensed balance sheet and profit and loss account and selected explanatory notes – together with the interim management report of Schwarzmeer und Ostsee Versicherungs-Aktiengesellschaft for the period from 1 January to 30 June 2017, which form part of the interim report for the first six months of the year. The preparation of the condensed interim financial statements in accordance with the provisions of German commercial law and of the interim management report in accordance with the requirements applicable to interim management reports on the basis of DRS 16, is the responsibility of the company's board. Our responsibility is to issue a report on the condensed interim financial statements and on the interim management report based on our review.

We performed our review of the condensed interim financial statements and the interim management report in accordance with the generally accepted German standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim financial statements have not been prepared, in material respects, in accordance with the provisions of German commercial law, and that the interim management report has not been prepared, in material respects, in accordance with the relevant provisions applicable to interim management reports on the basis of DRS 16. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our assignment, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim financial statements have not been prepared, in material respects, in accordance with the provisions of German commercial law, and that the interim management report has not been prepared, in material respects, in accordance with the relevant provisions applicable to interim management reports on the basis of DRS 16.

Hamburg, 22 September 2017

PricewaterhouseCoopers GmbH
Auditors

André Bödeker
Auditor

ppa. Dennis Schnittger
Auditor

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