

PSVaG

Insolvenz­sicherung
der Betriebsrenten



2018
Annual Report
(Summary)

Who we are

We are a self-help institution within the German economy providing statutory protection for occupational pension schemes in the event of employer insolvency.

Creating a secure future for this instrument of entrepreneurial responsibility and culture is a socio-political task of the utmost importance.

We are a mutual insurance association. We act on the basis of our statutory remit in the interests of our members and of those who are entitled to benefits.

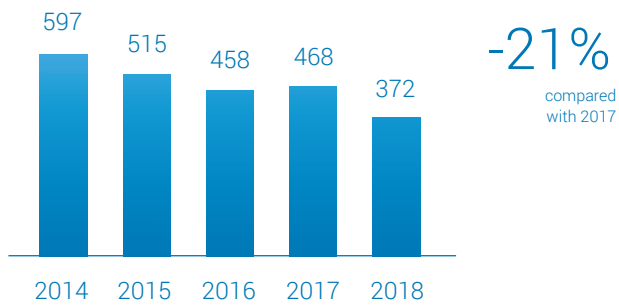
It is our role to intervene in the event of an employer becoming insolvent, and we currently secure the old-age occupational pensions of some 11 million people.

By focusing on our aims and working in a spirit of partnership, we achieve a high level of satisfaction among our members and those who are entitled to benefits.

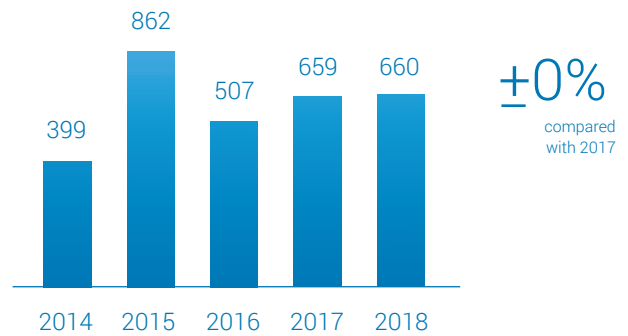
Figures for the 2018 financial year

	2018	2017
Membership	95,100	94,795
Contribution assessment base	€ 345 billion	€ 339 billion
Contribution rate	2.1‰	2.0‰
Insurable cases	372	468
Claim volume	660 Mio. €	€ 659 million
Registered beneficiaries	8,700	5,300
Registered persons with entitlement to benefits	10,500	9,800
Compensation fund	€ 3.0 billion	€ 2.5 billion
Total assets	€ 6.5 billion	€ 5.9 billion
Employees	237	228

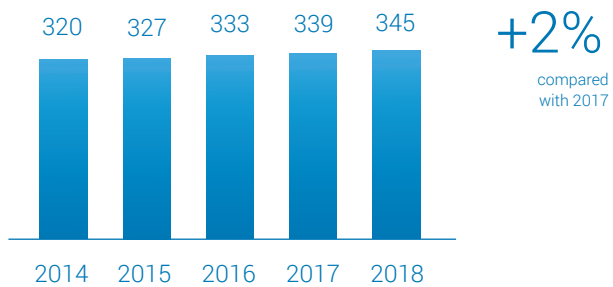
Number of insurable cases



Claim volume in € millions



Contribution assessment base in € billions



Contribution rate in ‰

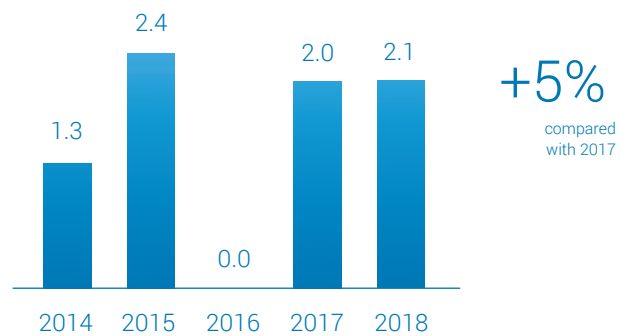


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Letter from the Board of Management

Ladies and gentlemen

The old-age pension system in Germany continues to face huge challenges against the backdrop of demographic change. With regard to occupational pension provision, the Strengthening Occupational Pensions Act was adopted in Germany in 2017 and entered into force on 1 January 2018. Under this new law, employees whose employer becomes insolvent may now opt to make private use of any pension liability insurance previously taken out by their employer if this option would be more favourable for the employee than having the PSVaG take on the case. This new option may secure any income opportunities from the insurance for the employee and, at the same time, relieves some of the burden on the PSVaG by reducing its administrative costs. The PSVaG took early action to prepare a decision-making basis for employees, in terms of both organisational structure and content. During the year under review almost 400 people with entitlement to benefits made use of this new option. We are assuming that even more employees will opt for this type of private arrangement in future.

During 2018 the PSVaG held workshops with some of its around 95,000 members in order to improve the flow of information between the membership and the PSVaG with the help of digital tools. One initial result of this approach is the process for joining the PSVaG. To date 169 companies have already registered electronically. Following the conclusion of an additional project, changes relative to company law will be reported via our website in future.

As the economic situation remained positive, the number of insolvency claims affecting the PSVaG was relatively low. This meant that the compensation fund, designed to even out future contribution peaks, could be further increased, almost reaching its current target of € 3.1 billion. The required contribution level in 2018, at 2.1‰ of the contribution assessment base, was well down on the long-term average, which has now dipped to 2.7‰. We are well placed economically to assume our task of securing occupational old-age pensions in the event of employer insolvency.

The staff at the PSVaG have dedicated a great deal of time and effort to advancing a variety of projects alongside their general roles. Our digitalisation project, which aims to optimise processes in qualitative and quantitative terms through the use of state-of-the-art IT, has required a great deal of work.

We would like to express our sincere thanks to our employees for their contribution to our success.

Cologne, 13 March 2019



Dr. Marko Brambach

Insolvency and Benefits
Legal and Personnel



Hans H. Melchior

Members and Contributions
Technology and Finance

Supervisory Board

Prof. Dr. sc. techn. Dieter Hundt

Chairman

Honorary President of the Confederation of German Employer Organisations (BDA), Berlin

Chairman of the Supervisory Board of Allgaier Werke GmbH, Udingen

Dr. Jörg Frhr. Frank von Fürstenwerth

Deputy Chairman

CEO and member of the Executive Board of the German Insurance Association (GDV), Berlin

Dr. Rudolf Muhr

Deputy Chairman

Chairman of the Advisory Board of Muhr und Bender KG, Attendorn

Klaus Bräunig

Managing Director of the German Association of the Automotive Industry (VDA), Berlin

Dr. Gerhard F. Braun

President of the Rhineland-Palatinate Regional Association of Organisations of Entrepreneurs, Mainz

Member of the Advisory Board of Karl Otto Braun GmbH & Co. KG, Wolfstein

Brigitte Faust

President of the Food and Drink Employers' Association, Munich

HR Director of Coca-Cola European Partners Deutschland, Berlin

Dr. Reinhard Göhner

Former Director General of the Confederation of German Employer Organisations (BDA), Berlin

Alexander Gunkel

Member of the Executive Board of the Confederation of German Employer Organisations (BDA), Berlin

Norbert Heinen (*deceased on 8 April 2019*)

Chairman of the Board of Württembergische Lebensversicherung AG, Stuttgart

Janina Kugel

Member of the Managing Board and Chief Human Resources Officer of Siemens AG, Munich

Horst-Werner Maier-Hunke

President of the North Rhine-Westphalian Regional Association of Organisations of Entrepreneurs, Düsseldorf

Managing Director of DURABLE Hunke & Jochheim GmbH & Co. KG, Iserlohn

Dr. Andreas Wimmer

Member of the Management Board of Allianz Lebensversicherungs-AG, Stuttgart

Management Report

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Basic principles of the PSVaG

Object of the insurance

The Pensionssicherungsverein Versicherungsverein auf Gegenseitigkeit (PSVaG) is the statutory agency providing insolvency protection for occupational pension schemes. Its sole purpose is to guarantee occupational pensions in the event of an employer becoming insolvent in the Federal Republic of Germany, where this guarantee function is fulfilled pursuant to the Fourth Section of the German Act for the Improvement of Occupational Old-age Pensions (BetrAVG), and in the Grand Duchy of Luxembourg.

The insolvency insurance covers the following schemes where the fulfilment of earned claims to an occupational pension is jeopardised by the employer becoming insolvent. Such schemes comprise:

1. direct pension commitments, also referred to as direct commitments

2. indirect pension commitments through

- a) direct pension insurance plans – only in the case of revocable rights or irrevocable entitlements if these have been assigned, presented as security or pledged,
- b) pension relief funds,
- c) pension funds.

On the basis of a General Agreement (Section 8, para. 1 of BetrAVG in conjunction with Section 2, para 2 of its Articles of Association), the PSVaG transfers old-age pension obligations assumed as a result of an employer becoming insolvent to a consortium currently numbering 49 life insurance undertakings. The executive insurer of the Consortium

for the PSVaG is Allianz Lebensversicherungs-AG, Stuttgart.

Source of funds, financing procedure

The funds used to cover insolvency insurance claims are raised pursuant to Section 10 of BetrAVG in the form of statutory contributions from those employers who provide occupational old-age pensions through the schemes subject to compulsory insolvency insurance referred to above. The contributions must be sufficient to cover the following:

- the cash value of claims to insolvency insurance benefits that arise during the current calendar year (base accounting interest rate pursuant to Section 235, para. 1 no. 4 of the Insurance Supervision Act - VAG),
- the difference between the cash value of the entitlements to benefits forming the subject of claims due to insolvency cases at the end of the calendar year and the equivalent cash value at the end of the previous year,
- administrative and other costs,
- payments made into a compensation fund designated by the German Federal Financial Supervisory Authority (BaFin), and
- payments into a loss reserve account pursuant to Section 193 of VAG.

The capitalised values of both the pensions requiring payment and the insurable pension entitlements are financed in the year of insolvency from the contributions received by the PSVaG.

The required levels of contributions are calculated at the end of the year and apportioned to all of the employers who are subject to compulsory contributions. A characteristic feature of this process is the fact that the contribution rates reflect differences in claim volumes from one year to the next.

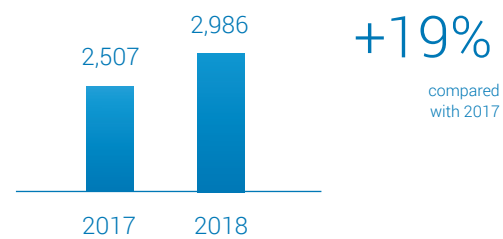
Dealing with contribution peaks

Contribution peaks may be alleviated by making use of the compensation fund and/or by applying a smoothing method. In the event of a high volume of claims, the compensation fund may be used with the consent of the German Federal Financial Supervisory Authority (BaFin) to reduce the contribution rate. The smoothing process may be used to distribute the annual contributions required over the current and up to four subsequent calendar years. This option has only been used once to date, in 2009, while the compensation fund has been used four times.

With regard to the compensation fund, as required by the PSVaG's Articles of Association, BaFin stipulated in 2017 that allocations must be made to the fund at least until a target of 9% of the contribution assessment base has been reached pursuant to Section 10, para. 2 of BetrAVG. This allocation is carried out anti-cyclically in that the higher the volumes of claims, the lower the allocation.

As at the 2018 year-end, the target level for the compensation fund was € 3,105 million. In light of the favourable development of claims, the amount of € 480 million was allocated to the fund, which totalled € 2,986 million as a result.

Size of compensation fund in € millions



Corporate governance and compliance

The Supervisory Board and Board of Management decided that the PSVaG will base its activity around the rules of the German Corporate Governance Code, adhering to its recommendations and proposals insofar as these are applicable and appropriate taking into account its particular statutory position, its legal form as a mutual insurance association, and the specific characteristics of its articles of association.

Supervision by BaFin

In its capacity as a mutual insurance association, the PSVaG is subject to supervision by the German Federal Financial Supervisory Authority (BaFin).

The 2018 financial year

Overview of the financial year

Business developed essentially as expected during the year under review. The key influencing factor, namely volume of claims, was moderate and below average by long-term standards. Levels of investment income and administrative expenses were as anticipated at the beginning of 2018. It was only dividends from the Consortium for the PSVaG that developed contrary to expectations. Given the relatively low expenses for claims, a higher amount was allocated to the compensation fund, which duly reached 8.66% and thus moved close to the target of 9%.

Required contribution level

The required contribution level of € 725 million was based on the contribution assessment base as reported by members for 2018 in the amount of € 345 billion. The contribution rate, at 2.1‰, was set at the lower end of the required level as estimated in summer 2018 and is therefore well below the long-term average. From the PSVaG's perspective, 2018 was a favourable financial year overall.

The weighted average contribution rate for the past five years is 1.6‰, with a weighted average for the past ten years of 2.9‰. The average for all 44 previous financial years is 2.7‰.

No advance payment was charged in 2018. A decision regarding the charging of an advance payment for 2019 will be taken during the first half of the year.

Annual Financial Statements

The Annual Financial Statements for the 2018 financial year have been prepared in accordance with the German Ordinance on Insurance Accounting (RechVersV). In line with the PSVaG's Articles of Association, € 10.67 million was allocated to the loss reserve.

The income statement automatically shows a negative technical result. However, this is offset by the non-technical positions.

Our largest income item was members' contributions. Pursuant to Section 10, para 2 of BetrAVG, the required contributions must cover gross expenses for insurance claims, the allocation to the compensation fund and the loss reserve, and administrative and other costs. Income as defined in Section 9 of BetrAVG, the dividends from the Consortium and capital income, which totalled € 461 million, helped to greatly reduce the required volume of contributions, down to € 725 million. The individual items are explained in further detail in the "Our services" and "Capital investments" sections.

The calculation of contributions carried out in October 2018 reflected anticipated developments for the full 2018 year based on the development up until that point. As is the case every year, it was necessary to include estimates and extrapolations for the final months to the year-end.

The 2018 financial statements show a somewhat better overall financial situation than anticipated at the time of the contributions being calculated. Consequently, € 9 million was allocated to the provision for contribution reimbursements. This amount will reduce the level of contributions for 2019. Overall, the annual financial statements show a balanced result.

Members' meeting

At the members' meeting held on 10 July 2018 in Cologne and chaired by the Chairman of the Supervisory Board, the actions of the Board of Management and Supervisory Board were ratified.

Our services

Insolvencies

The general level of insolvencies in the German economy dipped again during 2018. With a total of 19,302 company insolvencies, the figures were down 3.9% on the previous year.

The number of insolvencies with an impact on the PSVaG also fell year-on-year. However, the occurrence of large-scale claims resulted in a significant increase in beneficiary numbers.

Overview of insolvencies

Year of insolvency	2018	2017¹
Total insurable cases ²	372	468
of which out-of-court settlements	1	1
Beneficiaries (entitled) and pensioners ³	19,200	15,100

Insured entitlements and insured pensioners

The PSVaG insures benefits (entitlements) that are not yet due, makes capital payments and pays settlements to persons entitled to benefits, and insures pensions that have fallen due, thereby discharging the debt, with a consortium of 49 life insurers.

The number of insured beneficiaries (entitled) and pensioners is declining.

¹ The changes in the figures compared with the figures quoted in the 2017 Annual Report are due to the subsequent reporting of additional insolvencies occurring in the 2018 financial year and to the ongoing updating of information based on the subsequent receipt of reports on individual insolvencies containing more precise data.

² Including cases where insolvency is rejected due to a lack of assets and cases of complete termination of operations where bankruptcy proceedings are not considered due to an obvious lack of assets.

³ Including retransfers in the context of an insolvency plan and rejected cases.

Beneficiaries

	Beneficiaries (entitled)	Pensioners
As at 31 December 2017	210,300	497,600
New additions due to insolvencies in 2018	10,500	8,700
Other additions	2,800	9,800
Exits	20,200	28,000
As at 31 December 2018	203,400	488,100
of which insured with the Consortium		484,500

“Other additions” of pensioners and “Exits” of beneficiaries (entitled) include 6,800 beneficiaries that were insured with the Consortium in 2018 due to them drawing a pension for the first time. “Exits” of beneficiaries (entitled) also include one-off payments, settlements, retransfers and rejected cases. Decreases in the number of pensioners are generally due to a pension no longer being drawn following the death of the beneficiary.

Number of processed and outstanding cases

During the financial year the PSVaG conclusively audited the basis for and amount of any benefit obligation for 28,200 beneficiaries (entitled) and pensioners, while also increasing the current pension already being paid due to an insolvency-protected adjustment clause or providing follow-up insurance for other reasons in a total of 11,700 cases.

The following table provides details of the number of outstanding cases and how these have progressed:

Outstanding cases

	Beneficiaries (entitled)	Pensioners ¹
As at 31 December 2017	20,000	2,700
Additions	13,300	18,500
Exits due to processing	11,000	17,200
Exits due to other form of settlement	4,000	300
As at 31 December 2018	18,300	3,700

In 2018 there were 27,000 beneficiaries who received benefits directly from the PSVaG or who had new insurance cover taken out with the Consortium or their cover increased.

In order to minimise interruptions in benefit payments upon insolvency, highest priority is given to the timely processing of pension claims once the insolvency is reported. This means that the PSVaG frequently begins its process before the insolvency proceedings have officially begun.

The number of outstanding beneficiaries (entitled) from the insolvency years up to and including 2016 declined from 10,800 as at 31 December 2017 to 4,500 as at 31 December 2018.

Benefits paid

In 2018 the PSVaG paid out direct benefits to beneficiaries totalling € 48 million. The Consortium paid out an additional € 926 million.

¹ Pensioners on occurrence of claim and conversions; excluding dynamic increases

Claim volume

The claim volume was € 660 million and corresponds to the expenses for insurance claims in the income statement.

The PSVaG's involvement in insolvency proceedings

The PSVaG is regularly one of the largest creditors in insolvency proceedings due to the statutory subrogation of claims from the occupational pension provision that it insures. Particularly in economically significant cases, it is therefore involved in the work of the creditor representation body established by law (General Creditor Assembly and, where applicable, the Creditor Committee). The resulting close cooperation with insolvency executors and trustees is also conducive to the fulfilment of the tasks for which the PSVaG is responsible.

The PSVaG posted income of € 184 million in 2018 from insolvency quota payments, transferred relief fund assets and other claims, of which € 2 million related to insolvencies that occurred in 2018 and € 182 million to insolvencies from earlier years.

Dividends from the Consortium

With regard to insurance agreements concluded in the past, the Consortium transferred dividends of € 217 million including interest to the PSVaG in 2018 for the 2017 financial year. This was posted to income in 2018.

Pension expenses for future claims

In order to reduce contributions for 2019, € 9 million was allocated to the provision for rebates. € 480 million was transferred to the compensation fund with € 11 million allocated to the loss reserve.

Administrative and other costs

Administrative and other costs in 2018 totalled € 28 million. As well as the costs relating to the processing of benefits, this figure also includes expenses in connection with membership administration, participation in insolvency proceedings and overall operations.

The PSVaG's and the Consortium's cover funds

To cover its obligation arising up until 31 December 2018, the PSVaG allocated a total of € 3.3 billion to the provision for insurance claims outstanding and to contributions carried forward. This provision contains the present value of the projected benefit obligation pursuant to Section 10, para. 3 of BetrAVG.

This present value was calculated using the 2018 G Heubeck guide tables with the statutory base accounting interest rates.

The interest rate on which the calculation of entitlement is based depends on the year of insolvency.

Cash value of the insured entitlements in € millions by year of insolvency

Year of insolvency	Base accounting interest rate	Cash value
up to 2006	3.67%	732
2007 – 2011	3.00%	1,079
2012 – 2014	2.33%	604
2015 – 2016	1.67%	333
2017 – 2018	1.20%	356
Total		3,104

The average interest rate for the insured entitlements, weighted according to present value, is 2.68%.

A total of € 3.1 billion has been allocated to the provision for rebates, compensation fund and loss reserve.

As at 31 December 2018 the Consortium had created provisions in the anticipated amount of € 12.2 billion for the insurance agreements concluded by the PSVaG. We expect the insurers to continue to generate dividends on these provisions over the coming years, which will be paid out to the PSVaG and help to reduce the future level of membership contributions.

Our members

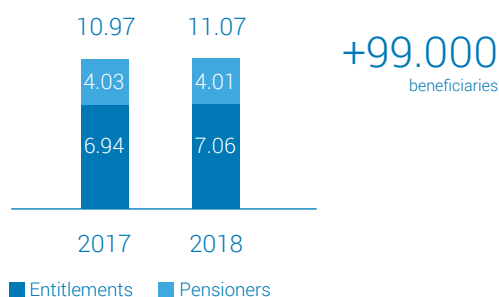
Number of members

The PSVaG had 95,100 members as at 31 December 2018, an increase of 305 on the previous year. This rise is the net result of 2,992 new memberships and the termination of 2,687 memberships. New memberships arose as a result of pension entitlements that became vested, the payment of a pension for the first time, or as a result of a company split or spin-off. Memberships ended on account of mergers and insolvencies, and in cases in which all of the benefit obligations had been fulfilled or had expired.

Number of persons entitled to benefits covered by insolvency insurance

Our members reported 99,000 more persons with entitlement to benefits in 2018 than in the previous year. Employees who received several pension commitments through various schemes or from several employees were possibly paid more than once.

Persons entitled to benefits and covered by insolvency insurance in millions



Breakdown of the contribution assessment bases

The breakdown of the total contribution assessment base by type of scheme for the years 2008 (totalling € 277 billion) and 2018 (totalling € 345 billion) shows a slight shift in favour of direct pension commitments and pension fund commitments, which have been subject to insolvency insurance since 2002.

Shares of the individual pension schemes in %

	2018	2008
Direct pension commitments	87.7	86.1
Pension relief funds	11.0	13.0
Pension fund commitments	1.2	0.8
Revocable direct policies or direct policies presented as security	0.1	0.1

Stratification of contribution assessment bases

The membership of the PSVaG remains very heterogeneous. More than half of member companies report a contribution assessment base of below € 100,000. Overall, this layer of the membership pays 0.4% of total contributions. In contrast, the 6% of our members with the highest reported contribution assessment bases pay more than 90% of total membership contributions.

Breakdown of membership by size in %

Contribution assessment base in € millions	Proportion of all members	Proportion of total contribution assessment base
up to 0.1	60.5	0.4
0.1 – 0.5	19.5	1.2
0.5 – 1.0	5.8	1.1
1.0 – 5.0	8.7	5.2
more than 5.0	5.5	92.1

Retroactive financing of “old claims” through one-off contributions

Beginning in 2007, “old claims” of € 2.2 billion, i.e. non-forfeitable entitlements from insolvencies up to and including 2005 that were insurable but had not yet been financed, were financed retroactively through a one-off contribution (cf. 2007 Annual Report). This one-off contribution, set at rate of 0.866 per thousand, is generally payable in 15 equal annual payments with instalments due on 31 March of each year from 2007 to 2021. Alternatively, all future instalments can be paid early as one lump sum on a voluntary basis, in which case interest is deducted from all future instalments at an accounting interest rate set one third higher than the rate applicable at the time of payment in accordance with Section 235, para. 1 no. 4 of VAG (since 2017: 1.2%).

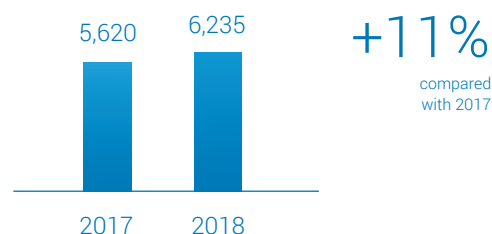
A total of € 66.8 million was payable for the twelfth instalment due on 31 March 2018. A further 230 instalment payers took advantage of the option of voluntary early repayment in 2018, paying a total of € 2.1 million after deduction of the statutory discount. Some 10,600 employers remain who still owe annual instalments totalling € 66.0 million over the period from 2019 to 2021.

Capital investments

Market and portfolio performance

Prices on the international financial markets fluctuated dramatically during 2018, under the influence of central bank measures, trade conflicts, the situation in Italy and Brexit. Some shares suffered double-digit losses in value over the course of the year. Yields on secure European bonds fell, while US yields gained ground. Against this background, investments recorded a time-weighted performance of -1.1%, with a net return of +1.04%¹.

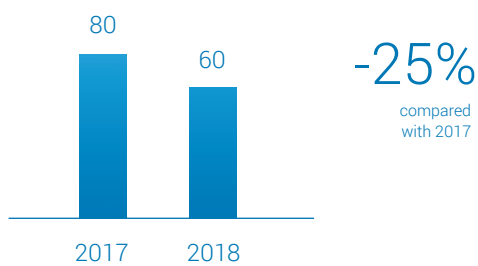
Book value of capital investments in € millions



The book value of capital investments rose by € 615.4 million to total € 6,235.1 million (previous year: € 5,619.7 million). All capital investments measured at amortised cost were valued according to the strict principle of the lower of cost or market. Registered bonds, promissory notes and bank deposits were reported at their nominal value in the balance sheet. The alleviated principle of valuation at the lower of cost or market, which may be used as a discretionary practice, was not applied.

¹ 1.04% calculated using monthly averages; using the GDV formula gives a figure of 1.02%.

Income from capital investments in € millions



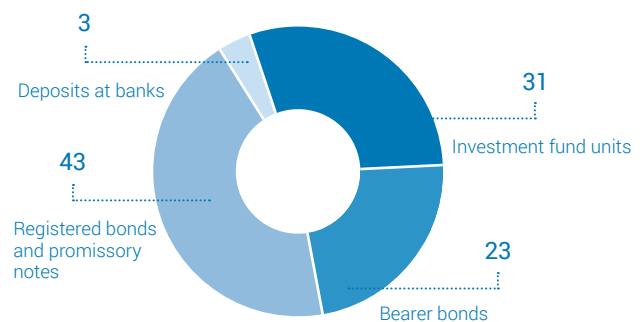
Net income from capital investments totalled € 60.1 million (previous year: € 80.1 million). This reduction is essentially attributable to lower interest income from the direct portfolio as a direct result of interest rates remaining low. Value adjustments on bearer papers also had a negative impact due to the application of the strict lower of cost or market principle. The amount distributed from fund investments was also reduced in order to protect foreign currency reserves.

Capital investment structure

The PSVaG continues to pursue a conservative capital investment policy. Particularly with regard to the direct portfolio, and therefore in the case of bearer and registered bonds and promissory notes, the selection of issuers or issues with a high credit rating is always a priority during investment decision-making. Investments in investment certificates relate predominantly to special funds (special alternative investment funds with fixed investment conditions), in which the PSVaG is the sole investor. Deposits at banks are largely required for the settlement of claims in future years and have corresponding maturity dates.

Given the low interest rate environment, with even negative rates in some cases for short-term investments, fixed-term deposits have repeatedly been replaced with a significant volume of securities and promissory note loans with short maturities for the purposes of liquidity management, and the liquidity special fund increased. Additionally, for the first time, money market funds have been acquired for the direct portfolio on a significant scale. Monies that were not needed to settle claims were successively invested in the direct portfolio and investment funds.

Structure of capital investments in %



In total, € 868.7 million (book value) was invested in bonds for the direct portfolio during the reporting year. These new investments were focused on medium (three to seven years) and long maturities (more than seven years). Securities with a value of € 373.4 million were redeemed, and securities worth a further € 20.0 million were sold early. A net amount of € 170.0 million was invested in funds (excluding reinvested dividends), of which € 70.0 million in the liquidity special fund and € 100.0 million in institutional retail money market funds.

Investment strategy

Strategic asset allocation (SAA) forms the basis of investment management, and is regularly reviewed and updated. The focus is placed on a conservative risk/reward ratio. Capital investments are allocated on the basis of the time horizon for the corresponding obligations. Most investments are made in relation to the direct portfolio with an investment horizon of up to 11 years. In contrast, many fund investments have a longer investment horizon, serving to diversify the capital investment portfolio and also to increase the return potential.

The specific maturities of the fixed-income securities acquired for the direct portfolio are obtained from the ALM¹ calculations, which are based on the entitlements (cash flow matching). The securities in question are generally held until they mature (buy and hold strategy). This minimises the need for premature selling and thus avoids the transaction costs and risks created by potential price losses if securities have to be sold off early. A limit system is in place to limit the potential default risks. The direct portfolio exclusively comprises issues with an investment grade rating, with the aim of diversification across different regions and issuers.

Sustainability

When selecting issuers and issues for the direct portfolio, the main priority is to ensure that governance criteria are consistently being observed. As well as governance, environmental and social factors are to be given greater weighting in investment

decisions and risk management in the coming year. We have already been working to the best of our ability during the year under review to make ongoing improvements to the information provided in this regard. With regard to indirect investments, we take care to ensure that sustainability criteria are sensibly integrated into the respective actively pursued investment strategy. All asset managers commissioned by us during the reporting year have signed the UN Principles for Responsible Investment (UNPRI).

Employees

The number of employees increased in 2018, reaching 237 for the first time. More staff were needed to cope with the growing demands of the relevant regulations and also in response to more demanding technical requirements, which were tackled in the form of various projects

Number of employees

	2018	2017
Full-time	159	154
Part-time	63	62
Suspended employment ¹	15	12
Total	237	228
Effective no. of employees	201.3	194.6

¹Employees in the passive phase of semi-retirement, on parental leave or long-term sick leave.

¹ asset liability management

Risk report

Fundamentals of risk management

The PSVaG pursues an integrated approach to risk management. This is founded on the legal provisions of Sections 23 and 26 of the Insurance Supervision Act (VAG) and on supervisory rules, particularly Circular R 3/2009 of the Federal Financial Supervisory Authority (BaFin) entitled “Minimum Requirements for Risk Management (MaRisk VA)”. Pursuant to Section 91, para. 2 of the Joint Stock Companies Act (AktG), the Board of Management is also obliged to “implement appropriate measures, particularly a monitoring system, to ensure that any developments that could endanger the company’s continued existence are detected at an early stage”. By presenting this report the PSVaG is meeting its obligation to report on the essential risks associated with its anticipated development (Section 289, para. 1 of the German Commercial Code, HGB).

Risk management system

The PSVaG has provided detailed descriptions of its commercial and risk strategy, its structures and workflows, and its risk management system in the form of a risk manual. It is the heads of department who are responsible for identifying and assessing risk, with each individual risk that is identified being documented in a separate risk description. Where necessary, the risk manual is updated accordingly. The heads of department are also responsible for proposing ways of minimising risk and for implementing appropriate risk control measures. Those risks that have been identified and evaluated in advance by the risk managers are discussed and assessed by the Board of Management and heads of department at regular meetings. Additionally, a

risk inventory is drawn up once per year in order to assess all of the risks that could impact on the PSVaG. It is therefore the Board of Management that holds responsibility for overall risk management and that ultimately must define the PSVaG’s commercial and risk strategy.

The PSVaG also has a compliance coordinator who provides support with proper business organisation, thereby guaranteeing compliance with statutory and regulatory requirements.

In order to achieve its security goals in terms of information risk management, the PSVaG maintains an information security management system and has its own information security officer.

Risks of future development

Actuarial practice

The financing procedure forms the central pillar of insolvency protection for occupational pension schemes. The contribution-based system basically excludes any actuarial risks. No individual equivalence principle is applied when setting the contribution level. Every member pays the proportion of claim expenses for a financial year that corresponds to the amount of that member’s own occupational pension provision as a proportion of the total occupational pension provision reported under the solvency scheme.

Furthermore, the financing procedure means that other risks are also easier to control as it is not just claim expenses that are taken into account when setting the contribution rate but rather all operational expenses not covered by other forms of income. Specifically, this means that the total contributions for a given financial year correspond to the balance of all income and expense items for that same financial year. Higher income, from investments for example, reduces the level of contributions due from our members.

The contribution calculation involves determining the contribution rate for the members by means of which balanced annual financial statements can be prepared at the financial year-end. It is based on the total income earned and expenses incurred up to the date of the calculation plus an extrapolated figure for the period until the year-end. The calculation system used is basically the same system that has been in place since the PSVaG was first created, and it has a proven track record. There is still the risk, however, that the assumptions used when setting the contribution rate could turn out to be incorrect. They could be higher or lower than the financing requirement for the financial year. This is why the calculation system is constantly being reviewed and updated in order to avoid any shortfall.

Capital investment

The investments are used to fulfil pension obligations and to cover the compensation fund with the aim of securing in good time the liquid assets needed to settle claims and reducing contribution peaks. Consequently, it is of the utmost importance that the assets can be liquidated and that they

retain their value. The investments are therefore conservatively geared towards the obligations. Management of the investments takes account of the asset liability management stipulations in the strategic asset allocation, which is reviewed regularly and at least once per year, and adjusted where necessary. The PSVaG has a modern and effective investment risk management system in place with which the risks of future development can be detected early and managed. As well as being used to detect negative developments in investments, the essential purpose of the system is to provide information using its control and early warning elements such that the PSVaG's risk-bearing capacity can be guaranteed. With regard to risk management, the PSVaG complies with both the regulatory requirements and its own more restrictive internal rules.

The essential risks relating to investments comprise:

- Market risk (unfavourable interest rate, price or exchange rate developments)
- Default risk (credit rating risk)
- Concentration risk (risk of strongly correlating risks that increase default risk)
- Liquidity risk

Such risks are countered by ensuring that the composition of the assets and the investment process comply with the investment rules defined in the VAG and, additionally, are governed by internal investment guidelines.

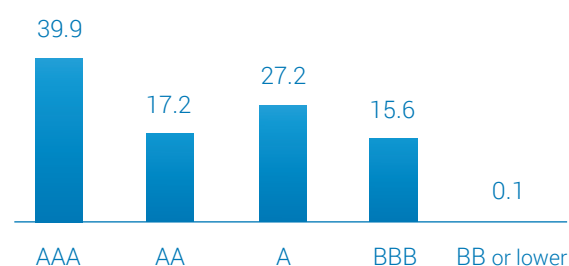
In order to evaluate concentration risk, the PSVaG has defined the following categories:

Direct portfolio according to debtor category in %

	2018
Savings banks and regional banks	34.7
Private banks	18.1
Volksbank and Raiffeisen cooperatives	14.0
Companies	12.7
Credit institution (guaranteed)	7.3
Federal Länder	5.9
Local authorities	3.1
Public-law corporations and institutions	2.7
State	1.5
Regional authorities	0

As a result of the high level of investment in fixed-income papers, the investment portfolio is subject to the risk of changing interest rates. The interest rate sensitivity (modified duration) of the investments is 4.36%. The concentration of market risks is reduced by mixing and diversifying the investments. Exposure to individual issuers is limited by means of a system of limits and threshold values. No issuers account for exposure of more than 5% of the total amount of all investments. The selection of individual stocks is always based in the first instance on good issuer quality. Issuers in the direct portfolio are reviewed on a continuous basis. New investments in the direct portfolio all have at least an investment grade rating, with more than 80% being held with German issuers. The average rating in the direct portfolio is AA-.

Breakdown of ratings in the direct portfolio in %



The PSVaG holds two special funds (special AIF with fixed investment conditions). While the master fund comprises risk-controlled, reward-focused investments in riskier assets than the direct portfolio, investments in the liquidity fund are designed in such a way as to be easily accessible and only subject to minor price and default risks. The special funds are therefore used to achieve a more strongly diversified investment base.

The Board of Management and Supervisory Board are briefed monthly/quarterly on the current risk situation by the risk controlling department. In the event of any new risks or a significant change in the risk situation, the Board of Management is briefed on an ad hoc basis.

Operational risks

The PSVaG has set up an internal control system (ICS) for the systematic identification of operational risks and incorporation of control measures. The responsible departments control and monitor operational risks. Contingency plans, access controls, and signature and authorisation rules reduce the likelihood of a risk occurring and lower the potential damage in the event that it does.

Electronic data processing is one of the main focuses, the reliability of which is very high, at consistently above 99.5%. Even if all data from the data processing system were to be lost, operations could be restored within a very short period of time. All data is held redundantly with physical separation and is organised in such a way that there is no possibility of a data loss impacting on the proper operation of business processes. The PSVaG has a hierarchical system of powers, obligations and controls to protect against erroneous or malicious acts. Detailed organisational documents and appropriate technical measures are in place with regard to business processes. This system is consistently being developed further and, from an organisational perspective, is favoured by the fact that the commercial premises and all staff are located at one site in the same building.

Through various standards, such as the VAG, the policymakers are forcing management to focus more strongly on the risks arising from insurance undertakings' growing dependence on information technology. During the reporting period BaFin adopted its "Supervisory Requirements for IT in Insurance Undertakings" (VAIT) and issued rules on the control and monitoring of IT operations. The PSVaG dealt intensively with the VAIT in 2018 and

has already duly implemented the essential areas using measures such as the creation of an information security guideline and the appointment of an information security officer. Further work will be carried out in this area in 2019.

Potential compliance risks or risks of legal change in relation to compliance with or the implementation of laws, legal provisions, regulatory requirements or ethical/moral standards, as well as internal rules and regulations, are monitored and are regulated through defined processes, in the context of the compliance guideline for example.

There is a general risk that legal decisions made in individual cases will also apply to other areas of the PSVaG and could be overlooked. In order to avoid this risk, legal cases are assessed for their wider applicability and regularly discussed between the individual departments and the legal department.

The PSVaG adapts its organisational structure to the current workload as it has done effectively for a good 40 years now. In the event of a cumulative claim event, the resulting expenses could however assume a scale that would exceed the capacities of the PSVaG and thereby jeopardise its ability to fulfil its statutory duties properly. The PSVaG therefore permanently monitors current insolvency activity and the economic situation in order to be able to adapt early to any change in the situation.

Summary of the risk situation

There were no significant changes to risks compared with the previous year. There were no developments detected that would jeopardise the PSVaG's continued existence.

Opportunities and aims for 2019

The PSVaG fulfils a statutory remit and does not pursue any economic objective. Opportunities can therefore only exist insofar as this remit can be performed better, in other words more quickly or favourably, or with a higher level of quality by the PSVaG.

The PSVaG continues to work intensively on the issue of digitalisation, striving to digitise its business processes through the ongoing standardisation and automation of its workflows. This is creating a foundation upon which the PSVaG can optimise its internal processes and organise them more efficiently. In turn, this means that the service provided to members, persons entitled to benefits and external partners can be improved. Digital communication has a key role to play in this regard. The use of state-of-the-art digital communication tools provides opportunities for better performance of the statutory remit. The PSVaG attempts to realise these opportunities by advancing the digitalisation of communication internally but also externally in terms of its relationship with members, insolvency

executors and beneficiaries. The fact that new members can now register electronically and report legal changes using a web-based form opens up scope for more efficient communication, particularly if many members make full use of this communication channel.

The PSVaG can fulfil its remit more favourably if it makes optimal use of potential sources of income. This is why, after ensuring security and liquidity, achieving a return is an investment aim pursued by the PSVaG. Furthermore, the contribution burden on members is lower if the PSVaG is able to increase its income pursuant to Section 9 of BetrAVG or to reduce the burden of benefit obligations by transferring reinsurance in a debit-relieving way pursuant to Section 8, para. 3 of BetrAVG. The PSVaG is giving greater priority to these areas. It has asserted claims in the amount of € 5.7 billion with regard to the insolvency proceedings that have not yet been concluded.

Forecast and outlook

Economic outlook

The volume of claims during the first few weeks of 2019 reflects the influence of insolvencies reported at the end of 2018. No prediction can be made at this stage regarding future developments, although generally accessible sources expect the insolvency level to remain relatively low. It is very difficult to reliably predict the claims volume and contribution level on the basis of the general level of insolvencies given that the type and quality of the member companies' occupational old-age pension provision can vary greatly. Insolvency insurance for occupational old-age pension commitments is consequently highly dependent on individual events, with the result that no reliable estimate of claim volumes can be provided at this time. Individual relatively large-scale claim events can therefore have a direct impact and push up contributions. Even if insolvency levels remain low in 2019, it is possible that the claim volume for the PSVaG could be considerably higher than in 2018.

A forecast regarding the development of the contribution rate for the current financial year is generally made in the middle of the year, with the member organisations being notified by means of a circular.

Dividends from the Consortium for the PSVaG have a direct impact on contribution rates, and are expected to be up slightly year-on-year in 2019.

The market environment remains a challenge as far as investments are concerned. We continue to expect prices and yields to fluctuate strongly in the coming year. However, with a high level of uncertainty, a slight increase in interest rates is expected.

Our cash flow matching strategy will generally be maintained. Net income from investments in the coming year is likely to be slightly down on 2018 levels due to interest rates remaining low.

Meanwhile, operating expenses will be higher than during the reporting year.

Given the favourable development of claims over recent years, we expect income pursuant to Section 9 of BetrAVG to fall over the coming years.

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Annual balance sheet as at 31 December 2018

Assets in €

	2018	2017
A. Intangible assets	208,171.35	145,782.00
B. Investments		
Other financial investments		
1. Shares, units or shares in investment funds and other variable-yield securities	1,918,419,294.34	1,744,563,811.45
2. Bearer bonds and other fixed-income securities	1,464,000,873.37	1,075,497,945.42
3. Other loan receivables		
a) Registered bonds	1,830,000,000.00	1,830,000,000.00
b) Promissory notes and loans	852,639,621.55	773,098,522.36
4. Bank deposits	170,000,000.00	196,500,000.00
	6,235,059,789.26	5,619,660,279.23
C. Receivables		
I. Accounts receivable on direct written insurance business from policyholders	94,572,435.27	72,577,589.69
II. Other receivables	97,133.43	218,588.70
	94,669,568.70	72,796,178.39
D. Other assets		
I. Tangible assets and stocks (inventories)	1,340,198.77	1,445,132.00
II. Cash at bank in current accounts, cheques and cash in hand	131,459,186.48	201,254,414.79
	132,799,385.25	202,699,546.79
E. Prepayments and accrued income		
I. Accrued interest and rent	27,961,122.54	25,025,497.46
II. Other prepayments and accrued income	20,191,734.09	10,306,638.32
	48,152,856.63	35,332,135.78
Total assets	6,510,889,771.19	5,930,633,922.19

Liabilities in €

	2018	2017
A. Capital and reserves		
Revenue reserves Loss reserve pursuant to Section 193 of VAG	155,210,000.00	144,540,000.00
B. Technical provisions		
Contributions carried forward	233,510,108.85	304,194,501.54
Provision for insurance claims outstanding	3,084,619,759.03	2,922,160,466.94
Provision for bonuses and rebates	8,614,222.41	15,655,487.40
Other technical provisions (compensation fund pursuant to Section 5, para. 2 of the Articles of Association)	2,986,050,000.00	2,506,500,000.00
	6,312,794,090.29	5,748,510,455.88
C. Provisions for other risks and charges		
Provisions for pensions and similar obligations	39,202,989.00	34,642,879.00
Other provisions	2,402,799.04	1,807,649.56
	41,605,788.04	36,450,528.56
D. Other liabilities		
Accounts payable on direct written insurance business to policyholders	597,887.86	387,904.97
Other liabilities of which for taxes: € 383,204.45 (2017: € 406,262.17)	630,499.14	686,980.11
	1,228,387.00	1,074,885.08
E. Accruals and deferrals	51,505.86	58,052.67
Total liabilities	6,510,889,771.19	5,930,633,922.19

Income statement

for the period from 1 January 2018 to 31 December 2018

Technical account in €

	2018	2017
Earned premiums		
Premiums written	805,430,917.27	756,118,636.00
Change in contributions carried forward (release)	70,684,392.69	59,921,234.00
Amount released from the previous year's provision for rebates pursuant to Section 6 of the Articles of Association	15,655,487.40	117,857,880.96
	891,770,797.36	933,897,750.96
Other technical income	217,584,959.10	194,616,074.05
Expenses for insurance claims		
Payments for insurance claims	497,111,042.86	448,855,324.74
Change in provision for claims outstanding (allocation)	162,459,292.09	210,223,559.04
	659,570,334.95	659,078,883.78
Change in other technical provisions (allocation to compensation fund)	479,550,000.00	508,500,000.00
Expenses for bonuses and rebates	8,614,222.41	15,655,487.40
Operating expenses	8,983,616.13	8,353,656.76
Other technical expenses	90,815.41	225,398.01
Balance of the technical account	-47,453,232.44	-63,299,600.94

Non-technical account in €

	2018	2017
Investment income		
Income from other investments	68,477,606.96	80,071,445.32
Income from value readjustments on investments	251,100.00	1,227,929.00
Gains on the realisation of investments	1,022,438.34	2,948,500.00
	69,751,145.30	84,247,874.32
Investment expenses and charges		
Investment management expenses, interest on borrowings and other investment-related expenses	2,111,576.69	1,584,198.92
Value adjustments on investments	7,420,431.53	1,203,975.00
Losses on the realisation of investments	73,910.00	1,379,050.00
	9,605,918.22	4,167,223.92
Other income	24,271.04	85,134.55
Other expenses	2,046,265.68	1,806,184.01
Profit for the year (operating profit from ordinary activities)	10,670,000.00	15,060,000.00
Transfers to revenue reserves loss reserve pursuant to Section 193 of VAG	10,670,000.00	15,060,000.00
Balance sheet profit/balance sheet loss	0.00	0.00

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10-years overview¹

Overview of the development of the Pensionssicherungsverein from 2009 to 2018

Financial year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
No. of members as at 31 Dec. ²	76,029	83,322	90,740	93,031	93,765	94,034	94,078	94,482	94,795	95,100
Contribution rate in %	14.2	1.9	1.9	3.0	1.7	1.3	2.4	0.0	2.0	2.1
Contribution assessment base in € billions	285	289	295	304	312	320	327	333	339	345
Total contributions in € millions	4,068.3	549.2	569.3	916.8	544.2	419.2	787.0	2.0	678.5	736.5
No. of insurable cases	971	679	616	670	746	597	515	458	468	372
Claim volume in € millions	4,356.3	648.7	626.1	1,264.8	780.7	398.6	862.0	506.8	659.1	659.6
No. of benefit recipients reported	79,871	9,434	7,188	17,382	12,147	4,192	8,564	5,023	5,300	8,700
No. of beneficiaries reported with non-forfeitable entitlement	89,242	11,346	11,619	24,870	15,939	6,874	10,116	8,890	9,800	10,500
Total assets in € millions as at 31 Dec.	4,036.5	3,795.6	3,567.3	4,097.5	4,783.8	5,001.2	5,510.8	5,355.3	5,930.6	6,510.9
Investments in € millions as at 31 Dec.	3,370.5	3,568.5	3,296.0	3,745.8	4,436.1	4,853.3	5,248.3	5,292.1	5,619.7	6,235.1
Compensation fund in € millions as at 31 Dec.	874.0	992.5	1,080.7	1,164.1	1,238.3	1,798.3	1,962.0	1,998.0	2,506.5	2,986.1
No. of PSVaG employees ³	179	190	206	221	230	232	228	226	228	237

¹ An overview of all financial years since 1975 is available on the PSVaG website.

² Including insured non-members. These comprised three employers as at 31 Dec. 2018.

³ Average no. of employees including part-time employees or employees whose employment has been suspended (parental leave, semi-retirement) – cf. page 21.

Members of the Consortium for the PSVaG

As at 31 December 2018, the following 49 life insurance companies were members of the Consortium for the PSVaG with Allianz Lebensversicherungs-AG, Stuttgart, as the executive insurer:

Life insurance undertaking	Sponsoring share
AachenMünchener Lebensversicherung AG	2.7%
Allianz Lebensversicherungs-AG	16.8%
ALTE LEIPZIGER Lebensversicherung auf Gegenseitigkeit	2.5%
Athora Lebensversicherung AG	2.0%
AXA Lebensversicherung AG	8.1%
Barmenia Lebensversicherung a.G.	0.7%
Basler Lebensversicherungs-AG	2.0%
Bayerische Beamten Lebensversicherung a.G.	1.2%
Bayern-Versicherung Lebensversicherung Aktiengesellschaft	2.2%
Concordia oeco Lebensversicherungs-AG	0.1%
Condor Lebensversicherungs-Aktiengesellschaft	0.5%
Continental Lebensversicherung AG	0.4%
Cosmos Lebensversicherungs-Aktiengesellschaft	0.2%
ERGO Lebensversicherung AG	10.2%
Familienfürsorge Lebensversicherung AG im Raum der Kirchen	0.2%
Frankfurter Lebensversicherung AG	0.7%
Frankfurt Münchener Lebensversicherung AG	0.6%
Generali Lebensversicherung AG	9.5%
Gothaer Lebensversicherung AG	2.7%
Hannoversche Lebensversicherung AG	0.7%
HanseMercur Lebensversicherung AG	0.5%
HDI Lebensversicherung AG	4.2%
HUK-COBURG-Lebensversicherung AG	0.1%
IDEAL Lebensversicherung a.G.	0.3%

Life insurance undertaking	Sponsoring share
INTER Lebensversicherung AG	0.3%
Landeslebenshilfe V.V.a.G.	0.1%
Lebensversicherung von 1871 a.G. München	0.3%
LVM Lebensversicherungs-AG	0.1%
Mecklenburgische Lebensversicherungs-Aktiengesellschaft	0.1%
Münchener Verein Lebensversicherung AG	0.3%
neue leben Lebensversicherung AG	0.1%
NÜRNBERGER Lebensversicherung AG	3.1%
Öffentliche Lebensversicherung Berlin Brandenburg AG	0.1%
Öffentliche Lebensversicherung Braunschweig	0.2%
Öffentliche Lebensversicherungsanstalt Oldenburg	0.1%
Provinzial NordWest Lebensversicherung AG	1.2%
Provinzial Rheinland Lebensversicherung AG	1.4%
R+V Lebensversicherung AG	2.8%
RheinLand Lebensversicherung AG	0.2%
SAARLAND Lebensversicherung AG	0.1%
SIGNAL IDUNA Lebensversicherung a.G.	3.9%
Stuttgarter Lebensversicherung a.G.	0.7%
SV SparkassenVersicherung Lebensversicherung AG	2.0%
Swiss Life AG, Niederlassung für Deutschland	1.0%
VGH Provinzial Lebensversicherung Hannover	0.6%
VOLKSWOHL BUND Lebensversicherung a.G.	0.8%
Württembergische Lebensversicherung AG	5.0%
WWK Lebensversicherung a.G.	1.2%
Zurich Deutscher Herold Lebensversicherung Aktiengesellschaft	5.2%

Contact details

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Our Annual Report can be downloaded from our website in German and English. Also available (in German) are the Articles of Association and the General Terms and Conditions of Insolvency Insurance for Corporate Old-Age Pensions (AIB) as well as the most recent versions of all information leaflets.

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