REPORT 2018

Wüstenrot & Württembergische AG

This is a translation of the German Annual Report. In case of any divergences, the German original is legally binding.

wüstenrot württembergische

Wüstenrot & Württembergische AG
Key figures

W&W Group (according to IFRS)

Consolidated balance sheet		FY 2018	FY 2017
Total assets	€ bn	72.0	72.0
Capital investments	€ bn	45.9	45.8
Senior fixed income securities	€ bn	21.3	20.3
Senior debenture bonds	€ bn	13.8	14.1
Building loans	€ bn	23.1	23.5
Liabilities to customers	€ bn	23.6	23.8
Technical provisions	€ bn	34.7	33.8
Equity	€ bn	4.2	4.0
Equity per share	€	45.51	42.16

Consolidated profit and loss statement		FY 2018	FY 2017
Net financial result (after credit risk adjustments)	€ mn	1,333.4	1,944.7
Premiums/contributions earned (net)	€ mn	4,000.1	3,809.3
Insurance benefits (net)	€ mn	–3,553.7	–4,030.4
Earnings before income taxes from continued operations	€ mn	320.5	292.5
Consolidated net profit	€ mn	215.2	258.0
Total comprehensive income	€ mn	–47.2	208.2
Earnings per share	€	2.29	2.74

Other information	FY 2018	FY 2017
Employees (Germany)[1]	6,540	6,603
Employees (Group)[2]	8,129	8,166

Key sales figures		FY 2018	FY 2017
Group			
Gross premiums written	€ mn	4,065.4	3,873.4
New construction financing business (including brokering for third parties)	€ mn	6,280.2	5,517.5
Sales of own and third-party investment funds	€ mn	426.2	443.4
Home Loan and Savings Bank			
New home loan savings business (gross)	€ mn	13,765.9	13,569.2
New home loan savings business (net)	€ mn	11,412.3	11,520.8
Life and Health Insurance			
Gross premiums written	€ mn	2,224.5	2,128.4
New premiums	€ mn	572.1	477.6
Property/Casualty Insurance			
Gross premiums written	€ mn	1,847.8	1,751.0
New premiums (measured in terms of annual contributions to the portfolio)	€ mn	249.0	232.0

1 Full-time equivalent head count.
2 Number of employment contracts.

W&W AG (according to the German Commercial Code)

		FY 2018	FY 2017
Net income	€ mn	80.0	80.0
Dividend per share[1]	€	0.65	0.65
Share price at year-end	€	16.00	23.36
Market capitalisation at year-end	€ mn	1,498.0	2,185.4

1 Subject to approval by the Annual General Meeting.

Financial calendar

Annual General Meeting

Annual General Meeting	Wednesday, 5 June 2019

Financial reports

2018 Annual Report	Friday, 29 March 2019
Interim management statement as at 31 March	Wednesday, 15 May 2019
Half-yearly financial report as at 30 June	Tuesday, 13 August 2019
Interim management statement as at 30 September	Thursday, 14 November 2019

Wüstenrot & Württembergische AG
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Letter to shareholders
Wüstenrot & Württembergische AG

“*Besser* is not a project. *Besser* is an approach, an attitude with which we are profoundly changing our work. It is the core of our new beginning.”

Ladies and gentlemen,

In 2018 your company, Wüstenrot & Württembergische AG, successfully continued with the new beginning and transformation that was commenced two years ago. We have thus completed an important first step on our path toward the future of W&W, but we are just getting started. At the same time, we are already seeing very clearly that our new, future-oriented initiatives are bearing fruit and that we are gaining momentum. Above all, the “enthusiasm for change” is becoming ever more palpable in the W&W Group: We are willing to take new paths and try things out, while accepting that mistakes may be a part of this. This makes us more agile and innovative than the competition. However, change is never an end in itself. But it is an indispensable prerequisite in order for our company to count among the winners in a world that is changing more rapidly than perhaps ever before.

Such change lays the foundation for success, and in the reporting year, it has also resulted in encouraging business figures. For instance, despite the fact that the market environment for financial services providers continues to be adverse, the W&W Group not only met its after-tax income target of at least €200 million but also managed to exceed it with €215 million. Once again, property and casualty insurance made the biggest contribution to results. We achieved all of this while making large investments in our future and in the digital world of today and tomorrow. In terms of new business, our growth outperformed the market in many areas. In particular, construction financing and property/casualty business increased considerably. But we are also very satisfied with the development of new business in home loan savings and with life insurance. In addition, our cost and capital ratios continue to be sound, and this provides our Group with a solid basis for weathering any potential storms. This is all the more important in the event of an economic downturn.

In the past year, we made great strides in modernising the venerable Wüstenrot and Württembergische brands. Moreover, the development of our new digital business models under the umbrella of the third division, W&W brandpool GmbH, also gives us reason to be confident.

In every respect, we make the word “Besser” (in English, “better”) the focal point of our thinking and action. We want to become “Besser”, a little bit each day, for our customers, in collaboration with colleagues, with sales partners, and in terms of our products and offers. “Besser” is not a project. “Besser” is an approach, an attitude with which we are profoundly changing our work. It is the core of our new beginning.

In 2018 we launched the largest investment programme in the history of our company for new products, for faster and more efficient processes, for training and for our new campus. However, the funds alone will not determine whether we will enjoy sustained success. Only if we evince the right attitude and make faster and better use than our competitors of the opportunities offered by change and modernisation in our industry will we become "Besser" for our customers and thus stay ahead of the competition.

I would like to cite several examples that show what we have achieved and advanced.

- In 2018 we had 750 Tandem partners in the mobile sales force of Wüstenrot und Württembergische, which significantly exceeded the target of 570. This sales format pools the W&W Group's expertise in home loan savings and insurance.
- Wüstenrot Wohnwelt, the website launched in 2018, has already had more than one million visitors. Wohnwelt has recharged the Wüstenrot brand – beyond the expertise in pure home loan savings business.
- In terms of sales, "Besser" has succeeded in making Württembergische's in-house sales force discernibly more powerful, which gives our agents in the field more time for advice and sales, and offers improved processes and digitalisation approaches.
- Our numerous digital initiatives are already generating considerable business. The digital brand "Adam Riese" alone has garnered more than 30,000 customers since its launch in late 2017, offering flexible, low-cost liability and legal expenses insurance. A business liability insurance policy and a household insurance policy were added in the second half of 2018. And our digital financial assistant, FinanzGuide, has already generated about 20,000 leads for our mobile sales force partners.
- In 2018 we launched a Group-wide skills development campaign for digital transformation: To date, more than 1,300 in-house employees have received advanced training on digital topics and customer needs. In this way, we are laying the groundwork for Work 4.0 and Management 4.0.

Although our good business performance is not reflected in our stock price, W&W stock did make a respectable showing compared with the benchmark indexes. And despite market-driven volatility, we plan to offer our shareholders a stable dividend. Owing to the good trend in results in 2018, which came in even slightly above expectations, we are also able to accomplish this.

The Executive Board and the Supervisory Board will therefore propose to the Annual General Meeting on 5 June 2019 that a dividend of €0.65 per share once again be distributed for the past financial year. This corresponds to a dividend yield of 4.06%. Thus, as in the previous year, we outperform the prospective average dividend yields of MDAX (2.75%) and SDAX (2.09%).

The success we enjoyed in 2018 is first and foremost the result of the dedicated, competent work of our employees and mobile sales force partners. We extend them our sincere thanks. Despite the expansion of our digital product world, financial planning and savings and investment by our customers will always remain a matter that requires advice, trust and expertise in order to be successful.

We are continuing to keep our focus on profitable growth, with an eye toward efficiency and higher productivity. In terms of our investments, the aim is to make stronger use of the opportunities associated with automation and standardisation. In addition, we will also further expand our digital initiatives and, at the same time, continue to invest heavily in developing the skills of our employees. Unwaveringly thinking from the standpoint of customer benefit with everything we do – that is the key to success in the digital age.

With respect to financial performance, the W&W Group adheres to its long-term target of consolidated net profit of €220 million to €250 million. For 2019 we expect to exceed the previous year's result of €215 million and thus enter the target zone.

On behalf of the executive boards of all W&W companies, I would like to thank you very much the trust you have shown us. We will make every effort to press ahead successfully with the transformation in the W&W Group.

Sincerely yours,

Jürgen A. Junker, Chairman of the Executive Board

Wüstenrot & Württembergische AG
Management Board

Jürgen A. Junker
CEO of the
W&W Executive Board
Corporate Legal
Audit
Communication
Strategy

Thomas Bischof
Head of Insurance
Division
Chairman of the Executive Board of Württembergische Versicherung AG and Württembergische Lebensversicherung AG

Dr Michael Gutjahr
CFO, CRO of the
W&W Executive Board
Human Resources
Finance
Risk Management
Compliance

Bernd Hertweck
Head of Home Loan and
Savings Bank Division
Chairman of the Executive Board of Wüstenrot Bausparkasse AG

Jens Wieland
COO, CIO of the
W&W Executive Board
IT
Operations
Capital Investments

Daniel Welzer
Head of brandpool
division
Managing Director of W&W brandpool GmbH

Jürgen Steffan
General Representative of W&W AG for Compliance, Risk Controlling and M&A

Divisions of the W&W Group:

The W&W Group has separated its activities into three divisions: Home Loan and Savings Bank, Insurance and brandpool.

The Executive Board of W&W AG, the heads of the divisions as well as Jürgen Steffan, General Representative for Compliance, Risk Controlling and M&A, form the Management Board, which serves as the central steering entity of W&W Group.

Supervisory Board

Hans Dietmar Sauer – Chairman
Former Chairman of the Executive Board
Landesbank Baden-Württemberg and of
Landeskreditbank Baden-Württemberg

Frank Weber[1] – Deputy Chairman
Chairman of the Works Council
Württembergische Versicherung AG/Württembergische
Lebensversicherung AG, Karlsruhe site
Chairman of the Group Works Council

Peter Buschbeck
Co-Owner and Member of the Board of Directors of
Gsponer Management Consulting AG

Prof Dr Nadine Gatzert
Professor of the academic department of insurance and
risk management at the Erlangen-Nürnberg university

Dr. Reiner Hagemann
Former Chairman of the Executive Board
Allianz Versicherungs-AG
Former Member of the Executive Board
Allianz AG

Ute Hobinka[1]
Chairwoman of the Works Council
W&W Informatik GmbH

Jochen Höpken[1]
Task Group Chairman
Vereinte Dienstleistungsgewerkschaft ver.di

Gudrun Lacher[1]
Insurance employee
Württembergische Versicherung AG

Corinna Linner
Linner Wirtschaftsprüfung

Marika Lulay
Managing Director & CEO
GFT Technologies SE

Bernd Mader[1]
Head of Life Insurance/Private Customers
Württembergische Lebensversicherung AG

Andreas Rothbauer[1]
Chairman of the Works Council
Wüstenrot Bausparkasse AG, Ludwigsburg site

Hans-Ulrich Schulz
Former Member of the Executive Board
Wüstenrot Bausparkasse AG

Christoph Seeger[1]
Chairman of the Group Works Council
Wüstenrot Bausparkasse AG

Jutta Stöcker
Former Member of the Executive Board
RheinLand-Versicherungsgruppe

Gerold Zimmermann[1]
Chairman of the Group Works Council
Württembergische Versicherung AG/
Württembergische Lebensversicherung AG
Chairman of the Works Council
Württembergische Versicherung AG/Württembergische
Lebensversicherung AG, Stuttgart site

1 Employee representatives.

Combined Management Report
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Group Fundamentals

Business model

Overview of the Group and W&W AG

The **Wüstenrot & Württembergische Group (W&W Group)** develops and provides four components of modern financial planning: financial security, residential property ownership, risk protection and private wealth management. The Group came into existence in 1999 as a result of the merger of the two long-standing companies Wüstenrot and Württembergische. The W&W Group focuses on omni-channel sales. Of greatest importance are the two tied-agents sales forces. This is complemented by numerous collaborations, brokers and online sales activities.

The W&W Group operates almost exclusively in Germany and is represented there by key offices in Stuttgart and Ludwigsburg/Kornwestheim. Outside Germany, W&W AG focuses on the Czech Republic, where it offers home loan savings and construction financing products.

Wüstenrot & Württembergische AG (W&W AG), headquartered in Stuttgart, Germany, is the Group's strategic management holding company. It coordinates all activities, sets standards and manages capital. As an individual entity, its operations are almost exclusively restricted to reinsuring the insurance policies written by the Group. It also renders services for the Group as a whole in various areas. W&W AG is listed in the SDAX index.

The **Management Board** is the central steering body of the W&W Group. It concerns itself with, among other things, Group control and with setting and developing the business strategy. In addition to the members of the Executive Board of W&W AG, it includes the Division Heads of BausparBank Bernd Hertweck (Wüstenrot), Thomas Bischof (Württembergische Versicherungen), Daniel Welzer (W&W brandpool) and Jürgen Steffan (General Representative for Compliance, Risk Controlling and M&A). Operational and company-specific issues of the individual companies are handled at the divisional level.

In the **Home Loan and Savings Bank** division, the focus is on home loan savings business and construction financing. Following centralisation of construction financing business, Wüstenrot Bausparkasse AG is the most important company in the division. W&W AG is in the process of selling its affiliate Wüstenrot Bank AG Pfandbriefbank to Oldenburgische Landesbank (legal successor of Bremer Kreditbank AG (BKB)). Both parties executed the contract on 27 March 2018. Change of control will take place following receipt of the required official approvals. At the same time, the W&W Group and the bank, under new ownership, agreed to establish a broad sales collaboration to enable the reciprocal provision of financial products and to further increase sales strength. The transaction will not affect the ownership structure of Wüstenrot Bausparkasse AG.

In late 2018, Wüstenrot Bausparkasse AG has concluded a contract to acquire **Aachener Bausparkasse AG (ABAG).** The takeover will further strengthen Germany's most venerable home loan and savings bank on its path to increased growth. The change of control is expected in the course of 2019, since the contract needs to be approved by the supervisory authorities. With the acquisition of ABAG, Wüstenrot is entering into long-term partnerships in the home loan and savings area and the construction financing sector with almost all the insurance companies that previously owned ABAG, becoming their exclusive product partner.

In the **Insurance** division, the W&W Group offers a wide range of life and health insurance products as well as property/casualty insurance products. The key companies in this division are Württembergische Versicherung, Württembergische Lebensversicherung and Württembergische Krankenversicherung.

Since early summer of 2018, the company has operated a third division, **W&W brandpool.** In this way, the W&W Group is continuing to press ahead with the digitalisation of its business and enhance its business model. W&W brandpool steers innovations, like the digital brand Adam Riese, and launches new approaches for financial planning solutions.

By building the new campus at the Kornwestheim location, W&W AG as owner is investing in the future of the corporate group. Employees moved into the first section of the building on schedule in late 2017, and work on the second section commenced in 2018. The entire project, located on an approximately six-hectare site, is scheduled to be completed by 2023. In all, the W&W Group will then have seven interconnected office buildings with some 4,000 modern employee work stations that can be used flexibly. Moreover, work stations for up to an additional 1,000 employees will be available at the neighbouring location in Ludwigsburg.

“W&W Besser!” – Venture into new areas is bearing fruit!

The vision of the W&W Group is “Creating value, securing value”. In that spirit, we further enhanced our business model again in 2018. By regularly launching new initiatives in order to make good things even better, we are striving to continue the successful course of the W&W Group.

The W&W Group is on a good path into the digital future, one that is focused on our customers. With regard to “W&W Besser!” as the new standard for our Group, the focus is on the benefits for the customer and the unique W&W concept of financial planning from a single source.

The seven action fields associated with “W&W Besser!” are:

- Delighting customers and boosting sales force!
- Developing new business models!
- Expanding profitable growth fields!
- Increasing efficiency and service quality!
- Inspiring employees!
- Laying the IT foundation!
- Meeting regulatory requirements!

In its very first year, W&W Besser! resulted in a number of considerable achievements as it was rolled out.

- Since its creation in late 2017, our digital brand **Adam Riese** has garnered about 30,000 customers for flexible, affordable liability and legal expenses insurance. In addition, the product portfolio was expanded in the second half of 2018 to include business liability insurance and household insurance.

- Alongside the new digital initiatives, which had successfully launched, the core competence of the W&W Group continues to be its comprehensive range of personal products for financial planning. More than 750 mobile sales partners of Wüstenrot & Württembergische are now working with the shared cross-selling sales format Tandem. In addition to providing better service in the field, this ensures that W&W customers will receive suitable personal advice from experts in all of life’s situations.

- In order to count among the market winners in future as well, the W&W Group launched a large-scale **qualification offensive** in 2018 **concerning digital transformation.** To date, more than 1,300 inhouse employees have received advanced training on digital topics and customer needs.

- The “Württembergische” brand was strengthened in 2018 through a comprehensive brand campaign. The brand slogan “Ihr Fels in der Brandung” (solid as a rock) as well as a “Gut-beraten-Garantie” (good-advice guarantee) succeeded in boosting national brand awareness by about 10%.

Württembergische’s customers have been benefiting since 2017 from the **customer portal** “Meine Württembergische”. In addition to the ability to digitally view policies at any hour of the day or night, initial self-service features were established on the platform.

- As part of the initiative **Vertrieb.Besser!,** Württembergische restructured its inhouse sales force. Moreover, the mobile sales force continues to be relieved of administrative tasks in order to ensure that they can provide even stronger customer advice and support as key responsibilities.

The Wüstenrot brand was expanded to cover the company’s comprehensive expertise in matters involving the home, and this resulted in a number of significant achievements:

- The web-based residential platform **Wüstenrot Wohnwelt** had more than one million visitors in the first year following its launch. In addition to more than 350,000 property listings, customers can find further information and services here on all matters involving the home.

- The **real estate subsidiaries** Wüstenrot Haus- und Städtebau GmbH (WHS) and Wüstenrot Immobilien GmbH (WI) are also exploiting market opportunities. In Bad Homburg, about 500 residential units will be built by 2023. In addition, WHS is building properties at a variety of other locations, both for owner occupancy and for letting to renters.

W&W Better!

Better!

Digital transformation in all segments

Delighting customers and boosting sales force!	
Understand customers Act with focus on customers	Further develop omni-channel Improve sales channels

Expanding new business models!	
Create new brands	Develop new digital models

Developing profitable growth fields!	
Increase the profitability of core business and investment holdings	Home Loan and Savings Bank : Living and home financing Growth in SME-insurance and occupational pension plans

Increasing efficiency and service quality!	
Automate our core business	Increase service quality

Inspiring employees!	Laying the IT foundation!	Meeting regulatory requirements!
Structure personnel planning in a far-sighted manner Further develop our employees	Ensure future viability through IT strategy Set up our IT in a lean manner	To comply with legal provisions

- In connection with the further **expansion of construction financing business,** the home loan and savings bank is benefiting from the amended German Home Loan and Savings Bank Act (BausparkG). Since mid-2018, it has also been offering financing with higher loan-to-value ratios with the aid of a special surety.

Since early summer 2018, the W&W Group has been bundling digital issues at **W&W brandpool.** These include our digital brand Adam Riese, FinanzGuide, the web-based financing assistant NIST and the digital broker app Treefin. This enables us to tap into new customer groups, which strengthens the profitable growth of the W&W Group.

- The financial assistant **FinanzGuide** offers the ability to digitally access all financial products, such as accounts, custodial accounts, insurance policies and home loan savings contracts. In just the first year, our mobile sales force generated more than 20,000 starting points for customers for the purpose of financial optimisation.

Product mix

Our roughly six million W&W customers value the excellent service, skills, expertise and close personal service provided by our employees, in both the in-house and the mobile sales force. Our range of products is directed towards both private and corporate customers. Customers receive financial planning for all developmental phases from a single source.

Wüstenrot Bausparkasse AG continued to steadily fine tune its range of products to match market developments and trends in the 2018 financial year, such as the persistently low level of interest rates and increasing digitalisation. It provides an attractive range of financing and home loan savings products for every need: from near-term construction, acquisition and modernisation projects to long-range plans.

In September 2018, the home loan and savings bank introduced an additional policy version of “Wüstenrot Wohnsparen”. The new policy version “Wüstenrot Wohnsparen Spezial” is tailored to customers looking to finance larger amounts. With a minimum home loan savings amount of €250,000, it offers cost transparency, favourable terms and flexible options. The new policy can be integrated with immediate financing in order to lock in the interest rate.

In 2018 activities focused on construction financing business. The financing options at the home loan and savings bank were considerably expanded, and the lending process was accelerated and made more customer-friendly. In addition, visibility of the Wüstenrot brand was strengthened in conurbation areas through the establishment of new residential and construction financing centres. Also, sales options were expanded through the integration of Wüstenrot residential loans on the two large financial platforms Interhyp and Europace.

In 2018 the home loan and savings bank enhanced its online offers for home loan savings, construction financing and savings and investment products, as well as the online portal for customers, “mein.wuestenrot.de”. With

Wüstenrot Wohnwelt, it created a complete package that fits every need for all matters involving the home. The online portal offers customers information about home purchasing and ownership, as well as service topics like "guide" and "calculator".

Also in 2018, Wüstenrot was once again the recipient of numerous awards, serving to confirm the outstanding quality of its products and services.

Wüstenrot Bank AG Pfandbriefbank offers its customers needs-oriented, attractive and simple banking products, such as current accounts, credit cards and securities. Even though it offers a strong range of digital communication options, Wüstenrot Bank AG Pfandbriefbank will nevertheless remain personally reachable for its customers in the future. Owing to a sales collaboration agreement, its products will still be able to be obtained, even under new ownership, from the W&W Group's roughly 6,000 mobile sales force partners.

In order to be able to offer its customers high-quality products that are geared to their individual needs, **Württembergische Versicherung AG** services a broad product portfolio covering virtually all business lines of property and personal accident insurance.

In the year under review, the portfolio share of premium car policies remained at a very high level in the motor business segment. The performance level rose once again with the introduction of the new component "Wertausgleich+" in comprehensive motor insurance. The telematics solution that was introduced was well received in 2018 as well.

The corporate customers business segment continued to grow, following on the successful previous year. The integration of cyber insurance as a component in the corporate policy made this product considerably more attractive.

Legal expenses insurance and personal accident insurance were revised. Franke & Bornberg awarded the "PremiumSchutz" option available for the two products the rating "outstanding" (FFF).

In addition, FOCUS-MONEY awarded Württembergische Versicherung AG the title of "fairest insurer" for its residential housing and private liability insurance. It received the Financial Advisors Award from the magazine Cash. ONLINE for the electronic component in household insurance.

According to surveys conducted by MSR Consulting, Württembergische Versicherung AG was rated "very good" in 2018 as a full-service insurance provider in the categories "overall satisfaction", "service quality" and "value for money".

Württembergische Lebensversicherung AG provides its customers with a wide range of products for risk coverage and private and occupational pension schemes.

At the start of 2018, the new, modern annuity insurance policy KlassikClever was introduced as a supplement to the range of retirement planning products. It replaces the conventional annuity. Customers can choose between KlassikClever, IndexClever and the unit-linked annuity insurance policy Genius in connection with savings products.

At the same time, we have expanded our range of occupational pension products by offering KlassikClever and IndexClever, modern versions of traditional retirement planning products.

On 1 July 2018, we created ParkKonto, an attractive reinvestment option. The product adds to the mix of short-term capital investment products and at the same time offers an attractive annuitisation option.

Since the start of 2019, we have been offering KombiRente, an innovative direct insurance product for occupational pension schemes that combines available tax incentives in a single policy.

In addition, KlassikClever was augmented with a supplemental whole-life insurance policy.

Over the course of 2019, we will also continue to steadily gear our range of products to meet current customer requirements.

In addition to comprehensive health insurance, **Württembergische Krankenversicherung AG** offers a broad portfolio of products in supplemental health insurance and supplemental long-term care insurance. In addition to private insurance, it provides a broad range of products for corporate customers in the area of occupational health insurance in its role as a "partner to SMEs".

Our range of supplemental in-patient insurance, which was completely revised in late 2017, has found wide acceptance on the market in all sales channels. The portfolio of supplemental long-term care insurance products was augmented last year with the introduction of the Komfort policy, which offers a daily allowance for long-term care at mid-range pricing.

The quality of our products is evident from the numerous awards by special rating agencies. For example, Focus Money in collaboration with the rating agency Franke und Bornberg once again named our supplemental in-patient insurance as the top supplemental health insurance in this segment. Finanztest confirmed the positioning of our premium policy in supplemental dental insurance and once again awarded it the top mark, "very good".

In 2019 Württembergische Krankenversicherung will continue to align and enhance its range of products to meet current customer needs and the challenges of demographic change, with the aim of successfully staying on track for continued growth.

Sales channel mix

Our wide distribution network, comprising partners, brokers and an in-house mobile sales force, gives us access to a market of more than 40 million people throughout Germany. In this regard, we attach great importance to personal advice that is competent and reliable. Our mobile sales force, the main pillar in our sales organisation, consists of the two tied-agents sales forces at Wüstenrot and Württembergische.

In addition, we collaborate closely with partners from the banking and insurance sector, and they contribute significantly to our business success. Partners for home loan and savings products include three large private banking groups – Commerzbank, HypoVereinsbank (Member of UniCredit) and Santander. Exclusive sales agreements are also in place with Allianz, Oldenburgische Landesbank and the ERGO Group. We supplement our sales concept with collaborations with other banks and brokers, as well as with the mobile sales forces of ver.di-Service GmbH and dbb vorsorgewerk GmbH.

We augment traditional sales channels by relentlessly exploiting the opportunities afforded by digitalisation. This includes direct sales activities, such as via the online banking portal operated by Wüstenrot Bank AG Pfandbriefbank and the new online brand Adam Riese.

Commitment to sustainability

In 2014 the EU enacted the Corporate Social Responsibility (CSR) Directive. In Germany, the Act Implementing the CSR Directive (CSR-Richtlinie-Umsetzungsgesetz) was adopted by the Bundestag in the spring of 2017. Accordingly, listed companies pursuant to section 289b of the German Commercial Code (HGB), credit institutions pursuant to section 340a HGB, and insurance companies pursuant to section 341a HGB must publish a non-financial statement or a non-financial report for financial years beginning after 31 December 2016 if they average more than 500 employees during the year and have a balance sheet total of more than €20 million or net turnover of more than €40 million.

The W&W Group meets these criteria for non-financial reporting.

The combined non-financial report of the W&W Group is prepared separately pursuant to Section 315b (3) HGB and published in the Federal Gazette together with the annual report. It is also made available to the public on the W&W Group's website at www.ww-ag.com/nachhaltigkeitsberichte (German version only).

Regulatory requirements

The W&W Group consists of several subgroups of companies that are consolidated for regulatory reporting purposes, namely the financial holding group, the Solvency II group and the financial conglomerate. Therefore, the W&W Group is subject to a variety of regulatory requirements.

In 2018 the financial services industry was again faced with strict regulatory requirements. In late 2017, the reforms finalised by the Basel Committee on Banking Supervision (BCBS) were taken up by the EU Commission as part of the process to revise the Capital Requirements Directive (CRD V draft) and the Capital Requirements Regulation (CRR II draft). It is expected that the Directive and the Regulation will be finalised in the first quarter of 2019. In this regard, the statutory provisions are generally applicable beginning in 2021.

The quarterly notifications required under Solvency II and the annual reporting by the insurance companies were sent to BaFin (Federal Financial Supervisory Authority) on time. The coverage ratios were more than satisfied for the financial holding group, the financial conglomerate and the Solvency II group. For detailed remarks, please see the note "Regulatory solvency" in the notes.

Beginning in 2019, the EU Directive on the activities and supervision of institutions for occupational retirement provision (IORP II) will place additional requirements on pension funds and on the occupational pension business of life insurance companies. The W&W Group is studying all IORP II requirements and will implement them accordingly.

Furthermore, the consequences of the increasing digitalisation of the industry are manifesting themselves in additional supervisory requirements for IT.

Reporting segments

Segment information was prepared in compliance with IFRS 8 on the basis of the internal reporting system. We report on the Home Loan and Savings Bank, Life and Health Insurance and Property/Casualty Insurance segments. All other activities – asset management, real estate activities, home loan savings and banking products outside Germany and W&W brandpool GmbH – are grouped under "All other segments". The third division, W&W brandpool GmbH, at the moment does not yet constitute an independent reportable segment. The products and services offered by the individual segments are broken down in detail in the segment reporting chapter in the notes.

Business management system

The W&W Group's integrated business management system is designed to retain value. A three-year plan is drawn up on the basis of the business strategy and presented to the Supervisory Board for approval. The plan approved by the Supervisory Board for the following financial year is then used to establish the main metrics for management to use as quantitative targets. The most important performance indicators are derived on this basis.

We review our operational plan with two extrapolations during the financial year. Management activities are performed throughout the year using a "management cockpit" that tracks targets on a monthly basis. Countermeasures are taken where necessary if actual performance deviates from the target.

For the 2018 and 2019 financial years, consolidated net profit (IFRS) and general administrative expenses in the Group are used as key performance indicators. For segments, the management parameters are segment net income after taxes, as well as general administrative expenses including service income. General administrative expenses include internal eliminations with other segments within the Group. These key figures appear in the W&W Group's consolidated financial statements.

Moreover, the management parameter "Group customers" i.e. the number of customers in the W&W Group, is used as the key cross-segment performance indicator.

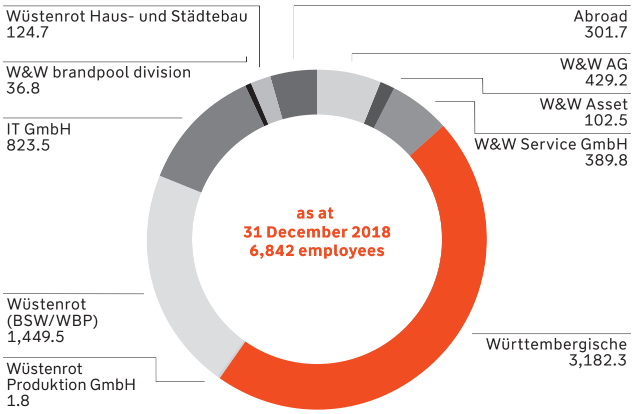
In addition, we report net new business by home loan savings volume and new construction financing business (approvals) in the home loan and savings bank segment, total premium in the life and health insurance segment as well as new business (according to annual portfolio contributions) in the property/casualty insurance segment under business development and in the outlook.

W&W AG manages the W&W Group in its capacity as strategic management holding company. Its key performance indicator is net profit for the year (German Commercial Code (HGB)). This is the basis for the dividend payment to our shareholders and serves to strengthen the equity of the W&W AG.

Employees

As at 31 December 2018, the W&W Group had 6,842 employees (previous year: 6,884) in Germany and abroad, calculated based on full-time equivalents, excluding trainees.

Employees in W&W Group including abroad



The enhancement of the W&W Group to safeguard its future continued in the 2018 financial year, with the focus on modern working and digitalisation.

Agile, flexible and networked working is especially experienced at the new W&W campus. For instance, 85% of employees there use the working forms "occasional mobile working" or "teleworking". We also place special value on the topic of qualification: For instance, in order to further increase digitalisation expertise, a heading was established in the training catalogue with more than 50 qualification offers. In addition, within "digital knowledge in a nutshell", there are brief explanatory videos on various digital topics.

Alongside qualification offers on the topic of digitalisation, the Group also offers its employees advanced professional, methodological, personal and social training. All offers are regularly revised and updated. Moreover, employees have the option to choose between a "management" and a "specialist" career path.

Recruiting and retaining young professionals is a particular objective. In 2018, 130 new trainees and dual students started their training at W&W in 12 career tracks. Nearly all members of the 2018 graduating class were offered a job following training. In addition, we are seeing a trend of promising early-career professionals starting as trainees in various areas.

Satisfied employees are important to us. For that reason, we offer many employer benefits that facilitate a healthy work-life balance: With flexible working hours and workplace models, as well as professional childcare and wellness assistance, employees can more easily reconcile personal and career objectives.

As part of the W&W health management initiative, employees also have the opportunity to take advantage of numerous health-promoting measures. They include health courses, corporate sports offers, partnerships with fitness studios, informational events and seminars on health issues. The W&W Group also arranges for professional support in situations of personal crisis or conflict. In addition, the company medical service at the Stuttgart, Ludwigsburg/Kornwestheim and Karlsruhe locations offers occupational health care and general health consultations, as well as a health check, vaccinations and various therapies. The W&W Group therefore goes far beyond the statutory standard. We also perform regular workplace safety inspections and comprehensive risk assessments. As a result, we offer an extensive health programme at a high level, as well as incentives for healthy behaviour in a health-promoting environment.

Acknowledgement

We would like to thank our in-house and mobile sales force staffs for their dedication and extraordinary commitment throughout the previous financial year. Their expertise and motivation are essential to our future. We would also like to thank the employee representatives and their committees, the representatives of the mobile sales force organisations and the executive representative committees for their close cooperation and constructive support in connection with the measures designed to ensure the future of W&W.

Ratings

In the year under review, **Standard & Poor‘s (S&P)** again confirmed ratings of the W&W Group with a stable outlook. The core companies of the W&W Group thus continue to have a rating of A-, while the holding company Wüstenrot & Württembergische AG has a BBB+ rating.

The risk management of the W&W Group continues to be classified in the “strong” category.

The short-term rating of Wüstenrot Bausparkasse AG, which was raised in the previous year, remains at A1.

The German mortgage covered bonds issued by Wüstenrot Bausparkasse AG maintain their top rating of AAA with a stable outlook.

The listed subordinated bonds issued by Wüstenrot Bausparkasse AG and Württembergische Lebensversicherung AG continue to be rated BBB.

Standard & Poor‘s Ratings

	Financial Strength	Issuer Credit Rating
W&W AG	BBB+ outlook stable	BBB+ outlook stable
Württembergische Versicherung AG	A– outlook stable	A– outlook stable
Württembergische Lebensversicherung AG	A– outlook stable	A– outlook stable
Wüstenrot Bausparkasse AG		A– outlook stable

Share

Stock price performance

After closing out the year 2017 at €23.36, the W&W stock price reached €25.05 during the initial trading days in 2018 in a favourable market environment. This was followed by profit-taking, which became more intense in the increasingly unfavourable market environment for, in particular, providers of financial services. The W&W stock price did not remain entirely unscathed by the political headwinds on the equity markets, which have been growing since late May, or by the steadily mounting concerns about the economy, which has resulted in marked price weakness on the exchanges, particularly for bank and insurance stocks. Taking into account the fact that the dividend was increased from €0.60 to €0.65 per share, the performance decline for the calendar year 2018 was 30.5%. Measured against the benchmark indexes, W&W stock performed well: Banks listed on the EURO STOXX suffered an even sharper decline over the same period (33.3%), while the German Prime Banks Performance Index lost 52.3% of its value. Price declines on the SDAX were not quite as dramatic, since the proportion of finance stocks is very low, being outweighed by industrial and IT stocks. It closed the year down 20.0%.

Shareholder group

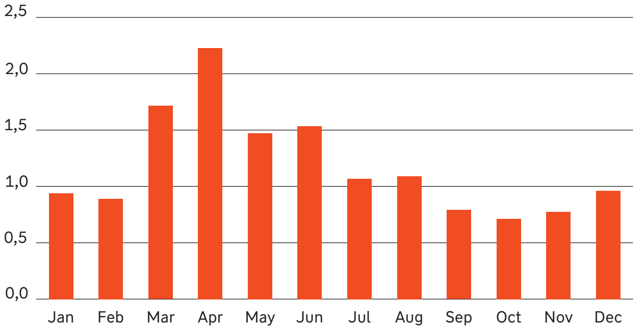
The shareholder structure of W&W AG remained stable during the year under review. The non-profit Wüstenrot Stiftung Gemeinschaft der Freunde Deutscher Eigenheimverein e. V. holds its indirect stake in W&W AG of 66.31% through two wholly owned holding companies. Wüstenrot Holding AG holds 39.91% of the shares and WS Holding AG, 26.40%, based on the total number of shares issued. The other principal shareholder of W&W AG is Horus Finanzholding GmbH, with more than 10% of the shares. Of the issued shares, 0.14% are non-voting treasury shares. The free float amounts to 23.55%. Approximately 10% (previous year: 11%) of the shares are held by foreign shareholders.

Trading volume

An average of 58,953 shares were traded per trading day in 2018 (previous year: 78,100).

Trading volume of the W&W share

2018 in € mn



Dividend policy

W&W AG aims to distribute a reliable dividend to our shareholders that is at least equal to that of the previous year. Thanks to our positive results, the Management Board proposes an unchanged dividend of €0.65 (previous year: €0.65) per share to the Annual General Meeting.

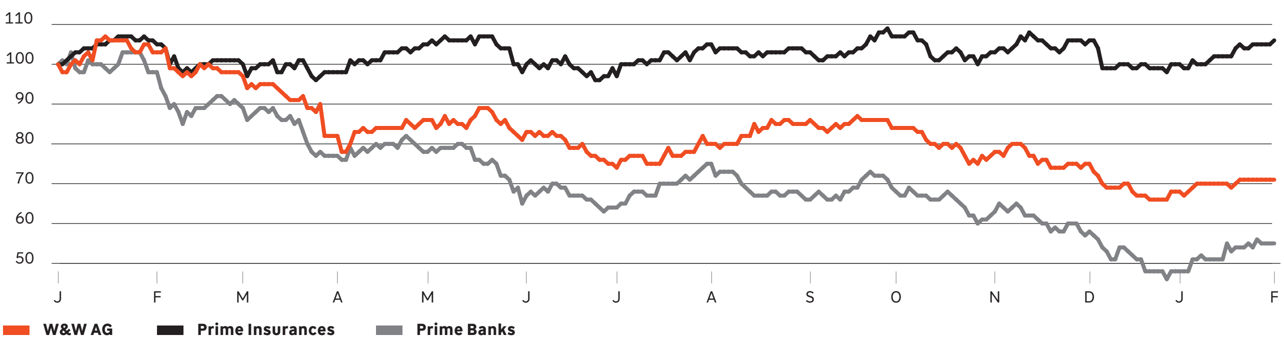
Based on this proposed dividend of €0.65, the dividend yield for 2018 amounts to 4.06%. We thus outperform the prospective weighted dividend yields of MDAX (2.75%) and SDAX (2.09%).

Annual General Meeting

The Annual General Meeting will be held on 5 June 2019, at 10 a.m., at the Forum am Schlosspark in Ludwigsburg.

Comparison of share price performance (indexed)

2018



Employee shares

In April 2018 W&W AG again issued employee shares across the whole Group. Eligible employees received a €5.00 discount on the Xetra closing price on 3 April 2018 for a maximum of 40 shares. By continuing this solid tradition, our company is seeking to further expand the shareholder value orientation among staff and boost employer attractiveness and employee loyalty. In total, about one-quarter of eligible employees took advantage of the offer. The company is planning to issue employee shares again in 2019.

Investor Relations

The responsibility of investor relations is to increase awareness of W&W AG and its equity story on the capital market, develop new investor contacts and strengthen existing contacts. In the year under review, we continued our intensive dialogue with institutional investors, private investors and financial analysts. These activities focused on individual and group meetings with institutional investors in connection with roadshows and conference visits at national and international financial centres. The business figures were presented to analysts in connection with teleconferences. For more information, please visit the Investor Relations area at www.ww-ag.de.

Basic information on W&W shares

Securities identification number		WKN 805100, ISIN DE0008051004	
Exchanges		Stuttgart (Regulated Market), Frankfurt (Regulated Market) Düsseldorf (Open Market), Berlin (Open Market), Xetra	
Stock exchange segment		Prime Standard of the Frankfurt Stock Exchange	
Xetra trading symbol		WUW	
Bloomberg trading symbol		WUW GY	
Reuters trading symbol		WUWGn.DE	
Share class		No-par value registered shares (individual share certificates)	
Number of shares	in units	93,749,720, thereof 126,726 treasury shares	
Share capital	in €	490,311,036	
		2018	2017
Year-end price[1]	in €	16.00	23.36
Annual high[1]	in €	25.05	23.45
Annual low[1]	in €	15.42	17.89

1 Xetra.

Business report

Business environment

Macroeconomic environment

Pursuant to preliminary calculations, the German economy as measured by GDP grew by 1.5% in 2018, which was lower than in the previous year (2.5%). The slow-down in the economy was attributable, in particular, to falling demand for German goods abroad, as well as to a weakened automotive sector. The most important support for the economy in 2018 was consumer demand from private households. Also, investments contributed to the positive economic development. Whereas the construction sector continued to trend in a dynamic direction, equipment investments by companies also picked up speed. Accordingly, despite somewhat slower growth, the economic environment in 2018 still was favourable.

Capital markets

Bond markets

Long-term interest rates on the German bond market initially rose appreciably at the start of the year. For instance, the yield on the benchmark 10-year German government bond increased from 0.43% at the end of 2017 to 0.8% at the beginning of February 2018. Political risks, such as the formation of a populist, EU-critical government coalition in Italy, caused the yield to fall briefly to around 0.2%. The bond market then settled down again in early June. In the final quarter, disappointing economic reports, prolonged political tensions, such as Brexit and the U.S. trade dispute with China, and pronounced price weakness on the equity markets led to an increased demand for German government bonds, and as a result, the yield on 10-year bonds fell to just 0.24% at the end of 2018, for a decline of 19 basis points for the year.

By contrast, yields for bonds with short-term maturities showed little change in view of the ECB's passive policy concerning key interest rates. For instance, the yield on two-year German government bonds fluctuated between −0.5% and −0.7%. At the end of 2018, the yield stood at −0.61%, or two basis points higher than at the end of 2017.

Equity markets

European stocks, which had posted encouraging price gains during the initial trading days of 2018, underwent a significant correction between early February and late March. This was triggered by a surprisingly high rate of growth in wages in the U.S., which raised fears that the Fed would increase its key interest rate even more rapidly. Corresponding negative price trends on the U.S. stock markets, as well as investors liquidating positions in order to avoid further losses, also put a strain on price trends in Europe. European stock prices then recovered in April and May. This was due to rising hopes that U.S. President Trump would refrain from launching a global trade war after all. Moreover, the value of the euro declined noticeably starting in mid-April, which benefited the stock prices of European export companies. However, this recovery came to an abrupt halt in the second half of May when the turmoil surrounding the formation of a government in Italy rattled investors and at times put a massive strain on, in particular, Italian bank stocks. In addition, the global trade dispute initiated by the U.S. intensified over the summer. The related concerns about growth then deepened as the year progressed, with the EMU reporting disappointing economic data almost continuously and no definitive solution being found to the political problems (global trade dispute, Italian fiscal policy and Brexit). As a result, stock prices fell considerably, with EURO STOXX declining by 14.3% over the course of 2018. Because of the high weighting given to export-focused companies, the DAX, the German benchmark index, suffered even more from the global trade dispute, falling by 18.3% in 2018.

Trends on the SDAX were very stable until late August, when it peaked at 12,614, constituting a rise of nearly 6%. SDAX prices tend to be more stable than those on the DAX because the index is not as dependent on foreign trade, meaning that it is less susceptible to strains resulting from Italian politics or a potential global trade war. Nevertheless, mounting worries about growth and increased risk aversion on the part of investors caused the SDAX to tumble in the final months of 2018 to 9,509, for a decline of 20.0% for the year.

Industry trends

Low interest rates and regulatory requirements were once again the driving forces in the financial services industry in 2018. The direction of European banking and insurance supervision has become less clear owing to the Brexit negotiations between the EU and the UK. For this reason, regulatory implications resulting from this cannot be ruled out. The implementation of several changes proposed by the Basel Committee on Banking Supervision, as well as those resulting from EU legislation, represents a key challenge for the European banking sector and will also play a major role in 2019.

According to industry estimates, contract volume from new business (net) in the sector fell by 3% to approximately €87 billion. Wüstenrot Bausparkasse AG ranks second among home loan and savings banks, as measured by new business.

New business in private residential financing improved in 2018. According to the German Bundesbank, private households took out approximately €241 billion (previous year: approximately €230 billion) in residential construction loans. This equates to growth of 5%. Thus, market volume was high, and Wüstenrot Bausparkasse was able to benefit from this and expand its market share. The positive trends on the market were aided by mortgage interest rates, which remained low. But although more homes were completed, the demand for owner-occupied housing, primarily in large cities and conurbations, far exceeded supply. Residential construction is limited, in particular, by a shortage of building land and, in many places, a lack of capacity among builders and tradesmen. Rising property prices are contributing to the high volume of construction financing. The good financing conditions are also resulting in existing properties changing hands more frequently, as well as in upgrade and renovation work, but here, too, demand is outstripping supply in sought-after regions.

Württembergische Lebensversicherung AG recently came in 13th among its peer group of German life insurers based on gross premiums written. In terms of premiums written, the market share of Württembergische Lebensversicherung AG rose to 2.1% (previous year: 2.0%). Despite a difficult market environment, Württembergische Lebensversicherung AG and thus the WürttLeben Group enjoyed continued success.

The life insurance industry posted a rise in new business in 2018. New regular premiums rose by 2.1% to €5.3 billion, while single-premium business increased by 7% year on year. New premiums collected by life insurers rose by 6.2% in 2018 to €31.8 billion (previous year: €29.9 billion). Measured by total premiums for new life insurance business, an increase of 4.0% to €149.9 billion (previous year: €144.2 billion) was reported.

Life insurers' gross premiums written rose in the reporting period to €88.6 billion (previous year: €86.5 billion), mainly due to higher single-premium business.

Württembergische Versicherung AG is currently ranked ninth among property/casualty insurers, based on gross premiums written in domestic direct business. According to provisional calculations by the German Insurance Association (GDV), premium income was up approximately 3.3% as at the end of the year, reaching €70.6 billion (previous year: €68.3 billion). Property insurance posted the highest growth at 4.4%. Motor insurance also continued to show solid premium growth (3.4%). Legal expenses insurance came in at the level of the previous year (4.0%). Following a large number of claims from natural hazards and several major property insurance claims, claims expenses for the 2018 financial year rose 5.2%, which was considerably higher than the growth rate for premiums. Overall, net underwriting income fell considerably to €3.4 billion (previous year: €4.5 billion). At 76%, the loss ratio for the 2018 financial year was higher than the previous year's level. The industry's combined ratio (combined ratio of claims and expenses) worsened to approximately 95%.

Development of business and position of the W&W Group (IFRS)

Development of business

In 2018 consolidated net profit after taxes stood at €215.2 million (previous year: €258.0 million), and thus within the range of our expectations.

Particularly noteworthy was net income from property/casualty insurance, which once against posted very good net underwriting income. The Home Loan and Savings Bank segment also recorded an increase. Particularly in "All other segments", the previous year included positive one-off effects, such as the proceeds from the sale of the interest in V-Bank AG and extraordinary tax income, that were not incurred in the current year.

We achieved our goal of boosting productivity by 5% for this year. Cost discipline was also a part of this. The increase in our general administrative expenses remained below 1% and was thus considerably lower than the inflation rate in Germany (1.9%).

Composition of consolidated net profit

in € million	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Home Loan and Savings Bank segment	59.1	58.5
Life and Health Insurance segment	24.7	31.8
Property/Casualty Insurance segment	131.4	125.8
Other segments/consolidation	0.0	41.9
Consolidated net profit	**215.2**	**258.0**

Group-wide construction financing business rose 13.8% to nearly €6.3 billion and is significantly above the previous year's figure. New home loan savings business also exceeded the high level of the previous year. A lot of ground was made up here in the course of the year.

New business in property/casualty insurance and in life and health insurance likewise proceeded encouragingly, coming in ahead of the previous year. This had a positive impact on gross premiums written, which have now climbed past the €4 billion mark.

Key figures (Group)

	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017	Change
	in € million	in € million	in %
Construction financing business (including brokering for third parties)	6,280.2	5,517.5	13.8
Gross new home loan and savings business	14,224.3	13,982.1	1.7
Gross premiums written (Property/Casualty Insurance)	1,847.8	1,751.0	5.5
Gross premiums written (Life and Health Insurance)	2,224.5	2,128.4	4.5

In December 2018, Wüstenrot Bausparkasse AG concluded a contract for the purchase of Aachener Bausparkasse AG (ABAG). Change of control is expected to take place in the course of the 2019 financial year, since the executed purchase contract still requires supervisory approval. ABAG was previously owned by nine insurance companies. It has about 230 employees. With the takeover of Aachener Bausparkasse, Wüstenrot Bausparkasse AG is entering into long-term collaboration with nearly all of the former owners for home loan and savings and construction financing business and will become their exclusive product partner. For Wüstenrot, the additional new business volume is expected to be in the nine-figure range annually. With the takeover of ABAG, we are tenaciously continuing our path of growth in home loan savings business.

Wüstenrot & Württembergische AG has agreed to sell its subsidiary Wüstenrot Bank AG Pfandbriefbank to Oldenburgische Landesbank AG (legal successor to Bremer Kreditbank AG). At the same time, the W&W Group agreed with the buyers, a group of banks, on a comprehensive sales collaboration. Both parties executed the contract in the 2018 financial year, and change of control will take place following, receipt of the required official approvals, which are expected in the first six months of 2019. Wüstenrot Bank AG Pfandbriefbank therefore continued to be assigned to the "held for sale" category.

Changes in accounting policies

The W&W Group began applying the new version of IFRS 9 "Financial Instruments" on 1 January 2018. The values for the previous year continued to be accounted for in accordance with IAS 39, meaning that they are not comparable to the figures for the 2018 financial year. The following changes had substantial effects on the W&W consolidated financial statements:

- Until 31 December 2017, senior debenture bonds and registered bonds had been accounted for pursuant to IAS 39 under receivables measured at amortised cost. From 1 January 2018, pursuant to IFRS 9, these financial instruments are now predominantly measured in the W&W Group at fair value through other comprehensive income, since they fall under the "hold to collect and sell" business model and the cash flows consist exclusively of interest and redemption payments.

- Until 31 December 2017, participations, equities and fund units had predominantly been measured in the W&W Group (in available for sale) under IAS 39 at fair value through other comprehensive income. From 1 January 2018, pursuant to IFRS 9, these financial instruments are now exclusively measured in the W&W Group at fair value through profit or loss, since the W&W Group is not making use of the option to measure them at fair value through other comprehensive income.

- Until 31 December 2017, the risk provision for receivables measured at amortised cost had been created under IAS 39 using the incurred loss model. From 1 January 2018, pursuant to IFRS 9, the risk provision is now calculated on the basis of the expected credit loss model. In addition, financial instruments falling under the "hold to collect and sell" business model, which are measured at fair value through other comprehensive income, are also included in the calculation.

In connection with the first-time application of IFRS 9, the W&W Group changed the structure of the net financial result. The new net financial result, which henceforth will also contain the net income/expense from investment property, is broken down into:

- Current net income/expense,
- Net income/expense from risk provision,
- Net measurement gain/loss, and
- Net income/expense from disposals.

We expect that this change will further increase reporting transparency and make the income statement even more meaningful at the consolidated and segment levels. Although the previous year's figures for the net financial result continue to be measured pursuant to IAS 39, we have retroactively adjusted the way they are shown so as to conform to the new structure.

Financial performance

Total comprehensive income

Consolidated income statement

As at 31 December 2018, consolidated net profit after taxes amounted to €215.2 million (previous year: €258.0 million).2018 215,2 258,0 Earnings per share stood at €2.29 (previous year: €2.74).

The net financial result came in at €1,333.4 million (previous year: €1,944.7 million). It consists of the following components:

- Current net income rose by €116.4 million to €1,251.7 million (previous year: €1,135.3) million as a result of, inter alia, higher dividend income.

- The net expense from risk provision amounted to –€2.7 million (previous year: net income of €9.7 million). This was attributable to the continued good economic situation and the low-risk home loan savings portfolio. On the other hand, the risk provision for bearer bonds increased slightly.

- The net measurement loss was –€553.2 million, a significant deterioration from the previous year's net gain of €71.5 million. Downturns on the equity markets, especially in the second half of the year, had an impact here. In particular, net investment income from unit-linked life insurance policies fell significantly. But measurement losses with regard to equities and investment fund units also contributed to this decline. Overall, the net measurement result was more volatile than in the previous year, since in connection with application of IFRS 9 that began in 2018, financial instruments were measured to a greater extent at fair value through profit or loss.

- Net income from disposals came in at €637.5 million (previous year: €728.2 million). This intentional decline is mainly an expression of the lower requirements for the additional interest reserve as a result of the introduction of the corridor method in Life and Health Insurance.

Net commission expense amounted to –€428.6 million (previous year: –€401.8 million). This was primarily attributable to the larger portfolio and to greater new business in the property/casualty segment.

Net earned premiums rose by €190.8 million to €4,000.1 million (previous year: €3,809.3 million). Increases were recorded for both Property/Casualty Insurance and Life and Health Insurance.

Net insurance benefits fell by €476.7 million to €3,553.7 million (previous year: €4,030.4 million). Property insurance again posted very good claims development as a result of the underwriting of profitable new business. In Life and Health Insurance, the decline was the result of changes in the provision for unit-linked life insurance policies as a consequence of weak trends on the equity markets. Also contributing to this were smaller additions to the additional interest reserve.

General administrative expenses stood at €1,073.1 million (previous year: €1,062.5 million). Due to a lower headcount, personnel expenses declined despite collectively bargained salary increases. Marketing expenses increased due to the new Württembergische brand launch. In addition, expenses increased as a result of the costs for demolishing the old buildings on the new W&W campus site in Kornwestheim.

Tax expenses in the year under review amounted to €105.3 million (previous year: €34.4 million). The increase was mainly caused by higher pretax consolidated net income and the inability to offset withholding taxes for prior years due to fiscal court rulings.

Consolidated statement of comprehensive income

As at 31 December 2018, total comprehensive income stood at –€47.2 million (previous year: €208.2 million). It consists of consolidated net profit and other comprehensive income (OCI).

As at 31 December 2018, OCI stood at –€262.4 million (previous year: –€49.8 million). It was essentially shaped by two effects: First, the actuarial interest rate used to measure pension commitments increased from 1.50% to 1.70% compared with the end of the previous year. This resulted in €15.7 million in actuarial gains from defined benefit plans for pension schemes (previous year: €13.3 million).

The unrealised net loss from debt-financing instruments required to be measured at fair value through other comprehensive income is the other, even more significant effect. After additions to the provision for premium refunds and to deferred taxes, it amounted to –€277.3 million (previous year: –€62.0 million). The negative amount resulted from measurement losses and from the reduction of reserves through sales of registered and bearer securities, for which reason reserves that were previously recognised in equity were booked in consolidated earnings.

Home Loan and Savings Bank

Net income in the Home Loan and Savings Bank segment rose to €59.1 million (previous year: €58.5 million). New business (gross) exceeded the high level of the previous year. The segment's total assets decreased to €29.4 billion (previous year: €30.8 billion).

New business

Gross new home loan and savings business stood at €13.8 billion in the 2018 financial year, exceeding the very good previous year (€13.6 billion). Net new business (paid-in new business) by contract volume amounted to €11.4 billion, nearly the same as the previous year (€11.5 billion).

New business key figures

	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017	Change
	in € million	in € million	in %
Gross new business	13,765.9	13,569.2	1.4
Net new business (paid-in new business)	11,412.3	11,520.8	-0.9
New construction financing business (including brokering for third parties)	5,517.3	4,839.3	14.0

New construction financing business, taking into account brokering for third parties, rose considerably to €5,517.3 million (previous year: €4,839.3 million). The Home Loan and Savings Bank has thus consistently continued the growth direction it has taken.

Earnings performance

Net income for the Home Loan and Savings Bank segment increased to €59.1 million (previous year: €58.5 million). The net financial income in the Home Loan and Savings Bank segment reached €382.1 million (previous year: €414.9 million). This was mainly due to the following aspects:

- Current net income rose by €44.7 million to €284.7 million (previous year: €240.0 million). Particularly the measures in the portfolio of home loan savings contracts continued to have a positive effect here. Refinancing costs were able to be lowered considerably.

- Net income from risk provision amounted to €8.8 million (previous year: €13.0 million). The result continues to be influenced by the good economic situation and a generally low-risk portfolio of construction loans.

- The net measurement loss was –€40.3 million (previous year: net gain of €9.1 million). This was mainly attributable to low interest rates in the discounting of the provisions for home loan savings business (bonus provisions).

- Net income from disposals decreased to €128.8 million (previous year: €152.8 million). In 2017 the segment was strategically realigned, with construction financing business being shifted to the home loan savings bank, and this resulted in higher disposal gains in the previous year.

General administrative expenses fell considerably to €337.9 million (previous year: €360.0 million). Personnel expenses were able to be reduced due to lower pension expenses. Materials costs fell, due in part to lower expenses for services received from other Group companies. In addition, premiums diminished, and marketing expenses were lower.

Net other operating income decreased to €24.5 million (previous year: €29.5 million). This was mainly due to lower income from the release of miscellaneous provisions.

Life and Health Insurance

Net segment income fell as of 31 December 2018 to €24.7 million (previous year: €31.8 million). New premiums in the Life and Health Insurance segment increased. The segment's total assets rose to €34.9 billion (previous year: €33.8 billion).

New business

Total premiums for new life insurance business increased to €3,395.3 million (previous year: €3,318.6 million).

In 2018 new premiums in the Life and Health Insurance segment increased to €572.1 million (previous year: €477.6 million). Single-premium income rose to €462.2 million (previous year: €366.8 million). Regular premiums amounted to €109.9 million (previous year: €110.8 million).

Gross premiums written increased to €2,224.5 million (previous year: €2,128.4 million), mainly as a result of higher single-premium income. Health insurance posted an 8.0% increase in gross premiums written.

New business key figures

	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017	Change
	in € million	in € million	in %
New premiums (segment)	**572.1**	**477.6**	**19.8**
Single premiums, life	462.2	366.8	26.0
Regular premiums, life	109.9	110.8	-0.8

Financial performance

Segment net income decreased to €24.7 million (previous year: €31.8 million). Net financial income and income from deferred taxes both fell and were not able to be offset by the rise in net underwriting income.

Net financial income in the Life and Health Insurance segment fell to €853.0 million (previous year: €1,425.8 million). The following income components were responsible for this:

- Current net income rose to €827.9 million (previous year: €808.0 million). This was mainly attributable to higher dividend income.

- The net measurement loss was −€455.4 million (previous year: net gain of €84.9 million). This decline was mainly attributable to lower net income from capital investments to cover unit-linked life insurance policies due to poorer year-on-year stock price trends in market segments in which the funds invest. In addition, as a result of the conversion to IFRS 9 in 2018, more securities were measured at fair value through profit or loss. This also had a negative impact on income.

- Net income from disposals decreased to €485.5 million (previous year: €532.7 million). Due to the lower requirements for the additional interest reserve as a result of the corridor method, fewer reserves had to be liquidated. In addition, pursuant to IAS 39, the figure for the previous year includes gains and losses from the disposal of assets measured at fair value through profit or loss, whereby their balance in the previous year was substantial. Pursuant to IFRS 9, these effects were shown for the current reporting year in net measurement gain/loss.

Net commission expense increased to −€140.2 million (previous year: −€131.6 million). Among other things, this was due to higher commission expenses as a result of increased new business.

Net premiums earned rose to €2,253.6 million (previous year: €2,149.9 million) as a consequence of the higher volume of single-premium insurance policies in new business.

Net insurance benefits fell to €2,649.1 million (previous year: €3,152.1 million). This decline was mainly the result of smaller additions to the provision for unit-linked life insurance policies owing to the weaker performance by the underlying capital investments. By contrast, the net financial income experienced the opposite effect. Benefits to our customers were secured further through the regular increase of the additional interest reserve (including interest rate reinforcement). Additions totalled €155.2 million (previous year: €446.2 million). The amount of the additional interest reserve is primarily determined by the reference interest rate. The method for calculating the reference interest rate was changed (corridor method), and in the 2018 financial year this led to smaller additions to the additional interest reserve, including interest rate reinforcement, in the mid-nine-figure range. The additional interest reserve as a whole thus now totals €2,201.1 million.

Karlsruher Lebensversicherung AG is to be merged into its parent, Württembergische Lebensversicherung AG, in 2019. As at the reporting date, Karlsruher Lebensversicherung AG had retained earnings of approximately €9 million, of which in the 2018 financial year approximately €7.4 million was required to be added to the provision for deferred premium refunds and approximately €0.4 million to deferred tax liabilities.

General administrative expenses in the Life and Health Insurance segmentremained on the previous year's level of €263.3 million (previous year: €260.9 million) despite a slight increase in gross premiums written. This was mainly attributable to higher materials costs. Personnel expenses also were about the same year on year.

Net other operating expense amounted to −€14.4 million (previous year: −€29.9 million). This improvement was primarily due to income in 2018 from the disposal of a building which is partly owner occupied.

Tax expenses amounted to −€14.8 million (previous year: tax income of €30.7 million), which was mainly attributable to higher pretax segment net income and the inability to offset withholding taxes for prior years due to fiscal court rulings. In addition, amendments made to the previous year's tax return had a negative impact on tax expenses.

Property/Casualty Insurance

Net segment income in the 2018 financial year rose to €131.4 million (previous year: €125.8 million). New business once again increased. The segment's total assets amounted to €4.7 billion (previous year: €4.5 billion).

New business/premium development

New business developed very positively, coming in at €249.0 million (previous year: €232.0 million). The areas of retail customers and motor posted an encouraging increase. New business in the area of corporate customers declined, solely as a result of major business that we concluded in the previous year. In addition, our digital brand "Adam Riese" brought in 30,000 new policies, representing an encouraging success in its first full financial year.

New business key figures

	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017	Change
	in € million	in € million	in %
Annual contributions to the portfolio (segment)	**249.0**	**232.0**	**7.3**
Motor	178.7	167.9	6.4
Corporate customers	35.0	36.9	-5.1
Retail customers	35.3	27.2	29.8

The portfolio in all business segments increased due to very strong net sales in the current financial year, which takes into account replacement business and cancellations in addition to new business. Despite the still challenging market environment, gross premiums written thus once again increased significantly by €96.8 million to €1,847.8 million (previous year: €1,751.0 million). As in previous years, this resulted in a profitably growing insurance portfolio.

Gross premiums written

	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017	Change
	in € million	in € million	in %
Segment total	**1,847.8**	**1,751.0**	**5.5**
Motor	807.4	765.5	5.5
Corporate customers	406.5	378.8	7.3
Private customers	633.9	606.7	4.5

Financial performance

Segment net income grew to €131.4 million (previous year: €125.8 million), meaning growth was again very encouraging. Net underwriting income came even higher than the very good previous year. Net financial income also increased.

Net financial income rose by €5.0 million to €60.9 million (previous year: €55.8 million). It consists of the following components:

- Current net income rose significantly by €30.8 million to €77.2 million (previous year: €46.4 million). Among other things, dividend income increased.
- The net measurement loss was −€38.8 million (previous year: −€14.5 million). As a result of the conversion to IFRS 9, a greater number of financial instruments were measured at fair value through profit or loss. Downturns on the equity markets, in particular, had a negative impact on results, since price declines suffered by equities that we hold were directly recognised as measurement losses. As a result of this conversion, greater volatility is expected in the future as well.
- Net income from disposals came in at €23.4 million, which was slightly above the previous year's figure (€22.1 million). Whereas significantly fewer bearer bonds were sold, income rose from the sale of registered bonds and promissory notes.

Net commission expense amounted to −€246.5 million (previous year: −€225.0 million). This was mainly due to commissions paid in connection with the larger insurance portfolio and greater new business.

Net premiums earned continued to perform very well. They rose significantly by €75.1 million to €1,490.1 million (previous year: €1,415.0). We posted growth in all business segments in Property/Casualty Insurance.

Net insurance benefits stood at €760.1 million (previous year: €743.1 million). On the one hand, losses from natural disasters were higher than in the previous year. On the other, this relatively moderate increase was also due to the considerably larger insurance portfolio. As a result, the loss ratio (gross) came in at 61.9% (previous year: 64.0%). Also, the combined ratio (gross) fell to 89.5% compared with the very good previous year (90.7%).

General administrative expenses rose to €361.1 million (previous year: €346.5 million) This was attributable, on the one hand, to expenses in connection with the new Württembergische brand launch. Moreover, the construction of the W&W campus in Kornwestheim has shortened the remaining useful life of the administrative building at the Feuersee site in Stuttgart, resulting in increased depreciation expenses. In addition, significant investments were made in the further expansion of our digital brand "Adam Riese".

Tax expenses amounted to €67.0 million (previous year: €44.7 million). This was due, in particular, to the increase in pretax segment net income. In contrast to the previous year, the reporting period was not characterised by any positive one-off tax effects.

All other segments

"All other segments" covers the divisions that cannot be allocated to any other segment. This includes W&W AG, W&W Asset Management GmbH, brandpool GmbH, the Czech subsidiaries and the Group's internal service providers. The total assets of the other segments amounted to €7.4 billion (previous year: €6.4 billion).

All other segments posted net income after taxes of €133.4 million (previous year: €4.8 million).

Net financial income increased considerably to €192.7 million (previous year: €78.2 million). The following income components contributed to the development:

- Current net income rose significantly by €116.0 million to €232.0 million (previous year: €116.0 million). This was mainly attributable to higher profit transfers and dividend distributions by Group subsidiaries to W&W AG. This is eliminated in the consolidation/reconciliation column in order to obtain values for the Group.
- The net measurement loss was –€33.3 million (previous year: –€55.1 million). The write-downs on equity instruments were significantly lower during the 2018 financial year.
- Net expense from disposals amounted to –€0.2 million (previous year: net income from disposals of €22.7 million). In the previous year, the sale of shares in V-Bank AG had a positive impact on results.

Net commission expense increased to –€56.9 million (previous year: –€49.2 million). This was mainly due to the rise in commission expenses of W&W AG for property and casualty insurance, which were incurred in connection with cross-segment reinsurance.

Earned premiums rose by €12.4 million to €269.6 million (previous year: €257.2 million). The volume ceded to W&W AG for reinsurance within the Group increased as a result of the positive business performance of Württembergische Versicherung AG. As this relates to quota share reinsurance, the insurance benefits increased as well, to €161.6 million (previous year: €157.5 million).

General administrative expenses increased to €112.8 million (previous year: €95.6 million), due inter alia to higher expenses relating to the demolition of existing buildings at the new W&W campus. By contrast, personnel expenses declined.

The reduction in the segment's tax expenses to €27.4 million (previous year: €58.2 million) is due to the fact that tax-free dividend distributions by subsidiaries were higher than in the previous year.

Net assets

Asset structure

In the financial year just ended, the total assets of the W&W Group remained stable at €72.0 billion (previous year: €72.0 billion).

The structure of the assets side of the balance sheet, as well as the measurement of financial instruments, has fundamentally changed with IFRS 9. Now, the recognition of a debt-financing instrument mainly depends on its business model ("hold to collect", "hold to collect and sell", "other/trade"), as well as on the structure of the underlying cash flows. Because IFRS 9 was applied with prospective effect, a comparison with the previous year, which was prepared in accordance with IAS 39, is possible to only a limited extent. A portion of the assets side are financial instruments measured at amortised cost, which amounted to €28.1 billion. They consist mainly of construction loans.

In addition, financial instruments measured at fair value amounted to €38.8 billion. Because of IFRS 9, the share of financial instruments measured at fair value has increased considerably compared with the previous year. For more detailed information, please see the the Notes to this report.

Capital investments totalled €45.9 billion (previous year: €45.8 billion) as at 31 December 2018. Our capital investments are defined in the glossary.

Valuation reserves

Valuation reserves are formed if the current fair value of an asset is higher than the value at which it is carried in the balance sheet (carrying amount). In connection with the conversion to IFRS 9 at the start of the year, the vast majority of debenture bonds and registered bonds are required to be measured at fair value through other comprehensive income, as a result of which the valuation reserves in OCI were recognised. By contrast, a small number of bearer bonds are for the first time required to be measured at amortised cost, as a result of which new valuation reserves were created. A total of €1,881.8 million in measurement reserves were recognised in OCI. In total the effect of this resulted in the recognition of €2,023 million before deferred provision for premium refunds and before deferred taxes.

The W&W Group maintains valuation reserves primarily for building loans in the amount of €393.0 million (previous year: €357.5 million), for first-rate fixed-income securities in the amount of €118.4 million (previous year: €0), for senior debenture bonds and registered bonds in the amount of €153.9 million (previous year: €2,328.2 million), and for investment properties in the amount of €485.4 million (previous year: €461.9 million).

Financial position

Capital structure

The business model of the W&W Group as a financial services group means that the liabilities side is dominated by technical provisions and liabilities to customers.

Technical provisions – including those for unit-linked life insurance policies in the amount of €1.7 billion (previous year: €1.9 billion) – totalled €34.7 billion (previous year: €33.8 billion). This includes €29.0 billion (previous year: €28.9 billion) for the provision for future policy benefits, €2.9 billion (previous year: €2.1 billion) for the provision for premium refunds, and €2.5 billion (previous year: €2.5 billion) for the provision for outstanding insurance claims.

The liabilities are primarily liabilities to customers amounting to €23.6 billion (previous year: €23.8 billion). They largely consist of deposits from home loan savings business amounting to €19.2 billion (previous year: €19.0 billion) and savings deposits of €4.4 billion (previous year: €4.8 billion).

As at 31 December 2018, the W&W Group's equity rose by €271.5 million to €4,236.3 million, compared with €3,964.9 million as at 31 December 2017. On the one hand, the conversion to IFRS 9 on 1 January 2018 resulted in an initial-application effect that increased equity by €376.9 million. This is the result of the recognition of previously hidden reserves associated with financial instruments, which were previously measured at amortised cost, that are now required to be measured at fair value.

On the other hand, equity includes consolidated net profit, as well as net expenses totalling –€47.2 million. The dividend distribution reduced equity by €60.9 million. In addition, other effects increased equity by €2.6 million.

Liquidity

The W&W Group had sufficient liquidity at all times in the year under review. We obtain liquidity from our insurance, banking and home loan savings business and from financing activities. The risk report contains more information on liquidity management.

The cash flow statement shows cash outflows amounting to –€723.6 million (previous year: cash inflows of €296.9 million) from operating activities and cash inflows amounting to €860.8 million (previous year: €74.4 million) for investing activities, including capital investments. Financing activities resulted in cash outflows of –€100.1 million (previous year: –€26.9 million). This results in a net change in cash of +€37.1 million in the year under review. Further information is provided in the cash flow statement in the notes.

Capital expenditures

We made capital expenditures for non-current assets primarily in the Life and Health Insurance segment. They related mainly to investment property. The property subsidiaries Wüstenrot Haus- und Städtebau GmbH and Wüstenrot Immobilien GmbH are also investing heavily in this area. In the "Other" segment, most of the capital expenditures related to hardware and software purchased by our IT subsidiary. In addition, we are making capital expenditures to advance the construction of the new office buildings in Kornwestheim (W&W-Campus).

Another focus for capital expenditures was the digital transformation of our Group. Since early summer 2018, the W&W Group's new digital business models have been combined in the brandpool division. This division will drive the development of new products and services in order to tap into new target groups for W&W and facilitate profitable growth with digital business models. It is already home to "Adam Riese", our digital brand for the German insurance market, "Finanzguide", an app that enables customers to view their personal portfolio of insurance, home loan savings, and banking products on a smartphone, and "NIST", the digital financing assistant for property purchases, as well minority participations in other companies. Going forward, the brand "Wüstenrot" will stand for "Wohnen", meaning "all things residential". To that end, Wüstenrot Bausparkasse AG has developed a new, web-based residential platform.

Customer development in the Group

We had 6.07 million customers, which was nearly at the previous year's level of 6.12 million and thus higher than our plan value. As planned, the Home Loan and Savings Bank division recorded a decline in the number of customers, which was related to the elimination of savings deposit accounts and home loan savings products that had enjoyed high interest rates. By contrast, the Insurance division saw an increase in customers, particularly in health insurance and property/casualty insurance. In addition, our digital subsidiaries "Treefin" and "Adam Riese" have thus far succeeded in acquiring 70,000 users and customers for the W&W Group.

Overall view

The W&W Group's net assets, financial position and financial performance are stable and orderly. Given an environment marked by persistently low interest rates and increasing regulatory requirements, we are very pleased with the net income we have achieved.

Comparison of business performance with forecast

The following comparison of business performance in the year under review with the estimates made in last year's annual report shows that despite persistently low interest rates, the W&W Group achieved positive performance, due also to continued cost management.

Home Loan and Savings Bank

In the Home Loan and Savings Bank segment, general administrative expenses were below the previous year's level in the 2018 financial year due to continued cost management, in accordance with the forecast.

Segment net income after taxes stood at €59.1 million, which was at the level of the previous year. A clear increase had been forecast. The divergence is attributable, in particular, to negative trends at Wüstenrot Bank AG Pfandbriefbank.

Life and Health Insurance

General administrative expenses in the Life and Health Insurance segment were better than forecast, coming in at the 2017 level. A slight rise had been forecast.

With segment net income after taxes of €25 million, we were within our range of expectations.

Property/Casualty Insurance

In the Property/Casualty Insurance segment, general administrative expenses increased slightly year on year, which was contrary to the forecast.

At €131.0 million, segment net income after taxes was once again above average, principally due to lower insurance benefits and the improvement in new business. The lower insurance benefits were also attributable to the risk-conscious underwriting policy pursued in recent years. Contrary to the forecast, segment net income thus came in slightly ahead of the previous year.

Group

As a result of the intensified commitment to new business in the individual segments, as well as the establishment of digital business models, we met the forecast for customer numbers.

General administrative expenses in 2018 were at the same level as in the previous year.

Despite persistently low interest rates, we achieved consolidated net profit of €215 million in 2018. As a result, we were able to exceed the forecast in the previous annual report, namely consolidated net profit below the high level of 2017 but more than €200 million. In particular, growth in new business in the area of property/casualty insurance, as well as favourable claims development, had a positive impact.

Development of business and position of W&W AG

Unlike the consolidated financial statements, the annual financial statements of Wüstenrot & Württembergische AG are not prepared in accordance with International Financial Reporting Standards (IFRS), but instead in accordance with the provisions of the German Commercial Code (HGB) and the additional provisions of the German Stock Corporation Act (AktG).

The annual financial statements (HGB) of W&W AG and the combined Management Report are published simultaneously in the electronic German Federal Gazette (Bundesanzeiger).

Development of business

W&W AG closed the financial year successfully with net income pursuant to the German Commercial Code (HGB) of €80.0 million (previous year: €80.0 million). Net income was marked by profit transfers.

Earnings performance

Net income

W&W AG's net income (HGB) for the 2018 financial year stood at €80.0 million (previous year: €80.0 million). As in the previous year, the Executive Board and Supervisory Board have decided to allocate €15.0 million (previous year: €15.0 million) to retained earnings for the purpose of strengthening equity. After carrying forward €0.3 million in retained earnings from 2017, the unappropriated surplus amounted to €65.3 million (previous year: €65.2 million). Based on this result, we will propose to the Annual General Meeting on 5 June 2019 that a dividend of €0.65 (previous year: €0.65) per share be paid for the 2018 financial year and that €4.0 million be allocated to retained earnings.

Net investment income

In 2018 W&W AG's net investment income increased to €206.3 million (previous year: €205.5 million). An adjustment made to the valuation of participations resulted in a write-up of €13.6 million for one affiliated company (Württembergische Lebensversicherung AG) and a write-down of €17.2 million for another affiliated company (Wüstenrot Bank AG Pfandbriefbank). The profit transfers from our subsidiaries increased as planned.

Reinsurance/underwriting income

The insurance business of W&W AG is significantly affected by the business ceded by Group subsidiary Württembergische Versicherung AG.

Prior to additions to the claims equalisation provision, net underwriting income amounted to €10.0 million, an increase of €2.6 million over the previous year's value.

Gross premiums written increased by 6.1% to €361.1 million (previous year: €340.4 million) in the year under review, due to an increase in the premium income of Württembergische Versicherung AG, and thus in the volume of reinsurance business ceded. Net premiums earned increased by 4.8% to €269.6 million (previous year: €257.2 million).

Net expenses for insurance benefits stood at €161.7 million (previous year: €158.1 million). The net loss ratio dropped to 60.0% (previous year: 61.5%). Expenses for insurance business for own account increased once again, from €92.6 million in the previous year to €98.0 million, mainly due to reinsurance commissions under a proportional reinsurance contract within the Group. Per the requirements, €13.6 million had to be added to the claims equalisation provision (previous year: €11.2 million). The claims equalisation provision now stands at a comfortable €94.6 million (previous year: €81.0 million). This corresponds to 35.1% (previous year: 31.5%) of net premiums earned. After additions to the claims equalisation provision, the underwriting loss stood at –€3.6 million (previous year: –€3.8 million).

Lines

Gross premiums increased from €134.3 million to €147.2 million in the fire and other property insurance lines. After additions of €4.2 million (previous year: €6.0 million) to the claims equalisation provision, an underwriting loss of –€1.9 million (previous year: –€2.4 million) was recorded.

Gross premiums from the motor lines increased to €125.1 million (previous year: €120.6 million). After additions to the claims equalisation provision of €5.2 million (previous year: €4.4 million), a loss of –€12.6 million (previous year: –€12.6 million) was recorded.

Gross premiums from the liability line increased to €33.4 million (previous year: €31.8 million). After additions of €2.2 million (previous year: €1.4 million) to the claims equalisation provision, a gain of €7.8 million (previous year: €8.6 million) was recorded.

Gross premiums from the accident line grew slightly to €21.0 million (previous year: €20.6 million). After additions of the claims equalisation provision, a gain of €2.3 million (previous year: €1.7 million) was recorded.

Transport and aviation hull insurance premiums rose slightly to €3.6 million (previous year: €3.2 million). After additions to the claims equalisation provision, net underwriting income of €0.3 million was slightly better than in the previous year (€0.2 million).

Gross premiums from other insurance lines (mainly legal expenses insurance) increased to €25.1 million (previous year: €24.0 million). After additions to the claims equalisation provision, a net underwriting expense of –€1.4 million (previous year: –€1.2 million) was posted.

Gross premiums from life insurance fell slightly to €5.7 million (previous year: €6.0 million). The income was again positive and amounted to €1.8 million (previous year: €2.0 million).

Taxes

As at 31 December 2018, income taxes fell by €3.1 million to €39.9 million (previous year: €43.0 million), corresponding to a normal tax burden.

Net assets

Asset structure

W&W AG's total assets increased by €92.7 million in the 2018 financial year to €3,697.3 million (previous year: €3,604.6 million). Investments make up most of the assets. Receivables are another large item.

The liabilities side consists mainly of equity, other provisions and technical provisions.

Equity

As the holding company, W&W AG manages the equity of the W&W Group. The equity of the subsidiaries generally meets or exceeds regulatory requirements.

As at 31 December 2018, W&W AG's equity amounted to €1,956.2 million (previous year: €1,936.1 million). Net income for the financial year of €80.0 million increased equity. Of that amount, €15.0 million was allocated to retained earnings. By contrast, the dividend of €64.9 million that was distributed for the 2017 financial year decreased equity. In accordance with the resolution adopted by the Annual General Meeting, €4.0 million of net income was allocated to retained earnings. The sale of treasury shares in connection with the employee share ownership programme in 2018 increased equity by €0.9 million. In total, equity increased by €20.1 million year on year.

Investments

W&W AG pursues a conservative investment policy focused on high-quality borrowers. There were no bad-debt losses in the financial year.

The carrying amount of capital investments fell by €41.4 million to €3,259.8 million (previous year: €3,301.2 million). 41,4 This figure mainly includes interests in affiliated companies and participations in the amount of €1,533.9 million (previous year: €1,757.8 million) and fixed-income securities in the amount of €435.8 million (previous year: €419.2 million).

Valuation reserves

Valuation reserves are formed if the fair value of an asset is higher than the value at which it is carried in the balance sheet (carrying amount). W&W AG's valuation reserves for capital investments stood at €1,349.2 million (previous year: €1,366.0 million). This includes €1,244.6 million (previous year: €1,224.9 million) for interests in affiliated companies, €40.3 million (previous year: €49.6 million) for funds and €19.8 million (previous year: €26.7 million) for registered bonds and promissory notes. As in previous years, W&W AG has elected not to exercise the option provided by Section 341b (2) of the German Commercial Code (HGB) to use the rules applicable to fixed assets when valuing securities classified as current assets.

Pension provisions

Pension provisions in the amount of €954.1 million (previous year €882.4 million), together with technical provisions in the amount of €499.4 million (previous year €502.3 million), constituted a large share of W&W AG's liabilities. In addition to W&W AG's own pension provisions, this item includes the pension provisions for nine subsidiaries. W&W AG assumed joint liability for the pension commitments of these subsidiaries in exchange for a one-time compensation payment, and it made an internal agreement with these subsidiaries to meet these pension obligations.

Financial position

W&W AG always had sufficient liquidity in the year under review. We generate liquidity from our reinsurance business and financing activities. For more information on liquidity management, please see the risk report.

Overall view

W&W AG's net assets, financial position and financial performance are stable and orderly. Given an environment marked by persistently low interest rates and increasing regulatory requirements, we are very pleased with the net income we have achieved.

Comparison of business performance with forecast (HGB)

Despite the persistently low interest rate, the business performance of W&W AG remains positive.

Due to its structure as a holding company, W&W AG's net income after taxes is determined primarily by dividends and profit transfers from subsidiaries, as well as by write-ups and write-downs of participations. At €80.0 million, we met our forecast of generating net income of between €70 million and €90 million.

Opportunity and risk report

Opportunity report

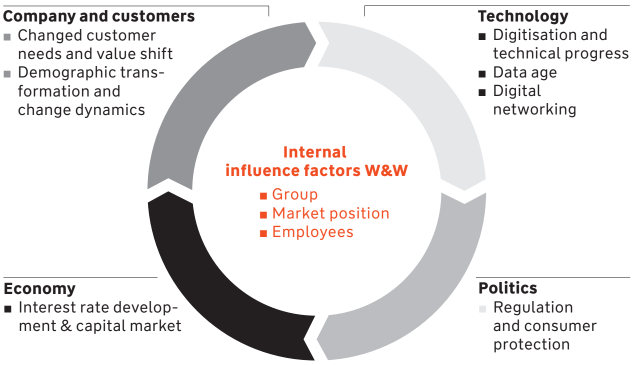
Recognising and exploiting opportunities is a fundamental requirement for the successful development of our group. Consequently, we pursue the goal across the Group of systematically identifying, analysing and evaluating opportunities and initiating suitable measures to utilise them.

The starting point is our firmly established strategy, planning and control processes. For this purpose, we evaluate market and environment scenarios and examine the internal orientation of our product portfolio, cost drivers and other critical success factors. The market opportunities derived from this are discussed with the management within the framework of closed-door strategy meetings and incorporated into strategic planning.

We have sound governance and control structures to evaluate and pursue opportunities on the basis of their potential, the required investment and the risk profile (see risk report chapter in this Management Report).

Below we concentrate on the main opportunities and distinguish between opportunities arising from developments outside the company's control and opportunities resulting from our specific strengths as the W&W Group.

External and internal influence factors for W&W



Unless indicated otherwise, the opportunities described concern all company segments to different extents. Where opportunities are likely to occur, we have included them in our business plans, our forecast and the mediumterm prospects. They are shown in the course of this Management Report.

External influencing factors

Company and customers

Opportunities through changed customer needs and changed values

As the W&W Group, we want to make financial planning from one source an everyday reality for people. To ascertain all the customers' needs and gain constant customer feedback, we engage in intensive market research. The Net Promoter Score (NPS) is used to gauge the willingness of customers to recommend us and their satisfaction with the products and service in connection with our strong brands Wüstenrot and Württembergische. Our sales organisations and partners also provide valuable impetus for changes in customer needs and trends. Our customers increasingly expect simple, transparent, individualised and flexible products, as well as networking across all interaction channels.

The growing need for financial security offers tremendous business opportunities. We adapt strategically to the changed financial planning market with its sustainable, integrated advisory approach and our target group concepts and solutions.

Especially in times of uncertainty, there is great demand for a stable financial provider with a high degree of credibility. Considering our 190 years of financial planning experience in the field of financial services, we are in a good position in this respect. We combine this outstanding foundation with our personal advisory approach and the new digital possibilities.

Digital advances have materially changed the expectations of many existing and potential customers. The communication between customers, sales and companies is increasingly taking place on the basis of digital technology. The use of digital media offers opportunities for us to make customised offers and approaches. In the age of the Internet and social media and the intensified use of smartphones, speed is crucial for customer satisfaction and is thus increasingly becoming a critical success factor. Customers want to be able to contact us regardless of office hours or distance via their preferred medium and manage their affairs independently via self-service. People are becoming more mobile. They are increasingly pursuing more modern lifestyles, and this is associated with more frequent changes, the desire for greater personal fulfilment and living a public life on social media. This presents opportunities for us to make customised offers and approaches.

Opportunities through demographic change and the dynamics of change
Demographic change and a changed society offer new growth opportunities.

People are living longer and are remaining active until a higher age. In the long run, the government pension alone will not be sufficient to finance this self-determined, independent lifestyle. Independence, mobility and an active life until old age can only be realised on the basis of private provision. Society is demanding more flexibility in regard to products, consulting and communication due to a change in lifestyle habits.

For the W&W Group with its expertise in the field of retirement benefits, this setting offers substantial market potential for our services and our advisory approach and target group concepts. By continuously developing new products with alternative guarantees or additional flexibility and using all manner of communication media, we are quick to adapt to these changes.

Economy

The economic prospects in our core market of Germany remain positive. The forecasts for Germany assume continued, though slight, economic growth, a low unemployment rate, rising income, and stable saving rates. In light of economic trends, we anticipate corresponding momentum in customer business.

Opportunities through interest rate trends and capital markets
The low interest rate policy in Europe continues to pose challenges for financial services providers, but also offers opportunities.

On the one hand, the importance of effective capital investment is rising. As a traditionally large investor, we have long-standing capital market expertise and a comprehensive risk management system. Our capital investment is based on a strategic asset allocation that we align with opportunities and risks in the course of a consistent value- and risk-oriented investment strategy, while maintaining the flexibility needed for making use of opportunities at short notice. We can also acquire new customers through products which are adapted to take account of the low interest rates.

In addition, the increasing demand for new buildings, energy-related refurbishment and renovation, low interest rates and rising property prices offer the opportunity for sustained growth in construction financing volume.

Politics

Opportunities through increasing regulation and consumer protection
Satisfying the growing regulatory requirements, such as for a consultation meeting, can be used to intensify the customer meeting and the customer relationship. Data protection regulations will strengthen trust in the industry as a whole and therefore in us as a provider.

In light of new regulatory requirements, it is possible to gain competitive advantages through the intentional use of standard software solutions.

Government initiatives designed to promote residential property ownership and residential housing stock are resulting in increased demand for property financing, residential construction and broker services.

Technology

Opportunities through digitalisation and technical progress
Digital progress will enable us to develop completely new, faster and more intensive customer interactions, meaning that we can approach customers' needs more directly, and digital consulting can be expanded. Moreover, faster service and new kinds of products can be created.

Technical advances will, for example, enable increasing automation of processes. The resultant productivity advances and therefore cost-cutting potential can be used to increase returns, but also to free up capital for investments in topics of relevance for the future.

Opportunities in the data age
The targeted use of customer data (in compliance with digital ethics) means that we can create personalised offers. With additional information, we can better assess risks and avoid claims. In addition, new, attractive business models arise through the use of data.

Opportunities through digital networking
By creating collaboration networks, e.g. in all matters involving the home, we can better serve customer needs. Digital networking can dramatically reduce response times, which in the event of a claim, for instance, makes it possible to limit consequential damages or even to avoid them entirely.

Internal influencing factors

Opportunities through the Group

The solid base of our business model, with the pillars Wüstenrot & Württembergische, offers us the best chance to operate successfully on the market on a long-term basis on account of its diversification.

The new brandpool division augments this basis. It focuses both on digital financial services and on additional digital business models in attractive, growing sectors for the purpose of broadly diversifying the product portfolio. In particular, by tapping into new target groups, brandpool is contributing to the Group's customer growth.

In light of demographic trends, our all-round service as a financial planning specialist promises brisk customer demand in the future.

Through the combination of the two tradition-rich brands Wüstenrot and Württembergische, we have substantial customer potential within our Group. This gives us income opportunities through further expansion of cross-selling.

With its broad range of products across a variety of business segments, our business model has a natural diversification: For instance, our Property and Casualty Insurance is far less dependent on trends in interest rates than the Home Loan and Savings Bank, and it also requires less capital. All stakeholder groups benefit from the diversification effect. As far as pricing is concerned, we can offer customers lower risk premiums for the same level of security. For our shareholders, diversification reduces the part of the equity that is tied up through the assumption of risk and stabilises the income and risk profile.

A more resilient income and risk situation also makes the companies of the W&W Group more attractive for external creditors, strengthens the competitive position and, last but not least, protects the jobs of employees.

Further information is available in the risk report of this Management Report.

Opportunities through market position

Through our efficient sales channels with their different strengths and thanks to our good brand awareness, we are able to address a large, broad potential customer pool of about 40 million people in Germany. The core market of our Group is Germany.

Multi-channel sales give the Group stability and good market positioning. The great trust that the W&W Group enjoys among its customers is based on service quality, the competence and customer proximity of our inhouse and mobile sales force employees, cooperative and partner sales as well as broker and direct activities.

By approaching customers via multiple sales channels, we are able to systematically place our financial planning products. Our strategic aim is to meet the needs of our customers. When designing our products, we always focus on what they want. Accordingly our products regularly receive the highest rating.

We also have significant opportunities through optimisation of our sales channels. These consist, in particular, of the determined digitalisation of customer contact points and relieving employees of routine administrative tasks.

Opportunities through our employees

As a sound and attractive employer, we can retain highly qualified employees and executives over the long term. By acquiring new employees, we are constantly expanding our know-how.

The W&W Group is the largest independent employer among the financial service providers in Baden-Württemberg, guaranteeing security even in times of economic turbulence thanks to its high stability.

As a financial conglomerate, it offers varied and challenging working conditions. We secure and retain the best brains and most talented people through flexible working time models, the compatibility of work and private life, diverse development opportunities and adaptable career paths.

Further information on how we support and promote our employees is available in the employees chapter.

Risk report

Risk management system in the W&W Group

- The W&W Group is soundly capitalised in accordance with both economic risk-bearing capacity calculations and regulatory standards.
- The liquidity needs of the W&W Group are secured.
- Risk management is firmly rooted in the corporate governance of the W&W Group.
- Risk management contributes to value creation and the protection of financial strength.
- Risk and earnings diversification are strategic success factors for the W&W Group.

Pursuant to the provisions of the German Banking Act (KWG), the German Act on the Supervision of Insurance Undertakings (VAG) and the German Act on the Supervision of Financial Conglomerates (FKAG), as well as the EU Financial Conglomerates Directive (FICOD), the W&W Group constitutes a financial conglomerate. Based on the requirements in the KWG, it also constitutes a financial holding group. Additionally, the Solvency II group (insurance group) and the insurance companies are subject to the regulations in Solvency II. All the specified legal provisions result in special requirements for risk management and controlling. Wüstenrot & Württembergische AG (W&W AG) is the superordinate enterprise of the financial conglomerate, the Solvency II group and the financial holding group. In this capacity, W&W AG is responsible for defining and further developing uniform risk management standards throughout the Group and checking compliance with these standards.

The principles of the risk management approach and the elements of its design, as well as the general handling of material risks within the W&W Group, are described below. Further analyses and descriptions of the risk situation that arise from international accounting standards are provided in “Disclosures concerning risks under financial instruments and insurance contracts” in the notes to the consolidated financial statements.

Risk drivers may develop more positively than expected. Thus, losses/risks may be lower than calculated or predicted. Such positive developments represent opportunities for the W&W Group. Further opportunities are explained in the opportunity report.

The systematic and controlled assumption of risk for the purpose of achieving the established return targets is an integral part of corporate governance.

The W&W Group makes use of a comprehensive risk management and controlling system that consistently combines the systems and methods of the individual companies, which are geared to the particular business requirements.

The risk management and controlling system comprises the totality of all organisational regulations and measures that have been established to identify risks at an early stage and to handle the risks associated with entrepreneurial activity.

Risk controlling is a part of risk management and includes the assessment, evaluation, monitoring and reporting of the risks encountered by the entities assuming them. It also monitors risk governance measures.

The principles of the risk management system as well as the organisation of our risk management as described in the 2017 Annual Report were also applicable in 2018, and with the exception of the changes and enhancements described below, they continue to be applied.

For information on the enhancements planned for 2019, please see the chapter “Enhancements and planned measures”.

Core functions and objectives

Risk management at the W&W Group performs the following key functions:

- **Legal:** Compliance with the relevant risk-related internal and external requirements for risk management and creation of the legal preconditions for continuation of business operations.

- **Protection of the going concern:** Avoidance of risks that endanger the company as a going concern, preservation of financial security and development of strategies to protect the company as a going concern and the capital basis necessary for this.

- **Quality assurance:** Establishment of a common understanding of risks, a pronounced awareness of risks and transparent communication of risks in the W&W Group, as well as active notification of flaws and any potential for improvement in risk management.

- **Value creation:** Governance measures for risk hedging and preservation of value, promotion and assurance of sustainable value creation for shareholders through risk capital allocation that enables opportunities to be seized.

Based on the key functions of risk management, the following **overarching objectives** are pursued:

- Creation of **transparency** with respect to risks,
- Use of appropriate tools for **managing risks,**
- Assurance and monitoring of **capital adequacy,**
- Creation of a basis for **risk- and value-oriented** corporate governance,
- Promotion and establishment of a Group-wide **risk culture.**

Another task of risk management is to protect the reputation of the W&W Group with its two venerable brands, “Wüstenrot” and “Württembergische”, and the new digital brand “Adam Riese”. The reputation of the W&W Group as a stable, reliable and trustworthy partner of our customers constitutes a key factor for our sustainable success.

Risk management framework

The integrated risk strategy establishes the strategic framework of the risk management system of the W&W Group, the insurance group, the financial holding group and Wüstenrot & Württembergische AG. The risk management system is an integral component of a proper and effective business organisation.

Risk management framework

Overview

Integrated risk strategy at W&W	**Strategic level**
Group risk policy	**Organisational level**
Technical specifications Work instructions	**Process level**

The risk strategy defines the risk appetite derived from the business strategy and the risk profile, the overall risk objectives and the application of consistent standards, methods, procedures and tools. The risk strategy is based on the business strategy and on the principles of risk policy for long-term protection of the company as a going concern. It takes into account the nature, scope, complexity and risk content of the business operated by the individual companies that belong to the W&W Group.

The purpose of defining requirements that are applicable throughout the Group is, in particular, to ensure continuous risk governance and ongoing safeguarding of risk-bearing capacity.

The definition and implementation of the risk strategy contributes to securing the long-term entrepreneurial capacity to act and to promoting the Group-wide risk culture. The aim is to maintain an appropriate balance between taking advantage of business opportunities and incurring risks, while ensuring the effectiveness of the Group-wide risk management system.

The risk strategy of the W&W Group is adopted by the Executive Board of W&W AG and is discussed by the Supervisory Board at least once a year.

Our **Group Risk Policy** defines the organisational framework for risk management and is a prerequisite for an effective risk management system in the W&W Group. This framework ensures that the standard of quality is comparable across all business areas and that risk management is highly consistent on all W&W Group levels. As a key component of the common risk culture, the Group Risk Policy and the processes and systems defined in it promote the requisite risk awareness. The central elements of the Group-wide risk culture are:

- Leadership culture with a role model function (“tone from the top”)
- Open communication and critical dialogue
- Responsibility of employees
- Appropriate incentive structures

Through their management style and the way they handle risks, the Executive Board of W&W AG, the executive boards and management of the individual W&W companies and the managers in the W&W Group shape the W&W Group’s risk culture to a decisive extent.

The individual companies of the financial conglomerate are integrated into the scope of risk consolidation and the Group-wide risk management system according to the statutory and regulatory provisions. The scope and intensity of risk management activities varies depending on the risk content of the business operated and on its nature, scope and complexity. The implementation of a risk classification procedure (risk classes 1-5) enables a risk-oriented structure of the risk management system in accordance with the principle of proportionality.

The following companies form the core of the scope of risk consolidation and are directly included in the risk management system at Group level:

Risk class 1:
- Wüstenrot & Württembergische AG
- Wüstenrot Bausparkasse AG
- Württembergische Lebensversicherung AG
- Württembergische Versicherung AG

Risk class 2:
- Wüstenrot Bank AG Pfandbriefbank
- Württembergische Krankenversicherung AG
- Karlsruher Lebensversicherung AG
- Allgemeine Rentenanstalt Pensionskasse AG
- W&W Asset Management GmbH
- W&W Informatik GmbH
- W&W Service GmbH
- Wüstenrot Haus- und Städtebau GmbH
- Wüstenrot stavební spořitelna a.s.
- Wüstenrot hypoteční banka a.s.

In the first quarter of 2018, additions were made to the equity of Wüstenrot Haus- und Städtebau GmbH (WHS), which enabled WHS to expand its business activities but also increased the potential risk content. As a result, WHS was assigned to risk class 2 and accordingly was integrated into the Group-wide risk management system.

In the 2018 financial year, it was determined that the requirements applicable to companies in risk class 2 also remain applicable to Wüstenrot Bank AG Pfandbriefbank, even though the risk content continued to steadily decline as a result of the sale of Wüstenrot Bank AG Pfandbriefbank to Oldenburgische Landesbank AG (legal successor to Bremer Kreditbank AG). Change of control is expected to take place after the supervisory approval. For further information on Wüstenrot Bank AG Pfandbriefbank, please see Note 2 in the notes to the consolidated financial statements.

At the end of 2018, Wüstenrot Bausparkasse AG signed a purchase contract to acquire Aachener Bausparkasse AG. Change of control is expected in the course of 2019, since the contract is awaiting approval by the supervisory authorities. Following change of control to Wüstenrot Bausparkasse AG, Aachener Bausparkasse AG will be recognised in the risk management system as a participation.

Furthermore it was decided to merge Karlsruher Lebensversicherung AG into Württembergische Lebensversicherung AG in 2019.

The consideration of other companies in the risk management system of the W&W Group is ensured directly by the risk controlling of the respective parent company.

Risk governance/risk bodies

Our risk governance is capable of managing our risks throughout the Group and at the individual company level. At the same time, it ensures that our overall risk profile corresponds to the objectives of the risk strategy.

For further information on our Corporate Governance, please see the section “Corporate governance statement”.

The duties and responsibilities of all persons and committees involved in risk management issues are clearly defined. The structural and procedural organisation clearly defines the individual areas of responsibility for all the following bodies, committees and functions, as well as their interfaces and reporting lines, so as to ensure the regular, timely flow of information across all levels of the W&W Group.

The **Executive Board of W&W AG** bears overall responsibility for the proper business organisation of the W&W Group. It is the ultimate decision-making body on risk issues. This includes ensuring that the risk management system established Group-wide is effectively and appropriately implemented, maintained and enhanced. This also includes developing, promoting and integrating an appropriate risk culture. On the Executive Board of W&W AG, the Chief Risk Officer (CRO) is responsible for risk management.

In its role as the control body overseeing the Executive Board, the **Supervisory Board of W&W AG** also monitors the appropriateness and effectiveness of the risk management system. In addition, it is regularly informed about the current risk situation. Certain types of transactions require approval by the Supervisory Board or its Risk and Audit Committee.

The **Risk and Audit Committee** of W&W AG and the corresponding committees of Wüstenrot Bausparkasse AG, Württembergische Versicherung AG and Württembergische Lebensversicherung AG regularly verify the adequacy of the risk management organisation in the respective areas of responsibility. With regard to Wüstenrot Bank AG Pfandbriefbank, this responsibility was handled by the Supervisory Board for the whole of 2018.

As the central body for the coordination of risk management, the **Group Board Risk** supports the Executive Board of W&W AG and the Management Board in risk issues. The permanent members of the Group Board Risk are the Chief Risk Officer (CRO) of W&W AG and the CROs of the Home Loan and Savings Bank and Insurance divisions. Risks of our third division are also included intro the Group wide risk management. Other select members of this body are the (independent) risk controlling function of W&W AG, which also handles the responsibilities on behalf of the Solvency II group, the financial holding group and the two (independent) risk controlling functions of the Home Loan and Savings Bank and Insurance divisions.

The body meets once a month and, where necessary, on an ad hoc basis. The Group Board Risk monitors the risk profile of the W&W Group, its appropriate capitalisation and its liquidity. Moreover, it advises on Group-wide risk organisation standards and on the deployment of uniform risk management methods and tools, and it proposes these to the Group's executive boards for approval.

The **Insurance Risk Board** manages and monitors risks in the Insurance division. The **Home Loan and Savings Bank Risk Board** handles this duty in the Home Loan and Savings Bank division. The participation of the responsible executive board members and departments concerned guarantees the integration of circumstances pertaining to individual companies as well as the speedy exchange of information and quick action. We integrate risk-related aspects of our Czech subsidiaries via an independent reporting line of the **Czech Republic Risk Board** to the Group Board Risk.

The chart shows how the responsible bodies collaborate in risk-related decisions.

Group-wide committees have been set up to handle certain (risk) topics in detail:

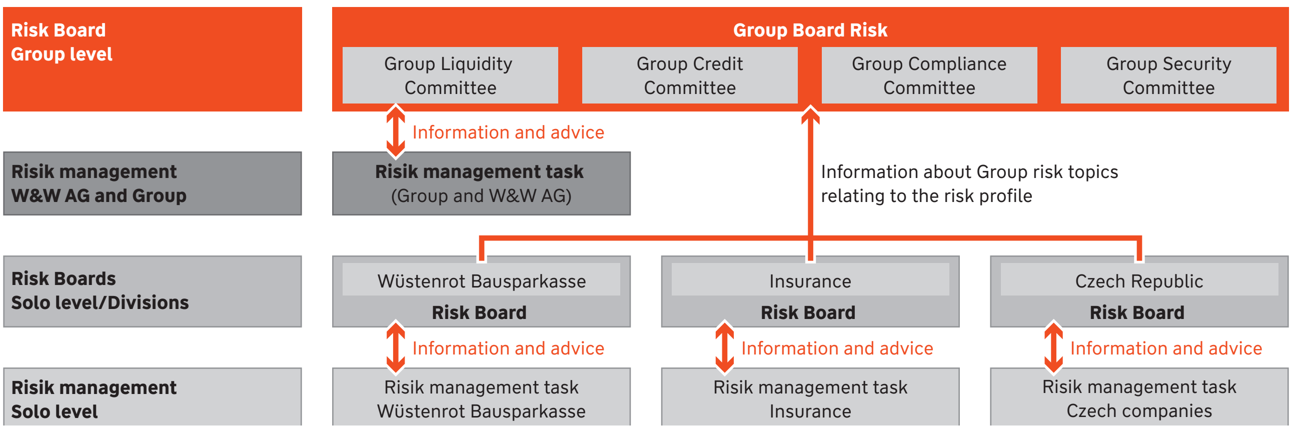
- A **Group Liquidity Committee** has been established for Group-wide liquidity governance. It is responsible for managing and monitoring liquidity Group-wide.
- Another central body, the **Group Compliance Committee,** serves as the link between the Legal, Compliance, Customer Data Protection and Operational Security, Audit and Risk Management departments. The compliance function regularly reports directly to the Executive Board of W&W AG and to the Group Board Risk about compliance-related matters and risks.
- The **Group Credit Committee** works Group-wide for the purpose of efficiently processing proposals for loan decisions in the institutional area.
- Group-wide information risk management is the responsibility of the **Group Security Committee.**

Key control functions have been implemented in our business organisation, structured in the form of **three lines of defence.**

- The business units that are responsible for the operative decentralised risk governance constitute the **first line of defence.** Within the scope of their competencies, these units deliberately decide to assume or avoid risks. In this context, they observe centrally determined standards, risk limits and risk lines as well as the adopted risk strategies. Compliance with these competencies and standards is monitored by means of internal controls.
- The **second line of defence** comprises the (independent) risk controlling function/risk management function, the compliance function and the actuarial function.
- The (independent) **risk controlling function** or risk management function handles, in particular, the operational implementation of risk management and reports to management on the overall risk profile, among other matters. The Risk, Compliance & Data Management department at W&W AG is responsible for risk management at the level of the W&W Group and W&W AG. The head of the "Risk" section holds the key function "risk management" in accordance with Section 26 of the German Act on the Supervision of Insurance Undertakings (VAG) at the level of the W&W Group and W&W AG.

Risk Board Structure

Overview



In addition, the Insurance and the Home Loan and Savings Bank divisions each have their own risk management units. In each case, they perform the duties of the risk controlling function at the level of the respective subsidiaries. They also remain in close contact with the risk controlling function at the Group level.

The **compliance function** is responsible for adequate legal monitoring and the effectiveness of the compliance with internal and external regulations. The compliance function is supported in the operational performance of its duties by the Risk, Compliance & Data Management department at W&W AG.

The **actuarial function** ensures correct calculation of the technical provisions, among other duties, and assists the relevant (independent) risk controlling function or risk management function in risk assessment. The actuarial function at W&W AG has been outsourced to Württembergische Versicherung AG. The outsourcing officer is the member of the W&W AG Executive Board responsible for the actuarial function. The service provider is Württembergische Versicherung AG, and its Actuarial Services & Property and Casualty Reinsurance department provides the services. At the level of the Solvency II group, the actuarial function is performed by the CRO of W&W AG, who is supported operationally by the actuarial functions of the W&W insurance companies.

- The Internal Audit unit represents the **third line of defence.** It independently audits the appropriateness and effectiveness of the internal control system as well as the effectiveness of corporate processes, including the first two lines of defence. The duties of Internal Audit at the Group level and at W&W AG are performed by the Group Audit department at W&W AG. The head of this unit acts as the responsible function holder.

  Persons or divisions charged with exercising this function must be able to perform their duties objectively, fairly and independently. For this reason, they are set up as strictly separate from risk-taking units (functional separation to avoid conflicts of interest). This principle is already observed at the Executive Board level by means of stringent bylaws and assignment of responsibilities.

The chart presents the responsibilities in risk management.

Limitations of the risk management system

Good and effective risk management improves the implementation of business and risk strategy goals. However, it cannot ensure full security, as the effectiveness of the risk management is limited:

Risk management responsibilities and Executives

Overview

Governance of the risk management framework

W&W AG Executive Board	■ Sets integrated risk strategy ■ Decides about risk readiness, risk appetite, capital allocation ■ Sets targets for internal and external capital adequacy	■ Enacts Group risk policy ■ Support for the Chief Risk Officer in his or her responsibility for risk management through a general representative
↑ Information and advice		
Group Board Risk (includes independent risk-controlling function)	■ Advises the Executive Board of W&W AG on risk issues ■ Recommends and initiates measures for risk governance ■ Monitors the risk profile	■ Power to grant, suspend and delete counterparty risk lines (unanimous vote needed) ■ Acts as interface with division risk boards
↑ Information and advice		
Risk management W&W AG and Group	■ Advises the Group Board Risk and the Executive Board of W&W AG ■ Ensures uniform standards for risk management ■ Measures aggregate risks in the risk-bearing capacity model	■ Implementation of risk strategy process, ORSA, risk report process ■ Operational implementation of risk management at the level of W&W AG and the Group ■ Tasks of the independent risk-controlling function are performed by risk management of W&W AG and Group
↑ Information		
Operational units	■ Operational implementation of risk management at the level of the individual company ■ Risk governance in connection with stipulated Group standards, as well as lines and limit systems	■ Participation in connection with the risk inventory ■ Reports in the course of risk report processes to the risk management of W&W AG and Group

Forecast risk. To a significant extent, risk management is based on forecasts of future developments. Though the forecasts used regularly take the latest insights into consideration, there is no guarantee that such future developments – especially extreme events – will always occur as forecast by risk management.

Model risk. Suitable models are used for risk measurement and governance purposes. These models use assumptions in order to reduce the complexity of reality. They map only the circumstances considered to be material. Thus there is a risk of selecting unsuitable assumptions (specification risk) and a mapping risk if relevant circumstances are reflected insufficiently in the models (estimation risk). Furthermore, model risks can arise from faulty model input (input risk) and improper model use (use risk).

The W&W Group minimises model risks by means of careful model governance. By means of a **Model Change Policy,** model development is subjected to standardised, transparent documentation. The policy regulates processes in the event of changes in the economic risk-bearing capacity model at the level of the W&W Group, including the procedures, models and data provided for its calibration in the individual companies. The assumption of material model changes in the economic risk-bearing capacity model is subject to the approval of the Group Board Risk. Validation and back-testing procedures are used to monitor and limit model risks. The measures mitigate the modelling risk in risk measurement and governance. However, they cannot fully compensate for it.

Human risk factor. In addition, as intrinsic human judgement in corporate decision-making processes may be faulty despite the implemented control measures (internal control system, double-verification principle), the unpredictability of human action represents a risk. Likewise, there is a risk in connection with the uncertainty of the correctness of decisions made (human behaviour risk).

Though our risk management system is basically suitable, it is therefore possible that risks may not be duly identified or responded to under certain circumstances.

Risk management process

The risk management process in the W&W Group is based on the closed control loop described in the Integrated Risk Strategy as well as in the following.

Risk identification

In connection with the risk inventory process, the corporate and working environment is constantly monitored throughout the Group for potential risks, and identified risks must be reported without delay. This high penetration throughout the organisation makes a decisive contribution to promoting an appropriate risk culture.

We have implemented a uniform, Group-wide new-product process for the purposes of identifying risks associated with the introduction of new products and sales channels and with the cultivation of new markets. This process incorporates the risk controlling units at the level of the Group and the individual companies.

Risks are systematically identified in the course of the annual risk inventory and during reviews of the risk situation throughout the year, as warranted by events. Here, assumed or potential risks are continually recorded, updated and documented. On the basis of an initial assessment for the respective individual company, defined threshold values are used to differentiate risks into material and immaterial risks. Also evaluated is the extent to which individual risks can take on a material character through interaction or accumulation (risk concentrations).

Risks that are classified as material are actively managed in the four steps of the risk management process described in more detail in the following. For risks that are classified as immaterial, the responsible business units monitor them during the year, using (early-warning) risk indicators in order to determine whether they have changed, and evaluate them in full at least once a year.

Risk assessment

This process step includes all methods, processes and systems that serve to adequately assess identified risks. In connection with determining economic risk-bearing capacity, risks are generally assessed by means of a stochastic procedure using the value-at-risk standard, applying a confidence level of 99.5% and a one-year time horizon. If this procedure cannot be used for certain risk areas, we apply analytical computational procedures or regulatory standard procedures, as well as expert estimates.

We include the results of these assessments in the statement of risk-bearing capacity or in additional risk controlling tools, taking into consideration potential clustering of risks. We regularly conduct sensitivity analyses in connection with stress scenarios for specific risk areas and across risk areas. Indicator analyses, such as (early-warning) risk indicators, augment the range of tools used to evaluate risk.

Risk taking and risk governance

We define risk governance as the operational implementation of risk strategies in the risk-bearing business units. The decision to assume risk is made within the scope of business- and risk-specific requirements by the decision-making body in each individual company. Based on the risk strategy, the respective departments in our operating companies manage their own risk positions. Thresholds, signal systems, and limit and line systems are used to support risk governance. If the specified thresholds are exceeded, predefined actions or escalation processes are initiated.

The entity that assumed the risks is generally responsible for managing and controlling them. In performing this task, it decides about products and transactions. It must continuously check whether the assumed risks are in conformity with the risk profile specified by the risk strategy of the W&W Group or one of its companies and whether risk-bearing capacity as well as the risk limits and risk lines are observed. Risk-taking and risk-monitoring tasks are strictly separated in terms of function.

A key management parameter at Group level is the IFRS result and division-specific indicators. In order to link earnings management with risk governance, we conduct supplementary analyses for the purpose of value-oriented management. For us, this includes, inter alia, a present-value earnings perspective, optimisation and allocation of capital, and internal risk governance.

The sufficiency of risk capitalisation is evaluated on several dimensions, which in general are equally weighted but highlight different objectives and aspects:

- The economic risk-bearing capacity model assesses the risk coverage capacity from the present-value perspective on the basis of future cash flows. The economic risk-bearing capacity concept focuses primarily on the protection of first-rate creditors (gone concern).
- The regulatory capital requirement assesses compliance with the regulatory minimum requirements for risk capitalisation in order to continue business operations as planned (going concern).
- In addition, in accordance with the requirements for managing the balance sheet and the income statement, specific risk models oriented toward them are applied at the level of the individual companies.

While the economic and financial risk-bearing capacity concept has been developed and parameterised internally, the regulatory procedure follows the externally specified methodology.

Risk monitoring

For an early risk detection risk indicators are implemented in order to monitor changes in risks. Indicators might be financial and risk indicators (e.g. risk baring ratios, limit utilization), solvency ratios (e.g. capital ratios, liquidity coverage ratio) and market indicators (e.g. share prices, credit spreads).

Material, quantifiable risks are controlled by means of limits and lines. Limits are set only in the amount that permits compliance with the respective minimum ratios for economic risk-bearing capacity even where the limits are maxed out. Business is transacted solely within the scope of these limits and lines. By creating a corresponding limit and line system, risk concentrations in particular are limited both at the level of the individual company and at the level of the financial conglomerate and the financial holding group.

The monitoring of risks, which is independent of the assumption of risks, primarily takes place at the level of the individual company. Where material risks exist that affect more than just the individual company, they are also monitored at the Group level. The principle that risk taking and risk monitoring are separated in terms of function applies at all levels of the W&W Group. Monitoring activities are used to develop recommendations for action, which lead to corrective intervention being taken early on with respect to the objectives set forth in the business and risk strategy and are subject to corresponding measures controlling.

Risk reporting

Risk reporting includes all processes, rules and formats in an enterprise that serve to communicate identified and, in some cases, measured risks. The recipients of risk reports may be both those inside the enterprise, i.e. within the individual company or the W&W Group, and those outside of it, such as the general public.

The established reporting processes ensure regular and timely reports are generated about the risk position of various groups or individual companies.

In this regard, the flow of information concerning the risk situation of the individual companies in the W&W Group is ensured through internal risk reporting, risk inventory and calculation of risk-bearing capacity. The results of the companies affiliated with the Group are transmitted to the risk controlling function responsible for the W&W Group, which then aggregates them and analyses them for their impact on the W&W Group.

The key element of the risk reporting system is the quarterly overall risk report, which is sent to the Group Board Risk, the Executive Board and the Supervisory Board. Presented in this report are, in particular, the amount of available capital, regulatory and economic capital adequacy, compliance with limits and lines, the results of stress testing and the risk governance measures that have already been taken and that still need to be taken. Also reported on in this connection are significant trends in early-warning risk indicators. This overall risk report is presented to the Group Board Risk, where it is elaborated upon with respect to risk estimation and the resulting recommendations for action by the W&W Group. These recommendations for action are implemented as measures and tracked by the responsible risk management units.

Depending on how critical it is, information that is considered material from the standpoint of risk is forwarded immediately to the Group Board Risk, the Executive Board and the Supervisory Board. Processes and reporting procedures have been put in place for ad-hoc risk reporting at the Group and individual company level. Quantitative criteria are used as thresholds, which are generally in line with internal and supervisory parameters. In addition, ad-hoc risk reporting also takes place when qualitatively material events occur.

The operability, appropriateness and effectiveness of our risk management system are checked by the internal audit unit. In connection with the audit of the annual financial statements, an audit firm audits the establishment of early risk detection systems at the individual company level and the appropriateness and effectiveness of the risk management at the level of the German credit institutions, financial serviced providers and financial holding group.

Capital management in the W&W Group

The individual companies and W&W AG maintain risk capital in order to cover losses if assumed risks should occur. Risk management is responsible for managing and monitoring the ratio of risk capital to risk capital requirements. This ratio results from the threat of losses in connection with assumed risks (capital adequacy, risk-bearing capacity). Risk is managed from two perspectives:

With respect to **regulatory capital adequacy,** the ratio of regulatory capital to regulatory solvency requirements is examined. Statutory and supervisory requirements relating to capital resources, risk-bearing capacity and other regulatory indicators apply for the financial conglomerate, the Solvency II Group, the financial holding group and W&W AG as an individual institution. For this purpose the provisions of the German Banking Act (KWG), the German Act on the Supervision of Insurance Undertakings (VAG), the German Act on the Supervision of Financial Conglomerates (FKAG) and the EU Capital Requirements Regulation (CRR) are applied.

Moreover, avoidance of the risk of overindebtedness is an integral aspect of managing the balance sheet of the financial holding group and the individual companies affiliated with it that are subject to banking supervision law. Compliance with this target ratio is monitored operationally both at the aggregated level of the financial holding group and at the level of the affiliated credit institutions.

Within the scope of **economic capital adequacy,** economic risk capital requirements are determined on the basis of an economic risk-bearing capacity model and compared with the available economic capital.

In order to ensure appropriate risk-bearing capacity, internal target ratios and minimum ratios are specified for both supervisory and economic capital adequacy.

Objectives

An overarching framework has been implemented for capital management in the W&W Group, the Solvency II group, the financial holding group and W&W AG, which specifies the goals and principles for capital management and defines the capital management process. Moreover, our capital management aims at

- ensuring adequate risk-bearing capacity, especially on the basis of the economic risk-bearing capacity model,
- fulfilling regulatory minimum capital requirements,
- optimising capital allocation within the Group,
- enabling an adequate return on the capital employed,
- ensuring capital flexibility and
- making use of strategic market opportunities.

Regulatory capital adequacy

Regulatory provisions place requirements for regulatory capitalisation. As at the reporting date, Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank satisfied the regulatory capital requirements. As at 31 December 2018, the total capital ratio of Wüstenrot Bausparkasse AG was 18.9% (previous year: 18.4%). As at the reporting date, the regulatory coverage ratios of Württembergische Lebensversicherung AG and Württembergische Versicherung AG were likely well above 100%. The final results will be published in the second quarter. The ratios calculated as at 31 December 2017 were reported to BaFin in the second quarter of 2018. They amounted to

370.2% for Wüstenrot & Württembergische AG, to 405.2% for Württembergische Lebensversicherung AG and to 195.7% for Württembergische Versicherung AG. Württembergische Lebensversicherung AG and Karlsruher Lebensversicherung AG received approval from BaFin to use transitional measures for technical provisions, and they are currently doing so.

In addition to supervision at the level of the individual company, W&W Group companies are also subject to banking and insurance supervision at the consolidated level. For instance, Wüstenrot & Württembergische AG and its subordinated companies constitute a financial holding group, and the insurance companies constitute a Solvency II group. In addition, BaFin has classified the W&W Group as a financial conglomerate.

As the superordinate enterprise of the financial holding group pursuant to Section 10a (2) sentence 4 of the German Banking Act (KWG), Wüstenrot & Württembergische AG is responsible for all Group-related duties, including for ensuring suitable capital resources. As at 31 December 2018, the total capital ratio of the financial holding group stood at 25.7% (previous year: 24.1%).

Wüstenrot & Württembergische AG and the W&W Group's insurance companies constitute a Solvency II group. As at the reporting date, the regulatory coverage ratio was likely well above 100%. The final results will be published in the second quarter. The ratio for the previous year, which stood at 200.9%, was reported to BaFin in the second quarter of 2018.

As the superordinate enterprise of the financial conglomerate, Wüstenrot & Württembergische AG must ensure that the regulatory requirements for financial conglomerates are satisfied. These requirements include, among other things, that the W&W Group financial conglomerate maintains sufficient capital resources to satisfy minimum regulatory requirements at all times. As at the reporting date, the coverage ratio was likely well above 100%. In the previous year, the capital-solvency margin ratio was 247.2% as at 31 December 2017.

In order to ensure the continued high stability of the groups and the individual companies, the W&W Group has internally set target solvency ratios for the large subsidiaries and at the level of the groups and financial conglomerate that are significantly above the current statutory requirements.

For Wüstenrot Bausparkasse AG and for the financial holding group, internal minimum targets for 2019 have been set at 13.5% for the total capital ratio and 11.0% for the core capital ratio. The minimum target ratio for the Solvency II group is 125% (based on the transitional measures for technical provisions).

Internal calculations on the basis of the data for 2018 and on the basis of the planning horizon show that the regulatory requirements concerning capital resources can be more than satisfied by the financial conglomerate, by the financial holding group and by the Solvency II group in the future as well, under the assumptions on which the planning is based.

Economic capital adequacy
We have developed a Group-wide, present-value-oriented risk-bearing capacity model for the quantitative evaluation of the overall risk profile of the W&W Group. The available risk capital is allocated on the basis of the calculations of this economic risk-bearing capacity model, and suitable limits are derived.

The limit process in the W&W Group is based on an iterative bottom-up and top-down process. In consultation with the individual companies, W&W AG determines the maximum risk capital requirements at the individual company level and at the risk area level. Following approval of the limits at the Executive Board level, their operational implementation takes place in the risk management cycle. The assessed risk capital requirements are compared with the derived limits in order to ensure that the risk taken does not exceed the designated capital components. Responsibility for implementation and limit monitoring lies with the individual decentralised risk controlling units and, for the Group as a whole, with the Risk, Compliance & Data Management department.

The risk position presented below is based on the data used by company management for economic risk governance and internal risk reporting. Material risks, which are determined by means of a standardised approach, are aggregated to form the risk capital requirements and compared with the financial funds available for risk coverage. As at 31 December 2018, the W&W Group's total risk capital requirements amounted to €3,097.4 million (previous year: €3,260.2 million).

For materiality reasons, the economic risk-bearing capacity model includes, at a minimum, the individual companies of risk class 1 in the form of a partial model. For the other W&W individual companies, risk-bearing capacity is monitored on the basis of the simplified approaches defined in the Group Risk Policy for the respective risk class. If W&W individual companies are not included in the economic model of risk bearing capacity in the form of a partial model, risks are monitored within the investment risk of the respective company at the parent company.

Value at risk. Risk measurement takes place according to the value-at-risk approach. Risk is measured as the negative deviation of the loss potential from the statistically expected value for a given confidence level. Value at risk (VaR) thus indicates the maximum amount of an unexpected loss of a particular risk position (e.g. of a securities portfolio) with a given probability and over a given risk horizon. The risk horizon is the period within which possible events and their impact on the company's risk-bearing capacity are examined.

The W&W Group's risk-bearing capacity is determined largely using stochastic methods for a risk horizon of one year. Drawing on Solvency II, the W&W Group applies a confidence level of 99.5% for VaR measurement. In this regard, the target ratios and minimum ratios are set for the W&W Group's individual companies in a way that achieves the confidence level specified in the regulatory models. For the individual W&W companies that are subject to the rules of German banking supervision law, this corresponds to a confidence level of 99.9%, based on a risk horizon of one year, and for the individual companies subject to insurance supervision law, a confidence level of 99.5%, based on a risk horizon of one year.

As part of the risk strategy, the W&W Group strives for an economic risk-bearing capacity ratio (ratio of risk coverage capital to risk capital requirements) of greater than 145%. For the financial holding group, the target ratio is greater than 150%, and for W&W AG, greater than 125%. Our calculations show that risk-bearing capacity was above this target ratio as at 31 December 2018.

Diversification

The assumption and management of risks is a key aspect of the W&W Group's business model. The risk profiles of Home Loan and Savings Bank, Bank, Property/Casualty Insurance and Life and Health Insurance divisions differ considerably. Since the risks assumed by these companies usually do not occur at the same time, the risk capital requirements of the Group are lower than the sum of the risk capital requirements of the individual companies. For example, a drop in interest rates, which may constitute a risk for life insurance companies or, depending on positioning, the Home Loan and Savings Bank, is largely independent of the occurrence of a natural disaster, which mainly affects only property and casualty insurance companies. The extent of this risk diversification effect depends, on the one hand, on the intercorrelation of the risks and, on the other, on their size in the individual companies. In terms of confidence-based modelling, the economic risk-bearing capacity model at the Group level takes into account only diversification effects that arise between the individual companies within the individual risk areas. Diversification had the following impact on economic risk capital requirements at the Group level as at 31 December 2018:

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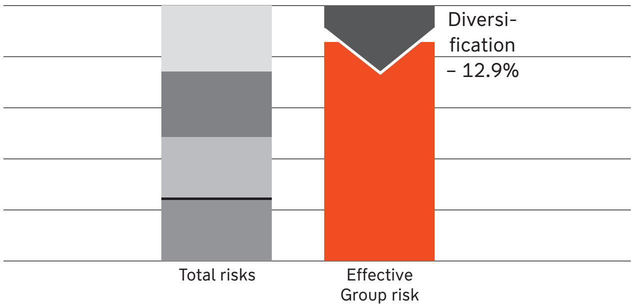


All important stakeholder groups benefit from this diversification effect. Consistent financial performance and a stable risk position make the companies of the W&W Group more attractive for our customers and investors. It strengthens our competitive position and, not least, protects the jobs of employees.

Diversification is very important for our business model, which features a broad product portfolio over various business segments and regions. Diversification between business segments helps us to manage our risks efficiently, as it limits the economic impact of a single event. Moreover, it contributes to a relatively stable earnings and risk profile. The extent to which the diversification effect can be realised depends on the correlation between the risks as well as on the relative concentration within a risk area. We regard diversification as one of the strategic success factors of the W&W Group.

Apart from risk and earnings diversification, further diversification effects can be used in different areas due to the structure of the W&W Group. For example, this concerns capital fungibility within the W&W Group and the networked approach across division borders (know-how transfer).

Risk landscape and risk profile of the W&W Group

In order to depict our risks transparently, we uniformly consolidate similar risks into risk areas on a Group-wide basis (see also the chart “Risk landscape of the W&W Group”).

The following table shows the risk exposure in the individual segments of the W&W Group and the risk areas that have been uniformly identified as material:

Risk areas

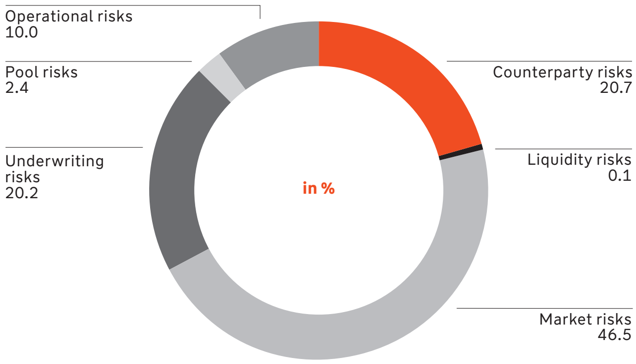
by segment

We separately draw attention to any segment-specific risks and risk management methods within the risk areas.

In describing the risks depicted below, we follow the methodology established by our internal risk reporting regulations.

The risk profile of the quantified risk areas was determined in accordance with our methods for economic risk-bearing capacity measurement (see section “Economic capital adequacy”). As at 31 December 2018, the risk profile was distributed as follows:

Risk profile of the W&W Group [1]



[1] Risk areas quantified via economic risk bearing capacity model

Market price risks currently account for the largest share of risk capital requirements at 46.5% (previous year: 49.5%). The most important types are credit spread risks at 15.7% (previous year: 19.8%), interest rate risks at 15.0% (previous year: 10.8%) and stock price risks at 9.5% (previous year: 13.6%). **Insurance risks** accounted for 20.2% (previous year: 13.2%) and operational risks for 10.0% (previous year: 10.7%).

Due to the exposures in our investment portfolios and our customer lending activities, **counterparty credit risks** also constituted a significant risk area, accounting for 20.7% (previous year: 22.7%).

In contrast to the previous year, **pool risks** are depicted under business risks. The risk capital requirements for this accounted for 2.4% (previous year: 3.8%) of total risk capital requirements. Other **business risks** are deducted from risk coverage capital.

The following sections describe the material risk areas and, where relevant to the overall appraisal, the individual risk types.

Risk landscape of W&W Group

Overview of risk areas

Overall risk profile

Market risks	Counterparty risks	Underwriting risks	Operational risks	Business risks	Liquidity risks
Interest rate risk	Counterparty credit risk – customer credit business	UR personnel/ employee life insurance	Legal risk	Strategic risk	Insolvency risk
Credit spread risk	Counterparty credit risk – capital investments	UR personnel/ employee health insurance	Compliance risk	Environment risk	Funding risk
Share risk	Other counterparty credit risks	UR property and casualty insurance	Personnel risk	Reputational risk	Market liquidity risk
Foreign currency risk			Process risk		
Real estate risk			Information risk		
Long-term equity investment risk			Model risk		
Commodities risk			Service provider risk		

Market price risks

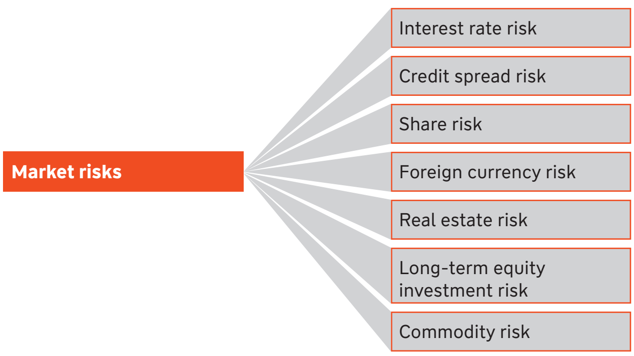
- Owing to its business model, the W&W Group is highly sensitive to trends in market price risk factors, especially to trends in interest rates and credit spreads and on equity markets.
- The W&W Group continued to take risk-minimising measures in order to manage its interest rate risks (interest rate change and interest guarantee risks) in light of persistently low interest rates coupled with uncertainty about future interest rate trends.
- It rigorously managed credit spread risks in conjunction with controlling for counterparty credit risks.
- It retained a high guarantee level in the equity portfolios in 2018.

Risk definition

We define market price risk as potential losses resulting from the uncertainty concerning future trends (size, volatility and structure) in market risk factors. Such market risk factors include interest rates, stock prices, currency exchange rates, commodities prices, real estate prices and corporate assets, as well as risk premiums (credit spreads) for a given credit risk. In the W&W Group, all risk types (except for commodity risk) forming part of market price risk are considered to be material and are detailed below.

Market risks

Systemisation



Market environment

Interest rate trends. Long-term interest rates on the German bond market initially rose appreciably at the start of the year. For instance, the yield on the benchmark 10-year German government bond increased from 0.43% at the end of 2017 to 0.8% at the beginning of February 2018. Political risks, such as the formation of a populist, EU-critical government coalition in Italy, caused the yield to fall briefly to around 0.2%. Bond markets then settled down again in early June. In the final quarter, disappointing economic reports, prolonged political tensions, such as Brexit and the U.S. trade dispute with China, and pronounced price weakness on the equity markets led to an increased demand for German government bonds, and as a result, the yield fell to just 0.24% on 10-year government bonds at the end of 2018. It thus declined by 19 basis points over the course of the year.

By contrast, yields for bonds with short-term maturities showed little change in view of the ECB's policy concerning benchmark interest rates. For instance, the yield on two-year German government bonds fluctuated between −0.5% and −0.7%. At the end of 2018, the yield stood at −0.61%, or two basis points higher than at the end of 2017.

Trends in equities. After rising at the start of the year, prices for European equities underwent a sharp correction, only to go up again in April and May. In addition, the euro began to fall against the dollar in mid-April. However, the recovery in prices ended in the second half of May, particularly as a result of developments relating to the global trade dispute, Italian fiscal policy, disappointing economic data in the EEA and Brexit. As a result, stock prices fell considerably. The EUROSTOXX fell by 14.3 % over 2018.

Because of the high weighting given to export-focused companies, the DAX, the German benchmark index, suffered even more from the global trade dispute, falling by 18.3% in 2018. After peaking at 12,614, the SDAX also tumbled at the end of 2018 to 9,509, for a decline of 20.0% for the year.

Risk situation

Interest rate risk. In the W&W Group, Wüstenrot Bausparkasse AG and Württembergische Lebensversicherung AG, in particular, are exposed to interest rate risks in the form of interest rate change risks and interest guarantee risks. Moreover, W&W AG and, to a lesser extent, Württembergische Versicherung AG and Wüstenrot Bank AG Pfandbriefbank are also exposed to interest rate risks.

Persistently low interest rates are associated with risk to earnings, as new investments and reinvestments can be made only at lower interest rates, while previously assured interest rates and interest obligations (interest guarantee risk) still need to be fulfilled for customers. They are also having an increasingly negative impact on valuation reserves. When interest rates drop, long-term obligations experience more severe changes in value than do investments that are sensitive to interest rates. This causes a drain on capital.

Quickly rising interest rates can also pose risks for the balance sheet and precipitate a decline in income components. In such a scenario, valuation reserves may evaporate, hidden liabilities may arise, and write-downs may become necessary. In addition, customers might make increased use of their option rights. At the same time, the situation hampers the latitude afforded by asset reserves to meet the yield requirements on the liabilities side.

This trend poses fundamental challenges not only for our risk management but also for our asset liability management (ALM).

Declining income components and higher risk capital requirements must be managed in close interaction.

The low interest rate level places greater demands on our risk-minimising measures.

In the Life and Health Insurance segment (primarily, Württembergische Lebensversicherung AG), the following measures have long been taken in order to manage interest rate risks:

- Duration extension for bond investments,
- Use of derivatives, forward purchases and forward sales in order to hedge interest rate risks,
- Examination and use of alternative investment strategies and instruments,
- Creation of reserves: additional interest reserve for the new portfolio and interest rate reinforcement for the old portfolio,
- Development of products with alternative guarantee forms.

Section 5 of the German Regulation on Calculation of the Provision for Future Policy Benefits (DeckRV) also regulates the accepted tax framework for strengthening the provision for future policy benefits in the form of an additional interest reserve. The amount of the additional interest reserve is determined by the reference interest rate, which is based on the average of Euro interest swap rates over 10 years. For the 2018 annual financial statements, we are applying the corridor method for the first time, and in doing so, we are modifying the calculation of the reference interest rate in a way that limits the year-on-year change. In 2018 the reference interest rate dropped to 2.09% (previous year: 2.21%).

Based on the regulations for the additional interest reserve, an interest rate reinforcement established in the business plan was provided in the old portfolio. The amount of the interest rate reinforcement is determined by the measurement interest rate, which amounted to 2.09% (previous year: 2.21%) for Württembergische Lebensversicherung AG, to 2.09% (previous year: 2.21%) for Karlsruher Lebensversicherung AG and to 2.54% (previous year: 2.61%) for ARA Pensionskasse AG. In the WürttLeben group, the additional interest reserve and interest rate reinforcement were strengthened by €155.2 million (previous year: €446.2 million) on this basis. The sharp drop was caused by the first-time application of the corridor method. In order to depict the build-up of the additional interest reserve and interest rate reinforcement as realistically as possible, capital disbursement probabilities were applied to each company, as was the case in the previous financial year. For 2019 we expect a further decline in the interest rates relevant to valuation and thus a further increase in the additional interest reserve and in interest rate reinforcement. Since 2010 we have gradually increased the confidence level of the computation basis “interest rate” for annuity insurance policies in the old portfolio by means of reserve reinforcements.

The persistent level of low interest rates also poses great challenges for pension funds, including Allgemeine Rentenanstalt Pensionskasse AG, in terms of building up the additional interest reserve. In the current phase of low interest rates financing these reserves is difficult. Allgemeine Rentenanstalt Pensionskasse AG addressed this issue early on, and it has developed suitable approaches for solving it.

In the Home Loan and Savings Bank segment (mainly Wüstenrot Bausparkasse AG), we continued to take the following risk-minimising measures:

- Structural reallocations in the securities portfolio,
- Use of interest-rate-based hedging instruments (e.g. swaps),
- Active duration management of investments,
- Diversification in proprietary business in order to improve the yield profile,
- (Re-)investment prohibition and
- Interest rate management.

Credit spread risk. Credit spread risk means the risk that the value of receivables will change because of a change to the applicable credit spread for the respective issuer or counterparty – despite an unchanged credit rating over time. The credit spread refers to the risk premium in the form of higher interest on a security subject to credit risk in relation to a comparable security without risk. Thus, a clear distinction is made between credit spread risk, migration risk and default risk. Accordingly, only credit spread changes that do not result from a change (migration, including default) of the rating are considered for securities.

Owing to the structure of our investment portfolio – investment predominantly in fixed-income securities – credit spread risk is the most important of the market price risks. In interaction with risk controlling methods, counterparty credit risk is subject to stringent management (e.g. risk lines).

Participation risk. Within the W&W Group, significant long-term equity investments are held by W&W AG, Württembergische Lebensversicherung AG and Württembergische Versicherung AG as individual companies. Within the scope of the strategic asset allocations, investments are made in alternative investments including private equity participations. As a result of the high proportion of participations in the capital investment portfolio, W&W AG is subject to very material participation risks due to its business model. When participation risks materialise, valuation losses can result in the writing down of participations, the non-payment of dividends or the need to make contributions to earnings.

We influence the business and risk policy of our participations, inter alia, through our representation in supervisory bodies, depending on the size and significance of the participations.

Stock price risk. Of the companies of the W&W Group, significant stock portfolios are held by Württembergische Versicherung AG, Württembergische Lebensversicherung AG and W&W AG.

Sudden and severe price slumps on stock markets could impair the risk-bearing capacity of the Group companies that invest in equities by forcing write-downs.

Stock price risks are reduced with suitable hedging strategies by means of derivatives (e.g. put options, short futures).

For the holdings of our companies with significant stock portfolios, whose market value totalled €661.2 million, the market value changes in the case of an index fluctuation of the EURO STOXX 50 were as follows as at 31 December 2018:

Market value changes of material share portfolios

in € million	Market value	Change in market value			
		Increase by 10%	Increase by 20%	Decrease by 10%	Decrease by 20%
WL[1]	458.2	29.0	61.5	–24.4	–44.3
WV[1]	152.2	10.3	21.5	–9.1	–16.7
W&W AG[1]	50.8	3.5	7.3	–3.1	–5.7
Total	**661.2**	**42.8**	**90.3**	**–36.6**	**–66.7**

1 Market value of shares = physical market value of shares + market value of options + market value equivalent of futures.

Our insurance companies retained a high guarantee level in this asset category in 2018.

Foreign currency risk. Foreign currency risks can result from open net FX positions in globally aligned investment funds, as well as from foreign currency bonds and equity instruments held by of our insurance companies (mainly Württembergische Lebensversicherung AG and Württembergische Versicherung AG).

In accordance with our strategic orientation, our foreign currency exposure is concentrated in Danish krones and U.S. dollars. Within the scope of individual fund mandates, we also have minor exposure in other currencies.

We hold the material foreign currency portfolios on the assets side for the purpose of currency-congruent coverage of underwriting liabilities. To limit foreign currency risks, we mainly invest in investment products in the euro zone. Most of our foreign currency exposure is hedged against exchange rate fluctuations. As part of active foreign currency management, the insurance companies systematically make use of income opportunities through open foreign currency positions.

Real estate risk. Within the W&W Group, Württembergische Lebensversicherung AG, Wüstenrot & Württembergische AG and Württembergische Versicherung AG hold property portfolios in the form of direct investments and via fund mandates and participations. Our diversified property portfolios supplement our capital investment portfolio.

Our property investments focus on direct investments in Germany with stable value development and high fungibility. In keeping with strategic asset allocation, Württembergische Lebensversicherung AG has made investments for the purpose of further diversification, in line with the internationalisation of the property portfolio.

Real estate risks are reduced through a targeted selection of properties, meaning that they play a minor role compared with other types of market price risk. In view of recently rising property prices in various regions and segments, however, future price corrections cannot be ruled out, particularly in the event of a sharp downturn in the economy.

Commodity risk. As part of a comprehensive risk hierarchy, commodity risks, if any, are examined and analysed. As at the reporting date, there were no material exposures in commodities.

Strategy and organisation

Strategic asset allocation. Strategic asset allocation forms the basis of our capital investment policy and thus is one of the most significant factors that influence our risk situation in the market price risk area. In this context, the companies place emphasis on an appropriate mix and spread of asset classes, as well as on broad diversification by industry, region and investment style. With our investments, we pursue an investment policy that is in line with the principles of sufficient profitability, liquidity and security. The two main objectives are to maintain adequate liquidity and to ensure the required minimum return.

Organisation. The responsible Executive Boards specify the strategic asset allocation for each individual company. Operational management of the various asset classes (equities, bonds, alternative investments, real estate and currencies) is handled by the front-office units. The property portfolio management unit develops investment concepts for the “real estate” asset class. The alternative investments unit is responsible for investments in alternative financing.

Our strategic participation activities are supervised by Group Controlling. The decentralised and centralised risk controlling units operate as independent monitoring units. In addition to operational limit monitoring, superordinate method and model responsibilities are located there.

Risk management methods and risk controlling

For the market price risk area and the described risk types, we mainly apply the following risk controlling methods and procedures (see chart risk management):

Economic risk-bearing capacity model. We quantify the risks from interest rate changes both on the assets side and on the liabilities side using internal models. The companies included in our economic risk-bearing capacity model at Group level measure market price risk economically, i.e. we take future discounted cash flows and market values into consideration on the basis of a value-at-risk model (confidence level of 99.5%, risk horizon of one year). For this purpose, the assets and liabilities are measured in the economic risk-bearing capacity model of the respective individual companies on the basis of generated capital market scenarios. Each individual company can draw on market values in 10,000 capital market scenarios, both for the relevant overall portfolio and for the sub-portfolios that are exposed to risks associated with interest rates, spreads, stock prices, real estate and par-

Risk management

Method depiction

Market risks area	Risk controlling (Group-wide)	
	■ Asset Allocation ■ Economic risk-bearing capacity model ■ Limit system ■ Deployment of financial instruments ■ Sensitivity and scenario analyses ■ Diversification ■ Monitoring ■ New-product process ■ Reporting	
	Company	**Risk controlling (specific)**
Interest rate risk	Wüstenrot Bausparkasse AG Württembergische Lebensversicherung AG Wüstenrot & Württembergische AG Württembergische Versicherung AG Wüstenrot stavební spořitelna a.s. Wüstenrot hypoteční banka a.s.	■ Asset liability management ■ Duration control ■ Product and pricing policies
Credit spread risk	Wüstenrot Bausparkasse AG Württembergische Lebensversicherung AG Wüstenrot & Württembergische AG Württembergische Versicherung AG Wüstenrot stavební spořitelna a.s.	■ Credit management ■ Risk lines
Share risk	Wüstenrot & Württembergische AG Württembergische Lebensversicherung AG Württembergische Versicherung AG	■ Hedging strategies (stop-loss) ■ Monitoring of hedging ratios
Foreign exchange risk	Wüstenrot & Württembergische AG Württembergische Lebensversicherung AG Württembergische Versicherung AG	■ Congruent coverage
Real estate risk	Württembergische Lebensversicherung AG Württembergische Versicherung AG Wüstenrot & Württembergische AG	■ Real estate portfolio management
Long-term equity investment risk	Wüstenrot & Württembergische AG Württembergische Lebensversicherung AG Württembergische Versicherung AG	■ Long-term equity investment controlling ■ Economic planning ■ Projections during the year ■ Monthly target/actual comparisons

ticipations. These scenarios are used to calculate the value at risk for each individual company with respect to market price risks, as well as risks associated with interest rates, spreads, stock prices, real estate and participations. Correlations between the risk types are implicitly taken into consideration in the Monte Carlo scenarios. Württembergische Lebensversicherung AG and Württembergische Krankenversicherung AG are included on the basis of scenarios derived from the standard formula under Solvency II.

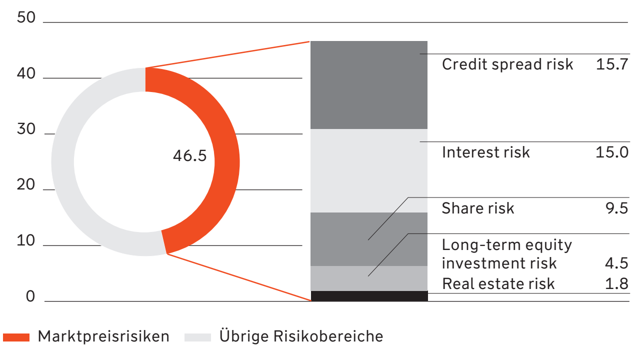
Foreign currency risks are taken into consideration in the asset classes in which they are incurred. In the case of annuities/cash flows, exchange rate fluctuations that are closely tied to trends in foreign currency interest rates are examined simultaneously along with interest rate fluctuations and are fully allocated to interest rate risk. Currency fluctuations of equities listed in foreign currency are duly taken into consideration in evaluating stock price risks.

We supplement our stochastic modelling with sensitivity analyses that pinpoint the value changes of the portfolios in connection with market fluctuations. Further model assumptions and procedural premises are explained in the section “Economic capital adequacy”.

As at 31 December 2018, the **risk profile** for the market price risk area was determined according to our methods for risk-bearing capacity measurement (see section “Economic capital adequacy”). It was distributed as follows:

Risk profile for market risks

in %



Risk capital requirements. Credit spread risks, which accounted for 15.7% (previous year: 19.8%), are the most important of the market price risks. Measured against total economic risk capital, interest rate risks had a share of 15.0% (previous year: 10.8%). This is followed by stock price risks, with a weighting of 9.5% (previous year: 13.6%). Participation risks accounted for 4.5% (previous year: 3.5%). Real estate risks constituted about 1.8% (previous year: 2.0%).

In 2018 market price risks were in line with the risk strategy. The risk limit was consistently complied with at the Group level.

Company-specific procedures. In addition to our Group-wide perspective, the individual companies conduct an in-depth examination of their market price risks with comparable procedures.

In the Life and Health Insurance segment, the companies also made use of balance-sheet-oriented buffer models for the calculation and analysis of whether planned or, as the case may be, currently projected net income can be achieved.

In the Home Loan and Savings Bank segment, Wüstenrot Bausparkasse AG maintains a risk management system designed especially for German covered bond business pursuant to Section 27 of the German Pfandbrief Act (PfandBG).

Sensitivity and scenario analyses. From the Group perspective, we regularly run economic stress scenarios in order to identify interest rate sensitivities and simulate trends on the equity and property markets under changed assumptions. The effects of possible market price scenarios on the Group’s earnings and equity are presented and explained in Note 45 in the notes to the consolidated financial statements.

Asset liability management. As part of asset liability management, asset and liability positions are managed and monitored in such a way that they correspond to the company’s risk profile. We counter interest guarantee risks by managing durations and applying a dynamic product and pricing policy.

Financial instruments. In strategic and tactical asset allocation, the companies of the W&W Group made use of derivative financial instruments in 2018. Stock price risks are reduced with suitable hedging strategies using derivatives (e.g. put options, short futures).

Participation controlling. Participations are subject to stringent controlling. Among other things, this comprises the annual planning of dividends, medium-term economic planning, projections during the year and monthly target/actual comparisons for material participations. Additionally, independent processes for risk governance and risk controlling are in place for private equities and alternative investments. In this way, impending participation risks can be responded to at an early stage.

Congruent coverage. Because we cover underwriting liabilities in foreign currency with suitable capital investments in the same currency, the currency risks resulting from these positions are limited due to maximum congruence.

Monitoring. We continually monitor trends on the capital markets in order to be able to promptly adjust our positioning and our hedging.

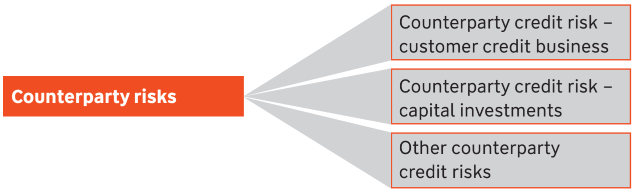
New-products process. Prior to their introduction, new products (lending and deposit products) are submitted to a new-products process, especially in order to ensure proper handling by the accounting department and in the risk controlling systems.

Counterparty credit risks

- Bond portfolio: Focus on high rating and good collateral structure.
- Investment environment will continue to require stringent credit management.
- Risk profile with respect to customer loan exposure constant at a very good level.

Counterparty risks

Systemisation



Risk definition

We define counterparty credit risk as potential losses that may result if borrowers or debtors default or experience a deterioration in creditworthiness.

Counterparty credit risks can arise from the default or changed rating of securities (counterparty credit risk associated with capital investments) and from the default of business partners in customer lending business (counterparty credit risk associated with customer lending business). Moreover, risks for our Group can result from the default on receivables due from our counterparties in reinsurance (other counterparty credit risk).

Market environment

Risk premiums for European corporate bonds continue to hover near historical lows. Credit spreads for European securities have stabilised in all rating classes at the level of the previous year. In addition, due to the political instability prevailing in certain areas and trends in the U.S. dollar, spreads have grown considerably in emerging markets.

Risk position

Counterparty credit risk from investments. Exposed to counterparty credit risks from capital investments are primarily Württembergische Lebensversicherung AG, Württembergische Versicherung AG, W&W AG, Wüstenrot Bank AG Pfandbriefbank and Wüstenrot Bausparkasse AG, as well as Wüstenrot stavební spořitelna a.s. and Wüstenrot hypoteční banka a.s.

Pursuant to our strategic orientation, the rating structure of our investment portfolio is conservative, with 97.3% (previous year: 96.8%) of investments being in the investment grade range.

Rating (Moody‘s scale)

	2018		2017	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
AAA	16,320.6	43.7	16,114.3	43.5
Aa1	6,143.0	16.5	5,078.5	13.7
Aa2	3,394.1	9.1	3,711.3	10.0
Aa3	2,151.3	5.8	1,611.5	4.4
A1	1,351.6	3.6	2,046.2	5.5
A2	635.9	1.7	996.4	2.7
A3	1,555.7	4.2	1,009.8	2.7
Baa1	2,159.5	5.8	2,071.2	5.6
Baa2	1,146.4	3.1	2,012.6	5.4
Baa3	1,455.4	3.9	1,175.7	3.2
Non-investment-grade/non-rated	1,017.8	2.7	1,191.8	3.2
Total	**37,331.3**	**100.0**	**37,019.3**	**100.0**

The scope of consolidation of the balance sheet serves as the basis for the following presentation of our counterparty exposures.

Our risk exposure by asset classes at segment level is shown in the following table:

Rating (Moody‘s scale) per segment

	Portfolio carrying amount				Share in total exposure in %
in € million	Aaa - Aa	A - Baa	NIG/NR	Total	
	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
Home Loan and Savings Bank	6,608.0	1,784.4	–	8,392.4	22.5
Life and Health Insurance	19,495.7	5,072.9	873.4	25,442.0	68.2
Property and Casualty Insurance	1,244.1	563.7	116.2	1,924.0	5.2
All other segments	661.2	883.5	28.2	1,572.9	4.2
Total	**28,009.0**	**8,304.5**	**1,017.8**	**37,331.3**	**100.0**
Rating cluster share in %	75.0	22.2	2.7	100.0	

Note 46 in the notes to the consolidated financial statements presents all of our assets by rating class and maturity structure in accordance with international accounting requirements.

Our investment exposure generally has a good collateralisation structure. Most of the investments with financial institutions are secured by government liability or lien.

Seniority

	2018		2017	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
Public	13,769.4	36.9	12,727.1	34.4
German covered bond	11,123.5	29.8	10,833.5	29.3
With guarantor's liability	–	–	–	–
Deposit guarantee or government liability	5,715.2	15.3	5,873.3	15.9
Uncovered	6,723.2	18.0	7,585.4	20.5
Total	**37,331.3**	**100.0**	**37,019.3**	**100.0**

The scope of consolidation of the balance sheet serves as the basis for the following presentation of our counterparty exposures.

The collateralisation structure of the W&W Group at segment level is shown in the following table:

Collateral cluster

	Portfolio carrying amount				
	Public	German covered bond	Deposit guarantee or government liability	Uncovered	Total
in € million	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
Home Loan and Savings Bank	3,141.5	2,591.8	960.9	1,698.2	8,392.4
Life and Health Insurance	9,581.6	7,500.7	4,373.4	3,986.3	25,442.0
Property and Casualty insurance	706.7	597.8	224.3	395.2	1,924.0
All other segments	339.6	433.2	156.6	643.5	1,572.9
Total	**13,769.4**	**11,123.5**	**5,715.2**	**6,723.2**	**37,331.3**
Collateralisation structure share in %	36.9	29.8	15.3	18.0	100.0

Country risks. As at 31 December 2018, we held bonds issued by peripheral EMU countries (Portugal, Italy, Ireland and Spain) totalling €1,259.9 million (previous year: €1,314.8 million). Of this amount, Spain accounted for €543.3 million (previous year: €440.4 million) and Italy for €345.4 million (previous year: €321.9 million). As at 31 December 2018, the W&W Group did not hold any direct investments in Greece.

In 2018 Italian sovereign debt reemerged as an issue on the financial markets, resulting in corresponding uncertainty with highly fluctuating spreads (threat of a resurgence of the sovereign debt crisis).
In the year under review, none of the bonds of peripheral EMU countries were written down. The exposure to government bonds of these countries is subject to limitations and ongoing monitoring.

The structure of our entire government bond exposure by segment is as follows:

Government bonds by regions 2018

in € million	Germany	Europe	Central/ South America	North America	Asia	Africa	Other	Portfolio carrying amount Total	Share in total exposure in %
Home Loan and Savings Bank	873.8	2,267.7	–	–	–	–	–	3,141.5	23.0
Life and Health Insurance	3,710.9	4,731.3	222.0	145.3	56.0	170.5	545.5	9,581.5	70.3
Property and Casualty Insurance	305.3	233.3	32.0	21.3	5.3	23.9	85.7	706.8	5.2
All other segments	113.7	81.6	–	–	–	–	5.6	200.9	1.5
Total	**5,003.7**	**7,313.9**	**254.0**	**166.6**	**61.3**	**194.4**	**636.8**	**13,630.7**	**100.0**
Share in %	36.7	53.7	1.9	1.2	0.4	1.4	4.7	100.0	

The scope of consolidation of the balance sheet serves as the basis for the following presentation of our counterparty exposures.
Data are presented by economic areas (EWR, MERCOSUR, NAFTA, ASEAN, AU, others).

Emerging markets. Global economic and political risks, as well as country-specific problems, led to increased volatility, particularly in the emerging markets segment. Rising interest rates in USD also had an impact. The W&W Group is affected by this through funds that invest in emerging markets. Trends in this market segment are subject to intensive monitoring.

Subordinate exposure. Although our subordinate exposures (profit participation rights, silent participations and other subordinate receivables) fell to €1,594.0 million (previous year: €1,702.3 million), they still account for only a small proportion of the total volume of our capital investment portfolio.

On the financial markets, increased credit-rating-induced default risks persist for uncovered and subordinate exposures, especially for capital investments in the financial sector. Further losses of interest and reductions in nominal value (haircuts) still cannot be ruled out.

Counterparty credit risk in customer lending business. The W&W Group's most significant counterparty credit risks from customer loans exist at Wüstenrot Bausparkasse AG. The mortgage portfolios of Württembergische Lebensversicherung AG and the customer lending business of Wüstenrot Bank AG Pfandbriefbank are of minor significance. As at the end of the year, the carrying amount of mortgages pursuant to the German Commercial Code (HGB) amounted to €1,738.9 million (previous year: €1,846.8 million).

Default and dunning status of customer loans (Wüstenrot Bausparkasse AG)

	Portfolio	Share	Portfolio	Share
		2018		2017
	in € million	in %	in € million	in %
No default	16,968.1	98.9	17,085.0	98.6
of which dunned	419.9	2.4	339.4	2.0
Default	192.5	1.1	249.6	1.4
Total	**17,160.6**	**100.0**	**17,334.6**	**100.0**

The customer lending business of Wüstenrot Bank AG Pfandbriefbank continues to focus on overdraft facilities, lines of credit and instalment loans. As at 31 December 2018, the loan portfolio in customer business amounted to €30.7 million. This corresponds to around 2.6% of the total assets of Wüstenrot Bank AG Pfandbriefbank. There are also surety obligations of €22.2 million.

At the end of the year, the loan risk provision ratio for Wüstenrot Bausparkasse AG pursuant to the German Commercial Code (HGB) (net loan risk provision in relation to the loan portfolio) was 0.04% (previous year: 0.05%), and the loan default rate pursuant to the HGB (loan default in relation to the loan portfolio) was 0.01% (previous year: 0.03%). As at the reporting date, the expected probability of default in the loan portfolio was 1.77% (previous year: 1.81%). The average loss given default (LGD) amounted to 8.84% (previous year: 8.77%).

Our receivables portfolio mainly consists of loans, most of which are secured by mortgage deeds and intrinsically diversified. Because of the high granularity, there are no appreciable risk concentrations in our customer loan portfolio. Due to our strategic orientation, our loan portfolios are mainly subject to pool and structural risks. The good risk position, as well as positive trends in the portfolio as a result of the very good economic situation, are reflected in the low loan risk provision ratios and loan default rates. Currently, there are no signs of significant risks in our customer loan portfolios.

For an additional examination of counterparty credit risks from customer business under IFRS accounting, please see Note 46.

Other counterparty credit risk. W&W AG and Württembergische Versicherung AG are exposed to bad-debt risks vis-à-vis our contracting partners in connection with reinsurance. Reinsurance activities are pooled in the reinsurance unit of Württembergische Versicherung AG. Bad-debt risks in reinsurance business (risk type "other counterparty credit risk") were determined on the basis of the capital to be provided in accordance with the economic risk-bearing capacity model, and they remain constant at a low level.

Strategy and organisation

Diversification and core business. We limit counterparty credit risks through the careful selection of issuers and reinsurance partners, as well as through broadly diversified investments. In this context, we take into consideration the capital investment rules applicable to the respective business area. Contracting partners and securities are mainly limited to those with good credit ratings in the investment grade range. In customer lending business, we largely focus on construction financing loans for private customers, which are secured with in-rem collateral. Our strategic focus on residential construction loans excludes individual loans that endanger the portfolio.

Counterparty credit risks are strategically and structurally managed by the risk committees of the divisions on the basis of the requirements specified in the risk strategy.

Organisational structure. In customer lending business, operational risk governance is handled by the lending units and the back offices of our subsidiaries. We control and manage counterparty credit risks from customer lending business through careful credit review and scoring procedures, clear approval guidelines, loans secured with in-rem collateral, various monitored and limited (early-warning) risk indicators and a sophisticated system that automatically determines any impairments.

The front office in the treasury of the Home Loan and Savings Bank division and the financial governance of the Insurance division are responsible for the operational management of our investment activities. The responsible risk controlling areas operate as independent monitoring units.

The **Group Credit Committee** has been set up for overarching credit management. It develops proposals for loan decisions in the institutional area and submits them to the Group Board Risk for adoption.

Risk management methods and risk controlling

For the counterparty credit risk area and the types of risks detailed here, we mainly apply the following risk controlling methods and procedures (see chart "Risk Management – Method Depiction").

Economic risk-bearing capacity model. In the banking and insurance area, we not only monitor counterparty credit risk from capital investment activities at an individual level but also evaluate them at the portfolio level with our credit portfolio model. For the Group companies included in our economic risk-bearing capacity model, the securities held are economically measured by means of a standard credit-value-at-risk model.

The loss distribution is generated with Monte Carlo simulations. The stochastic model is based on market data and takes default probabilities as well as the probability of migrations between different credit rating classes into consideration.

Risk capital requirements are calculated as value at risk with the prescribed confidence level of 99.5% on the basis of one-year default/migration probabilities.

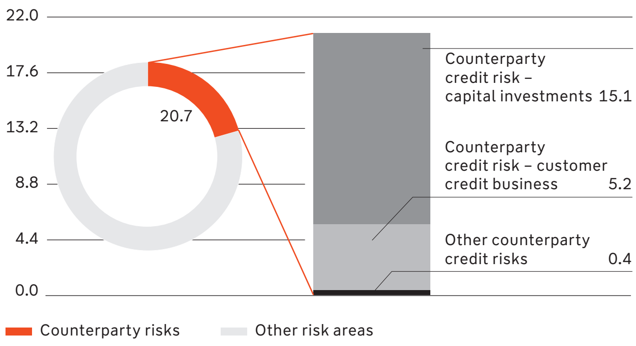
As a governance toolkit, our continually enhanced loan portfolio model enables us to dynamically adapt credit lines to rating changes.

The customer loan portfolios of Wüstenrot Bausparkasse AG are also measured with a standard credit-value-at-risk model. An analytical approach is used for this purpose.

The **risk profile** of the counterparty credit risk area was determined according to our methods for risk-bearing capacity measurement (see section “Economic capital adequacy”), and as at 31 December 2018, it was distributed as follows:

Risk profile for counterparty risks

in %



Risks from our investments constitute the greatest proportion of risk capital requirements for counterparty credit risks. Measured against total economic risk capital, the proportion amounted to 15.1% (previous year: 18.5%).

Counterparty credit risks from customer lending business accounted for 5.2% (previous year: 3.9%). Other counterparty credit risks largely relate to bad-debt risks in reinsurance business. These accounted for merely 0.4% (previous year: 0.3%). In 2018 counterparty credit risks were in line with the risk strategy. The risk limit was consistently complied with at the Group level.

Sensitivity and scenario analyses. In the counterparty credit risk area, we regularly run stress scenarios at the Group level. On the basis of these, we analyse the effects of changed parameter assumptions and simulated defaults of material counterparties and reinsurance partners.

Risk classification and scoring procedures. We manage and monitor counterparty credit risks in customer lending business with application and behaviour scoring procedures. The risk classification procedure implemented at Wüstenrot Bausparkasse AG enables the management of customer loan portfolios through allocation to risk classes on the basis of loss potential.

Limit and line system. Risk limitation serves to limit risks to a maximum permissible level that corresponds to the risk appetite. It is carried out by allocating risk coverage capital to risk areas. In order to prevent risk concentrations from forming with respect to individual capital investment counterparties, a limit is set at the level of issuer groups (borrower units). A Group-wide risk line system is used for this purpose.

To assess counterparty credit risks from capital investments and determine lines, the W&W Group draws on the evaluations of international rating agencies, which it verifies and supplements with its own creditworthiness analyses. The lines are subject to regular review.

The utilisation of the limits and lines is monitored by the decentralised risk controlling units and comprehensively by the Risk, Compliance & Data Management department.

Owing to its business model, the W&W Group’s capital investment portfolio is strongly focused on government bonds, financials (especially bank stocks) and corporate bonds. Counterparty credit risks that result from portfolio concentrations are reduced through a targeted selection of counterparties and by the risk line system, but of course they cannot be completely ruled out.

Collateral management. Collateral management is an integral element of the loan management process for the individual companies in the W&W Group that make loans. Our loan risk controlling units apply strict standards for the

Risk management

Method depiction

Counterparty risk area	Risk controlling (Group-wide)	
	■ Internal risk-bearing capacity model ■ Limit system ■ Sensitivity and scenario analyses ■ Deployment of financial instruments ■ Diversification ■ Creditworthiness analyses ■ Monitoring ■ New-product process ■ Reporting ■ Risk provision	
	Company	**Risk controlling (specific)**
Counterparty credit risk – customer credit business	Wüstenrot Bausparkasse AG üstenrot stavební spořitelna a.s.	■ Risk classification and scoring procedures ■ Application and behaviour scoring procedures
Counterparty credit risk – capital investments	Württembergische Lebensversicherung AG Württembergische Versicherung AG Wüstenrot & Württembergische AG Wüstenrot Bausparkasse AG	■ Investment lines and risks lines, for issuers and counterparties
Other counterparty credit risks	Württembergische Versicherung AG Wüstenrot & Württembergische AG	■ Monitoring of reinsurance portfolio ■ Reinsurance report

quality of accepted collateral. Property collateral is mainly furnished in the form of land charges (Grundpfandrechte), which are similar to mortgages. In addition, we use guarantees and financial collateral. In order to minimise counterparty credit risks from trading transactions, cash collateral is normally required. The foundation consists of master agreements with the respective counterparties, which are based on such market standards as the ISDA Master Agreement (ISDA = International Swaps and Derivatives Association) or the German Master Agreement for Financial Futures.

Risk provisions. Impending defaults relating to customer transactions, investments or reinsurance business are taken into account by means of appropriate impairments. The methodology for the creation of risk provisions and the taking of impairments, as well as how they changed in 2018, are presented in Note 46 “Counterparty credit risk” in the notes to the consolidated financial statements.

In customer lending business at Wüstenrot Bausparkasse AG, risk provisions are calculated at the individual contract level with the aid of the parameters probability of default (PD), loss given default (LGD) and exposure at default (EAD), and they are based on the expected loan default. All changes in the customer loan portfolio with respect to credit rating or collateral structure thus result in a change to the risk provisions.

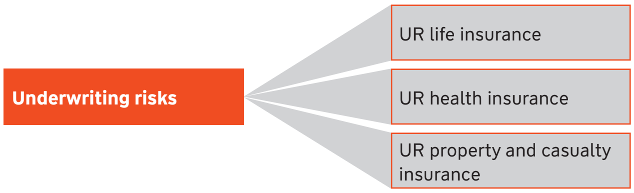
Monitoring. We carefully monitor and analyse our investments in order to identify risks that may arise from trends on the capital markets. For this purpose, we draw on the economic expertise of W&W Asset Management GmbH. Furthermore, all indicators provided in the aforementioned instruments and procedures are included in the monitoring.

Underwriting risk

Underwriting risk means potential losses that arise in connection with previously calculated premiums from the uncertainty concerning future trends in claims and costs from concluded insurance contracts. Thus, it covers all specific risks of the insurance business, such as premium and reserve risks, cancellation risks, disaster risks and biometric risks in life and health insurance. Due to external events (e.g. natural disasters), risks associated with individual contracts may add up to accumulation risks. These risks occur only at insurance companies (primary insurance and reinsurance).

Underwriting risks

Systemisation



Market environment
The loss ratio (net) for the 2018 financial year showed improvement compared with the previous year. Year on year, 2018 saw increased expenses of €65.9 million (previous year: €57.4 million) for natural disaster claims. The main reason for the rise was the Friederike storm on 18 January 2018.

Risk situation
The interest guarantee risk for life insurance is considered to consist of both underwriting risk and market price risk. In our quantitative models, we map the interest guarantee risk within the framework of market price risk and interest rate risk. It is examined in close coordination between actuarial practice and investment and is described in the chapter “Market price risk”. Concerning the presentation of the risks from our insurance portfolio, please also see the information in Note 47 “Underwriting risks” in the notes to the consolidated financial statements. Concerning net loss ratios and net settlement ratios, please see Note 19 in the notes to the consolidated financial statements.

Underwriting risks in the area of life insurance include all specific risks associated with life and health insurance business, such as biometric risks and cancellation, cost and calculation risks. Underwriting risks in health insurance mainly result from biometric risks, premium risks and actuarial interest rate risks.

Biometric risk. Biometric risks result from the deviation of expected biometric trends from actual biometric developments. They are affected by exogenous influences, such as life expectancy, mortality, probability of invalidity and medical advances. Risks arise both from short-term fluctuations and from longer-term change trends.

Cancellation risk. Cancellation risk means the detrimental change in the value of insurance liabilities as a result of changes in the amount or volatility of the cancellation, termination, renewal and redemption rates of insurance contracts. Scenarios are run to analyse a direct permanent increase of the cancellation rates, a permanent decline in cancellation rates and mass cancellation.

In property and casualty insurance, underwriting risks consist of premium and reserve risks.

Premium risk. If costs and claims remain stable or increase, premiums may be inadequate if they fall or are not calculated in line with needs. Premium risks mainly result from natural disasters, accumulation risks and catastrophes.

The principle source of accumulation risks are natural disasters, like storms, hail or flooding.

Reserve risk. A reserve risk exists if claims reserves are inadequate. The settlement of claims can fluctuate with respect to time and amount, meaning that the reserves set up for claims benefits may not be sufficient in the event of heightened volatility. Despite the discontinuation of new underwriting by its UK subsidiary, Württembergische Versicherung AG is liable for business underwritten up to and including 2007. The change in claims reserves can be seen from the claims settlement triangles presented in the notes to the consolidated financial statements. This overview shows that adequate claims reserves have always been created thus far.

Strategy and organisation

Focus on domestic business. The W&W Group conducts primary insurance business in life and health insurance and in property and casualty insurance for private and commercial customers in its business-strategic core market of Germany. In doing so, it also relies on digital distribution channels (e.g. the digital brand “Adam Riese”). The discontinuation of new underwriting by the UK subsidiary of Württembergische Versicherung AG at end of 2007 and the sale of the Czech insurance companies in January 2016 have greatly reduced the international risk exposure of our Group. In accordance with internal provisions, the companies of the W&W Group enter into insurance transactions only where the risks associated with them do not endanger the company as a going concern. This is supported by means of optimisation of cost and claims management. Incidental risks that cannot be influenced are limited with suitable and adequate protective instruments (e.g. reinsurance).

Low industrial risks. In property and casualty insurance, industrial risks are underwritten only to a limited and clearly defined extent. Since our business orientation focuses on corporate and private customer business, we do not endanger our portfolio with large individual risks.

Limited assumed reinsurance business. Active reinsurance business with partners outside our Group is now conducted to only a very limited extent by W&W AG, which participates in a number of German market pools.

Organisational structure. The risk management of life and health insurance and property and casualty insurance is closely interwoven with the Risk, Compliance & Data Management department and integrated in the risk management system of the W&W Group through cross-company bodies. Within the segments, risk-relevant facts and analysis results are presented in the quarterly risk report and discussed in the Executive Board and in other bodies that meet regularly. Controlling units measure underwriting risk.

Risk management methods and risk controlling

Economic risk-bearing capacity model. We use an economic model that is based on the value-at-risk approach for measuring underwriting risks. In property and casualty insurance, the calculation is performed with Monte Carlo simulations. In order to estimate disasters, the W&W Group makes use of simulation results provided by reinsurance companies and brokers that specialise in this area. These results are incorporated in our stochastic model.

At Württembergische Versicherung AG, underwriting risk is quantified on the basis of a stochastic approach. The risk is presented as value at risk, with a confidence level of 99.5%. W&W AG’s underwriting risk is largely calculated on the basis of reinsurance business that is assumed and retained by Württembergische Versicherung AG. It is therefore derived from the model of Württembergische Versicherung AG, taking into account the calculation of the underwriting risk of W&W AG in accordance with Solvency II. At Württembergische Lebensversicherung AG, underwriting risk is quantified on the basis of the stress scenarios provided for under Solvency II. In this context, the effect of the respective stress scenario on the available solvency margin is examined.

Risk capital requirements. The chart in the chapter “Economic capital adequacy” (section “Economic risk capital”) shows the weighting of the risk capital required for underwriting risk. In all, underwriting risks accounted for 20.2% (previous year: 13.2%) of total risk capital requirements of the W&W Group. The increase is due to the portfolio growth and changed calculations of nat cat risks of Württembergische Versicherung AG.

The main risk bearer is Württembergische Versicherung AG, followed by Württembergische Lebensversicherung AG and W&W AG.

In 2018 underwriting risks were in line with the risk strategy. The risk limit was consistently complied with at the Group level.

Limitation. The loss from insurance risks is limited by means of defined risk limits. The limit utilisation is monitored continually.

Pricing and underwriting policy. The principles and objectives of the underwriting policy and the definition of permissible transactions and the associated responsibilities are documented in strategies and underwriting guidelines and are reviewed at least once a year. Our pricing and underwriting policy is risk- and income-oriented. It is supported with suitable incentive systems for the mobile sales force. Risks are underwritten according to defined guidelines and under consideration of sector-specific maximum underwriting amounts. Natural disaster risk is countered with risk-oriented prices, contract terms and conditions adapted to critical disaster zones and risk exclusions.

Claims management. In addition to risk balancing through our sector and product mix, gross underwriting risk is limited by efficient claims management and a cautious claims reserve policy.

Reinsurance. Adequate reinsurance protection for individual risks and for accumulation risks reduces underwriting risk in the property and casualty insurance segment. The reinsurance programme is adjusted on a yearly basis under consideration of risk-bearing capacity. Great emphasis is placed on the solvency of the reinsurers.

Controlling. As a rule, underwriting trends are continually analysed and monitored by way of stringent controlling of premiums, costs, claims and benefits. The operational run-off risks of the UK subsidiary are handled by Antares Underwriting Services Limited via a service contract under close supervision and management by Württembergische Versicherung AG. We monitor settlement risks through direct management and collaboration on site in London in the case of material business transactions, as well as through external run-off reviews and continual checking of claims reserves.

Reserves. W&W insurers create appropriate reserves in a timely manner for claims that occur, which take the form of specific and general provisions. Technical provisions, as well as the structure of our provisions for future policy benefits, are explained in Note 19 in the notes to the consolidated financial statements.

For further information on underwriting risk (property and casualty insurance business and life and health insurance business), please see Note 47 in the notes to the consolidated financial statements.

Operational risks

- Legal risks due to statutory amendments and changes to interpretations of laws.
- Compliance risks due to the implementation and observance of legal standards.
- Process risks arising from internal, legal and regulatory projects.
- Information risks from complex data and system structures.

Risk management

Method depiction

Risk controlling (Group-wide)

- Economic risk-bearing capacity model
- Limit system
- Actuarial analyses
- Reinsurance or retrocession
- Sensitivity and scenario analyses
- Reporting
- Risk-oriented product development and structure

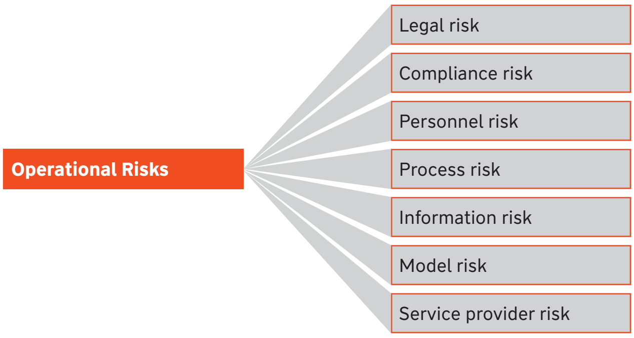
Underwriting risk area	Company	Risk controlling (specific)
Insurance risk life insurance	Württembergische Lebensversicherung AG Wüstenrot & Württembergische AG	Price and underwriting policies Determination of profit participation
Insurance risk health insurance	Württembergische Krankenversicherung AG Württembergische Lebensversicherung AG Wüstenrot & Württembergische AG	Price and underwriting policies Determination of profit participation
Insurance risk property/casualty insurance	Württembergische Versicherung AG Wüstenrot & Württembergische AG	Reserves policy Portfolio and claims management

Risk definition

We define operational risks as potential losses incurred as a result of the unsuitability or failure of internal processes, people and systems or externally driven events. They also include legal and tax risks.

Operational Risks

Systemisation



Risk position

Operational risks are unavoidable when enterprises engage in general business activities. In principle, all companies in the W&W Group are exposed to operational risks.

Legal risk. In terms of legal and supervisory requirements, we are witnessing a growing level of European harmonisation and expansion of creditor and consumer rights and disclosure obligations. Legal proceedings that are pending in the financial sector may lead to subsequent financial recovery claims. In particular, where supreme courts reinterpret laws, this may entail material risks and significantly impair future financial performance.

Compliance risk. Inadequate compliance with or implementation of statutes, legal provisions, regulatory requirements or ethical/moral standards, as well as internal regulations and provisions, can pose a compliance risk.

Personnel risk. Integration projects, internal reorganisation projects, regulatory reforms in the financial industry and new business strategies demand top performance from our employees and may result in increased staff workload. We rely on effective personnel management in order to support our employees.

Process risk. Where internal procedures or processes experience a complete or partial failure or are inappropriate, as well as in the case of human error, tangible and intangible losses may result. We counter risks arising from internal projects, particularly specialised, technical and infrastructure projects set up in the W&W Group that have high investment budgets, with appropriate project management. However, project and cost risks cannot be completely ruled out.

Information risk. Information risk arises when our IT systems experience a complete or partial outage (IT/system outage risk), as well as where internal systems, technical equipment and data processing are unsuitable. As a financial services provider, the W&W Group greatly depends on IT systems. However, this is associated with information security risks with respect to the goals of protecting the availability of applications, confidentiality and integrity of data, as well as with cyber threats. In addition, the W&W Group has undertaken numerous measures in connection with the further expansion of digitalisation (e.g. through new business models and sales channels, as well as internal process optimisation), and these may give rise to additional information security risks. Analyses are conducted regularly in order to determine data protection needs and take appropriate protective measures. Although some success has already been achieved in terms of system consolidation in the W&W Group, the diversity of the IT landscape has been marked by mergers, and this makes it difficult to collate and analyse data and automate processes.

Model risk. Model risk can be divided into risks that are considered in connection with the modelling and limiting of other risk types (estimation and specification risk) and risks that are part of conventional operational risk (input and use risk). The latter two concern conventional input and use risks. As a result, losses can arise from decisions that are made on the basis of results of internal models whose development, execution or use is faulty.

Service provider risk. Service provider risk mainly refers to risks resulting from contractual relationships with third parties. This includes outsourcing risks, especially outsourcing outside the Group.

Strategy and organisation

Risk minimisation and acceptance. The Executive Board of the W&W Group specifies the strategy and parameters for managing operational risks. Because they take many forms, however, they cannot be completely avoided in certain cases. Our goal is therefore to minimise operational risks. We accept residual risks. Consistent processes, uniform standards and an implemented internal control system facilitate the effective management of operational risks.

Organisational structure. Operational risks are generally managed on a decentralised basis by the responsible organisational units.

Compliance risks are identified, assessed and managed according to the Compliance Management System via the Compliance organisational unit of the Risk, Compliance & Data Management department of W&W AG. The Group Compliance Committee is the central body for compliance-relevant matters.

The Customer Data Protection and Operational Security area (W&W/CO) coordinates the Group Security Committee, ensures that the IT security management system, the data protection organisation, the business continuity management (BCM) system and the internal control system (ICS) are in line with uniform methods and standards. Service provider risks are managed and monitored by centralised and decentralised outsourcing officers according to uniform methods and standards. These risks are regularly assessed and monitored through active outsourcing management via the Retained Organisation, e.g. in the form of risk analyses.

The Group's Legal department is primarily in charge of identifying, evaluating and managing legal risks.

The HR department is responsible for appropriate personnel management and identifying, evaluating and managing personnel risks.

Model risks are analysed within the framework of a model risk inventory by the risk controlling units.

Economic risk-bearing capacity model. Our economic risk-bearing capacity model takes into account the risk capital requirements for operational risks. For our German banks, the determination takes place on the basis of a mathematical-statistical model (value at risk), which is based both on the simulation of potential loss events. For insurance companies, the standard approach pursuant to Solvency II is used.

The chart (section "Risk profile and material risks") depicts the weighting of the risk capital reserved for operational risks. In total, operational risks in the Group accounted for 10.0% (previous year: 10.7%) of total risk capital requirements.

In 2018 operational risks were in line with the risk strategy. The risk limit was consistently complied with at the Group level.

Risk assessment. Operational risks are managed systematically at an aggregated level by a software application ("Risk Assessment+"). Based on findings from the risk controlling and risk governance procedures, the risks are classified with respect to their probability of occurrence and potential for damage. The results are consolidated by the risk controlling units and made available to the risk committees.

Claims database. In the W&W Group, claims databases are used to compile and evaluate operational claim events. They are recorded and documented Group-wide using the software application Risk Assessment+.

Internal control system. Processes and control mechanisms essential to business operations are systematically documented, regularly reviewed and updated in the internal control system of the W&W Group according to uniform standards. The process modelling and control documentation are technically supported by a software application. By linking processes and risks and by identifying key controls, risks inherent in processes are managed.

Organisational guidelines. Work procedures, conduct guidelines, company guidelines and comprehensive operational rules are in place to limit operational risks.

Monitoring and collaboration. Legal risks are countered through constant legal monitoring as well as observation and analysis of case law. In close collaboration with associations, various departments monitor relevant proposed legislation and developments in case law.

Compliance management. Compliance risks are categorised with the aid of a systematic procedure for identifying risks (differentiated according to existing and changed legal standards according to a risk-based perspective). For identified risks, their potential for damage is estimated and then evaluated based on occurrence probability. Through the definition of specific measures and the assessment of appropriateness and effectiveness, as well as, where necessary, additional monitoring procedures, the foundations are created for a continuous process to avoid and mitigate damage.

Fraud prevention. To prevent the risk of fraud, the W&W Group has put measures in place to ensure compliance with statutory and regulatory requirements concerning controls and technical security systems, as well as to make employees aware of the issue of fraud prevention. For instance, preventive threat analyses and implemented and documented process controls are used to counteract the risk of fraud.

Personnel management. The success of the W&W Group is largely dependent on qualified, committed employees. Through personnel development measures, we support our employees in fulfilling their responsibilities and duties. In order to manage turnover risk, we regularly analyse staff turnover within the W&W Group. For further information, please see the “Employees” section in the chapter “Group fundamentals”.

Information security management/IT risk management. Extensive testing and backup procedures for application and computing systems form the basis for the effective management of information security risks with respect to the goals of protecting availability, confidentiality and integrity. In order to ensure continued business operations in the event of process or system outages, critical processes are identified Group-wide in an impact analysis. The contingency plans associated with the processes are subject to regular functionality checks. Our business continuity management system ensures that critical business processes will remain intact and continue to function even in the event of a major disruption to business operations.

Model governance. We minimise model risk by means of careful model governance that applies to all risk types. Within the scope of the Model Change Policy, model development is subject to standardised, transparent documentation. Model risk is reduced and monitored through the employed validation and backtesting procedures.

Business risks

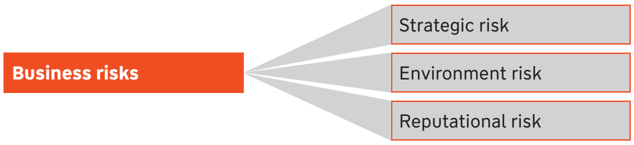
- Increasing volatility in external risks – (geo-) political, social, technological and environmental developments.
- Increased regulation costs and rising equity requirements.
- Sustained pressure on income from capital investments due to historically low capital market interest rates.

Risk definition

We define business risk as potential losses incurred as a result of management decisions relating to the business strategy and its execution or the failure to achieve strategic targets. This also includes risks on sales and procurement markets, as well as cost and income risks. In addition to these strategic risks, we consider the risks that could arise from a changed legal, political or social environment, from reputation and from changed customer behaviour in the home loan savings pool.

Business risks

Systemisation



Risk position

Business risks are inevitable in general business operations and in the event of changes in the industry environment. All companies in the W&W Group are exposed to business risks.

Among business risks, the following types of risks are considered:

Strategic risk. This risk results from the company’s incorrect or insufficient strategic orientation, from the non-achievement of strategic goals or from the poor implementation of strategic requirements. These risks particularly take the form of cost and income risks.

In addition to cost risks due to the required regulatory investments, our material earnings risks consist of the potential failure to generate the projected income from our investments. Because of the volume of investments, our insurance companies, particularly Württembergische Lebensversicherung AG, are particularly exposed to this type of risk. In light of this, achieving the established yield targets puts high demands on our strategic asset allocation and our front-office units.

With the change in accounting rules mandated by IFRS 9, according to which financial instruments are now to be measured to a greater extent at fair value through profit or loss, higher volatility in business results is to be expected.

External risk. External risk means the risk of loss from potential changes in basic external conditions (e.g. political/legal, economic, technological). This also includes risks from changed customer behaviour in the home loan and savings pool, which in home loan and savings business may result from the exploitation of existing product options and elective opportunities, irrespective of trends in market interest rates.

Significant potential for risks is emanating, in particular, from the political and social environment (geopolitical, global trends, e.g. from military conflicts, trade disputes, Brexit, terrorism, social unrest, migration/refugee movements).

Brexit. Following the British Parliament's rejection of the Brexit deal, the likelihood increased that the UK will crash out of the European Union (EU). Because it is unclear how matters will proceed from here, the W&W Group is preparing for various Brexit options. Nevertheless, in view of recent political developments, Brexit uncertainty remains. The internal preparations relate, in particular, to investments, the settlement of derivatives through the London Clearing House (LCH) and the handling of insurance business in the UK.

In the event of a no-deal Brexit, we expect strong market fluctuations, particularly in terms of stock prices, exchange rates and interest rates. We would also expect a downturn in the economy. It currently is not possible to predict with any confidence the extent of market fluctuations and the economic downturn, but depending on the scenario, they will lead to significant declines in the market value of investments throughout the industry, which will have an impact on market price risk.

To avoid negative implications on the financial stability of the EU, derivatives settlement through LCH would be secured for 12 months. For coming derivatives there is an alternative by using the Eurex interface.

For the extreme case – namely, LCH is ultimately not recognised by the European supervisory authority, and derivative positions will have to be closed prematurely – we are studying measures to counteract a negative impact on results, which under certain circumstances could be significant.

For the UK branch of Württembergische Versicherung, Brexit preparations, including any licence applications that may be necessary, will be finalised on time in consultation with the British supervisory authority. However, uncertainties still remain, including with respect to the legal framework for servicing other insurance policies with risks in the UK.

Regulatory issues. In the regulatory environment, we are faced with increasing governance, capitalisation and liquidity requirements, as well as comprehensive reporting and control obligations. The W&W Group is addressing the expanded statutory and regulatory requirements for banks and insurance companies. Regulatory and political issues with material or potentially material effects on the risk management of companies of the W&W Group:

- Regulations relating to the Supervisory Review and Evaluation Process (SREP),
- Publication of the guidelines on the supervisory assessment of bank-internal capital adequacy concepts,
- EU Benchmarks Regulation,
- Supervisory requirements concerning IT (BAIT/VAIT),
- Directive on the activities and supervision of institutions for occupational retirement provision (IORPs II) and
- IFRS 17 "Insurance Contracts".

Pool risk. Risks from changed customer behaviour in home loan and savings business may result from the exploitation of existing product options and elective opportunities, irrespective of trends in market interest rates. For example, such changes in the field of home loan and savings include the termination or suspension of savings, the use of the bonus interest or the selection or change of rates.

Reputation risk. If the company's reputation or brand were to suffer damage, there is a risk of losing business volume immediately or in the future. This could lower the enterprise value. As part of the W&W approach of "financial planning from a single source", we greatly depend on our reputation among customers and business partners as a sound, secure corporate group. We permanently monitor the W&W Group's public image, and we strive to maintain our reputation by means of a transparent communication policy when faced with critical situations.

Strategy and organisation

Strategy process. A rolling strategy process has been implemented in the W&W Group. The Group business strategy forms the brackets for both the division sub-strategies and the cross-division strategies, such as risk and IT strategies. In accordance with internal Group risk governance regulations, each of the individual W&W companies in risk classes 1 and 2 has its own documented risk strategy, which is aligned with the company-specific business model and risk profile.

Focus on core business. The W&W Group operates almost exclusively in Germany. Outside of Germany, W&W AG focuses on the Czech Republic, where it offers home loan savings and construction financing products. In addition, the insurance companies also service the commercial customers segment.

W&W Besser! With regard to "W&W Besser!" as the new standard for our Group, the focus is on the benefits for the customer and the unique W&W concept of financial planning from a single source.

The seven action fields associated with “W&W Besser!” are:

- Delighting customers and boosting sales force!
- Developing new business models!
- Expanding profitable growth fields!
- Increasing efficiency and service quality!
- Inspiring employees!
- Laying the IT foundation!
- Meeting regulatory requirements!

A number of promising new initiatives were launched in 2017 and 2018, and important successes were achieved in implementation. In this regard, we are expediting the digital transformation. For further information, please see the “Group fundamentals/Business model” section.

Organisational structure. The principles and objectives of business policies and the sales and revenue goals derived from them are contained in the business strategy and the sales forecasts. The Group Executive Board is responsible for setting the business policy and managing the associated business risks Depending on the reach of a decision, it may be necessary to coordinate with the Supervisory Board.

Risk management methods and risk controlling

We seek to achieve our strategic goals through the forward-looking evaluation of the critical internal and external factors that influence our business model. We strive to identify business risks at an early stage in order to be able to develop and introduce suitable risk governance measures.

Economic risk-bearing capacity model. Collective risks are depicted under **business risks.** Their risk capital requirements accounted for 2.4% (previous year: 3.8%) of total risk capital requirements. Other business risks are deducted from the risk coverage capital. **Business risks** beyond these are assessed by means of event-based scenario calculations and expert estimates and then assigned risk coverage potential.

Risk assessment. Business risks are managed systematically at an aggregated level by a software application (“Risk Assessment+”). Based on findings from the risk controlling and risk governance procedures, the risks are classified with respect to their probability of occurrence and potential for damage. The results are consolidated by the risk controlling units and made available to the risk committees.

Early risk identification. Risk indicators and early-warning risk indicators are used to optimally manage business risks, and they are analysed on a regular basis.

Sensitivity and scenario analyses. We use sensitivity analyses to assess risks, including those in the mid- to long term, as well as our options for action. As part of our planning, we develop a variety of scenarios in order to quantify the W&W Group’s capitalisation risks and then introduce corresponding measures.

Liquidity risks

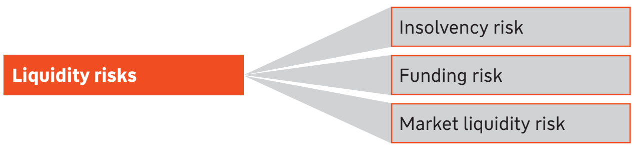
- Competitive advantage as a financial conglomerate: diversification of refinancing sources.
- Solid liquidity basis: funding assured for W&W companies

Risk definition

Liquidity risk means the danger that liquidity is not sufficiently available, that it can be obtained only at increased cost (refinancing risk) or that it can be realised only with discounts (market liquidity risk) in order to satisfy payment obligations at maturity (avoidance of insolvency risk).

Liquidity risks

Systemisation



Market environment

In December 2018, the ECB’s bond-buying programme came to an end. The main refinancing rate, which was lowered in 2016, will remain at 0.00% until further notice, and the rate for the marginal lending facility stands unchanged at 0.25%. The monetary policy of negative interest rates will be maintained. The rate for the deposit facility also remains unchanged at −0.40%.

Risk position

Insolvency risk. In their capacity as financial services companies, a number of W&W companies are subject to specific statutory and supervisory requirements, which are intended to ensure that they are able to meet current and future payment obligations at all times.

As at 31 December 2018, the financial holding group had a liquidity coverage ratio of 530.5% (previous year: 425.6%). Fulfilment of the regulatory ratio to be determined for the banks and the financial holding group ensures that a buffer of highly liquid assets is available in the event of stress in order to cover a potential net cash withdrawal for 30 days. The minimum ratio to be complied with under supervisory law is 100%.

The asset encumbrance indicator shows the extent to which assets are encumbered and not freely available. As at 31 December 2018, the asset encumbrance of the financial holding group was 14.2% (previous year: 17.6%).

Funding risk. The sudden drying up of institutional refinancing sources constitutes a challenge, particularly for banks.

Because of its business model, the Home Loan and Savings Bank segment (especially Wüstenrot Bausparkasse AG) requires careful liquidity governance. Funding on a rolling basis is required in order to satisfy the demand for loans and to make loans.

The refinancing volume of our banks is assured through diversified funding potential. The main sources of potential funding are the available offer volume for open-market operations/repos, issuing potential of German covered bonds, available money market and credit lines, issues of promissory notes and uncollateralised securities, and funding from new deposit business.

Based on a haircut of 15.0% on the funding potential of our credit institutions, refinancing costs would be –€43.6 million (previous year: –€44.0 million). That value assumes refinancing costs of 5.5% (maximum Euribor interest rate during the financial market crisis) on the arising maximum liquidity gap.

The Life and Health Insurance and the Property/Casualty Insurance segments normally exhibit a positive liquidity balance. This is due to the conditions of the business model, which is characterised by the continuous flow of premium income and returns on investments.

Market liquidity risk. Market liquidity risks mainly arise due to inadequate market depth or market disruptions in crisis situations. When these risks materialise, investments may be able to be sold, if at all, only in small volumes or by agreeing to discounts. It does not appear from the current situation on the capital markets that there are any acute, substantive market liquidity risks for the capital investments of the W&W Group. Based on a haircut of 25.5 %, there would furthermore be a value loss of –€127.5 million (previous year: –€127.5 million).

Looking forward, the W&W banks have sufficient liquidity or can procure it on short notice, even under adverse scenarios, meaning that, as things stand today, we do not expect any acute liquidity shortages.

For further information about the liquidity and refinancing structure, please see “Development of business” (section “Financial position: refinancing/liquidity”) and the presentation of the measurement hierarchies for our financial instruments (Note 38).

Strategy and organisation

Liquidity premise. Our liquidity management is geared towards being able to meet our financial commitments at all times and on a sustained basis. Our investment policy focuses, among other things, on ensuring liquidity at all times. In the process, existing statutory, supervisory and internal provisions must be satisfied at all times and on a sustained basis. Through forward-looking planning and operational cash management, the established systems are designed to identify liquidity shortages early on and to respond to expected liquidity shortages with suitable (emergency) measures.

Diversification. As a financial conglomerate, we benefit from the diversification of our refinancing sources, especially in difficult markets. In addition to having a lower funding risk, we also benefit from the reduction of our refinancing costs through diversification of funding potential. Through a defined share of good-quality securities that are eligible for central bank and repurchase transactions, our banks retain flexibility in refinancing. We use savings deposits and fixed-term deposits primarily in order to substitute short-term, unsecured funding. Aspects of maturity diversification form part of our investment policy. The maturity structure of our financial instruments is shown in Note 48 “Liquidity risks” in the notes to the consolidated financial statements.

Organisational structure. The individual companies manage cash and cash equivalents balances primarily on their own responsibility. The Risk, Compliance & Data Management department monitors and consolidates the liquidity plans from a Group perspective. The Group Liquidity Committee is responsible for the Group-wide controlling of liquidity risks. The liquidity position is regularly discussed in the meetings of the Group Board Risk. Governance measures are initiated when necessary. Known or foreseeable liquidity risks are immediately reported to management as part of ad-hoc reporting.

Risk management methods and risk controlling

Net liquidity and liquidity gaps. We assess liquidity risks by regularly calculating potential liquidity gaps and comparing them with the net liquidity available to us. In order to identify potential liquidity needs, we also compare our funding potential against the needed refinancing resources.

Regulatory indicators. The risk situation is monitored in particular by analysing regulatory indicators. In this context, the regulatory indicators liquidity coverage ratio and asset encumbrance are determined for Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank and the financial holding group.

Liquidity classes. In order to monitor the liquidity of our capital investments, we group them into liquidity classes so as to control concentrations in illiquid asset classes.

Sensitivity and scenario analyses. In the area of liquidity risks, we regularly view stress scenarios from a Group perspective. On this basis we analyse, among other things, the effects of changed cash inflows and outflows, simulated discounts to our funding potential, changed refinancing costs and our emergency liquidity.

Liquidity planning. Liquidity planning at the Group level is based on the liquidity data made available by the individual companies, which essentially comprise inflow and outflow balances from current business operations as well as available funding potential (e.g. securities issues, borrowing from central banks).

Contingency measures. Through contingency plans and the monitoring of liquidity buffers, we ensure that we are able to handle even extraordinary situations. If a company is unable to cope with existing liquidity shortages on its own, internal Group refinancing options are available pursuant to contingency planning.

Risk landscape and risk profile of W&W AG

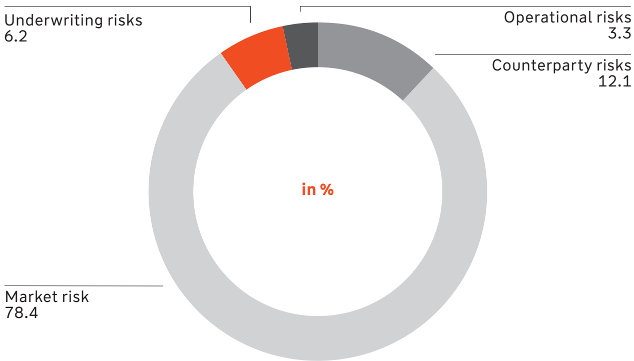
As the parent company of the financial conglomerate, the Solvency II group and the financial holding group, Wüstenrot & Württembergische AG (W&W AG) is responsible for defining and enhancing risk management standards, as well as for controlling compliance with these standards. Accordingly, the risk management and risk controlling system of W&W AG is closely interlocked with the monitoring system at the Group level and is structured so as to be congruent with respect to many processes, systems and methods (see the depictions in the section "Risk management system in the W&W Group"). The following depictions address the specifics of W&W AG as an individual company.

W&W AG has the same risk areas as the W&W Group (see also the chart "Risk landscape of the W&W Group").

As at 31 December 2018, the total risk capital requirements of W&W AG amounted to €1,315.1 million (previous year: €1,410.0 million).

The risk profile of the quantified risk areas as at 31 December 2018, which was determined according to our methods for calculating risk-bearing capacity (see section "Economic capital adequacy"), was distributed in accordance with the following chart.

Risk profile of W&W AG



We take business risks and liquidity risks into consideration in our calculation of risk-bearing capacity by performing a flat-rate discount in determining risk coverage capital.

Owing to the volume of our participations, market price risks constituted the predominant risk area, accounting for 78.4% (previous year: 79.8%).

The following sections describe the individual material risk areas and, where relevant to the overall appraisal, the individual risk types.

Market price risks

Interest rate risk. W&W AG is subject to interest rate change risks and interest rate guarantee risks on account of interest obligations to employees (pension provisions) and investments consisting of interest-bearing assets.

As at 31 December 2018, under a parallel shift in the swap yield curve, fixed-income securities (direct and fund portfolios, including interest rate derivatives) with a market value of €1,540.5 million (previous year: €1,372.3 million) experienced the following changes in market value:

Interest rate change

	Market value change	
in € million	31.12.2018	31.12.2017
Increase by 100 basis points	-59.4	-68.7
Increase by 200 basis points	-118.5	-133.6
Decrease by 100 basis points	61.5	64.4
Decrease by 200 basis points	123.6	133.0

Credit spread risk. Credit spread risk means the risk that the value of receivables will change because of a change to the applicable credit spread for the respective issuer or counterparty – despite an unchanged credit rating over time. Credit spread risks result from the bond portfolio of W&W AG, which consists of bonds issued both outside and, in particular, within the Group.

Participation risk. Changes in the value of investments (write-downs), non-payment of dividends and the need to make contributions to earnings lead to participation risks. For W&W AG, the strategic participation portfolio constitutes the key risk.

As at 31 December 2018, capital investments in affiliated companies and participations as well as in shares, interests or shares in investment assets and other variable-yield securities totalled €2,474.0 million (previous year: €2,627.5 million). Of this, interests in affiliated companies accounted for €1,498.8 million (previous year: €1,696.9 million). When participation risks materialise, valuation losses can result in the writing down of participations, the non-payment of dividends or the need to make contributions to earnings.

Stock price risk. Sudden and severe price slumps on stock markets could impair the value of the stock portfolio held by W&W AG by forcing write-downs being recognised as a loss.

For our portfolios with a market value of €50.8 million (previous year: €82.3 million), the market value changes in the case of an index fluctuation in the EURO STOXX 50 were as follows as at 31 December 2018:

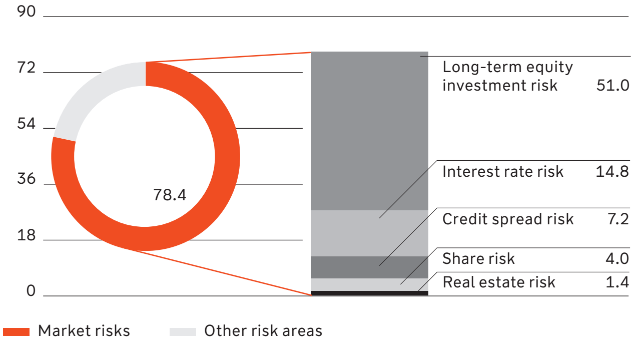
Index change

	Market value change	
in € million	31.12.2018	31.12.2017
Increase by 20%	7.3	13.2
Increase by 10%	3.5	6.5
Decrease by 10%	-3.1	-6.0
Decrease by 20%	-5.7	-11.1

Risk capital requirements. Since W&W AG's capital investments mainly consist of participations, **participation risks** within market price risks were the most significant in terms of risk capital weighting. Measured against total economic risk capital, the proportion amounted to 51.0% (previous year: 51.9%).

Risk profile for market risks

in %



This was followed by interest rate risks with a weighting of 14.8% (previous year: 14.1%) and credit spread risks at 7.2% (previous year: 6.5%). About 4.0% (previous year: 6.1%) of total economic risk capital related to stock price risks, and 1.4% (previous year: 1.2%) to real estate risks.

Market price risks were consistently in line with the risk strategy. The risk limit of W&W AG was consistently complied with.

Counterparty credit risks

W&W AG is exposed to counterparty credit risks from capital investments (proprietary business), as well as to counterparty credit risks with respect to contract partners in reinsurance.

Investments. Pursuant to our strategic orientation, the rating structure of our bond portfolio is conservative, with over 97.1% (previous year: 96.9%) of investments being in the investment grade area.

Rating (Moody‘s scale)

	2018		2017	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
AAA	530.0	36.8	514.2	39.7
Aa1	54.7	3.8	47.3	3.7
Aa2	29.0	2.0	55.5	4.3
Aa3	56.1	3.9	35.0	2.7
A1	15.9	1.1	49.2	3.8
A2	28.9	2.0	26.1	2.0
A3	170.4	11.8	37.0	2.9
Baa1	451.9	31.3	236.7	18.3
Baa2	39.3	2.7	224.2	17.3
Baa3	24.1	1.7	29.3	2.3
Non-investment-grade/non-rated	41.6	2.9	39.9	3.1
Total	**1,441.9**	**100.0**	**1,294.4**	**100.0**

Our investment exposure generally has a good collateralisation structure. Most of the investments with financial institutions are secured by government liability or liens.

Seniority

	2018		2017	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
Public	284.3	19.7	217.5	16.8
German covered bond	409.9	28.4	439.3	33.9
Deposit guarantee or government liability	151.0	10.5	131.8	10.2
Uncovered	596.7	41.4	505.8	39.1
Total	**1,441.9**	**100.0**	**1,294.4**	**100.0**

Subordinate exposure. Our subordinate exposures (profit participation rights, silent participations and other subordinate receivables) amounted to €229.0 million (previous year: €217.3 million).

Reinsurance. Counterparty credit risks in reinsurance business have consistently remained at a low level. Currently, no material risks are foreseeable. Also, our retrocessionaires have very good credit ratings.

Credit ratings. As at the end of the reporting period, 98% (previous year: 98%) of the recognised receivables from reinsurance business in the amount of €195.4 million (previous year: €191.4 million) were due from companies with a rating of A or better.

Standard & Poor's

	2018		2017	
	Portfolio carrying amount[1]	Share	Portfolio carrying amount[1]	Share
	in € million	in %	in € million	in %
AAA	–	–	–	–
AA	148.9	76.2	146.1	76.3
A	43.4	22.2	41.5	21.7
BBB	–	–	–	–
BB	1.1	0.6	1.2	0.6
B	–	–	–	–
CCC and lower	–	–	–	–
Without rating	2.1	1.1	2.6	1.4
Total	**195.5**	**100.0**	**191.4**	**100.0**

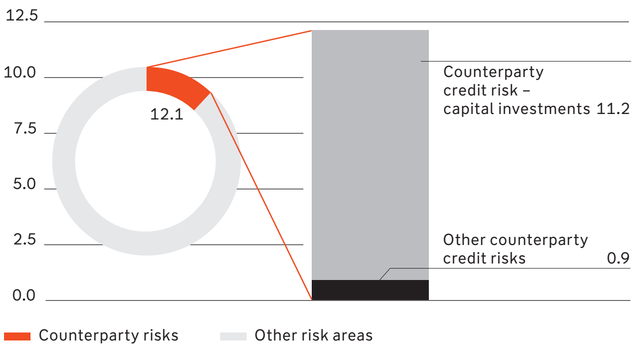
1 Accounts receivable + deposit + shares in technical provisions less collateral.

As at the reporting date, €5.7 million (previous year: €4.7 million) of the recognised receivables due from reinsurers had been outstanding for more than 90 days. However, it is expected that they will be settled in 2019.

Risk capital requirements. At 12.1% (previous year: 13.4%), counterparty credit risk accounted for the second-largest share of the total risk capital requirements of W&W AG. Among counterparty credit risks, the risks from our investments accounted for a significant share, at 11.2% (previous year: 12.9%), whereas bad-debt risks in reinsurance business (other counterparty credit risk) accounted for only a negligible share of total economic risk capital.

Risk profile for counterparty risks

in %



In 2018 counterparty credit risks were consistently in line with the risk strategy. The risk limit of W&W AG was consistently complied with.

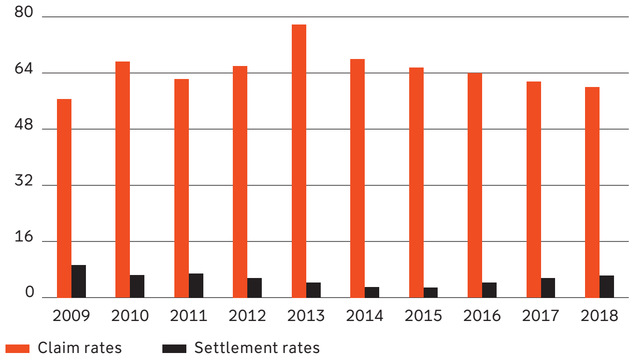
Insurance risks

W&W AG is subject to the same risk types as the W&W Group. Underwriting risk is a particularly important type of risk in property and casualty insurance, and in this regard, W&W AG is exposed especially to premium risk.

Premium risk. If costs and claims remain stable or increase, premiums may be inadequate if they fall or are not calculated in line with needs. The long-term trends in net loss ratios (ratio of net expenses for insured events to net premiums) and net settlement ratios (ratio of net settlement results from provisions for outstanding insurance claims to initial loss provisions) for W&W AG were as follows:

Claim and settlement rates

in %



Risk capital requirements. The chart “W&W AG risk profile” (see section “Risk profile and material risks of W&W AG”) depicts the weighting of the risk capital reserved for underwriting risks. Underwriting risks accounted for a share of 6.2% (previous year: 3.9%) of the total risk capital requirements of W&W AG.

In 2018 underwriting risks were consistently in line with the risk strategy. The risk limit of W&W AG was consistently complied with.

Operational risks

Risk capital requirements. Risk capital requirements for operational risks are ascertained through simulations on the basis of the operational risks included in the risk inventory and their loss potential and probability of occurrence. The chart “W&W AG risk profile” (see section “Risk profile and material risks of W&W AG”) depicts the weighting of the risk capital reserved for operational risks. In all, operational risks at W&W AG accounted for 3.3% (previous year: 2.8%) of total risk capital requirements.

In 2018 the assumed operational risks were consistently in line with the risk strategy. The risk limit of W&W AG was consistently complied with.

Business risks

As the superordinate enterprise of the financial conglomerate, the Solvency II group and the financial holding group, W&W AG is subject to the same risks as presented for the W&W Group in the section “Business risks”.

Liquidity risks

W&W AG benefits from the diversification of its refinancing sources. Please see the remarks in the section “Liquidity risks” for the W&W Group.

Selected risk issues

Emerging risks

Emerging risks describe conditions, developments or trends that in future may have a significant negative impact on the financial strength, risk profile or competitive position of the W&W Group or an individual company. Emerging risks typically arise because of changing basic conditions, such as those of an economic, geopolitical, social, technological or environmental nature. The uncertainty with respect to the loss potential and the probability of occurrence is usually very high.

For our company, the main challenges are posed by technological trends (digitalisation, cybertechnologies), social trends (demographics, changed customer behaviour) and economic trends (low level of interest rates, systemic risks).

In the risk management process, emerging risks are observed with the aim of identifying the strategic risks that result from them in a timely manner (early risk warning) and of taking them into consideration in setting the company’s business strategy.

Risk concentrations

Risk concentration means potential losses that may result either from the accumulation of similar risks or from the accumulation of different risks, such as at a single counterparty, and that are large enough to jeopardise the solvency or financial position of the individual company or the Group.

The potential losses in terms of risk concentration may result either from intra-risk concentrations or from inter-risk concentrations. Intra-risk concentrations describe those risk concentrations that arise from the synchronisation of risk positions within a risk area or at the Group level through the accumulation of similar risks at several companies affiliated with the Group. Inter-risk concentrations describe those risk concentrations that arise from the synchronisation of risk positions across various risk areas at the level of the individual company and the Group.

Because of the business model of the W&W Group and its individual companies, potential risk concentrations may result, in particular, from investments and from customer business (customer lending business, insurance business). However, owing to regulatory requirements and internal rating requirements, the W&W Group is heavily invested, in sectoral terms, in government bonds and financial services companies and, in regional terms, in Europe, which is typical for the industry. Accordingly, in addition to the credit risk associated with the relevant counterparty, the W&W Group in particular bears the systemic risk of the financial sector and the specific counterparties belonging to it. On the other hand, because of their high granularity, our customer loan portfolios do not exhibit any appreciable risk concentrations.

Other concentrations exist through positions that we intentionally take in certain asset classes (equities, participations, bonds) through strategic asset allocation.

As a financial conglomerate, the W&W Group is influenced to an extensive degree by a variety of external factors (e.g. low interest rates, changed customer behaviour, digitalisation, regulatory pressure, industry reputation). The risks concentrations here intentionally form a part of the business strategy.

Operational risk concentrations may arise in connection with outsourcing (a single comprehensive mandate or several equivalent mandates) and through an accumulation of projects, particularly large projects.

Adequate instruments and methods are in place to control concentrations and avoid risk concentration as best as possible.

We counter concentrations in the area of investments, inter alia, through diversification, the use of limit and line systems and the monitoring of exposure concentrations. In lending and insurance business, we apply clearly defined acceptance and underwriting policies and purchase appropriate reinsurance coverage from various providers with good credit ratings.

For each risk area, we measure intra-risk concentrations implicitly through risk quantification and accompanying stress tests. In this regard, concentrations of market price risk are limited in connection with strategic asset allocation through the observance of specific mix ratios across various asset classes. Concentrations of counterparty credit risk are limited through a risk line system that restricts the volume of investment in specific debtor groups.

Potential inter-risk concentrations result from a heightened interdependency of risks across risk areas and thus from various risk areas. The total risk capital requirements at the level of W&W AG and the W&W Group are quantified in an undiversified manner by totalling the risk capital requirements of the individual risks areas (e.g. market price risk, counterparty credit risk, underwriting risk), which thus takes into account a high degree of interdependence between the risk areas. In addition, we perform stress tests across all risk areas.

Assessment of the overall risk profile of the W&W Group and W&W AG

In 2018 the W&W Group and W&W AG at all times had sufficient economic and supervisory risk-bearing capacity. Pursuant to our economic risk-bearing capacity model, we had sufficient financial resources in order to be able to cover the assumed risks with high certainty.

As a result of increasing economic uncertainties associated with geopolitical crises and economic developments (including Brexit, global trade disputes and concerns about the world economy, Italian fiscal policy, sovereign debt in the EU, volatility on the capital market, persistently low interest rates and uncertainty about how interest rates and credit spreads will develop), the entire financial industry and thus also the W&W Group are exposed to risks that could lead to significant economic risks of loss in our scenario calculations and, in extreme scenarios, threaten us as a going concern. Linkages within the financial sector give rise to a systemic risk of contagion that the W&W companies are, of course, not completely immune to.

In the W&W Group, the interest rate risk remains very significant. The focus continues to be on risk-minimising measures to manage the W&W Group's interest rate change risks and interest rate guarantee risks. A prolonged level of low interest rates can substantially compromise the profitability of endowment life insurance policies and home loan and savings contracts. Here, the portfolio has significant risks from interest rate guarantees. On the other hand, a quick, sharp rise in interest rates would have a negative impact on investment reserves.

Because the value of the W&W Group's bond portfolio is highly dependent on how interest rates and credit spreads develop in the future, the ECB's monetary policy is also very important. With respect to the W&W Group's stock portfolio, stock price risks in volatile markets are reduced through hedging strategies. Nevertheless, sudden and severe price slumps on stock markets could impair the value of the stock portfolio.

We pay close attention to changes in the regulatory environment in order to be able to respond flexibly and early on. Although we are meeting the requirements of tighter regulation, they tie up a significant amount of financial, technical and personnel resources and thus pose substantial cost and earnings risks.

In addition to risk and earnings diversification, we use diversification effects as strategic factors for success in different areas on account of the structure of the W&W Group.

For instance, owing in part to our business model, we have a secure, diversified liquidity basis.

Despite prolonged low interest rates and tighter regulatory requirements, the W&W Group has worked hard to achieve basic economic robustness. This is manifested in our current risk-bearing capacity, particularly on the basis of our economic risk-bearing capacity model.

Enhancements and planned measures

We account for changes in the internal and external framework conditions and their effects on the risk position of the Group and individual companies by constantly enhancing and improving our systems, procedures and processes.

As part of its company rating, the rating agency S&P also rates the W&W Group's risk management in the form of enterprise risk management (ERM). S&P currently rates the W&W Group's ERM as "strong". In this respect, S&P underscores the great importance of ERM for the W&W Group.

Systematic advancement of the existing Group-wide risk management system is intended to ensure the stable, sustained development of the W&W Group also in future. In the 2019 financial year, we intend to continually and consistently expand the standards achieved in our risk management system. For this purpose, we have defined an ambitious development programme with a number of measures and projects in connection with our risk management process.

In this regard, we are focussing on the following issues:

- Regulatory issues: adjustment to conform to new and changing regulatory requirements
- Risk-bearing capacity: enhancement of risk-bearing capacity concepts and models, measures to ensure risk-bearing capacity
- Risk governance: promotion of a Group-wide risk culture
- Process and data optimisation: optimisation of Solvency II reporting and risk reporting, further establishment of an indicator system

All told, the W&W Group and Wüstenrot & Württembergische AG are well equipped to successfully implement the internal and external requirements for risk management.

Features of the internal control and risk management system in relation to the (Group) accounting process (report pursuant to §§ 289 (5) and 315 (2) no. 4 of the German Commercial Code HGB)

As an integral component of risk management in the W&W Group, the internal control and risk management system with respect to the (Group) accounting process comprises principles, procedures and measures designed to ensure

- the effectiveness and profitability of business operations (this also includes protecting assets, including preventing and detecting any loss of assets),
- the correctness and reliability of internal and external financial accounting (IFRS and HGB) and
- compliance with the legal requirements applicable to the W&W Group and W&W AG.

The Executive Board bears overall responsibility for the internal control and risk management system with respect to the (Group) accounting process, as well as for preparing the consolidated financial statements and combined Management Report, the condensed interim financial statements and interim Management Report and the annual financial statements of W&W AG.

The Executive Board has delegated responsibility for the internal control and risk management system in the W&W Group to the Risk, Compliance and Data Management and Group Accounting departments. In addition, it has commissioned the Control/Risk Management and Accounting departments, which report to Württembergische Versicherung AG under an agency relationship, with running the internal control and risk management system in W&W AG.

The companies are integrated by means of a clearly defined governance and reporting organisation. The IFRS consolidated financial statements and parts of the combined management report are prepared, in particular, by the Group Accounting department. The annual financial statements of W&W AG and parts of the combined management report are prepared, in particular, by the Accounting department of Württembergische Versicherung AG under an agency relationship.

As a component of the internal control system, the Group Audit department reviews the effectiveness and suitability of the risk management and internal control systems in a risk-oriented and process-independent manner.

The Supervisory Board and above all the Audit Committee also engage in their own audit activities in the W&W Group and W&W AG. Furthermore, the Group auditor reviews the consolidated financial statements, the annual financial statements and the combined management report independent of company processes.

In the W&W Group and at W&W AG, organisational measures have been adopted and procedures implemented that are designed to ensure that risks are monitored and managed with respect to the (Group) accounting process and that accounting is correct. Considered material are those components of the internal control and risk management system that could have an impact on whether the consolidated financial statements, the annual financial statements and the combined management report are in conformity with the rules and regulations. The material components are:

- Use of IT to depict and document internal controls, monitoring measures and effectiveness tests with respect to the (Group) accounting process
- Use of IT to ensure the process for preparing the (Group) financial statements
- Organisation manuals, internal and external accounting guidelines, and accounting manuals
- Suitable quantitative and qualitative staffing resources in relation to the (Group) accounting process
- Functions and tasks in all areas of the (Group) accounting process are clearly assigned, and the areas of responsibility and incompatible activities are clearly separated
- Principle of dual control for material processes that are relevant to (Group) accounting, an access authorisation system for the systems related to (Group) accounting, and programme-internal and manual plausibility checks in connection with the entire (Group) accounting process

Business transactions and other circumstances are recognised and documented for the purposes of the consolidated and annual financial statements using a variety of systems, and they are booked via automated interfaces into accounts of a central system solution, taking into account the (Group) accounting guidelines. Key source systems are the SimCorp Dimension securities management system, the portfolio management systems for insurance policies, the commission settlement systems and the customer current accounts. The rules currently in effect are observed in all systems.

Information contained in the local accounting systems about business transactions and other circumstances at companies and investment funds is aggregated into Group reporting data for the purposes of preparing the consolidated financial statements. The accounting of capital investments in a management system for the purposes of the consolidated and annual financial statements, as well as their transformation to Group reporting data, is mainly handled centrally by Wüstenrot Bausparkasse AG in connection with a services agreement, though external capital investment companies handle some investment funds.

Group reporting data is supplemented with additional information to form standardised reporting packages at the level of the relevant fully consolidated company and subsequently checked for plausibility manually and in an automated manner.

The respective companies are responsible for the completeness and accuracy of the standardised reporting packages. The standardised reporting packages are subsequently compiled centrally by the Group Accounting department in a system solution and subjected to a validation process.

All consolidation steps for preparing the consolidated financial statements by the Group Accounting department are performed and documented in this system solution. The individual consolidation steps contain plausibility checks and validations that are inherent in the system.

All quantitative information for the individual components of the consolidated financial statements, including the quantitative information in the notes, is mainly generated from this system solution.

Outlook

Macroeconomic developments and relevant framework conditions are based on estimates of the company, which are derived from relevant analyses and publications of various well-respected business research institutes, Germany's federal government, the Bundesbank, Bloomberg consensus and industry and business associations.

Macroeconomic outlook

Continued strong domestic demand is a sign that the German economy is experiencing prolonged positive development, meaning that that W&W Group expects to find itself in a generally favourable economic environment in 2019. In this respect, the most important drivers of growth are likely to be consumer demand and corporate investments. The prospects for the German real estate sector remain good, given that interest rates are still very low and the need for residential housing and renovation continues to be high. Most analysts are predicting that German GDP will grow in the range of 0.8% to 1.2%. The economic outlook is thus somewhat more reserved than in 2018 but remains favourable.

We expect that the historic phase of low interest rates on the European bond markets will persist in 2019. The potential for rising interest rates also remains limited in light of indications by the U.S. Fed that it will refrain from further interest rate hikes for the time being. For its part, the ECB does not intend to raise benchmark rates until the fall of 2019, at the earliest. The yield curve will probably be somewhat steeper. However, this scenario presupposes that the political situation will remain stable.

The conditions on the European equity markets are generally favourable. These include rising corporate profits, and a lack of investment alternatives are also a reason to invest in equities. However, prices are likely to fluctuate highly again this year owing to growing political risks, which could pose a threat to the economic outlook and lower the risk tolerance of investors, and thus their interest in equities. In particular, an escalation of the current trade dispute between the leading economic regions could result in a significant downturn in the global economy and a noticeable worsening of the economic environment for companies. In addition, the slowdown in the economy has the potential to hamper trading activity.

Industry outlook

Residential housing construction is likely to mirror the level of the previous year. The transaction volume for used residential properties is expected to rise. Mortgage rates, which remain low, and favourable terms for home renovation loans will be conducive to new business for construction financing. Also contributing to a high financing volume are continually rising property prices in regions with high demand. By contrast, a persistent lack of building land, protracted construction approval procedures and continuing capacity bottlenecks in various building trades will act to limit growth. We expect a further increase in the use of residential construction loans.

For 2019 we anticipate a dynamic market environment for private customer business, with competitors from outside the industry likely to continue to provide fresh impetus, such as with regard to mobile payment systems. The classic branch network of banks will also be under pressure in future, and in our estimation, visitor numbers will decline for standardised banking transactions. By contrast, we expect an increase in online and, in particular, mobile banking transactions, particularly through competitors that offer only mobile services. In essence, future processes and developments will be shaped by customer expectations in terms of ease of use, convenient user guidance and constant availability. In addition, the prolonged period of low interest rates coupled with rising regulatory requirements will continue to pose challenges for the banking industry.

In 2019 the persistent environment of low interest rates will also continue to present a great challenge for the life insurance industry. The German Insurance Association (GDV) expects a slight increase in 2019 in new regular premium business, as well as in new single-premium business. In all, premium income is expected to rise somewhat.

On the property/casualty insurance market, expectations for business performance in 2019 remain positive, despite the difficult external environment. Here, the General Association of the German Insurance Industry (GDV) expects premium income to rise by a total of 2.7% in 2019.

Company outlook

The following forecasts relate to the coming financial year and are based on estimates contained in the chapter "Macroeconomic outlook". In making the company forecasts, our planning assumes moderately increasing interest rates and stock prices.

Future business performance of the W&W Group (IFRS)

In the following, we first address the forecasts for the individual segments. We then summarise the expected future performance of the Group in the overall outlook.

Home Loan and Savings Bank

Our home loan savings and financing products continue to benefit from the great attractiveness of residential property as a form of investment and financial planning. Therefore, we expect that net new home loan and savings business in 2019 will be moderately higher than the level in 2018. We expect decidedly positive development in new construction financing business (approvals) for 2019.

In the 2019 financial year, we expect that investments in digitalisation will result in general administrative expenses at the level of the previous year.

For 2019 we expect net segment income after taxes to come in clearly above the level of the previous year. The trend in net income will be marked to a decisive extent by effects related to participation activities.

For instance, we expect that the purchase of Aachener Bausparkasse AG will close in the second half of the year. In future we will report on Aachener Bausparkasse in this segment.

Life and Health Insurance

In light of the unremitting environment of low interest rates, we are continuing to focus on the sale of products that are largely independent of interest rates, as well as those that are high-profit and therefore more contemporary. In this regard, we are seeking to further emphasise occupational pension schemes, in particular. In 2019 we intend to moderately increase total premium from new business in the Life and Health Insurance segment.

For 2019 we expect that general administrative expenses will be slightly higher than in the previous year and that segment net income after taxes will come in at €20 million to €50 million.

Property/Casualty Insurance

In property/casualty insurance, we continue to strive for sales of insurance policies to private and corporate customers. For 2019 we hope to moderately increase new business (JBB) compared with the previous year.

General administrative expenses are expected to continue at the level of the previous year.

Segment net income after taxes in 2018 was once again characterised by a very positive trend in claims. For 2019 we expect claims development to normalise, meaning that segment net income will be significantly lower than the high level of the previous year.

Overall outlook of the W&W Group

With "W&W Better!" the focus is on the benefits for the customer and the unique W&W concept of financial planning from a single source. With that in mind, we are striving to service at least six million customers in the W&W Group going forward.

In the 2019 financial year as well, we will continue to work on digital transformation, which will once again have an impact on general administrative expenses. Overall, we expect general administrative expenses to come in at the level of the previous year.

In the first half of 2019 we furthermore expect the sale of Wüstenrot Bank AG Pfandbriefbank to be closed.

For further information about the strategy of the W&W Group and its product mix, please see the section "Business model" in the chapter "Group fundamentals".

The W&W Group adheres to its long-term target of consolidated net profit of €220 million to €250 million. For 2019 we expect to exceed prior-year net income of €215 million and thus enter the target zone.

We manage our liquidity in such a way as to enable us to meet our financial obligations at all times and on a sustained basis. Liquidity planning shows that in 2019 we will have sufficient liquidity available at all times. For further information about the liquidity position, please see the opportunity and risk report in the section "Liquidity risks".

Opportunities and risks include, in particular, trends in interest rates and claims. Furthermore, developments in the capital markets, the economy or the political environment could have a positive or negative effect on the W&W Group. Additional opportunities may present themselves in connection with the strategic alignment of individual segments, new innovative products and business models, additional sales channels as well as further cost optimisation and the increased willingness of our customers to undertake financial planning. Other risks may arise from potential counterparty defaults and increased regulatory or statutory requirements. For further information about opportunities and risks in the W&W Group, please see the opportunity and risk report.

Future business performance of W&W AG (HGB)

Due to its structure as a holding company, the after-tax earnings of W&W AG are determined by the dividends and profit transfers from subsidiaries and investments. For 2019 we expect increased after-tax net income in the range of approximately €90 million.

Opportunities and risks for W&W AG will result from the earnings performance of the subsidiaries and participations, in particular, as well as their valuations in the annual financial statements of W&W AG. In addition, directly held investments and trends in claims and costs will have an impact on W&W AG. The opportunities and risks of the key subsidiaries are explained in the segment forecasts.

Proviso concerning forward-looking statements

This Annual Report and, in particular, the outlook contain forward-looking statements and information.

These forward-looking statements represent estimates based on information that is available at the present time and is considered to be material. They can be associated with known and unknown risks and uncertainties, but also with opportunities. Because of the variety of factors that influence our business operations, actual results may differ from those currently anticipated.

Therefore we can assume no liability for the forward-looking statements. There is no obligation to adjust forward-looking statements to conform to actual events or to update them.

Other disclosures

Disclosures pursuant to Sections 289a (1) and 315a (1) of the German Commercial Code (HGB)

Pursuant to Sections 289a (1) and 315a (1) of the German Commercial Code (HGB), the following statements must be made as at 31 December 2018, provided they are relevant to Wüstenrot & Württembergische AG:

Composition of subscribed capital

The share capital of Wüstenrot & Württembergische AG amounts to €490,311,035.60 and is divided into 93,749,720 registered no-par-value shares that are fully paid in.

A total of 452 shares are covered by the exclusion of voting rights within the meaning of Section 136 (1) of the German Stock Corporation Act (AktG), since they are owned by members of the Supervisory Board or the Executive Board. Wüstenrot & Württembergische AG holds a total of 126,726 treasury shares. Pursuant to Section 71b AktG, Wüstenrot & Württembergische AG is not entitled to any rights in connection with treasury shares. A total of 231,274 employee shares are subject to a restriction on sale. Of these, 85,220 employee shares may not be sold until April/May 2019, 74,015 employee shares until April/May 2020 and 72,039 employee shares until April/May 2021. The restriction on sale starts on the day that the purchased employee shares are credited to the employee's custodial account. There are no further restrictions affecting voting rights or the transfer of the registered shares. Each share entitles the holder thereof to one vote at the Annual General Meeting. The amount of the company's profit to which shareholders are entitled is determined in accordance with the proportion of the share capital that they hold (Section 60 AktG). If the share capital is increased, the participation of new shares in profit may be determined in deviation from Section 60 (2) AktG.

Pursuant to Article 5 (3) of the Articles of Association, no shareholder is entitled to issuance of a share certificate.

Wüstenrot Holding AG holds 39.91% and WS Holding AG holds 26.40% of the shares in Wüstenrot & Württembergische AG. Another principal shareholder is Horus Finanzholding GmbH with more than 10% of the shares. Treasury shares account for 0.14% of the company's stock.

There are no shares carrying special rights with powers of control. There are no voting rights mechanisms relating to employee participation schemes.

Provisions concerning the appointment and removal of Executive Board members and the amendment of the Articles of Association

Members of the Executive Board are appointed and removed in accordance with Article 6 (1) of the Articles of Association, Sections 84 and 85 of the German Stock Corporation Act (AktG) in conjunction with Section 31 of the German Co-determination Act (MitbestG) and Sections 24 and 47 of the German Act on the Supervision of Insurance Undertakings (VAG). Amendments to the Articles of Association take place in accordance with Sections 124 (2) sentence 3, 133 (1) and 179 et seq. AktG. However, pursuant to Article 18 (2) of the Articles of Association in conjunction with Section 179 (2) sentence 2 AktG, resolutions of the Annual General Meeting to amend the Articles of Association are adopted by a simple majority of the share capital represented at the time of adoption, unless required otherwise by law, for example with regard to a change of the company's purpose. Pursuant to Section 179 (1) sentence 2 AktG in conjunction with Article 10 (10) of the Articles of Association, the Supervisory Board may make amendments to the Articles of Association that relate solely to their wording. The Executive Board has no powers over and above the general statutory rights and duties of a management board under German law of stock corporations.

Powers of the Executive Board to issue shares

Authorised capital 2018

- Pursuant to Article 5 (5) of the Articles of Association, the Executive Board is authorised to increase the company's share capital, on one or more occasions on or before 12 June 2023, by up to €100,000,000.00 via issuance of new registered no-par-value shares in exchange for cash or contributions in kind, subject to approval by the Supervisory Board (Authorised Capital 2018). Shareholders are entitled to a statutory subscription right. Shareholders may also be accorded the statutory subscription right by having one or more credit institutions or companies equivalent thereto pursuant to Section 186, para. 5 of the German Stock Corporation Act (AktG) subscribe to the new shares under an obligation to offer them to shareholders for subscription (indirect subscription right). Subject to approval by the Supervisory Board, the Executive Board is however authorised to preclude shareholders from exercising the statutory subscription right in the following cases: for fractional amounts; or
- in the case of capital increases in exchange for contributions in kind, in order to be able to offer the new shares in connection with company mergers or in the case of the direct or indirect acquisition of companies, parts of companies or participations in companies or for the direct or indirect acquisition of other assets (including claims, also to the extent that they are directed against the company or subordinate group companies); or

- if, pursuant to Section 186 (3) sentence 4 AktG, new shares are issued in exchange for cash at a price that is not significantly below the stock exchange price of the shares that are already listed and the pro rata amount of the new shares does not exceed 10% of the share capital at the time this authorisation is recorded in the commercial register or, if less, at the relevant time the authorisation was exercised. Counting towards the 10% limit are other shares that may been newly issued or, following buyback, resold by the company during the term of this authorisation under preclusion of the subscription right or, in accordance with Section 186 (3) sentence 4 AktG, in connection with a cash capital increase. Also counting towards the 10% limit are shares with respect to which a warrant or conversion right, a warrant or conversion obligation, or a right in favour of the company to delivery of shares exists on account of warrant bonds, convertible bonds or profit participation certificates with warrant or conversion rights or obligations, or rights in favour of the company to delivery of shares that had been issued by the company or its subordinate Group companies during the term of this authorisation under preclusion of the subscription right pursuant to Section 221 (4) sentence 2 in conjunction with Section 186 (3) sentence 4 AktG; or

- insofar as it is necessary in order to grant holders or creditors of warrant rights or convertible bonds or profit participation rights with conversion rights that have been or will be issued by the company or its subordinate Group companies a right to subscribe to new shares to the extent to which they would be entitled after exercising warrant rights, conversion rights or rights to delivery of shares or after satisfying warrant or conversion obligations.

Subject to approval by the Supervisory Board, the Executive Board is authorised to specify the profit participation of the new shares in derogation from Section 60 (2) AktG and to stipulate the further details of capital increases out of Authorised Capital 2018 and their implementation, including the issue price and the contribution to be paid for the new no-par-value registered shares. The Supervisory Board is authorised to modify the wording of the Articles of Association after implementation of an increase of the share capital out of Authorised Capital 2018 to conform to the respective increase of the share capital, as well as after expiry of the term of the authorisation.

Contingent Capital 2018/Authorisation to issue warrant bonds, convertible bonds, profit participation certificates, profit participation bonds or a combination of these instruments

By resolution adopted at the Annual General Meeting on 13 June 2018, the Executive Board was authorised to issue warrant bonds, convertible bonds, participation rights, profit participation bonds or a combination of these instruments on or before 12 June 2023. Article 5 (6) of the Articles of Association accordingly provides that the share capital is contingently increased by at most €240,000,003.46, divided into at most 45,889,102 no-par-value registered shares (Contingent Capital 2018). The contingent capital increase is to be implemented only if

- holders or creditors of warrant rights or conversion rights or those obligated to exercise the warrant or to convert under warrant bonds, convertible bonds or profit participation rights that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 13 June 2018, are issued by the company or a subordinate Group company or guaranteed by the company on or before 12 June 2023 make use of their warrant rights or conversion rights, or

- holders or creditors of warrant bonds, convertible bonds or profit participation certificates that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 13 June 2018, are issued by the company or a subordinate Group company or guaranteed by the company on or before 12 June 2023 are obligated to exercise the warrant or to convert and satisfy such obligation, or

- the company exercises a right to deliver to holders or creditors of warrant bonds, convertible bonds or profit participation rights that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 13 June 2018, are issued by the company or a subordinate Group company or guaranteed by the company on or before 12 June 2023 shares of the company in lieu of cash payment, either in whole or in part,

and provided that neither cash settlement is granted nor shares from authorised capital, treasury shares or shares of some other publicly traded company are used to service it. The new shares are to be issued at the warrant or conversion price to be stipulated in accordance with the aforementioned authorisation resolution of 13 June 2018. The new shares participate in profit from the start of the financial year in which they come about. To the extent permitted by law, and subject to approval by the Supervisory Board, the Executive Board is authorised to stipulate that in the event that, at the time of issue, a resolution on appropriation of profit has not been adopted for the financial year immediately preceding the year of issue, the new shares are to participate in profit from the start of the financial year immediately preceding the year of issue. Subject to approval by the Supervisory Board, the Executive Board is furthermore authorised to stipulate the further details of the implementation of the contingent capital increase. Use may be made of the authorisation granted by resolution of the Annual General Meeting on 13 June 2018 to issue warrant bonds, convertible bonds and profit participation rights only if the warrant bonds, convertible bonds or profit participation rights are structured in such a way that the capital that is paid in for them satisfies the supervisory requirements in effect at the time the authorisation is used for eligibility as own funds at the level of the company and/or the Group and/or the financial conglomerate and does not exceed any intake limits. Furthermore, use may be made of the authorisation granted by resolution of the Annual General Meeting on 13 June 2018 to permit subordinate Group companies to issue warrant bonds, convertible bonds and profit participation rights and have them guaranteed by the company if this is permissible under the supervisory provisions applying in each case.

Change-of-control agreements

There are no material agreements of Wüstenrot & Württembergische AG or of Wüstenrot & Württembergische AG as parent company that are subject to the condition of a change of control as a result of a takeover offer.

Change-of-control remuneration agreements

Also, no remuneration agreements have been concluded with members of the Executive Board or employees covering the case of a takeover offer.

Relationships with affiliated companies

Wüstenrot Holding AG holds 39.91% of the shares, and WS Holding AG holds 26.40% of the shares. Both holding companies are wholly owned by Wüstenrot Stiftung.

Close relationships exist with various Group companies as a result of contracts for the outsourcing of services and functions. They govern services that have been transferred in whole or in part, including appropriate compensation. The compensation paid to W&W Asset Management GmbH is volume-dependent.

Remuneration report

The following report on the remuneration paid to the Executive Board and the Supervisory Board was prepared in accordance with the rules of the German Corporate Governance Code (DCGK) and the German Commercial Code (HGB).

Main features of the Executive Board remuneration system

The full Supervisory Board resolves on the Executive Board remuneration system, including the material contractual elements. The Remuneration Control and Personnel Committee carries out all preparations necessary for the resolution. The full Supervisory Board reviews the remuneration system at least once a year.

The Executive Board remuneration system consists of a non-performance-related component and a performance-related component at a 4:1 ratio. The non-performance-related component consists of a fixed salary (with pension entitlement) and an allowance. The performance-related component consists of a targets bonus.

The performance-related bonus is linked to a targets agreement system. The amount of the bonus paid to a member of the Executive Board for a concluded financial year depends on the degree to which the relevant company targets and individual targets were achieved. The spectrum of the relevant target achievement ranges from 0% to 140%. Company targets correspond to the annual plan adopted by the Supervisory Board of W&W AG. Individual targets are coordinated between the individual Executive Board member and the Supervisory Board. The overall concept permits performance-related measurement of the variable remuneration component that is focused on operational targets and thus remuneration that is reasonably in line with performance.

The targets for the 2018 target agreements consisted of short-, medium- and long-term targets geared toward indicators like consolidated net income, general administrative expenses, Group customers, customer satisfaction, net promoter score and individual targets. The target weighting for performance-related remuneration is aligned towards stronger consideration being given to components with a multiple-year incentivising effect on sustainability.

Part of performance-related remuneration is paid out over time: 40% is paid out in the following year immediately after the degree of target achievement is determined, and the other 60% is deferred for a period of three years and is subject to forfeiture clauses. The deferred amount is paid out only if the W&W Group has average IFRS net income of at least €100 million a year over the relevant three years and does not record a loss in any of the three years. If average consolidated net income falls below the threshold of €100 million a year, or if the Group records a loss in one or more years, the deferred amount is definitively and completely forfeited for the relevant financial year. The performance-related remuneration paid by Wüstenrot Bausparkasse AG to Dr Michael Gutjahr is likewise distributed over time: 20% of variable remuneration is paid out in the following year immediately after the degree of target achievement is determined, and an additional 20% after a further year following expiry of a so-called “disposition vesting period”. The remaining 60% is paid out over a period of five years in five equal instalments in a pro rata temporis manner. Each instalment is likewise subject to a disposition vesting period of one year, following which this portion is available for disposition, at the earliest. The amounts subject to a disposition vesting period are tied to the development of the company’s value. After expiry of the disposition vesting period, the withheld portion of the bonus is paid out accordingly.

Achievement of targets for the target year concerned is once again checked for the existence of negative contributions to results prior to each disbursement of the deferred amounts. Negative contributions to results reduce the amount of variable remuneration or lead to its complete loss. Conduct that resulted in considerable losses or regulatory sanctions, infringement of internal or external rules with respect to suitability or conduct, and conduct that is contra bonos mores or grossly in breach of duty likewise result in the complete or partial loss of the bonus. In addition, variable remuneration that has already been paid out may be demanded back.

No subscription rights or other share-based remuneration were granted in the W&W Group.

Each employment agreement is concluded for the period of the appointment. The employment agreement for Dr Michael Gutjahr may be terminated by either party with one year's notice once the Executive Board member has reached the age of 60. Otherwise, only extraordinary termination is possible.

Executive Board members normally receive a company car, group accident insurance coverage and luggage insurance as ancillary benefits.

In accordance with the requirements of stock corporation law, W&W AG has taken out insurance to cover each Executive Board member against risks associated with his or her professional activity for the company. The insurance provides for a deductible of 10% of the claim, up to a maximum of 150% of the Executive Board member's fixed annual remuneration.

Severance caps have been agreed on with all Executive Board members in the event that the agreement is terminated other than for cause. In such case, payments to Executive Board members, including ancillary benefits, in each case correspond to at most the value of two years' remuneration (severance cap) and do not exceed the remuneration for the remaining term of the employment agreement. Decisive for the calculation of the severance cap is the entire amount of remuneration paid for the calendar year (fixed salary, allowance and bonus) preceding the calendar year in which service on the Executive Board ends.

The pension for Dr Michael Gutjahr consists of a formerly customary defined-benefit pension commitment in the form of a fixed amount. The pensions for Jürgen A. Junker and Jens Wieland take the form of a defined-contribution pension commitment. The defined-contribution pension commitment is linked to a reinsurance policy. The annual premium amounts to 23% of the fixed salary entitled to a pension. If Mr Junker's employment relationship ends after his first term of office, he is to be paid a transitional allowance of €200 thousand p.a., unless Mr Junker rejects an extension of the employment agreement offered to him at the same terms or terms more favourable to him or non-renewal is based on a material reason within the meaning of Section 626 of the German Civil Code (BGB) for which Mr Junker is responsible. The transitional allowance for Mr Junker is to be paid until he reaches the age of 65, but not later than the end of the month in which he first begins to receive benefits under statutory pension insurance or occupational pension benefits from the company. Other income for any new employment is offset against the transitional allowance, but only to the extent that the other earnings exceed a sum of €300,000 p.a.

A pension is generally granted upon reaching the age of 65. In the case of Dr Gutjahr, it can also be granted in the event of premature departure after reaching the age of 61. A pension is also granted in the event of occupational disability.

In the case of Dr Gutjahr, the pension is increased by the percentage points by which salaries are increased for the highest salary groups for the private insurance industry. Once pension benefits begin to be paid, the increase is limited to the rise in the cost-of-living index, plus 2%. Pursuant to Section 16 (3) of the German Occupational Pensions Act (BetrAVG), ongoing pension benefits under defined-contribution pension plans are adjusted annually by 1%.

Pensions include a widow/widower pension of 60% of the pension drawn and an orphan's pension of normally 20%. Under defined-benefit pension plans, claims to retirement benefits against third parties, regardless of reason, are set off in whole or in part against pension claims.

Claims to pensions and survivor pensions are vested. For Mr Junker, this applies under the condition that he does not leave the company at his own request prior to reaching the statutory vesting period.

Detailed disclosures are contained in the full remuneration report in the notes.

Main features of the Supervisory Board remuneration system

The Supervisory Board remuneration is paid in the form of a fixed remuneration whose amount is determined by the Annual General Meeting. If the Annual General Meeting does not specify an amount, the amount of the prior year applies. Supplementary amounts are stipulated for the Chairman and the Deputy Chairman, as well as for committee activities. In addition, fees are paid for attending Supervisory Board meetings.

The annual base remuneration payable after the close of the financial year amounted to €25.0 thousand (previous year: €25.0 thousand). The annual committee remuneration amounted to €8.0 thousand for the Risk and Audit Committee and for the Remuneration Control and Personnel Committee (previous year: €8.0 thousand). Committee remuneration amounted to €4.0 thousand (previous year: €4.0 thousand) per year for the Conciliation Committee and the Nomination Committee. An attendance fee of €500 (previous year: €500) is paid per Supervisory Board meeting. No fees are paid for attending committee meetings.

Base remuneration and committee remuneration are increased by 150% for the Chairman and by 75% for his deputies.

Detailed disclosures are contained in the full remuneration report in the notes.

Corporate governance statement

At Wüstenrot & Württembergische AG (W&W AG) and in the entire W&W Group, corporate governance means responsible management and control of the companies in a manner aimed at long-term value creation. We seek to affirm and continuously strengthen the trust placed in us by customers, investors, financial markets, business partners, employees and the public. Important factors in this regard are good relationships with shareholders, transparent and timely reporting, and effective and constructive collaboration between the Executive Board and the Supervisory Board.

In 2007 BaFin (Germany's Federal Financial Supervisory Authority) determined that Wüstenrot Holding AG, Stuttgart, which at that time held about 66% of the shares of W&W AG, and the participating undertakings of Wüstenrot Holding AG constitute a financial conglomerate. In this regard, W&W AG was defined as the superordinate financial conglomerate enterprise. With the spin-off of WS Holding AG from Wüstenrot Holding AG in August 2016, the financial conglomerate now consists of W&W AG and the participating undertakings of W&W AG.

Moreover, W&W AG, Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank and other relevant companies are subject to consolidated supervision as a financial holding group. W&W AG has been defined by BaFin as the superordinate enterprise of the financial holding group.

The insurance group of W&W AG is covered by the scope of Solvency II and thus is likewise subject to supervision by BaFin. W&W AG is the ultimate parent undertaking of the Solvency II group of W&W AG.

Working methods and composition of the Executive Board

The Executive Board manages W&W AG on its own responsibility with the aim of sustainable valuation creation for the benefit of the W&W Group. It represents the company in transactions with third parties.

Since 1 January 2017, the Executive Board of W&W AG has been composed of three members.

Members of the Executive Board

Jürgen Albert Junker (Chairman)
Dr. Michael Gutjahr
Jens Wieland

The Supervisory Board has stipulated a diversity plan for the Executive Board. In this regard, it has resolved to have women make up at least 15% of the members of the Executive Board and set a target deadline for this of 30 June 2022. As a result, the Supervisory Board is seeking to place at least one woman on the Executive Board.

In view of the special features of the Home Loan and Savings Bank and Insurance divisions, as well as the common Group perspective, it is essential for us to employ individuals with demonstrated experience, professional knowledge and expertise in these areas, as well as extensive management experience. This ensures that Executive Board members will meet the extensive fit-and-proper requirements under supervisory law. The increased requirements of supervisory law have to do with, inter alia, the fact that because of its position in the W&W financial conglomerate, W&W AG is subject to both banking supervision and insurance supervision. In addition, attention must be paid to compliance with the age limit of 65 provided for as a target requirement in Section 1 (4) of the Executive Board bylaws. The Executive Board members satisfy all of these criteria.

The Executive Board of W&W AG has stipulated that women are to make up 25% of the first senior management level below the Executive Board and 30% of the second senior management level and has set a target deadline of 30 June 2022 for doing so. These percentages have now been achieved.

The main tasks of the Executive Board have to do with strategic alignment and control of the W&W Group, including maintaining and monitoring an efficient risk management system. The Executive Board is responsible for ensuring a suitable and effective internal auditing and control system. The Executive Board determines the strategies, ensures that the company has an organisational and operational structure that is suitable and transparent and sets company policy. Bylaws address in detail how the activities of the Executive Board are structured.

The central governance bodies in the W&W Group are: the Management Board, the division boards and the Group boards. The Management Board of W&W AG is composed of the members of the Executive Board, along with the heads of the Home Loan and Savings Bank, Insurance and brandpool divisions and the General Representative for Compliance, Risk Controlling and M&A. The Management Board is the central steering body of the W&W Group. The Management Board concerns itself with, among other things, Group control and the definition and development of the business strategy for the W&W Group. In addition, it facilitates the exchange of information between the Executive Board and the division heads with regard to the integration of the divisions into the Group strategy. The Management Board holds regular meetings, which are to take place at least twice per month. Those meetings are simultaneously considered to be meetings of the W&W AG Executive Board.

The Home Loan and Savings Bank and Insurance division boards coordinate and decide on division-specific issues. They meet at least twice per month, and those meetings are simultaneously considered to be meetings of the executive boards of the individual companies. The Group boards coordinate cross-division initiatives in the areas of sales, risk and capital investments.

The Chair of the Executive Board is in charge of the collaboration between the Executive Board and the Supervisory Board. He is in regular contact with the Chair of the Supervisory Board and discusses the company's strategy, business performance and risk management with him. He promptly notifies the Chair of the Supervisory Board about important events that are of major significance for the assessment of the company's position and performance, as well as for its management. The Executive Board coordinates with the Supervisory Board on the strategic alignment of W&W AG and the W&W Group. In addition, the Executive Board regularly reports to the Supervisory Board in a timely and comprehensive manner about all issues of relevance to W&W AG and the W&W Group concerning strategy, planning, business performance, risk position, risk management and compliance. Details are addressed in bylaws for the Executive Board.

Working methods and composition of the Supervisory Board

In accordance with the Articles of Association, the Supervisory Board of W&W AG is composed of 16 members, of whom eight are shareholder representatives and eight are employee representatives.

Members of the Supervisory Board

Shareholder representatives
Hans Dietmar Sauer (Chair)
Peter Buschbeck
Professor Dr Nadine Gatzert (from the end of the Annual General Meeting on 13 June 2018)
Dr Reiner Hagemann (financial expert)
Corinna Linner
Marika Lulay
Ruth Martin (until the end of the Annual General Meeting on 13 June 2018)
Hans-Ulrich Schulz
Jutta Stöcker
Employee representatives
Frank Weber (Deputy Chair)
Ute Hobinka
Jochen Höpken
Gudrun Lacher
Bernd Mader
Andreas Rothbauer
Christoph Seeger
Gerold Zimmermann

Bylaws likewise address in detail how the activities of the Supervisory Board are structured. The Supervisory Board holds at least two meetings in each calendar half-year. It also meets when necessary. In the 2018 financial year, the Supervisory Board held four ordinary meetings and one extraordinary meeting. The composition of the Conciliation Committee was decided on by means of a written resolution that was circulated after the end of the 2018 Annual General Meeting. The Supervisory Board has created a diversity plan that defines key issues that are currently the subject of public debate with respect to the composition of supervisory boards, such as qualification, independence and diversity, as well as the representation of women. The company is required by law to have women make up at least 30% of the Supervisory Board. It currently is composed of 10 men and six women. Accordingly, women make up 38% of the Supervisory Board. The shareholder representatives consist of four women and four men, meaning that full gender parity is achieved in this case.

In view of the special features of the Home Loan and Savings Bank and Insurance divisions and the common Group perspective, the candidates nominated by the Supervisory Board for election to the body are evaluated in terms of their expertise, experience and professional knowledge in the area of insurance and home loan and saving banks, as well as their individual qualities. Other criteria for Supervisory Board nominees who are proposed to the Annual General Meeting include whether the candidates are independent, have sufficient time to carry out their duties and meet the age limit of 70 provided for as a target requirement in Section 2 (2) of the Supervisory Board bylaws. The Annual General Meeting re-elected Hans Dietmar Sauer and Hans-Ulrich Schulz for a new term of office on the Supervisory Board, although they had already reached the age of 70. They were elected because of their demonstrated expertise and extensive knowledge of the company.

The Supervisory Board will also propose to the Annual General Meeting on 5 June 2019 nominees for its shareholder representatives who exceed the age limit.

In the estimation of the Supervisory Board, all shareholder representatives on the Supervisory Board are independent. Going forward as well, an appropriate number of independent members will belong to the Supervisory Board. In terms of shareholder representatives, the Supervisory Board considers at least four independent members to be appropriate.

On account of the company-specific situation, the Supervisory Board does not consider it necessary to strive for a certain minimum number of members who represent, in particular, the quality of "internationality", since the main focus of the W&W Group's business operations is the national insurance and home loan and savings bank area. Beyond the aspect of "internationality", however, the inclusion of and collaboration between Supervisory Board members with different backgrounds and ways of thinking fundamentally enriches the body and promotes the discussion culture. This ultimately leads to control and advisory activities that are more efficient and more effective.

The Supervisory Board does not consider it necessary to specify a regular limit to the length of service on the Supervisory Board. It is difficult to recruit qualified Supervisory Board members who meet the requirements of supervisory law, including with respect to whether candidates are fit and proper and do not exceed the maximum number of mandates. The increased requirements of supervisory law have to do with, inter alia, the fact that because of its position in the W&W financial conglomerate, W&W AG is subject to both banking supervision and insurance supervision.

Once a year, as well as at the time of each new appointment, the members of the Supervisory Board evaluate their strengths in the fields of investment, actuarial practice and accounting by means of a self-assessment. This forms the basis for a development plan that the Supervisory Board prepares each year. The plan identifies areas where the Supervisory Board as a whole or its individual members wish to acquire more in-depth knowledge. The self-assessment and the development plan are forwarded to the supervisory authority.

The Supervisory Board regularly reviews the efficiency of its work. In the course of reviewing the efficiency of its work, a process that was started in late 2017, the Supervisory Board concerned itself in detail with the results of the review in early 2018. Supervisory Board work was reviewed on the basis of an internally prepared questionnaire. The focus was on the issues of Supervisory Board and committee information, conduct of Supervisory Board and committee meetings, structure and composition of the Supervisory Board and the committees and conflicts of interest/miscellaneous.

Conflicts of interest, particularly those that may arise because of giving advice to or serving on governing bodies of customers, suppliers, lenders or other third parties, are disclosed to the (Chair of the) Supervisory Board and noted in the report of the Supervisory Board.

The nominees for reelection as shareholder representatives on the Supervisory Board also continue to meet the the specific targets set by the Supervisory Board for its composition, other than where a deviation has been expressly declared.

In the 2018 financial year, the Supervisory Board of W&W AG had established four standing committees, i.e. the Risk and Audit, Nomination, Remuneration Control and Personnel and Conciliation Committees.

Risk and Audit Committee

The Risk and Audit Committee meets twice a year to prepare for Supervisory Board meetings that deal with the balance sheet and planning. In addition, it discusses half-yearly financial reports with the Executive Board in teleconferences. It also meets when necessary. The committee met twice during the 2018 financial year, as well as once by teleconference. The committee also adopted by way of written circulation four resolutions concerning the approval of so-called “non-audit services” by the auditor, as well as concerning the tendering process for the auditor. The latter were prepared during earlier information meetings.

The Risk and Audit Committee concerns itself with accounting issues and the monitoring of the accounting process. It prepares the decisions of the Supervisory Board regarding the approval of the annual financial statements and the consolidated financial statements, the result of the auditing of the Management Report and the Group Management Report or, as the case may be, a combined Management Report, and the proposal for the appropriation of profit, as well as regarding submission of the corporate governance statement with the corporate governance report, including the remuneration report, and regarding the audit of the separate non-financial Group report. For this purpose, it is responsible for the advance review and, if necessary, preparation of the corresponding documentation.

The responsibilities of the Risk and Audit Committee also include monitoring the effectiveness of the internal control system, the risk management system and the internal auditing system, as well as dealing with compliance issues. In addition, it advises the Supervisory Board on current and future overall risk tolerance and business and risk strategies at the company and Group level and supports it in monitoring the implementation of these strategies. The Executive Board reports to the committee on business and risk strategies, as well as on the risk situation of the company and the W&W Group. In addition, reports are made to it about the work of the Internal Audit and Compliance departments, including the audit plan, as well as about especially serious findings and their handling. In consultation with the Executive Board, the chair of the committee may make direct enquiries to the head of Internal Audit, the Group Compliance Officer and the head of Risk Control.

The Risk and Audit Committee monitors whether conditions in customer business are in line with the business model and risk structure of the company and the W&W Group. Where this is not the case, the committee requests proposals from the Executive Board on how to bring the conditions in customer business into line with the business model and risk structure and monitors their implementation.

The Risk and Audit Committee examines whether incentives provided by the remuneration system take into consideration the risk, capital and liquidity structure of the company and the W&W Group and the likelihood and timing of earnings. This is without prejudice to the tasks of the Remuneration Control and Personnel Committee.

The auditor is selected by the Supervisory Board at the recommendation of the Risk and Audit Committee.

The Risk and Audit Committee decides on the agreement with the auditor (in particular, the audit mandate, the specification of the main audit areas and the fee agreement), as well as on termination or continuation of the audit mandate. It adopts suitable measures in order to ascertain and monitor the independence of the auditor and the additional services provided by the auditor for the company. The Risk and Audit Committee can submit recommendations and proposals for ensuring the integrity of the accounting process. The Supervisory Board supports the Executive Board in monitoring the implementation of statutory audits of accounts.

The Risk and Audit Committee supports the Supervisory Board in monitoring the swift rectification by the Executive Board of the deficiencies identified by the auditor. The Risk and Audit Committee consists of eight members, of whom four are shareholder representatives and four are employee representatives. The members satisfy the requirement of sector familiarity within the meaning of Section 100 (5) of the German Stock Corporation Act (AktG); one member has been appointed as a financial expert.

The chair of the Risk and Audit Committee should not be the Chair of the Supervisory Board or a former member of the company's Executive Board whose appointment ended less than two years ago. He or she should have special knowledge and experience in the fields of accounting, annual audits and internal controlling procedures and be independent.

Members of the Risk and Audit Committee
Corinna Linner (Chair)
Peter Buschbeck
Dr Reiner Hagemann (financial expert)
Ute Hobinka
Bernd Mader
Andreas Rothbauer
Hans Dietmar Sauer
Gerold Zimmermann

Nomination Committee

The Nomination Committee meets at least once each calendar year, as well as when necessary. It met twice during the 2018 financial year.

The Nomination Committee advises the Supervisory Board on a regular basis about long-term succession planning for the Executive Board. In doing so, it takes into consideration the company's senior management planning. It supports the Supervisory Board

- in identifying candidates to fill Executive Board vacancies and preparing proposals for the election of the members of the Supervisory Board, whereby only the shareholder representatives provide support in preparing such proposals;
- in deciding on a target to encourage the representation of women on the Supervisory Board and a policy on how to meet that target;
- in periodically assessing the structure, size, composition and performance of the Executive Board and the Supervisory Board and making recommendations to the Supervisory Board in this regard;
- in periodically assessing the knowledge, skills and experience of the individual members of the Executive Board and the Supervisory Board, as well as of the respective boards collectively; and
- in reviewing the policy of the Executive Board for the selection and appointment of senior management and making recommendations on this matter to the Executive Board.

The Nomination Committee consists of the Chair of the Supervisory Board, his deputy by virtue of his or her office, two additional shareholder representatives and two additional employee representatives. The Chair of the Supervisory Board is the committee chair.

Members of the Nomination Committee
Hans Dietmar Sauer (Chair)
Dr Reiner Hagemann
Jochen Höpken
Jutta Stöcker
Frank Weber
Gerold Zimmermann

Remuneration Control and Personnel Committee

The Remuneration Control and Personnel Committee meets at least once each calendar year, as well as when necessary. It met twice during the 2018 financial year.

The Remuneration Control and Personnel Committee prepares the personnel decisions of the Supervisory Board, in particular the appointment and dismissal of members of the Executive Board and the appointment of the Chair of the Executive Board.

The Remuneration Control and Personnel Committee decides in place of the Supervisory Board, in particular, on the conclusion, amendment and termination of the employment and pension agreements of Executive Board members. This does not apply to the setting of remuneration or to decisions pursuant to Section 87 (2) sentences 1 and 2 of the German Stock Corporation Act (AktG). The Supervisory Board makes these decisions following preparation by the Remuneration Control and Personnel Committee, whereby, in the resolution it proposes to the Supervisory Board, the committee takes into account, in particular, the impact of the resolution on the company's risks and risk management as well as the long-term interests of shareholders, investors and other involved parties and the public interest.

The Remuneration Control and Personnel Committee

- monitors the adequate structure of the remuneration systems for the Executive Board and employees and, in particular, the adequate structure of remuneration for the heads of the risk control function and the compliance function and for those employees who have a material impact on the company's overall risk profile and that of the W&W Group. It supports the Supervisory Board in monitoring the adequate structure of remuneration systems for the employees of the company. It also assesses the impact of the remuneration systems on the management of risk, capital and liquidity;
- supports the Supervisory Board in monitoring the proper inclusion of the internal control function and all other material functions in the structure of the remuneration systems.

The Remuneration Control and Personnel Committee consists of the Chair of the Supervisory Board, his deputy by virtue of his or her office, one additional shareholder representative and one additional employee representative. The Chair of the Supervisory Board is the committee chair.

At least one member of the Remuneration Control and Personnel Committee must have sufficient expertise and professional experience in the area of risk management and risk control, in particular with respect to mechanisms for aligning the remuneration systems with the company's overall risk tolerance and strategy and with its capital base.

Members of the Remuneration Control and Personnel Committee
Hans Dietmar Sauer (Chair)
Christoph Seeger
Hans-Ulrich Schulz
Frank Weber

Conciliation Committee

In addition, the Supervisory Board has at its disposal the Conciliation Committee, which is required to be formed by the German Co-determination Act (MitbestG). The Conciliation Committee makes personnel proposals to the Supervisory Board where the required majority is lacking for the appointment and dismissal of Executive Board members. The Conciliation Committee did not meet during the 2018 financial year.

The Conciliation Committee consists of the Chair of the Supervisory Board, his deputy by virtue of his or her office, one member elected by the shareholder representatives on the Supervisory Board and one member elected by the employee representatives on the Supervisory Board. The Chair of the Supervisory Board is the committee chair

Members of the Conciliation Committee
Hans Dietmar Sauer (Chair)
Gudrun Lacher
Marika Lulay (since June 2018)
Frank Weber

Statement of compliance by Wüstenrot & Württembergische AG with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) dated December 2018

Since the submission of the last statement of compliance on 11 December 2017, Wüstenrot & Württembergische AG has complied with, and in future will continue to comply with, the recommendations of the Government Commission for the German Corporate Governance Code, in the version of 7 February 2017, which were made public by the German Federal Ministry of Justice and Consumer Protection in the official part of the German Federal Gazette, other than as follows:

- According to No. 3.8 para. 2, in the event that the company takes out a D&O insurance policy for the Supervisory Board, a deductible of at least 10% of the loss up to at least the amount of one-and-a-half times the fixed annual remuneration is to be agreed upon. Wüstenrot & Württembergische AG deviates from this recommendation, because a high deductible, which must be uniform in light of the principle of equality that has to be observed, would affect the members of the Supervisory Board to very different extents, depending on their private income and assets. In a serious case, less wealthy members of the Supervisory Board could find themselves in existential difficulties, which would not be fair in view of the fact that their duties are the same.

- According to No. 5.3.3, the Supervisory Board is to form a Nomination Committee, composed exclusively of shareholder representatives, which proposes suitable candidates to the Supervisory Board for its recommendations to the Annual General Meeting. Due to the requirements in Section 25d (11) of the German Banking Act (KWG), Wüstenrot & Württembergische AG has not fully complied with the recommendations in No. 5.3.3. Section 25 d (11) KWG prescribes that the Nomination Committee of the Supervisory Board of Wüstenrot & Württembergische AG must assume additional duties that should be performed not solely by the shareholder representatives on the Supervisory Board. Therefore, the Nomination Committee also includes employee representatives. It is, however, ensured that the nominations to the Annual General Meeting are determined only by the shareholder representatives on the committee.

- According to No. 5.4.1 para. 2, the Supervisory Board is to determine concrete objectives regarding its composition, including specification of a regular limit to the length of service of Supervisory Board members. Wüstenrot & Württembergische AG deviates from this. It is difficult to recruit qualified Supervisory Board members who meet the requirements of supervisory law, including with respect to whether candidates are fit and proper and do not exceed the maximum number of mandates. The increased requirements of supervisory law have to do with, inter alia, the fact that because of its position in the W&W financial conglomerate, Wüstenrot & Württembergische AG is subject to both banking supervision and insurance supervision. Therefore, the Supervisory Board has not specified a regular limit to the length of service of its members.

- According to No. 7.1.2 sentence 2, the Executive Board is to discuss interim financial information with the Supervisory Board or its audit committee before being published. In conformity with that, meetings of the Supervisory Board and the Risk and Audit Committee to discuss the annual financial statements and the half-yearly financial report are firmly established in terms of frequency. In addition, the Supervisory Board, particularly its Chairman, regularly exchanges information with the Executive Board about all issues of importance to the W&W Group, as well as about strategy, planning, business performance, risk position, risk management and compliance. The Executive Board promptly notifies the Chairman of the Supervisory Board about important events that are of major significance for the assessment of the company's position and performance, as well as for its management. As a result, Wüstenrot & Württembergische AG does not consider it necessary to have the Executive Board and the Supervisory Board or Risk and Audit Committee separately discuss additional financial information, particularly quarterly reports.

Information about corporate governance practices

W&W AG works to ensure compliance with national and European statutory provisions and internal company guidelines by means of a Group-wide compliance organisation. The compliance function is an essential component of the W&W compliance management system, and it is embedded in the W&W governance system and forms part of the internal control system of the W&W Group.

The Group Compliance Officer coordinates the operational implementation of the compliance control loop, i.e. particularly the handling of rules violations and the compliance with regulations.

In order to further enhance integrity in the sales-related tied-agents organisations of the W&W Group, the Group Compliance Officer is supported by Sales Compliance Officers, who take into account each of their sales-specific features and are available as separate points of contact and coordinators specifically for sales issues. In addition, the Compliance Officer is supported by various compliance points of contact in each of the subsidiaries.

In order to enhance efficiency, as well as provide a basis for the regular exchange of information, a Group Compliance Committee has been set up, which is convened by the Compliance Officer on a regular basis. It is composed of representatives from all compliance-relevant areas (e.g. Group Legal, Group Risk Management, Group Audit, Group Accounting and Taxes, Sales Compliance, Money Laundering, Securities Compliance, Data Protection, Fraud Prevention, etc.).

A Code of Conduct is in place to provide employees in the W&W Group with binding orientation for their daily work, and it is regularly updated. It applies to all members of governing bodies, managers, in-house employees and mobile sales force. The Code of Conduct specifies the minimum standard for dealings between company employees, as well as in relation to customers, competitors, business partners, government authorities and shareholders. There are also specific codes of conduct for the sales organisations.

Together with its subsidiaries that conduct the primary insurance business, W&W AG has acceded to the "Code of Conduct for the Sale of Insurance Products" enacted by the German Insurance Association (GDV). In April 2017, the auditor successfully completed the audit prescribed in the Code for the second time. Following the amendment of the Code on 25 September 2018, audits are conducted every three years for whether a company has adopted the arrangements contained in the Code in its (internal) rules and is practising them. The Code and the audit reports can be viewed at www.gdv.de.

In addition to the Compliance Officer, an external ombudsman is available to all W&W Group employees should they wish to bring to light events that are harmful to it or are criminally significant. This is intended to ensure that notifications can be made anonymously if desired.

Managers and all employees are provided with extensive documentation to keep them abreast of insider-trading legislation, antitrust legislation, money laundering and the issues of corruption and compliance. The legal areas are explained in understandable terms using examples and self-monitoring options.

The W&W Group conducts its business in a sustainable manner. As a financial planning specialist in the areas of financial coverage, residential property, risk protection and savings and investment, we generate sustainable growth that retains value. Not only is this understanding part of the W&W business strategy, it has also has been explicitly made binding in the sustainability policy of W&W AG. This policy covers such areas as resource use and procurement, employees, products and services and compliance with legal requirements, as elements of the concept of sustainability.

Wüstenrot & Württembergische AG
Report on equality and equal remuneration pursuant to the German Transparency in Remuneration Act (EntgTransG)

In our 2017 Annual Report, we published a report on equality and equal remuneration pursuant to the German Transparency in Remuneration Act (EntgTransG).

In accordance with the five-year rule in Section 22 (1) EntgTransG, we did not prepare a new report for 2018.

Consolidated Financial Statements of W&W Group (IFRS)

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Wüstenrot & Württembergische AG
Consolidated Financial statements of W&W Group (IFRS)

Consolidated balance sheet as at 31 December 2018

Assets

in € thousands	cf. Note no.[1]	31.12.2018	31.12.2017
		IFRS 9	IAS 39
Cash reserves	1	**83,898**	**154,095**
Non-current assets classified as held for sale and discontinued operations	2	**1,236,580**	**1,605,812**
Financial assets at fair value through profit or loss	3	**6,778,739**	**—**
thereof sold under repurchase agreements or lent under securities lending transactions		**29,606**	**—**
Financial assets at fair value through other comprehensive income	4	**32,044,702**	**—**
Financial assets at amortised cost	5	**28,102,415**	**—**
Subordinated securities and receivables		133,380	—
Senior debenture bonds and registered bonds		1,087,957	—
Senior fixed-income securities		1,054,900	—
Construction loans		23,098,798	—
Other loans and receivables		2,727,380	—
Financial assets at fair value through profit or loss	3	**—**	**2,837,312**
Financial assets available for sale	4	**—**	**23,908,533**
thereof sold under repurchase agreements or lent under securities lending transactions		—	1,001,043
Receivables	5	**—**	**40,112,140**
Subordinated securities and receivables		—	80,224
First-rank receivables from institutional investors		—	14,076,295
Building loans		—	23,525,418
Other loans and receivables		—	2,430,203
Risk provision		**—**	**-153,071**
Positive market values from hedges	6	**61,686**	**50,506**
Financial assets accounted for using the equity method	7	**93,016**	**95,469**
Investment property	8	**1,827,055**	**1,683,541**
Reinsurers' portion of technical provisions	9	**297,212**	**325,655**
Other assets		**1,513,938**	**1,398,177**
Intangible assets	10	99,701	100,432
Property, plant and equipment	11	287,461	289,401
Inventories	12	190,254	99,388
Current tax assets	13	37,372	59,708
Deferred tax assets	14	825,619	779,624
Other assets	15	73,531	69,624
Total assets		**72,039,241**	**72,018,169**

1 See numbered explanations in the notes to the consolidated financial statements.

Liabilities

in € thousands	cf. Note no.	31.12.2018	31.12.2017
		IFRS 9	IAS 39
Liabilities under non-current assets classified as held for sale and discontinued operations	2	**952,652**	**1,017,175**
Financial liabilities at fair value through profit or loss	16	**455,318**	**533,614**
Liabilities	17	**27,585,077**	**28,754,334**
Liabilities evidenced by certificates		1,286,568	918,938
Liabilities to credit institutions		1,454,518	2,735,133
Liabilities to customers		23,580,660	23,822,677
Finance lease liabilities		20,133	23,951
Miscellaneous liabilities		1,243,198	1,253,635
Negative market values from hedges	18	**126,449**	**70,311**
Technical provisions	19	**34,728,212**	**33,815,663**
Other provisions	20	**2,653,801**	**2,703,973**
Other liabilities		**865,925**	**707,265**
Current tax liabilities	21	262,460	202,790
Deferred tax liabilities	22	570,313	497,926
Other liabilities	23	33,152	6,549
Subordinated capital	24	**435,476**	**450,976**
Equity	25	**4,236,331**	**3,964,858**
Interests of W&W shareholders in paid-in capital		1,485,595	1,484,645
Interests of W&W shareholders in earned capital		2,725,867	2,459,522
Retained earnings		2,855,048	2,544,484
Other reserves (other comprehensive income)		–129,181	–84,962
Non-controlling interests in equity		24,869	20,691
Total liabilities		**72,039,241**	**72,018,169**

Further information that concerns several balance sheet items was summarised under notes

- 38-43 “Notes concerning financial instruments and fair value”,
- 44-48 “Disclosures concerning risks under financial instruments and insurance contracts” and
- 52 et seq. “Other disclosures”.

Consolidated income statement for the period 1 January to 31 December 2018

in € thousands	cf. Note no.	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017[1]
		IFRS 9	IAS 39
Current net income	26	**1,251,718**	**1,135,331**
Net interest income		1,001,930	924,959
Interest income		1,584,405	1,716,837
thereof calculated using the effective interest method		1,453,680	1,621,823
Interest expenses		–582,475	–791,878
Dividend income		192,044	155,590
Other current net income		57,744	54,782
Net income/expense from risk provision	27	**–2,672**	**9,735**
Income from risk provision		91,995	83,849
Expenses from risk provision		–94,667	–74,114
Net measurement gain/loss	28	**–553,225**	**71,469**
Measurement gains		915,388	1,063,672
Measurement losses		–1,468,613	–992,203
Net income from disposals	29	**637,535**	**728,189**
Income from disposals		737,631	979,923
Expenses from disposals		–100,096	–251,734
thereof gains/losses from the disposal of financial assets at amortised cost	43	–11	190,300
Net financial result		**1,333,356**	**1,944,724**
thereof net income/expense from financial assets accounted for using the equity method		3,269	21,820
Net commission expense	30	**–428,606**	**–401,820**
Commission income		275,444	257,406
Commission expenses		–704,050	–659,226
Earned premiums (net)	31	**4,000,064**	**3,809,307**
Earned premiums (gross)		4,120,912	3,924,225
Premiums ceded to reinsurers		–120,848	–114,918
Insurance benefits (net)	32	**–3,553,735**	**–4,030,410**
Insurance benefits (gross)		–3,625,179	–4,108,500
Received reinsurance premiums		71,444	78,090

in € thousands	cf. Note no.	1.1.2018 bis 31.12.2018	1.1.2017 bis 31.12.2017[1]
		IFRS 9	IAS 39
General administrative expenses	33	**−1,073,073**	**−1,062,519[2]**
Personnel expenses		−588,962	−593,183
Materials costs		−422,892	−404,7432
Depreciation/amortisation		−61,219	−64,593
Net other operating income	34	**42,484**	**33,1672**
Other operating income		178,390	180,4692
Other operating expenses		−135,906	−147,302
Consolidated earnings before income taxes from continued operations		**320,490**	**292,449**
Income taxes	35	−105,301	−34,412
Consolidated net profit		**215,189**	**258,037**
Result attributable to shareholders of W&W AG		214,208	256,642
Result attributable to non-controlling interests		981	1,395
Basic (= diluted) earnings per share, in €	36	**2.29**	**2.74**
Thereof from continued operations, in €		2.29	2.74

1 Structure of net financial result adjusted. Explanations can be found in the chapter “Changes in the depiction of the financial statements”.
2 Prior-year figures adjusted. Explanations can be found in the chapter “Changes in the depiction of the financial statements”.

Further information that concerns several balance sheet items was summarised under notes

- 38-43 “Notes concerning financial instruments and fair value”,
- 44-48 “Disclosures concerning risks under financial instruments and insurance contracts” and
- 52 et seq. “Other disclosures”.

Consolidated statement of comprehensive income

in € thousands	cf. Note no.	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
		IFRS 9	IAS 39
Consolidated net profit		**215,189**	**258,037**
Other comprehensive income			
Elements not reclassified to the consolidated income statement:			
Actuarial gains/losses (–) from defined-benefit plans (gross)	20	28,110	20,467
Provision for deferred premium refunds		–5,469	–1,314
Deferred taxes		–6,923	–5,857
Actuarial gains/losses (–) from defined-benefit plans (net)		**15,718**	**13,296**
Elements subsequently reclassified to the consolidated income statement:			
Unrealised gains/losses (–) from financial assets available for sale (gross)	37	–1,034,778	–
Provision for deferred premium refunds		648,120	–
Deferred taxes		109,373	–
Unrealised gains/losses (–) from financial assets available for sale (net, IFRS 9)		**–277,285**	**–**
Unrealised gains/losses (–) from financial assets accounted for using the equity method (gross)	37	–	–173,823
Provision for deferred premium refunds		–	83,961
Deferred taxes		–	27,901
Unrealised gains/losses (–) from financial assets accounted for using the equity method (net, IAS 39)		**–**	**–61,961**
Unrealised gains/losses (–) from financial assets accounted for using the equity method (gross)	7, 37	–161	773
Provision for deferred premium refunds		–	–416
Deferred taxes		2	–25
Unrealised gains/losses (–) from financial assets accounted for using the equity method (net)		**–159**	**332**

in € thousands	cf. Note no.	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
		IFRS 9	IAS 39
Unrealised gains/losses (–) from cash flow hedges (gross)	37	1 402	–20 355
Provision for deferred premium refunds		—	—
Deferred taxes		–429	6,224
Unrealised gains/losses (–) from cash flow hedges (net)		**973**	**–14,131**
Currency translation differences of economically independent foreign units		**–1,652**	**12,658**
Total other comprehensive income, gross		–1,007,079	–160,279
Total provision for deferred premium refunds		642,651	82,231
Total deferred taxes		102,023	28,243
Total other comprehensive income, net		**–262,405**	**–49,805**
Total comprehensive income for the period		**–47,216**	**208,232**
Attributable to shareholders of W&W AG		–44,966	207,346
Attributable to non-controlling interests		–2,250	886

Further information that concerns several balance sheet items was summarised under notes

- 38-43 “Notes concerning financial instruments and fair value”,
- 44-48 “Disclosures concerning risks under financial instruments and insurance contracts” and
- 52 et seq. “Other disclosures”.

Consolidated statement of changes in equity

in € thousands	cf. Note no.	Interests of W&W shareholders in paid-in capital: Share capital	Interests of W&W shareholders in paid-in capital: Capital reserve
Equity as at 1 January 2017		**488,884**	**994,755**
Changes to the scope of consolidation		–	–
Consolidated net profit		–	–
Other comprehensive income		–	–
Total comprehensive income for the period		**–**	**–**
Dividends to shareholders	25	–	–
Treasury shares		387	619
Other		–	–
Equity as at 31 December 2017		**489,271**	**995,374**
Equity as at 31 December 2017		**489,271**	**995,374**
Effect from the initial application of IFRS 9		–	–
Effect from the initial application of IFRS 15		–	–
Equity as at 1 January 2018		**489,271**	**995,374**
Consolidated net profit		–	–
Other comprehensive income		–	–
Total comprehensive income for the period		**–**	**–**
Dividends to shareholders	25	–	–
Treasury shares		377	573
Changes in equity without a loss of control		–	–
Equity as at 31 December 2018		**489,648**	**995,947**

Interests of W&W shareholders in earned capital						Equity attributable to W&W shareholders	Non-controlling interests in equity	Total equity
Retained earnings	Other reserves							
	Reserve for pension commitments	Reserve for financial assets at fair value through other comprehensive income Previous year: Reserve for financial assets available for sale	Reserve for financial assets accounted for using the equity method	Reserve for cash flow hedges	Reserve for currency translation			
2,344,149	**−587,540**	**526,089**	**7,264**	**13,005**	**5,179**	**3,791,785**	**19,805**	**3,811,590**
−337	—	337	—	—	—	—	—	—
256,642	—	—	—	—	—	256,642	1,395	258,037
—	13,288	−61,441	330	−14,131	12,658	−49,296	−509	−49,805
256,642	**13,288**	**−61,441**	**330**	**−14,131**	**12,658**	**207,346**	**886**	**208,232**
−56,131	—	—	—	—	—	−56,131	—	−56,131
370	—	—	—	—	—	1,376	—	1,376
−209	—	—	—	—	—	−209	—	−209
2,544,484	**−574,252**	**464,985**	**7,594**	**−1,126**	**17,837**	**3,944,167**	**20,691**	**3,964,858**
2,544,484	**−574,252**	**464,985**	**7,594**	**−1,126**	**17,837**	**3,944,167**	**20,691**	**3,964,858**
154,601	—	221,875	−7,394	—	—	369,082	7,835	376,917
1,993	—	—	—	—	—	1,993	—	1,993
2,701,078	−574,252	686,860	200	−1,126	17,837	4,315,242	28,526	4,343,768
214,208	—	—	—	—	—	214,208	981	215,189
—	15,684	−274,020	−159	973	−1,652	−259,174	−3,231	−262,405
214,208	**15,684**	**−274,020**	**−159**	**973**	**−1,652**	**−44,966**	**−2,250**	**−47,216**
−60,855	—	—	—	—	—	−60,855	—	−60,855
360	—	—	—	—	—	1,310	—	1,310
257	—	474	—	—	—	731	−1,407	−676
2,855,048	**−558,568**	**413,314**	**41**	**−153**	**16,185**	**4,211,462**	**24,869**	**4,236,331**

Consolidated cash flow statement

in € thousands	cf. Note no.	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Consolidated net profit		**215,189**	**258,037**
Non-cash items contained in consolidated net profit and reconciliation of cash flow from operating activities			
Net income from financial assets accounted for using the equity method	7, 26	–3,283	–3,032
Amortisation, depreciation, impairment losses (+)/reversals of impairment losses (–) on intangible assets and property, plant and equipment	33	61,219	64,593
Amortisation, depreciation, impairment losses (+)/reversals of impairment losses (–) on financial assets	27, 28	58,738	95,609
Increase (+)/decrease (–) in technical provisions	19	96,839	578,146
Increase (+)/decrease (–) in other provisions	20	27,149	–339,104
Changes in deferred tax assets and liabilities	35	44,319	5,526
Net gain (–)/loss (+) from the sale of intangible assets and property, plant and equipment	34	–8,229	–2,131
Net gain (–)/loss (+) from the sale of financial investments (not including participations)	29	–639,745	–970,364
Other non-cash expenses (+)/income (–)	26-29	619,725	239,064
Other adjustments		–1,325,980	–1,226,055
Subtotal		**–854,059**	**–1,299,711**
Change in assets and liabilities from operating activities			
Increase (–)/decrease (+) in building loans	5	166,626	114,432
Increase (–)/decrease (+) in other assets	5, 6, 9, 12, 13, 15	63,198	255,297
Increase (–)/decrease (+) in financial assets with positive or negative market values	3, 16	–15,459	–84,410
Increase (–)/decrease (+) in liabilities evidenced by certificates	17	367,630	271,253
Increase (–)/decrease (+) in liabilities to credit institutions	17	–1,280,615	625,047
Increase (–)/decrease (+) in liabilities from reinsurance business	17	–9,416	458
Increase (–)/decrease (+) in liabilities to customers	17	–242,017	–797,824
Increase (–)/decrease (+) in other liabilities	17, 18, 20, 21, 23	–74,104	–21,167
Interest received		1,243,621	1,745,143
Dividends received		217,685	141,270
Interest paid		–244,627	–591,279
Income taxes paid (–)/received (+)		–62,009	–61,649
Subtotal		**130,513**	**1,596,571**
I. Cash flow from operating activities		**–723,546**	**296,860**

in € thousands	cf. Note no.	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Cash receipts from the disposal of intangible assets and property, plant and equipment	10, 11	12,513	4,683
Cash payments for investments in intangible assets and property, plant and equipment	10, 11	–62,804	–117,004
Cash receipts from the disposal of financial assets	3, 4, 5, 8	14,049,783	18,045,529
Cash payments for investments in financial assets	3, 4, 5, 8	–13,138,451	–17,891,046
Cash receipts from the disposal of interests in financial assets accounted for using the equity method	7, 26	–	32,221
Cash and cash equivalents of subsidiaries or other business units, which are no longer under control	7	–256	–
II. Cash flow from investing activities		**860,785**	**74,383**
Dividend payments to shareholders	25	–60,855	–56,131
Transactions between shareholders		274	1,004
Change in funds resulting from subordinated capital	24	–15,003	53,991
Interest payments on subordinated capital	26	–20,728	–21,527
Cash payments towards finance lease liabilities	17	–3,818	–4,178
III. Cash flow from financing activities		**–100,130**	**–26,841**
Cash and cash equivalents as at 1 January		**1,391,890**	**1,022,742**
Net change in cash and cash equivalents (I.+II.+III.)		37,109	344,402
Change in cash and cash equivalents attributable to the effects of exchange rates and the scope of consolidation		8,129	24,746
Cash and cash equivalents as at 31 December		**1,437,128**	**1,391,890**
Components of cash and cash equivalents			
Cash reserves	1	83,898	154,095
Cash available for sale	2	201,362	479,033
Balances with credit institutions payable on demand	5	1,151,868	758,762
Cash and cash equivalents at the end of the financial year		**1,437,128**	**1,391,890**

The W&W Group can freely dispose of its cash and cash equivalents.

Reconciliation of debt instruments to cashflows from financing activities

in € thousands	Subordinated capital		Liabilities from finance lease	
	2018	2017	2018	2017
As at 1.1.	**450,976**	**396,739**	**23,951**	**28,129**
Interest rate	–20,728	–21,527	–	–
Issuance/Redemption	–15,003	53,991	–3,818	–4,178
Total cash	**–35,731**	**32,464**	**–3,818**	**–4,178**
Change in interest rate	20,576	21,767	–	–
Amortization	–345	6	–	–
Total non cash items	**20,231**	**21,773**	**–**	**–**
As at 31.12.	**435,476**	**450,976**	**20,133**	**23,951**

Notes to the consolidated financial statements

General accounting principles and application of IFRS

General information

Wüstenrot & Württembergische AG is a publicly traded company with registered office in Stuttgart, Germany (Gutenbergstraße 30, 70176 Stuttgart, Germany) and is the parent company of the W&W Group. The company is listed in the Commercial Register of the Local Court of Stuttgart under HRB 20203. The business of Wüstenrot & Württembergische AG as an individual company consists of reinsurance business for the insurance companies of the W&W Group, as well as management of the W&W Group.

The W&W Group is "The financial planning specialist" for modern financial planning, offering customised, innovative and attractive products in the following areas:

- Financial coverage
- Residential property
- Risk protection
- Savings and investment

The Executive Board of Wüstenrot & Württembergische AG authorised publication of the consolidated financial statements on 28 February 2019. They were presented to the Supervisory Board for approval on 22 March 2019.

The consolidated financial statements will be presented to shareholders at the ordinary Annual General Meeting on 5 June 2019.

The consolidated financial statements of Wüstenrot & Württembergische AG – consisting of the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements – were prepared on the basis of Section 315e (1) of the German Commercial Code (HGB) in conjunction with Article 4 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of IFRS international accounting standards, as they are to be applied in the European Union. In addition, a Group Management Report was prepared in accordance with the rules of commercial law.

In conformity with IFRS 4 "Insurance Contracts", insurance-specific business transactions for which IFRS do not include any specific rules are recognised for domestic Group companies in accordance with the relevant rules of commercial law pursuant to Sections 341 et seq. HGB and the regulations based on them.

The consolidated financial statements of the W&W Group were drawn up in euros (€) and are based on the principle of a going concern.

Comparative information

Unless indicated otherwise, comparative information about items in the consolidated income statement relates to the period 1 January 2017 to 31 December 2017, whereas comparative information about items in the consolidated balance sheet relates to 31 December 2017.

Accounting policies

Changes in accounting policies

International Financial Reporting Standards (IFRSs) to be applied for the first time in the reporting period

With the exception of the standards described below, which were required to be applied for the first time, the same accounting policies were applied as in the consolidated financial statements as at 31 December 2017.

- Amendments to IFRS 2
- Amendments to IFRS 4
- Amendments to IAS 40
- Initial application of IFRS 9
- Initial application of IFRS 15
- Initial application of IFRIC 22
- Annual Improvements to IFRSs 2014–2016 Cycle (IFRS 1 and IAS 28)

The initial application of IFRS 9 had material effects on the presentation of the assets, financial position and financial performance of the W&W Group as at 31 December 2018. In addition, IFRS 9 resulted in changes to IFRS 7, which were likewise required to be applied for the first time in the amended version of IFRS 7 starting 1 January 2018.

The other described changes had no material influence on the presentation of the net assets, financial position and financial performance of the W&W Group.

IFRS 9 “Financial Instruments”

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 “Financial Instruments”. EU endorsement was given on 22 November 2016.

The W&W Group began applying the new version of IFRS 9 “Financial Instruments” on 1 January 2018. The standard thus replaces IAS 39 “Financial Instruments: Recognition and Measurement”, which was applied until 31 December 2017. In particular, IFRS 9 establishes new rules with respect to the classification and measurement of financial assets, as well as to risk provision for financial assets. The recognition and measurement of financial liabilities remains essentially unchanged compared with IAS 39. In the W&W Group, financial guarantees and irrevocable loan commitments are of minor significance.

In accordance with the transition provisions, introduction of the new standard does not require any adjustments to be made to comparative information with respect to classification and measurement (including risk provision) or to the disclosures pursuant to IFRS 7 for prior business years. Therefore, we have elected not to adjust the comparative figures for the 2017 financial year. The prior-year figures provided in the report satisfy the requirements of IAS 39 and are therefore not directly comparable with the information required by IFRS 9 for the 2018 financial year. Since 1 January 2018, financial assets have been assigned to business models on the basis of facts and circumstances that existed at the time of initial application, the risk provision has been calculated in accordance with IFRS 9, and the definition, as well as the revocation of former definitions, of certain financial assets and liabilities has been undertaken.

With regard to financial assets that at the time of initial application of IFRS 9 had a low credit risk, the W&W Group assumed that the default risk associated with the financial asset has not materially increased since its initial recognition.

The conversion effects from initial application are recognised in the 2018 opening balance sheet in equity (initial-application effect). The new rules, as well as the previous rule under IAS 39, are described in the chapter “Accounting policies”.

Recognition of hedges

In connection with the initial application of IFRS 9, the W&W Group is making use of the ability to continue to use the recognition rules in IAS 39 for hedges.

Initial application effects
At the time of initial application on 1 January 2018, the following material effects on equity and the risk provision resulted from the application of the new standard and the described changes in the classification of financial assets:

- Differences between the carrying amounts of financial assets that are measured differently under IFRS 9 than under IAS 39, as well as the change in the risk provision, were recognised in equity. After taking into account the provision for deferred premium refunds and deferred taxes, these remeasurement effects resulted in an increase in equity of €377 million. Of this, €155 million was attributable to retained earnings, €214 million to other reserves (other comprehensive income) and €8 million to non-controlling interests in equity.

- Compared with IAS 39, the risk provision under IFRS 9 increased by €48 million before the provision for deferred premium refunds and before deferred taxes.

- Disclosures
  In connection with the introduction of IFRS 9, the W&W Group renamed the IFRS 7 classes. The class "Equity instruments" was renamed "Participations, shares, fund units", and the class "First-rate receivables from institutional investors" was renamed "Senior debenture bonds and registered bonds". The content of these two classes did not change as a result of the renaming. The class "Structured products" has been eliminated, since the recognition and measurement rules were changed and the fair value option for structured products is no longer applicable under IFRS 9.

- A new class was created, called "Fixed-income financial instruments that do not pass the SPPI test". Former structured products were switched to the original asset class "Senior fixed-income securities" or were reclassified in the new class "Fixed-income financial instruments that do not pass the SPPI test" if their contractual cash flows do not exclusively consist of principal and interest.

- Under IAS 39, the W&W Group used the fair value option when recognising structured products that are required to be separated from the host contract, as well as capital investments for the account and risk of life insurance policyholders and, to a lesser extent, equity instruments. With application of the fair value option under IAS 39, recognition of products that are required to be separated from the host contract was taken into consideration, and an accounting mismatch was avoided. Under IFRS 9, there is no requirement to separate structured financial assets from the host contract. Capital investments for the account and risk of life insurance policyholders have been assigned under IFRS 9 to the business model "Other/Trading" and thus are measured in the W&W Group like equity instruments at fair value through profit or loss.

The following table shows the transition of the original carrying amounts and the original measurement categories pursuant to IAS 39 to the new carrying amounts and the new measurement categories pursuant to IFRS 9 for all financial instruments per class as at 1 January 2018.

Effects by class of financial instrument

Financial asset	IAS 39	IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
in € thousands			31.12.2017	1.1.2018
Cash reserves	Receivables	Financial assets at amortised cost	**154,095**	**154,095**
Participations, shares, fund units			**3,190,032**	**3,190,032**
Participations, shares, fund units	Financial assets available for sale	Financial assets at fair value through profit or loss	3,178,463	3,178,463
Participations, shares, fund units	Financial assets at fair value through profit or loss (held for trading)	Financial assets at fair value through profit or loss	11,023	11,023
Participations, shares, fund units	Financial assets at fair value through profit or loss – designated (FVO)	Financial assets at fair value through profit or loss	547	547
Subordinated securities and receivables			**1,362,330**	**825,537**
Subordinated securities and receivables	Financial assets available for sale	Financial assets at fair value through other comprehensive income	711,563	711,563
Risk provision – subordinated securities and receivables[1]			–18	–69
Subordinated securities and receivables	Receivables	Financial assets at amortised cost	80,224	80,224
Subordinated securities and receivables	Financial assets available for sale	Financial assets at amortised cost	35,590	33,820
Subordinated securities and receivables	Financial assets available for sale	Financial assets at fair value through profit or loss	534,972	534,972
Change of class: Reclassification to fixed-income financial instruments that do not pass the SPPI test			–	–534,972
Senior debenture bonds and registered bonds			**14,076,201**	**15,742,034**
Senior debenture bonds and registered bonds	Receivables	Financial assets at fair value through other comprehensive income	12,630,028	14,647,908
Senior debenture bonds and registered bonds	Receivables	Financial assets at amortised cost	1,094,551	1,094,551
Senior debenture bonds and registered bonds	Receivables	Financial assets at fair value through profit or loss	351,716	492,596
Change of class: Reclassification to fixed-income financial instruments that do not pass the SPPI test			–	–492,596
Risk provision for senior debenture bonds and registered bonds[1]			–94	–425

Effects by class of financial instrument – continued

Financial asset	IAS 39	IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
in € thousands			31.12.2017	1.1.2018
Senior fixed-income securities			**19,447,947**	**19,727,585**
Senior fixed-income securities	Financial assets available for sale	Financial assets at amortised cost	1,213,100	1,078,760
Risk provision for senior fixed-income securities[1]			–	-353
Senior fixed-income securities	Financial assets available for sale	Financial assets at fair value through other comprehensive income	17,962,659	17,962,659
Senior fixed-income securities	Financial assets at fair value through profit or loss – designated (FVO)	Financial assets at fair value through profit or loss	–	443,082
Senior fixed-income securities	Financial assets available for sale	Financial assets at fair value through profit or loss	243,436	243,436
Senior fixed-income securities	Financial assets available for sale	Financial assets at fair value through profit or loss	28,751	28,751
Change of class: Reclassification to fixed-income financial instruments that do not pass the SPPI test			–	-28,751
Construction loans	Receivables	Financial assets at amortised cost	**23,525,418**	**23,525,418**
Risk provision for construction loans[1]			**-121,413**	**-145,612**
Other loans and advances	Receivables	Financial assets at amortised cost	**2,083,632**	**2,083,632**
Risk provision for other loans and advances1			**-8,573**	**-12,769**
Other receivables			**346,571**	**346,571**
Risk provision for other receivables[1]			**-21,837**	**-14,623**
Derivative financial instruments	Financial assets at fair value through profit or loss (held for trading)	Financial assets at fair value through profit or loss	**273,220**	**273,220**
Structured products	Financial assets at fair value through profit or loss – designated (FVO)	Financial assets at fair value through profit or loss	**624,895**	**624,895**
Change of class: Reclassification to fixed-income financial instruments that do not pass the SPPI test			–	-181,813
Change of class: Reclassification to senior fixed-income securities			–	-443,082

Effects by class of financial instrument – continued

Financial asset	IAS 39	IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
in € thousands			31.12.2017	1.1.2018
Fixed-income financial instruments that do not pass the SPPI test			**—**	**1,238,131**
Fixed-income financial instruments that do not pass the SPPI test	Receivables	Financial assets at fair value through profit or loss	–	492,596
Fixed-income financial instruments that do not pass the SPPI test	Financial assets available for sale	Financial assets at fair value through profit or loss	–	28,751
Fixed-income financial instruments that do not pass the SPPI test	Financial assets available for sale	Financial assets at fair value through profit or loss	–	534,972
Fixed-income financial instruments that do not pass the SPPI test	Financial assets at fair value through profit or loss – designated (FVO)	Financial assets at fair value through profit or loss	–	181,813
Positive market values from hedges	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	**50,506**	**50,506**
Capital investments for the account and risk of holders of life insurance policies	Financial assets at fair value through profit or loss – designated (FVO)	Financial assets at fair value through profit or loss	**1,927,628**	**1,927,628**
Reinsurers' portion of technical provisions			**325,655**	**325,655**
Risk provision for reinsurers' portion of technical provisions[1]			**—**	**-7,214**
Other remeasurements that do not fall within the scope of IFRS 7			**—**	**9,345**
Total assets			**67,236,306**	**69,239,170**

1 The risk provision items are not an IFRS 9 category. The disclosure is being made for the purpose of increased transparency.

Effects by class of financial instrument – continued

Financial liabilities and provisions	IAS 39	IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
in € thousands			31.12.2017	1.1.2018
Liabilities evidenced by certificates	Amortised cost	Amortised cost	**918,938**	**918,938**
Liabilities to credit institutions	Amortised cost	Amortised cost	**2,735,133**	**2,735,133**
Liabilities to customers	Amortised cost	Amortised cost	**23,822,677**	**23,822,677**
Finance lease liabilities	Amortised cost	Amortised cost	**23,951**	**23,951**
Other liabilities	Amortised cost	Amortised cost	**360,853**	**360,853**
Sundry liabilities			**892,782**	**892,782**
Negative market values from hedges	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	**70,311**	**70,311**
Subordinated capital	Amortised cost	Amortised cost	**450,976**	**450,976**
Derivative financial instruments	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	**533,614**	**533,614**
Provisions for irrevocable loan commitments[1]			**3,189**	**2,603**
Total liabilities			**29,812,424**	**29,811,838**

1 Provisions are not an IFRS 9 category. The disclosure is being made for the purpose of increased transparency.

On 1 January 2018, financial assets were reclassified from the IAS 39 category "Financial assets available for sale" to the IFRS 9 category "Financial assets at amortised cost". As at 31 December 2018, the fair value of these financial assets amounted to €1,472.9 million. The gain/loss from the change in fair value that would have been recognised during the reporting period in other comprehensive income without reclassification of the financial assets amounted to €23.9 million.

The following table shows the changes in classification for all financial assets as at 1 January 2018. This information is broken down by the original measurement categories and carrying amounts pursuant to IAS 39 and the changes that result from reclassifications and remeasurements pursuant to IFRS 9.

Reconciliation of net balances from IAS 39 to IFRS 9

in € thousands	IAS 39 carrying amount as at 31.12.2017	Reclassifications (1)	Reclassifications (2)	Remeasurements	Total IFRS 9 carrying amount as at 1.1.2018
Financial assets					
Financial assets at fair value through profit or loss					
Opening net balance					
Participations, shares, fund units	11,570	–	–	–	11,570
Senior fixed-income securities	–	443,082	–	–	443,082
Derivative financial instruments	273,220	–	–	–	273,220
Structured products	624,895	−624,895	–	–	–
Capital investments for the account and risk of holders of life insurance policies	1,927,628	–	–	–	1,927,628
Fixed-income financial instruments that do not pass the SPPI test	–	181,813	–	–	181,813
Change in classification:					
From financial assets available for sale (IAS 39)					
Participations, shares, fund units	–	3,178,463	–	–	3,178,463
Senior fixed-income securities	–	272,188	-28,751	–	243,436
Fixed-income financial instruments that do not pass the SPPI test	–	–	28,751	–	28,751
Subordinated securities and receivables	–	534,972	-534,972	–	–
Fixed-income financial instruments that do not pass the SPPI test	–	–	534,972	–	534,972
Of receivables (IAS 39)					
Senior debenture bonds and registered bonds	–	351,716	-351,716	–	–
Fixed-income financial instruments that do not pass the SPPI test	–	–	351,716	140,880	492,596
Total changes in financial assets at fair value through profit or loss	**2,837,312**	**4,337,338**	**–**	**140,880**	**7,315,529**

Reconciliation of net balances from IAS 39 to IFRS 9, continued

in € thousands	IAS 39 carrying amount as at 31.12.2017	Reclassifications (1)	Reclassifications (2)	Remeasurements	Total IFRS 9 carrying amount as at 1.1.2018
Financial assets at fair value through other comprehensive income – debt instruments (previously called financial assets available for sale under IAS 39)					
Opening net balance					
Participations, shares, fund units	3,178,463	–	–	–	3,178,463
Senior fixed-income securities	19,447,947	–	–	–	19,447,947
Subordinated securities and receivables	1,282,124	–	–	–	1,282,124
Change in classification:					
To financial assets at fair value through profit or loss					
Participations, shares, fund units	–	-3,178,463	–	–	-3,178,463
Senior fixed-income securities	–	-272,188	–	–	-272,188
Subordinated securities and receivables	–	-534,972	–	–	-534,972
To financial assets at amortised cost (IFRS 9)					
Senior fixed-income securities	–	-1,213,100	–	–	-1,213,100
Subordinated securities and receivables	–	-35,590	–	–	-35,590
Change in classification:					
Of receivables (IAS 39)					
Senior debenture bonds and registered bonds	–	12,630,028	–	2,017,880	14,647,908
Total changes in financial assets at fair value through other comprehensive income – debt instruments (IFRS 9)	**23,908,534**	**7,395,716**	**–**	**2,017,880**	**33,322,129**

Reconciliation of net balances from IAS 39 to IFRS 9, continued

in € thousands	IAS 39 carrying amount as at 31.12.2017	Reclassifications (1)	Reclassifications (2)	Remeasurements	Total IFRS 9 carrying amount as at 1.1.2018
Financial assets at amortised cost (previously called receivables under IAS 39)					
Opening net balance					
Subordinated securities and receivables	80,224	–	–	–	80,224
Construction loans	23,525,418	–	–	–	23,525,418
Senior debenture bonds and registered bonds	14,076,295	–	–	–	14,076,295
Other loans and advances	2,083,632	-	–	–	2,083,632
Other receivables	346,571	-	–	–	346,571
Change in classification:					
From financial assets available for sale (IAS 39)					
Senior fixed-income securities	–	1,213,100	–	-134,340	1,078,760
Subordinated securities and receivables	–	35,590	–	-1,770	33,820
Change in classification:					
To financial assets at fair value through profit or loss					
Senior debenture bonds and registered bonds	–	-351,716	–	–	-351,716
To financial assets at fair value through other comprehensive income					
Senior debenture bonds and registered bonds	–	-12,630,028	–	–	-12,630,028
Total changes in financial assets at amortised cost (IFRS 9) (previously called receivables under IAS 39)	**40,112,140**	**-11,733,054**	**–**	**-136,110**	**28,242,975**
Risk provision[1]					
Financial assets at amortised cost (previously called receivables under IAS 39) – effect on retained earnings	-153,071	8,353	–	-29,132	-173,850
Subordinated securities and receivables	-17	-	–	-52	-69
Senior debenture bonds and registered bonds	-1,230	1,136	–	-331	-425
Senior fixed-income securities	–	–	–	-353	-353
Construction loans	-121,412	–	–	-24,200	-145,612
Other loans and advances	-8,572		–	-4,196	-12,768
Other receivables	-21,840	7,217			-14,623
Reinsurers' portion of technical provisions		-7,217			-7,217
Other remeasurements that do not fall within the scope of IFRS 7	**–**	**–**	**–**	**9,345**	**9,345**
Total changes in balances of financial assets due to reclassifications and remeasurements as at 1.1.2018	**66,704,914**	**1,136**	**–**	**2,002,863**	**68,708,913**

Reconciliation of net balances from IAS 39 to IFRS 9, continued

in € thousands	IAS 39 carrying amount as at 31.12.2017	Reclassifications (1)	Reclassifications (2)	Remeasurements	Total IFRS 9 carrying amount as at 1.1.2018
Financial liabilities					
Provisions for irrevocable loan commitments[1]	**–3,189**	**–**	**–**	**586**	**–2,603**
Total changes in balances of financial liabilities due to reclassifications and remeasurements as at 1.1.2018	**–3,189**	**–**	**–**	**586**	**–2,603**
Risk provision in equity[1]					
Financial assets at fair value through other comprehensive income – debt instruments (IFRS 9) – effect on retained earnings	**–**	**–**	**–**	**–18,952**	**–18,952**
Subordinated securities and receivables	–	–	–	–373	–373
Senior debenture bonds and registered bonds	–		–	–4,492	–4,492
Senior fixed-income securities	–	–	–	–14,087	–14,087
Financial assets at fair value through other comprehensive income – debt instruments (IFRS 9) – effect on other comprehensive income	**–**	**1,136**	**–**	**18,952**	**20,088**
Subordinated securities and receivables	–	–	–	373	373
Senior debenture bonds and registered bonds	–	1,136	–	4,492	5,628
Senior fixed-income securities	–	–	–	14,087	14,087
Total changes in risk provision in equity due to reclassifications and remeasurements as at 1.1.2018	**–**	**1,136**	**–**	**–**	**1,136**
Total effect of remeasurements on equity as at 1.1.2018 before the provision for deferred premium refunds and before deferred taxes		**–**		**2,003,448**	

1 Risk provision and provisions are not an IFRS 9 category. The disclosure is being made for the purpose of increased transparency.

In the “Reclassifications” (1) column, the balances by class for all financial assets are reclassified between the original IAS 39 categories and the new IFRS 9 categories. Due to the new measurement rules in IFRS 9, the new class “Fixed-income financial instruments that do not pass the SPPI test” has been introduced. As a result, for the purpose of increased transparency, the “Reclassifications” (2) column shows the reclassification between the original class, which was based on the measurement rules in IAS 39, and the new class “Fixed-income financial instruments that do not pass the SPPI test”.

The remeasurement effect in equity shown in the table above amounted to €2,003 million before the provision for deferred premium refunds and before deferred taxes. Of this, €1,626 million was attributable to the provision for deferred premium refunds and to deferred taxes, meaning that the net remeasurement effect on equity was €377 million.

IFRS 15 “Revenue from Contracts with Customers”
The W&W Group began applying IFRS 15 on 1 January 2018.

IFRS 15 establishes uniform core principles that are applicable to all sectors and to all types of income from customer contracts. A five-step model is used to answer questions about the amount of revenue from customer contracts that is required to be recognised and the time at which or the period over which the revenue is recognised. In addition, the standard contains a variety of other detailed rules, as well as extensive quantitative and qualitative disclosures for the notes.

IFRS 15 was published on 28 May 2014 and replaces IAS 11 “Construction Contracts” and IAS 18 “Revenue”, as well as the related interpretations. EU endorsement was given on 22 September 2016. In addition, clarifications to IFRS 15 were published on 12 April 2016. EU endorsement of the clarifications was given on 31 October 2017. The standard is to be applied for the first time for financial years beginning on or after 1 January 2018. The W&W Group retroactively applied the standard in modified form for the first time on 1 January 2018 by recognising cumulative adjustment amounts resulting from first-time application at the time of initial application on 1 January 2018. Under this transitional method, the standard retroactively applies only to those customer contracts that had not yet been performed at the time of initial application on 1 January 2018. Comparative periods are not required to be adjusted.

Since, in particular, lease contracts, financial instruments and insurance contracts are excluded from the application of IFRS 15, it is mainly commission income and, in some cases, other operating income and expenses that fall within the purview of IFRS 15 in the W&W Group.

Other operating income also includes disposal proceeds from the construction and sale of residential units (property development business) that, compared with the previously applicable accounting rules, are generated earlier under IFRS 15. These proceeds are now generated, in terms of timing, based on the progress of the construction of the sold residential unit, as well as on the contractually specified down payments that are received. Furthermore, pursuant to IAS 2, the associated residential units that are currently under construction or have not yet been turned over to customers are carried under “Inventories” at the cost of purchase or manufacture and then recognised upon sale as an expense under “Other operating expenses”.

The conversion effect from the initial application of IFRS 15 amounted to €2.9 million before deferred taxes and to €2.0 million after deferred taxes and was recognised in equity in retained earnings. It mainly resulted from retroactive application to customer contracts in property development business that had not yet been fully performed within the meaning of IFRS 15 at the time of initial application on 1 January 2018. In connection with these customer contracts that had not yet been performed, commissions in the amount of €2.9 million were capitalised as contract costs and depreciated over the period of the service provision.

With regard to the consolidated balance sheet, initial application resulted in an increase in the item “Other assets” by €2.9 million from €69.6 million to €72.5 million. In addition, the item “Liabilities – Liabilities to customers (– Down payments received)” fell by €40.6 million from €23,823 million to €23,782 million, thus increasing the item “Other liabilities (– Down payments received)” by €40.6 million, since pursuant to IFRS 15, liabilities for down payments received are to be shown separately from other liabilities.

The application of IFRS 15 had no material influence on the presentation of the net assets, financial position and financial performance or the earnings per share of the W&W Group.

Changes in the presentation of the financial statements

Since the start of the 2018 financial year, income from internal Group services from Group offsetting with immaterial unconsolidated subsidiaries is recognised in the W&W Group in general administrative expenses, netted with expenses for the associated internal Group services pursuant to IAS 1.35, and no longer shown separately as other operating income in "Net other income/expenses". The prior-year figures were therefore adjusted accordingly in the consolidated income statement. As a result, general administrative expenses and other operating income each fell by €36.8 million.

Until 31 December 2017, the W&W Group subdivided the net financial result into the measurement categories of IAS 39. On 1 January 2018, we switched to a business concept:

- Current net income/expenses (such as interest surplus, dividends),
- Net income/expense from risk provision,
- Net measurement gain/loss, and
- Net income/expense from disposals.

This change offers information that is more relevant and, in particular, does an even better job of showing the sources of net income/expenses and increases reporting transparency and the meaningfulness of the income statement at the Group and segment levels. This change relates only to the presentation of the 2017 figures in the income statement. The IAS 39 carrying amounts in the balance sheet have been retained.

The following tables show the transition from the original to the new net financial result in a matrix depiction. The net financial result is depicted in the rows in the original structure in accordance with the consolidated income statement for 2017 and in the columns in the new structure. The values in the last column thus correspond to the previous year's figures in the consolidated income statement. The values in the other columns show the previous year's figures contained in the notes concerning the consolidated income statement (Notes 26-29).

Reconciliation of the net financial result from the previous structure to the new structure for the period 1.1.2017 to 31.12.2017

	Current net income/expense			
in € thousands	Interest surpluss		Dividend income	Other current net income/ expense
Previous income statement structure 1.1.2017–31.12.2017:	Interest income	Interest expenses		
Net income/expense from financial assets available for sale	**431,023**	**–**	**138,738**	**2**
Income from financial assets available for sale	431,023	–	138,738	2
Expenses from financial assets available for sale	–	–	–	–
Net income/expense from financial assets accounted for using the equity method	**–**	**–**	**–**	**3,594**
Income from financial assets accounted for using the equity method	–	–	–	3,594
Expenses from financial assets accounted for using the equity method	–	–	–	–
Net income/expense from financial assets/liabilities at fair value through profit or loss	**95,014**	**–159,766**	**16,852**	**–**
Income from financial assets/liabilities at fair value through profit or loss	95,014	–	16,852	–
Expenses from financial assets/liabilities at fair value through profit or loss	–	–159,766	–	–
Net income/expense from hedges	**–**	**–**	**–**	**–**
Income from hedges	–	–	–	–
Expenses from hedges	–	–	–	–
Net income/expense from receivables, liabilities and subordinated capital	**1,190,800**	**–632,112**	**–**	**–**
Income from receivables, liabilities and subordinated capital	1,190,800	–	–	–
Expenses from receivables, liabilities and subordinated capital	–	–632,112[2]	–	–
Net income/expense from risk provision	**–**	**–**	**–**	**–**
Income from risk provision	–	–	–	–
Expenses from risk provision	–	–	–	–
Net financial result in the previous structure 1.1.2017–31.12.2017	**1,716,837**	**–791,878**	**155,590**	**3,596**
Net income/expense from investment property	**–**	**–**	**–**	**51,186**
Income from investment property	–	–	–	118,533
Expenses from investment property	–	–	–	–67,347
Net financial result in the new structure 1.1.2017–31.12.2017	**1,716,837**	**–791,878**	**155,590**	**54,782**

1 In 2017 net income/expense from currency translation was included in the individual notes concerning the consolidated income statement. Here, this is allocated to measurement gains and losses.
2 This income resulted as at 31 December 2017 from the discounting of the interest bonus provision and reduced net income/expense from receivables, liabilities and subordinated capital.

New income statement structure 1.1.2017–31.12.2017:

Net income/expense from risk provision		Net measurement gain/loss[1]		Net income/expense from disposals		Net financial result
Income from risk provision	Expenses from risk provision	Measurement gains	Measurement losses	Income from disposals	Income from disposals	
—	**—**	**17,837**	**–421,180**	**495,052**	**–67,952**	**593,520**
—	—	17,837	—	495,052	—	1,082,652
—	—	—	–421,180	—	–67,952	–489,132
—	**—**	**—**	**—**	**18,303**	**–77**	**21,820**
—	—	—	—	18,303	—	21,897
—	—	—	—	—	–77	–77
—	**—**	**957,042**	**–460,679**	**183,810**	**–163,509**	**468,764**
—	—	957,042	—	183,810	—	1,252,718
—	—	—	–460,679	—	–163,509	–783,954
—	**—**	**9,730**	**–9,777**	**30,130**	**–13,881**	**16,202**
—	—	9,730	—	30,130	—	39,860
—	—	—	–9,777	—	–13,881	–23,658
—	**—**	**76,599**	**–99,686**	**192,559**	**–5,932**	**722,228**
—	—	31,485	—	192,559	—	1,414,844
—	—	45,114[2]	–99,686	—	–5,932	–692,616
83,849	**–74,114**	**—**	**—**	**—**	**—**	**9,735**
83,849	—	—	—	—	—	83,849
—	–74,114	—	—	—	—	–74,114
83,849	**–74,114**	**1,061,208**	**–991,322**	**919,854**	**–251,351**	**1,832,269**
—	**—**	**2,464**	**–881**	**60,069**	**–383**	**112,455**
—	—	2,464	—	60,069	—	181,066
—	—	—	–881	—	–383	–68,611
83,849	**–74,114**	**1,063,672**	**–992,203**	**979,923**	**–251,734**	**1,944,724**

Reconciliation of the net financial result from the previous structure to the new structure, Home Loan and Savings Bank segment

in € thousands	Current net income/ expense	Net income from risk provision	Net measurement gain/loss	Net income from disposals	Net financial result
	New income statement structure 1.1.2017–31.12.2017				
Previous income statement structure 1.1.2017–31.12.2017:					
Net income from financial assets available for sale	89,791	–	991	87,074	177,856
Net income from financial assets accounted for using the equity method	–	–	–	–	–
Net income/expense from financial assets/liabilities at fair value through profit or loss	−64,882	–	13,019	27,946	−23,917
Net income/expense from hedges	–	–	−47	16,249	16,202
Net income/expense from receivables, liabilities and subordinated capital	215,136	–	−4,906	21,518	231,748
Net income from risk provision	–	13,036	–	–	13,036
Net financial result in the previous structure 1.1.2017–31.12.2017	**240,045**	**13,036**	**9,057**	**152,787**	**414,925**
Net income from investment property	–	–	–	–	–
Net financial result in the new structure 1.1.2017–31.12.2017	**240,045**	**13,036**	**9,057**	**152,787**	**414,925**

Reconciliation of the net financial result from the previous structure to the new structure, Life and Health Insurance segment

	New income statement structure 1.1.2017–31.12.2017				
in € thousands	Current net income	Net income from risk provision	Net measurement gain/loss	Net income/ expense from disposals	Net financial result
Previous income statement structure 1.1.2017–31.12.2017:					
Net income from financial assets available for sale	422,303	–	-335,440	313,963	400,826
Net income from financial assets accounted for using the equity method	1,262	–	–	–	1,262
Net income/expense from financial assets/liabilities at fair value through profit or loss	17,221	–	427,559	-5,632	439,148
Net income/expense from hedges	–	–	–	–	–
Net income/expense from receivables, liabilities and subordinated capital	320,239	–	-8,794	165,139	476,584
Net income from risk provision	–	294	–	–	294
Net financial result in the previous structure 1.1.2017–31.12.2017	**761,025**	**294**	**83,325**	**473,470**	**1,318,114**
Net income from investment property	46,963	–	1,582	59,180	107,725
Net financial result in the new structure 1.1.2017–31.12.2017	**807,988**	**294**	**84,907**	**532,650**	**1,425,839**

Reconciliation of the net financial result from the previous structure to the new structure, Property/Casualty Insurance

	New income statement structure 1.1.2017–31.12.2017				
in € thousands	Current net income	Net income from risk provision	Net measurement gain/loss	Net income/ expense from disposals	Net financial result
Previous income statement structure 1.1.2017–31.12.2017:					
Net income from financial assets available for sale	52,874	–	–57,007	23,864	19,731
Net income from financial assets accounted for using the equity method	1,262	–	–	–	1,262
Net income/expense from financial assets/liabilities at fair value through profit or loss	–24	–	47,354	–1,690	45,640
Net income/expense from hedges	–	–	–	–	–
Net income/expense from receivables, liabilities and subordinated capital	–9,494	–	–4,867	–30	–14,391
Net income from risk provision	–	1,799	–	–	1,799
Net financial result in the previous structure 1.1.2017–31.12.2017	**44,618**	**1,799**	**–14,520**	**22,144**	**54,041**
Net income from investment property	1,803	–	–	–	1,803
Net financial result in the new structure 1.1.2017–31.12.2017	**46,421**	**1,799**	**–14,520**	**22,144**	**55,844**

Reconciliation of the net financial result from the previous structure to the new structure, all other segments

	New income statement structure 1.1.2017–31.12.2017				
in € thousands	Current net income	Net income from risk provision	Net measurement gain/loss	Net income/ expense from disposals	Net financial result
Previous income statement structure 1.1.2017–31.12.2017:					
Net income from financial assets available for sale	97,703	–	–58,997	4,247	42,953
Net income from financial assets accounted for using the equity method	1,070	–	–	18,226	19,296
Net income/expense from financial assets/liabilities at fair value through profit or loss	–217	–	8,432	–322	7,893
Net income/expense from hedges	–	–	–	–	–
Net income/expense from receivables, liabilities and subordinated capital	17,432	–	–4,522	–	12,910
Net income from risk provision	–	–5,394	–	–	–5,394
Net financial result in the previous structure 1.1.2017–31.12.2017	**115,988**	**–5,394**	**–55,087**	**22,151**	**77,658**
Net income from investment property	33	–	–	507	540
Net financial result in the new structure 1.1.2017–31.12.2017	**116,021**	**–5,394**	**–55,087**	**22,658**	**78,198**

Issued accounting rules whose application is not yet mandatory

IFRS 16 "Leases"
On 13 January 2016, the IASB issued IFRS 16, which will replace IAS 17. IFRS 16 was adopted in EU law on 9 November 2017. Mandatory initial application is 1 January 2019. W&W AG will apply IFRS 16 for the first time on 1 January 2019.

The core concept underlying the new standard is that generally all of a lessee's leases and the associated contractual rights and obligations are to be recognised in the balance sheet. The distinction previously made under IAS 17 between finance leases and operating leases thus no longer applies, and in future a lessee is instead required to recognise a right-of-use asset and a lease liability at the commencement of each lease and measure them on an ongoing basis.

A lessor may continue to classify its leases as operating leases or finance leases and to account for those two types of leases differently. The accounting model under IFRS 16 does not materially differ from that under IAS 17.

As lessee, the W&W Group is affected, in particular, in connection with the leasing of properties and vehicles. At this time, such leases are mostly recognised as operating leases. As a result of the new standard, an asset and a liability are being recognised for such leases for the first time. Furthermore, the depreciation of right-of-use assets as well as interest expenses for lease liabilities will in future be recognised in the income statement instead of lease expenses. A central system solution was implemented for the purposes of recognising leases and accounting for right-of-use assets and the associated lease liabilities.

The W&W Group made the following material elections and adopted the following practical expedients:

- IFRS 16 is not being applied to intangible assets.
- Short-term leases with a term of up to one year are, as in the past, recognised as an expense in the income statement on a straight-line basis over the lease term. This also applies to leases whose term ends within 12 months of the date of initial application.
- Leases whose underlying asset is of low value are, as in the past, recognised as an expense in the income statement on a straight-line basis over the lease term.
- We are adopting the practical expedient that we will not reassess whether a contract is, or contains, a lease at the date of initial application.
- We will apply the modified retrospective method on the date of initial application. Accordingly, we will not adjust prior-year information. Instead, on the date of initial application, we will account for the cumulative effect of initial application of the standard as a rectification to the opening balance-sheet value of retained earnings.
- Furthermore, for the purposes of measuring the right-of-use asset for leases that were previously classified as operating leases under IAS 17, we are electing to apply an amount equal to the future lease liability.

In connection with the initial application of IFRS 16, we exercised the following material discretionary judgment:

- In the case of leases with an indefinite term in the area of leased properties, the term of the relevant lease is determined from either a legal or a financial perspective, taking into account the information currently available in each case, in order to specify the estimated expected term in such cases.
- The lease payments for each lease are discounted using our incremental borrowing rate, since the interest rate implicit in the lease normally cannot can be readily determined. The incremental borrowing rate means the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental interest rate is determined on the basis of an alternative borrowing in the form of an observable return over a period that corresponds to the term of the relevant lease. In addition, the lessee's credit default risk is taken into account in the interest rate, paying regard to term and creditworthiness.

We do not expect any material effect from initial application. The recognition of right-of-use assets and the associated lease liabilities in connection with the initial application of IFRS 16 results merely in a small increase in total consolidated assets of a magnitude of less than 0.1% of total consolidated assets, as well as in additional disclosures in the notes. Furthermore, the depreciation of right-of-use assets as well as interest expenses for lease liabilities will in future be shown in the income statement instead of lease expenses.

The initial application of IFRS 16 had no material influence on the presentation of the net assets, financial position and financial performance or the earnings per share of the W&W Group.

IFRS 17 “Insurance Contracts”

On 18 May 2017, the IASB published IFRS 17 “Insurance Contracts”. It replaces IFRS 4 “Insurance Contracts”, which had been in effect since 1 January 2005. With regard to the recognition of insurance contracts, it for the first time introduces uniform requirements for the recognition, measurement and presentation of, as well as disclosures in the notes concerning, insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. Under the measurement model in IFRS 17, groups of insurance contracts are measured on the basis of probability-weighted discounted cash flows with an explicit risk adjustment for non-financial risk, as well as a contractual service margin, representing the unearned profit that the company will recognise as it provides services under the insurance contracts in the Group.

Instead of premium income for each period, the company will now be required to present the “Insurance service result”, i.e. insurance revenue, which depicts the changes in the obligation for the provision of coverage for which the insurance company receives compensation and the share of the premiums that covers the acquisition costs. Cash inflows and outflows from investment components are not to be presented in the result, i.e. as income or expenses in the income statement. Insurance financial income and expenses result from discounting effects and financial risks. Depending on the portfolio, they are recognised either in the income statement or in other comprehensive income.

Changes in assumptions that are unrelated to interest rates or financial risk are not taken into account directly in the income statement but instead are booked against the contractual service margin and thus allocated over the duration of the services still to be provided. The changes in estimates are directly recognised only for those groups of insurance contracts for which losses are expected.

For short-term contracts, IFRS 17 provides for an approximation method, which, as in the past, depicts the obligation to provide insurance coverage through excess premium. Under IFRS 17, liabilities resulting from insured events that have occurred, but for which claims have not been settled, are to be discounted using current interest rates. For large parts of life insurance business with participation contracts, IFRS 17 modifies the general measurement model by also including in the contractual service margin the changes in the shareholder portion of the development of income sources underlying the participation contract and allocating them over the remaining duration of the provision of service.

At the meeting of the IASB in November 2018, it was determined that the new accounting rules in IFRS 17 are to be applied for financial years starting on or after 1 January 2022. The transition to IFRS 17 is associated with the duty to provide prior-year figures.

Prior to entering into effect at the EU level, IFRS 17 must still successfully pass the endorsement process. The schedule for this is currently being revised.

Potential changes in the presentation of the net assets, financial position and financial performance of the W&W Group are being studied as part of the "IFRS 17" project. At this time, W&W AG intends to apply IFRS 17 for the first time on 1 January 2022. The Group has not yet determined which transitional approach will be applied.

Other changes
In addition, the following changes were published:

- IFRIC 23 with initial application for financial years starting on or after 1 January 2019
- Amendments to IAS 28 with initial application for financial years starting on or after 1 January 2019
- Amendments to IAS 19 with initial application for financial years starting on or after 1 January 2019
- Amendments to IFRS 9 ("Prepayment Features with Negative Compensation") with initial application for financial years starting on or after 1 January 2019
- Annual Improvements to IFRSs 2015–2017 Cycle with initial application for financial years starting on or after 1 January 2019
- Amendments to the IFRS Conceptual Framework with initial application for financial years starting on or after 1 January 2020
- Amendments to IFRS 3 with initial application for financial years starting on or after 1 January 2020
- Amendments to IAS 1 and IAS 8 with initial application for financial years starting on or after 1 January 2020
- Amendment to IFRS 10 and IAS 28 (date of initial application not yet determined)

We expect that adoption of these changes will not have any material impact on the net assets, financial position and financial performance of the W&W Group. Although earlier application is generally permitted, the W&W Group does not plan to do so. EU endorsement has not yet been given to these amendments, other than for the IFRS 9 amendment, IFRIC 23 and IAS 28

Consolidation principles

The annual financial statements of Wüstenrot & Württembergische AG and the consolidated subsidiaries, including structured entities (public and special funds) and consolidated associates, all of which are prepared according to accounting policies that are uniform throughout the Group, form the basis for the consolidated financial statements of the W&W Group.

Reporting date

The annual financial statements of the parent company, the consolidated subsidiaries and the consolidated associates were prepared as at 31 December.

Subsidiaries

Subsidiaries are all entities that are directly or indirectly controlled by W&W AG. Control exists where W&W AG has the power to direct the relevant activities of the entity, has a right to significant variable returns from the entity and has the ability to use its power of direction to influence the amount of the significant variable returns. W&W AG controls its subsidiaries based on the direct or indirect majority of voting rights.

The subsidiaries also include consolidated structured entities within the meaning of IFRS 12. These are entities that have been designed in such a way that voting or similar rights are not the dominant factor in determining whether control exists. With regard to W&W AG, these include public and special funds that are characterised, in particular, by narrowly circumscribed business activities, such as a specific capital investment strategy or limited investor rights (lack of voting rights).

Public and special funds are consolidated if, despite insufficient voting rights, they are directly or indirectly controlled by W&W AG on the basis of contractual agreements concerning management of the relevant activities.

Subsidiaries, including public and special funds, are included in the scope of consolidation unless they are of minor significance for the presentation of the net assets, financial position and financial performance of the W&W Group. Consolidation begins when control is attained and ends when it is lost.

Interests in the acquired pro rata net assets of subsidiaries that are attributable to non-Group third parties are recognised under the item “Non-controlling interests in equity” in the consolidated balance sheet and the consolidated statement of changes in equity. The interests of non-Group third parties in the profits, losses and total income of companies included in the consolidated financial statements are recognised in the consolidated income statement and the consolidated statement of comprehensive income under the item “Result attributable to non-controlling interests”.

Interests in public and special funds that are attributable to non-Group third parties are recognised in the consolidated balance sheet under “Miscellaneous liabilities” (Note 17). Interests in the profits and losses of non-Group third parties can be found in the consolidated income statement under “Net other operating income/expense” (Note 34).

Subsidiaries, including public and special funds, of minor significance for the presentation of the net assets, financial position and financial performance of the W&W Group are not consolidated but rather recognised as equity instruments under the item “Financial assets at fair value through profit or loss” (Note 3) in the sub-item “Participations, shares, fund units”. They are measured using the same principles as for financial assets at fair value through profit or loss (see the section “Financial instruments” in the chapter “Accounting policies: Notes concerning the consolidated balance sheet”).

Associates

Associates are entities that are neither subsidiaries nor joint ventures and where the Group is in a position to exert significant influence over the entity's financial and operating policy decisions but does not exercise control. Significant influence generally means directly or indirectly holding 20-50% of the entity's voting rights. Where less than 20% of the voting rights are held, it is assumed that a significant influence does not exist, unless such influence can be unambiguously demonstrated.

Associates that are of more than minor significance for the presentation of the net assets, financial position and financial performance of the W&W Group are included in the consolidated financial statements when significant influence is attained, and they are accounted for using the equity method. Inclusion ceases when significant influence ends. Under the equity method, the income effects and the carrying amount of financial investments generally correspond to the share of the entity's net income and net assets attributable to the Group. When acquired, holdings in associates are recognised in the consolidated financial statements at cost. In subsequent periods, the carrying amount of the holdings increases or decreases according to the W&W Group's share of the entity's income for the period. Unrealised gains and losses, which are elements of the consolidated statement of comprehensive income, are recognised under “Other reserves” under the reserve for financial assets accounted for using the equity method.

Associates that are of minor significance for the presentation of the net assets, financial position and financial performance of the W&W Group are accounted for using the same principles as for financial assets at fair value through profit or loss (see the section “Financial instruments” in the chapter “Accounting policies: Notes concerning the consolidated balance sheet”) and allocated to the item “Financial assets at fair value through profit or loss” (Note 3) in the sub-item “Participations, shares, fund units”.

Currency translation

The euro is the functional currency and the reporting currency of W&W AG.

Transactions in foreign currencies are posted at the exchange rate prevailing at the time of the transaction. Monetary assets and debts that deviate from the functional currency of the respective Group company are translated into the functional currency using the reference rate of the European Central Bank (ECB) as at the reporting date. Non-monetary items that are recognised at fair value are likewise translated into the functional currency at the ECB's reference rate as at the reporting date. Other non-monetary assets and debts are measured at the rate prevailing on the date of the transaction (historical rate).

The translation differences for debt instruments in the category “Financial assets at fair value through other comprehensive income” that are held in foreign currency are recognised in the consolidated income statement as income or expense.

Pursuant to IAS 21, assets and debts of subsidiaries included in the consolidated financial statements whose functional currency is not the euro are translated into euros at the ECB's prevailing reference rate on the reporting date using the modified closing rate method. Income and expenses from the statements of comprehensive income of foreign subsidiaries whose functional currency is not the euro are translated at the average rate for the year. Translation differences are recognised directly in equity in the reserve for currency translation under “Other comprehensive income” and are first included in the income statement as income or expense upon disposal of the relevant subsidiary.

Accounting and measurement methods

Financial instruments

Classes

If disclosures are required for individual classes of financial instruments, these are based on the classification depicted in the following. Each class is derived from the combination of accounting item (columns) and risk category (rows):

Classes of financial instruments starting 1 January 2018

Risk category	Cash reserves	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income
Financial assets			
Cash reserves	Amortised cost		
Participations, shares, fund units		Fair value	
Senior fixed-income securities		Fair value	Fair value
Subordinated securities and receivables			Fair value
Derivative financial instruments		Fair value	
Fixed-income financial instruments that do not pass the SPPI test		Fair value	
Positive market values from hedges			
Capital investments for the account and risk of holders of life insurance policies		Fair value	
Construction loans			
Senior debenture bonds and registered bonds			Fair value
Other loans and advances			
Other receivables[1]			
Reinsurers' portion of technical provisions			
Financial liabilities			
Liabilities evidenced by certificates			
Liabilities to credit institutions			
Liabilities to customers			
Finance lease liabilities			
Other liabilities			
Sundry liabilities[1]			
Negative market values from hedges			
Subordinated capital			
Off-balance-sheet business			
Financial guarantees[2]			
Irrevocable loan commitments[2]			

1 Mainly includes receivables/liabilities falling within the scope of IFRS 4.
2 Off-balance-sheet business figures are generally provided at nominal value. Provisions are created where necessary.

	Accounting items and measurement basis						
	Financial assets at amortised cost	Positive market values from hedges	Reinsurers‘ portion of technical provision	Financial liabilities at fair value through profit or loss	Liabilities	Negative market values from hedges	Subordinated capital
	Amortised cost						
	Amortised cost						
				Fair value			
		Fair value					
	Amortised cost						
	Amortised cost						
	Amortised cost						
					Amortised cost		
					Amortised cost		
					Amortised cost		
					Amortised cost		
					Amortised cost		
						Fair value	
							Amortised cost

Principles for the recognition, measurement and presentation of financial instruments

Financial assets and financial liabilities, including all derivative financial instruments, are recognised in the balance sheet pursuant to IAS 9. Exceptions to this concern, in particular, receivables and liabilities under insurance contracts, which are recognised in accordance with IFRS 4. Associates are measured in accordance with IAS 28.

In the W&W Group, financial instruments are recognised on the settlement date at fair value, other than derivative financial instruments that are recognised at the time of contract conclusion at fair value. Interest income and expenses are recognised on an accrual basis together with the corresponding balance sheet item. They are derecognised once the contractual rights and obligations under the financial instrument expire, or when the financial instrument is transferred and the criteria for disposal are met.

The classification and measurement approaches for financial assets have changed under IFRS 9 compared with IAS 39. The measurement of financial assets is based on both the company's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The measurement of financial assets is derived from these criteria. In this regard, a distinction is made between measurement at fair value through profit or loss, at fair value through other comprehensive income, or at amortised cost. These different approaches are described in the following.

The exercise of discretionary judgment in the initial application of IFRS 9 is discussed in the section "Utilisation of discretionary judgments and estimates".

Business model

In connection with the classification of financial assets (debt instruments), a distinction is made in the W&W Group between the following business models:

- "Hold to collect": Business model with the objective of generating contractual cash flows
- "Hold to collect and sell": Business model with the objective of generating contractual cash flows and selling financial assets
- "Other/trading": Business model under which financial assets were acquired with the intention of selling them in the short term or financial assets were unable to be assigned to the models "Hold to collect" or "Hold to collect and sell".

Assignment to one of the business models takes place when the financial asset is acquired, and it is dependent on how the Group's companies manage a group of financial assets in order to achieve a specific business objective. Discretionary judgment needs to be exercised when assessing which business model is to be applied and how the assigned portfolios are specified, and in doing so, both quantitative and qualitative factors are taken into account. The quantitative factors primarily relate to the expected frequency and the expected value of sales. With regard to qualitative factors, it is assessed how reports about the financial assets are made to the executive board of the Group company concerned and how the risks are managed.

The business models for managing financial assets were not changed in the 2018 financial year, meaning that reclassification did not take place.

Characteristics of the cash flows

If a financial asset is assigned to the business model "Hold to collect" or "Hold to collect and sell", it must be assessed on the basis of contractual agreements whether the cash flows contain only principal and interest payments, known as basic loan features. This assessment is also called the SPPI test (Solely Payments of Principal and Interest). In the process, it is reviewed whether payments of principal and interest relate solely to the outstanding principal. In this regard, interest payments may consist only of consideration for the time value of money and the assumed credit risk. In addition, other elements consist of consideration for the assumed liquidity risk and premiums for administrative costs if these can be allocated to the holding of the financial asset. A profit margin is likewise an element of interest payments. It is also assessed whether criteria are present that are detrimental to the SPPI and have a material impact on cash flows during the reporting periods and the residual term to maturity. In the case of minor changes in cash flows that the financial instrument would have had absent this contractual component, we have specified that these are to be deemed de minimis. In addition, we exercise discretionary judgment in assessing whether the impact on the contractual cash flow is to be classified extremely rare, highly abnormal and very unlikely to occur ("Not genuine"). Consequently, these contracts meet the SPPI criterion. Contracts with termination options under which, at the time of repayment, payments of an amount are made that is equal to the outstanding contractual cash flows meet the SPPI criterion in the W&W Group.

Cash reserves

Recognised in this item are cash on hand, deposits with central banks, deposits with foreign postal giro offices and debt instruments issued by public authorities with a term to maturity of less than three months. Cash reserves are recognised at cost.

Financial assets at fair value through profit or loss

Recognised here are financial assets that are assigned to the business model "Other/trading" or are assigned to the business models "Hold to collect" or "Hold to collect and sell" and do not pass the SPPI test. In addition, equity instruments, fund units, capital investments for the account and risk of life insurance policyholders and derivatives are recognised in this category. Changes in fair value and currency translations are recognised in the income statement under "Net measurement gain/loss". Interest components are shown under "Current net income/expense" and commissions under "Net commission income/expense". Initial recognition and subsequent measurement take place at fair value.

Financial assets at fair value through other comprehensive income

Financial assets that are assigned to the business model "Hold to collect and sell" and pass the SPPI test are initially recognised at fair value, plus or minus transaction costs that are directly attributable to the financial asset. In the case of subsequent measurement, changes in fair value are recognised through other comprehensive income, currency effects under "Net measurement gain/loss" and interest components under "Current net income/expense". Premiums and discounts are depreciated using the constant effective interest method, and amortisation is recognised in the income statement. The risk provision is created/released through profit or loss and, for the purposes of accounting, shown in other comprehensive income. In the case of a disposal of the debt instrument, the changes in fair value that had previously been recognised in equity are recycled through profit or loss under "Net disposal income/expense".

In the W&W Group, this item mainly consists of bearer bonds, registered bonds, subordinated bonds and debenture bonds.

Financial assets at amortised cost

Financial assets that are assigned to the business model "Hold to collect" and pass the SPPI test are recognised at amortised cost. Costs at the time of acquisition correspond to fair value, plus or minus transaction costs that are directly attributable to acquisition or issue. Fees that are not a part of effective interest are recognised under "Net commission income/expense" at the time they are collected. In subsequent measurement, the carrying amount is amortised through profit or loss by depreciating transaction costs, premiums and discounts at a constant effective interest rate. Income and expenses for foreign currency, as well as changes in the risk provision, are likewise accounted for in the income statement under this item. Interest components are shown under "Current net income/expense".

In the W&W Group, this category primarily includes construction loans, bearer bonds, debenture bonds and registered bonds.

Receivables from direct insurance business, funds withheld by ceding companies and amounts receivable on reinsurance business are generally recognised at amortised cost.

Receivables from direct insurance business from policyholders include acquisition costs recognised as claims against policyholders that are not yet due, which are determined using Zillmerisation.

Receivables are tested for impairment as described in the section "Risk provision – financial assets".

Methods, valuation and reporting of financial assets under IAS 39

The explanations provided in this section relate to IAS 39 and thus to the information concerning the prior-year figures in this annual report.

Financial assets at fair value through profit or loss
The category "Financial assets at fair value through profit or loss" was composed of the item "Designated as financial assets at fair value through profit or loss" (fair value option) and the item "Financial assets held for trading".

Designated as financial assets at fair value through profit or loss
If the fair value option was exercised, structured products were recognised in this sub-item, provided that there would otherwise have been a duty to separate the embedded derivative from the host contract.

In addition, investments for the account and risk of holders of life insurance policies were recognised in order to avoid an accounting mismatch from occurring as a result of changes in the carrying amount of the provision for future policy benefits for unit-linked insurance contracts that would have been recognised in the income statement.

Also assigned to this category were individual securities under the sub-items "Equity instruments" and "Senior fixed-income securities", provided that this avoided or substantially reduced incongruities in measurement.

Financial instruments in this sub-item were measured at fair value through profit or loss.

Realised and unrealised measurement gains and losses were recognised in the income statement under "Net income/expense from financial assets/liabilities at fair value through profit or loss". Transaction costs were likewise recognised directly in the income statement at the time of the transaction.

Financial assets held for trading
Recognised as financial assets held for trading were financial instruments that were acquired with the intention of earning a profit from short-term price fluctuations. Financial assets held for trading included equities and investment holdings. Also recognised in this item were the positive market values of derivative financial instruments that were not accounted for as a hedging instrument in connection with hedges.

Realised and unrealised measurement gains and losses, current income and expenses from financial instruments and commissions from trading business were recognised in the income statement under "Net income/expense from financial assets/liabilities at fair value through profit or loss".

Financial assets available for sale
This item consisted of all non-derivative financial instruments that were not classified in another category.

In the W&W Group, this item essentially had to do with equities, investment holdings, other variable-yield securities, bearer bonds, other fixed-income securities and participations that were neither fully consolidated nor accounted for using the equity method.

They were measured at fair value, whereby changes in fair value were generally recognised – if appropriate, taking into account deferred taxes and the provision for deferred premium refunds – in the consolidated statement of comprehensive income under the item "Unrealised gains/losses from financial assets available for sale" and in the consolidated statement of changes in equity under "Other comprehensive income" under "Other reserves" as a reserve for financial assets available for sale. Gains and losses were generally not recognised in the income statement until disposal. Financial assets available for sale were tested for impairment as described in the section "Impairment of financial assets and reversal of impairment losses" (IAS 39). With regard to debt-financing instruments with a fixed term, directly attributable transaction costs, premiums and discounts were spread over the term and recognised in the income statement under "Net income/expense from financial assets available for sale" using the effective interest method.

Interest income was recognised on an accrual basis. Accrued interest was recognised together with the relevant item.

Receivables
This item consisted of non-derivative financial instruments with fixed or determinable payments that were not traded on an active market. In the W&W Group, this category primarily included loans under home loan savings contracts, construction loans, debenture bonds and registered bonds.

Receivables were initially recognised at fair value and thereafter at amortised cost using the effective interest method. Transaction costs, premiums, discounts and deferred fees were spread over the term and recognised in the income statement under “Net income/expense from receivables, liabilities and subordinated capital” using the effective interest method. Fees that were not a component of effective interest were recognised under “Net commission income/expense” at the time they were collected.

Interest income was recognised on an accrual basis together with the relevant item.

Receivables from direct insurance business, funds withheld by ceding companies and amounts receivable on reinsurance business were generally recognised at amortised cost.

Receivables from direct insurance business from policyholders included acquisition costs recognised as claims against policyholders that were not yet due, which were determined using Zillmerisation.

Receivables were tested for impairment as described in the section “Impairment of financial assets and reversal of impairment losses”.

Financial liabilities held for trading
Recognised under the item “Financial liabilities held for trading” were the negative market values of derivative financial instruments that were not accounted for as a hedging instrument in connection with hedge accounting.

Realised and unrealised measurement gains and losses were recognised under “Net income/expense from financial assets/liabilities at fair value through profit or loss” in the consolidated income statement. Current income and expenses from financial instruments and commissions from trading business were likewise recognised there.

Financial guarantees
Financial guarantees were measured in accordance with the rules in IAS 39. Accordingly, financial guarantees were recognised at the time of issuance at fair value under “Other provisions”. This normally corresponded to the present value of the counter-performance received for assuming the financial guarantee. Thereafter, the liability was measured in the amount of the provision to be created pursuant to IAS 37 or at the original amount less subsequently recognised amortisation, whichever was higher.

Irrevocable loan commitments
Irrevocable loan commitments are fixed obligations under which the W&W Group is required to provide loans at predetermined terms. If a pending liability under a contractual obligation to a third party was likely on the reporting date, a provision was created under the item “Other provisions”. Where an individual provision was not recognised, a provision was created in accordance with the principles of portfolio impairment provisioning.

Structured products
Structured products are financial assets that have special features with respect to their interest rate, term or repayment. A structured product consists of a non-derivative host contract and one or more embedded derivatives that modify the cash flows of the host contract. The host contract and the derivative component(s) are closely linked with one another economically and form the subject of a contract. In general, structured products were depicted in the financial statements pursuant to the recognition and measurement rules applicable to the host contract. However, if certain conditions were present, the embedded derivative was recognised as a free-standing derivative separately from the host contract, unless the entire structured product was measured at fair value through profit or loss in exercise of the fair value option.

In the W&W Group, structured products were measured at fair value through profit or loss in connection with the fair value option.

Impairment of financial assets and reversal of impairment losses (IAS 39)
As at each reporting date, the W&W Group tested whether and to what extent a financial asset was impaired. In this regard, information was regularly exchanged in an impairment commission, which consisted of experts from the relevant departments. The impairment commission tested securities across all classes for the potential need to take an impairment charge where criteria that had been defined uniformly for the Group indicated that there might be a deviation from the contractually agreed future cash flows.

Only financial assets not at fair value through profit or loss were tested.

The impairment charge was measured according to principles that were uniform in the Group.

An impairment charge was taken if, as a result of one or more events after initial recognition of a financial asset, there was objective evidence of impairment and the event had an effect on the future cash flows of the asset that could be reliably estimated.

In the W&W Group, the following points were considered across all classes to be objective evidence that constituted the criterion for testing for possible impairment:

- significant financial difficulties on the part of the debtor,
- breach of contract,
- concessions made to the borrower in connection with financial difficulties,
- increased likelihood of insolvency proceedings,
- loss of an active market for financial assets due to the debtor's financial difficulties,
- demonstrable data that are indicative of lower future cash flows,
- permanent and material decline in fair value and
- subsequent declines in fair value.

Impairment was generally tested in two steps for all classes. First, financial assets were tested for whether there was objective evidence of impairment. If objective evidence of impairment was found, then the amount of the impairment charge to be recognised was determined on the basis of expected future cash flows. The amount of the impairment charge generally corresponded to the amount by which a financial asset's carrying amount exceeded its recoverable amount.

The following describes the approach used in the W&W Group for financial assets that were assigned to the category “Receivables”:

If an impairment was identified in the category “Receivables”, then provisions were created either individually or collectively depending on the character of the receivable. This did not apply to senior fixed-income securities and other receivables (loans and advance payments on insurance policies) in this category for which impairment charges were deducted directly from the carrying amount.

Impairment provisions served to cover acute counterparty default risks in the event that it became likely that not all interest and principal payments would be able to be made in conformity with the contract. Impairment provisions were created for financial assets that were significant in and of themselves. If financial assets were not significant in and of themselves, they were grouped into homogeneous portfolios, and a collective impairment provision was created.

With regard to financial assets for which individual or collective impairment provisions had been created, the interest income that was recognised or accrued was not the actual interest payments but rather the interest income from the change in present value resulting from discounting at the original effective interest rate. This interest income was depicted as a reduction in the impairment charge taken, and it was recognised under “Net income/expense from receivables, liabilities and subordinated capital”.

In addition, impairment charges were taken on a portfolio basis to cover counterparty default risks that had arisen on or before the reporting date but were not yet known.

Interest actually paid continued to be recognised as interest income for financial assets in portfolios with default events that had occurred but had not yet been identified.

For all financial assets in this category, the amount of the impairment charge was determined as the difference between the carrying amount of the financial asset and the present value of expected future cash flows, taking collateral into account. On the other hand, a distinction was made in the consideration of the impairment charge. Changes in the value of trade accounts receivable were openly deducted from receivables under the item "Risk provision" on the assets side, whereas for securities-like financial assets and assets not recognised under other items (e.g. registered bonds, registered profit-sharing certificates, silent participations), the impairment charges so determined were deducted directly from the carrying amounts.

After impairment charges had been taken, a reversal of impairment losses may have become necessary in connection with subsequent measurement, meaning that the taken impairment charges had to be released, in whole or in part, and recognised as income. In the event that an impairment loss was reversed, income was recognised in the consolidated income statement under the sub-item "Net income/expense from risk provision" (Note 27). The upper limit of the write-up was the amortised cost that would have resulted on the measurement date without impairment.

If it was virtually certain that no further payments could be expected, a financial asset in the category "Receivables" was classified as uncollectable. Uncollectable receivables were derecognised through utilisation of the risk provision. Payments received for derecognised receivables were recognised as income under "Net income/expense from risk provision" (Note 27).

If special events gave rise to the above-described evidence of impairment to financial instruments in the category "Financial assets available for sale", cumulative measurement losses in the reserve for financial assets available for sale that had previously been recognised under "Other comprehensive income" were then recognised as an expense under "Net income/expense from financial assets available for sale" in the amount of the impairment charge. The amount of the impairment charge consisted of the difference between the amortised cost and the fair value of the financial instrument.

In addition, for the class of equity instruments in the category, objective evidence of impairment existed when their fair value was significantly or permanently less than their amortised cost. In the W&W Group, "Significant" is considered to be where the price drops by 20% or more, and "Permanent" is considered to be where the price has been lower than the historical amortised cost for nine months or more. If an impairment charge had already been taken for these financial instruments, each additional decline in fair value in subsequent periods was reflected as an impairment charge in the consolidated income statement.

Translation differences from equity instruments held in a foreign currency that had been recognised directly in equity under "Other comprehensive income" were reclassified to the income statement in the course of taking the impairment charge.

Impairment charges on equity instruments that had been recognised in the past were not permitted to be reversed as gains. As a result, increases in fair value after an impairment charge was taken were recognised directly in equity under "Other comprehensive income".

Debt instruments in the classes derived from these categories were, in addition to where the above-described objective evidence existed, moreover tested for impairment where their fair value had fallen by more than 20% in the past six months compared with their carrying amount or the average price had been more than 10% below the carrying amount in the past 12 months.

Subsequent declines in the fair value of an impaired debt instrument available for sale were recognised as losses, since they were considered to be further impairment. A debt instrument available for sale ceased to be classified as impaired once its fair value in the subsequent period had recovered to at least the level of its amortised cost, not taking into account the impairment loss, and such recovery was objectively attributable to an event that had occurred after the impairment charge was recognised as a loss. Under these conditions, the reversed impairment loss was recognised as a gain. Increases in fair value going beyond this were recognised under "Other comprehensive income".

For loan commitments, a provision was created in the W&W Group for irrevocable loan commitments pursuant to the principles of portfolio impairment provisioning.

Net financial income

The net financial income of the W&W Group consisted of several components, namely, the net income/expense from

- financial assets available for sale,
- financial assets accounted for using the equity method,
- financial assets/liabilities at fair value through profit or loss,
- hedges and
- receivables, liabilities and subordinated capital.

Furthermore, the net income/expense from risk provision was taken into account in the net financial result.

Recognised under “Net income/expense from financial assets available for sale” was the net gain/loss from the sale of financial assets available for sale, the net measurement gain/loss through profit or loss of financial assets available for sale and current income (interest and dividends). Dividends were recognised once there is a legal claim to payment.

Recognised under “Net income/expense from financial assets/liabilities at fair value through profit or loss” were realised and unrealised gains and losses, interest and dividends from financial assets/liabilities at fair value through profit or loss, and other income and expenses.

Recognised under “Net income/expense from hedges” was the net income/expense from hedged items and hedging instruments involving fair value hedges. Also recognised here in the income statement were the effects from the ineffective portion of the hedging instrument and from the release of the reserve for cash flow hedges.

Recognised on an accrual basis under “Net income/expense from receivables, liabilities and subordinated capital” were interest income and interest expenses under application of the effective interest method.

Recognised under “Net income/expense from risk provision” were expenses from individual impairments and impairments taken on a portfolio basis, as well as direct write-downs. This related to lending business, primary insurance and reinsurance business and other business.

Positive market values from hedges

This item includes the positive market values of derivatives that are accounted for as a hedging instrument in accordance with hedge accounting rules. Initial recognition and subsequent measurement take place at fair value.

Financial liabilities at fair value through profit or loss

Recognised under the item “Financial liabilities at fair value through profit or loss” are the negative market values of derivative financial instruments that are not accounted for as a hedging instrument in connection with hedge accounting.

Changes in fair value and currency translations are recognised in the income statement under “Net measurement gain/loss”. Interest components are shown under “Current net income/expense”.

Liabilities

This item contains, in particular, liabilities to customers and credit institutions, as well as liabilities evidenced by certificates.

Liabilities are recognised at amortised cost. Costs at the time of acquisition correspond to fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue. Fees that are not a part of effective interest are recognised under “Net commission income/expense” at the time they are collected. In subsequent measurement, the carrying amount is amortised through profit or loss by depreciating transaction costs, premiums and discounts at a constant effective interest rate. Interest components are shown under “Current net income/expense”.

Liabilities from direct insurance business consist of liabilities to policyholders, where premiums are received in advance but are not due until after the reporting date, as well as insurance benefits that have not yet been disbursed, profit participation accrued with interest and unclaimed premium refunds. This item also depicts liabilities to insurance agents and liabilities from reinsurance business. These liabilities are recognised in their repayment amount.

Finance lease liabilities

This item includes liabilities resulting from finance leases. They are initially recognised at the fair value of the leased item or at the present value of the minimum lease payments, whichever is lower. Thereafter, they are measured at amortised cost, as reduced by the repayment portion of the lease payments that are made.

Negative market values from hedges

This item includes the negative market values of derivative financial instruments that are accounted for as a hedging instrument in accordance with hedge accounting rules. Initial recognition and subsequent measurement take place at fair value.

Subordinated capital

Subordinated capital consists of subordinated liabilities and profit participation certificates. The initial recognition of subordinated capital takes place at fair value. Costs at the time of acquisition correspond to fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue. Fees that are not a part of effective interest are recognised under “Net commission income/expense” at the time they are collected. In subsequent measurement, the carrying amount is amortised through profit or loss by depreciating transaction costs, premiums and discounts at a constant effective interest rate. Interest components are shown under “Current net income/expenses”.

Off-balance-sheet business

Financial guarantees

Financial guarantees are measured in accordance with the rules in IFRS 9. Accordingly, financial guarantees are recognised at the time of issuance at fair value under “Other provisions”. This normally corresponds to the present value of the counter-performance received for assuming the financial guarantee. Thereafter, the liability is measured in the amount of the provision to be created pursuant to IAS 37 or at the original amount less subsequently recognised amortisation, whichever is higher.

Irrevocable loan commitments

Irrevocable loan commitments are fixed obligations under which the W&W Group is required to provide loans at predetermined terms. They are carried at their nominal value. If a pending liability under a contractual obligation to a third party is likely on the reporting date, a provision is created under the item “Other provisions”. The risk provision for loan commitments is determined in accordance with the rules in IFRS 9.

Fair value measurement

The procedure described in the following is used to determine the fair value of financial instruments, irrespective of the category or class to which the financial instrument is assigned and regardless of whether the fair value so determined is used for measurement purposes or for information in the notes.

The fair value of a financial instrument means the price that the W&W Group would receive if it were to sell an asset or pay if it were to transfer a liability in an orderly transaction between market participants on the measurement date.

A hierarchical classification is undertaken for financial instruments measured at fair value in the consolidated balance sheet, and it takes into account the relevance of the factors forming part of the measurement.

Financial instruments that are traded on an active market are measured at the unadjusted quoted or market price for identical assets and liabilities (Level 1). If pricing is not available on active markets, fair value is derived from comparable financial instruments or determined through application of recognised measurement models using parameters that are directly or indirectly observable on the market (e.g. interest rate, exchange rate, volatility, prices offered by third parties) (Level 2). If measurement is impossible, or not fully possible, using quoted or market prices or by means of a measurement model using input factors that are directly or indirectly observable on the market, factors based on non-observable market data (non-observable input factors) are used to measure financial instruments (Level 3).

Unadjusted quoted or market prices (Level 1) are used to measure securities – equity instruments as well as fixed-interest financial instruments – under the IFRS 9 and IAS 39 items “Financial assets at fair value through profit or loss”, “Financial liabilities at fair value through profit or loss”, “Positive market values from hedges”, “Negative market values from hedges” and the IAS 39 item “Financial assets available for sale”. Derivatives traded on exchanges or on the market are likewise measured at their quoted or market price.

The measurement methods used for Levels 2 and 3 consist of generally accepted measurement models, such as the present-value method, under which anticipated future cash flows are discounted at current interest rates applicable to the relevant residual term to maturity, credit risks and markets. This method is used to measure securities with agreed cash flows under the IFRS 9 and IAS 39 items “Financial assets at fair value through profit or loss” and the IAS 39 item “Financial assets available for sale”. Furthermore, it is used to measure interest rate swaps and non-optional forward transactions (e.g. currency forwards), which are depicted under the IFRS 9 and IAS 39 items “Financial assets at fair value through profit or loss”, “Financial liabilities at fair value through profit or loss”, “Positive market values from hedges” and “Negative market values from hedges”.

The fair value of options not traded on an exchange is calculated using generally accepted option-pricing models that correspond to each option's type and the generally accepted underlying assumptions on which they are based. The value of options is determined, in particular, by the value of the underlying asset and its volatility, the agreed base price, interest rate or index, the risk-free interest rate and the contract's residual term to maturity. Options measured using option-pricing models are found in the class “Derivative financial instruments”, which is derived from the items “Financial assets at fair value through profit or loss” and “Financial liabilities at fair value through profit or loss”.

A CVA/DVA estimate was performed for OTC derivatives. The result obtained from this assessment was recognised in the consolidated financial statements as at 31 December 2018. Most concluded derivatives are collateralised, meaning that the counterparty risk is nearly eliminated.

The fair values of the classes of financial instruments derived from the items “Financial assets at amortised cost” (IFRS 9), “Receivables” (IAS 39) and “Liabilities” and “Subordinated capital” (IFRS 9 and IAS 39) and their fair values listed in the notes to the consolidated financial statement are in general likewise measured using the present-value method.

Applicable to all classes is that liquidity and rating spreads observable on the financial market are taken into account when measuring financial instruments. The measurement spread is determined by comparing reference curves with the financial instrument's corresponding risk-free money market and swap curves. Maturity-dependent spreads are used for the purposes of measurement, which also take into account the quality of the issuer within the various issuer groups within a rating class.

The fair value of cash and cash equivalents corresponds to the carrying amount, which is primarily due to the short term to maturity of these instruments. These financial instruments are recognised under the item “Cash reserves”, which at the same time constitutes a separate class.

Measurement gains and losses are significantly influenced by the underlying assumptions, particularly by the determination of cash flows and discounting factors.

Hedge accounting

In the W&W Group, hedge accounting depicts changes in the fair value of financial assets and liabilities (fair value hedge) and fluctuations in future cash flows from variable-yield financial assets and liabilities (cash flow hedge). As at the reporting date, the company did not have any cash flow hedges.

When entering into a hedge, the hedged item and the hedging instrument are unambiguously stipulated in the documentation. The documentation also contains statements about the hedged risk, the objective of the hedge and the rhythm and form of initial and subsequent measurement of effectiveness.

The prospective measurement of a hedge's effectiveness, which is performed at the time the contracts are drawn up for the hedged item and the hedging instrument, is done on the basis of critical term match. Critical term match is a qualitative control of whether the essential parameters of the hedged item and the hedging instrument match. If a hedge does not meet this prerequisite, initial effectiveness is tested on the basis of market data shifts. In the process, the relevant interest rate curves are adjusted by +/- 100 basis points, and effectiveness is then measured. Retrospective effectiveness is normally tested using the cumulative dollar offset method, where changes in the value of the hedged item and the hedging instrument are cumulated over the entire term of the hedge or over all maturity bands and used as the basis for the effectiveness test.

Fair value hedges are used to hedge the change in the fair value of a recognised asset, a recognised liability or a fixed, off-balance-sheet obligation or a precisely described part thereof that is attributable to a precisely defined risk and may have an effect on net income for the reporting period. Only individual hedges existed as at the reporting date.

Each change in the fair value of the derivative used as the hedging instrument is recognised in the consolidated income statement. The carrying amount of the hedged item is adjusted in the income statement by the profit or loss attributable to the hedged risk. When the hedge is terminated, the adjustment made to the carrying amount of the hedged item is amortised over the residual term to maturity, if applicable. The cumulative changes in the fair value of the portfolio of financial assets that are attributable to the hedged risk are measured in accordance with IFRS 9 under the item “Financial assets at amortised cost” or are recognised in accordance with IAS 39 under “Receivables” in the sub-item “Portfolio hedge adjustment”.

Existing fair value hedges serve to reduce the risk of changes in interest rates. Interest rate swaps are the only hedging instruments used to hedge the risk of changes in interest rates in the form of value losses due to a changed interest rate level.

Cash flow hedges are used to hedge the risk of fluctuations in future cash flows that can have an effect on consolidated income. The risk of fluctuating cash flows can result from financial assets and liabilities. The effective portion of the changes in the value of the hedging instrument is recognised in the consolidated statement of comprehensive income under the sub-item “Unrealised gains/losses from cash flow hedges”. The ineffective portion of the hedge is recognised in the consolidated income statement. The effective portion of the changes in the value of the hedging instrument is depicted in the consolidated statement of changes in equity under “Other reserves” as a reserve for cash flow hedges. If a cash flow hedge is terminated prematurely, these reserves are recognised in the consolidated income statement on a pro rata basis over the residual term to maturity of the hedging instruments.

Cash flow hedges are used to hedge the risks of changes in interest rates. Interest rate swaps are the only hedging instruments used to hedge risks of changes in interest rates from fluctuations in interest cash flows (cash flow risks).

Hedge accounting ceases when the conditions for doing so are no longer met.

Risk provision – Financial assets

The risk provision is calculated under IFRS 9 using the expected credit loss model. This model requires estimates to be made with respect to the question of the degree to which trends in economic factors may have an impact on expected credit losses. This assessment is made on the basis of probability-weighted estimates.

Under IFRS 9, the arrangements concerning risk provision are applied to financial assets at amortised cost or at fair value through other comprehensive income, as well as to loan commitments and issued finance guarantees. In the case of assets at amortised cost, the risk provision is deducted directly from the balance sheet item. In the case of assets at fair value through other comprehensive income, the risk provision is recognised under the reserve for financial assets at fair value through other comprehensive income. The risk provision for off-balance-sheet business is recognised as an expense under "Other provisions". This risk provision is essentially calculated the same way as that for financial assets. The new risk provision model does not apply to equity instruments or to financial assets at fair value through profit or loss.

Under IFRS 9, the risk provision is calculated using a three-level approach. In Level 1, impairments are measured upon initial recognition on the basis of 12-month credit losses. Expected credit losses are those that result from potential default events within the 12 months following the reporting date. If the credit risk (excluding collateral) has increased significantly as at the measurement date, the financial asset is transferred from Level 1 to Level 2. Owing to the possibility of default, the financial asset is measured in Level 2 over the residual term to maturity (lifetime view). If as time progresses, disruptions in performance occur, meaning that there is objective evidence of impaired creditworthiness, the financial asset is assigned to Level 3. In Level 3, impairment is generally measured on the basis of the lifetime view, analogous to Level 2, taking into account a probability of default of 100%. In Levels 1 and 2, interest income is calculated on the basis of the gross carrying amount of the financial asset, whereas in Level 3, it is calculated on the basis of the gross carrying amount less the risk provision.

Significant credit deterioration

In lending business, an assessment is made as to whether a material credit deterioration has occurred since initial recognition using the change in the probability of default. Quantitative criteria for evaluating whether the probability of default has worsened include an actual or anticipated reduction of the borrower's internal credit rating and a lowering of the behavioural score, which is used for the internal evaluation of the default risk. Quantitative criteria also include past experience and credit ratings, as well as forward-looking macroeconomic factors. The latter factors consist of the unemployment rate, nominal GDP growth and the price index for residential properties, in each case for Germany, as well as the long-term 10-year yield on German government bonds. These macroeconomic factors are used to ascertain point-in-time components. In the area of construction loans, the portfolios are assigned to an internal rating class using a scoring procedure, with each rating class being associated with a probability of default. At the time of acquisition, assignment to a rating class is accomplished by means of application scoring. As time progresses, credit quality is reviewed for changes by means of behavioural scoring, and the portfolio is assigned to the relevant rating class. The assessment of whether a significant credit deterioration has occurred is made on the basis of the relative change in the probability of default. In addition, qualitative criteria are also used to determine whether a significant credit deterioration has occurred, such as significant increases in the default risk with respect to other contracts with the same borrower.

In terms of macroeconomic factors, the change in the probability of default depends, in particular, on changes in the unemployment rate and nominal GDP growth. The probability of default tends to increase when the unemployment rate rises or nominal GDP growth falls.

In the area of securities, we look at the external issuer rating and other qualitative criteria, such as price changes (average price over the past six months is consistently 20% below the book price, average price over the past 12 months is at least 10% below the book price). As a rule, securities with an investment grade rating are assigned to Level 1. If the rating changes from investment grade to non-investment grade, they are always shifted to Level 2. If in addition to significantly increased credit risk there is objective evidence that a security is impaired, or if the issuer's probability of default is 100%, this security and all other securities of that issuer are assigned to Level 3.

If the supervisory definition set forth in Article 178 CRR is met, the issuer's creditworthiness is considered to be impaired, and the security is assigned to Level 3. The following criteria are used for this purpose:

- the Group considers the obligor unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising the security, and/or
- the receivable is past due by more than 90 days.

If a financial asset is impaired, its gross carrying amount is written down by the amount that is expected to be uncollectable. In some cases, the asset will be written off entirely. This normally first occurs after successful realisation of collateral where the receivable appears uncollectable. A release is made from the previously created risk provision to cover this loss.

The Group's portfolio currently does not contain any financial assets that were already at risk of default at the time of initial recognition.

Measurement of expected credit loss

In calculating expected credit loss, the Group uses a model based on parameters for the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). In making this calculation, we essentially draw on existing parameters that are used for calculating the minimum capital requirements for credit institutions in connection with the internal ratings-based approach, as adjusted to meet the concerns in IFRS 9 (e.g. consideration of residual term to maturity, including macroeconomic factors).

In lending business, the probability of default is determined on the basis of an internal rating system. In this regard, each loan in the W&W Group is assigned a probability of default on the basis of master scales. The assignment of the rating is based on the customer's specific behaviour, taking into account such factors as general customer behaviour (e.g. income from employment, marital status), external data (e.g. credit rating by Schufa) and payment behaviour.

In connection with establishing the parameters for determining the exposure at default, we model contractually agreed interest and principal payments and optional unscheduled principal payments for all products.

In determining the loss given default, we model multiyear parameters on the basis of features that vary over time. In addition to the aforementioned exposure at default, these features that vary over time consist of, for instance, collateral or loan-to-value ratios. Here as well, we model a point-in-time component in order to capture the macroeconomic effects on the loss ratio. In the case of in rem collateral, the price index for existing residential properties is relevant, whereas in the case of non-in rem collateral, the long-term 10-year yield for German government bonds is referenced.

In terms of macroeconomic factors, calculation of the expected percentage loss at the time of default depends on trends in the price index for existing residential properties, as well as trends in the long-term 10-year yield for German government bonds. The expected percentage loss at the time of default tends to rise when the price index for residential properties falls or the long-term 10-year yield for German government bonds rises.

In the course of calculating a risk provision under IFRS 9, it is also necessary to discount cash flows. In this regard, IFRS 9 requires that the effective interest rate be used for discounting purposes. We employ discounting for contracts that have been assigned to Levels 1, 2 or 3.

Modelling of point-in-time components

The modelling of point-in-time components is intended to cover not only past and current information but also forecasts about future changes in the economy. Because these components are viewed over a horizon of several years, information about economic trends that are expected in the future has to be taken into consideration when measuring the risk of default associated with a credit agreement.

Implementation of such a forward-looking correction corresponds to a modification of the multiyear probabilities of default. A forward-looking perspective requires the inclusion of forecasts about economic factors that are relevant for the default rate. In this regard, a determination is first made as to the impact that the relevant macroeconomic factors have on the portfolio default rate. The point-in-time correction of the multiyear probabilities of default is then based on the forecast of this portfolio default rate.

Accordingly, a contract-specific settlement LGD with a point-in-time correction is also modelled.

In connection with the derivation of risk parameters in the securities area, we make use of information provided by rating agencies and by the capital market, particularly in the case of the derivation of multiyear default parameters, taking into account internal valuation interest rate curves and empirically observed (multiyear) default rates for bonds that are published on a regular basis by the rating agencies. We also use information provided by rating agencies when modelling multiyear LGD parameters. In the area of securities, probabilities of default take into account forward-looking information in the form of a correction factor on the basis of market-implicit probabilities of default.

The models used under IFRS 9 for calculating the expected credit loss are validated on a regular basis.

Concessions and renegotiations (forbearance measures)

In justified exceptional cases, we enter into reorganisation/restructuring agreements with borrowers, since otherwise the contract terms originally agreed to would be unable to be complied with. These agreements generally call for a temporary or permanent reduction in the amount of loan repayment instalments in exchange for an extension of the total term of the loan, which ultimately leads to complete repayment of the loan amount. In addition, they include modification of interest terms to conform to the new repayment terms and normally call for deferment of existing interest claims.

Such concessions may be granted to the borrower on account of existing or expected financial difficulties, and they normally contain terms that are more advantageous to the borrower as compared with the original contract. In order to be able to identify these commitments early on, all loan commitments in the W&W Group are regularly reviewed for whether there is evidence that the borrower is experiencing financial difficulties. In particular, arrears that trigger collection warnings constitute objective evidence that the borrower is experiencing financial difficulties.

In advance of such restructuring, reorganisation and deferment measures, the customer's creditworthiness is once again verified on the basis of current economic circumstances. Measures taken in the past always form part of the decision-making process.

Forbearance measures essentially also have an impact on the level assignment in accordance with IFRS 9. In the spirit of a forward-looking concept for risk provision under IFRS 9, we augment the quantitative criteria for a change of level with qualitative transfer criteria with respect to the forbearance measures that have been taken. This ensures that all forbearance measures trigger a change of level under IFRS 9.

Loan commitments for which the evaluation of creditworthiness, taking into account an annuity reduction, is positive and that were not previously in default are converted directly to the new repayment terms. The effects from the undertaken modifications were not material in the W&W Group in the financial year (unsubstantial modifications).

However, despite careful review of creditworthiness and the targeted measures taken, it cannot be ruled out that repayment problems will arise in the future. Should that occur, the customer's creditworthiness is once again critically reviewed on the basis of its current economic circumstances.

If the assessment of creditworthiness is negative, or if the loan is in default, it is first decided whether it appears reasonable under the given circumstances to restructure the existing loan or refinance the debt through a new loan. In all other cases, the settlement process is initiated for loans in default.

The loan claim is derecognised if no further payments are expected from liquidation of existing collateral or from the debtor.

Other items

Non-current assets held for sale and discontinued operations

A non-current asset is classified as held for sale if the associated carrying amount is to be realised primarily through a sale and not through continued use.

Such assets are recognised in the balance sheet under the item “Non-current assets classified as held for sale and discontinued operations”. Income and expenses from individual assets held for sale or disposal groups are not recognised separately in the income statement but instead are included under the normal items.

Non-current assets that are classified as held for sale are recognised at the carrying amount or at fair value less costs of disposal, whichever is lower. If the carrying amount is higher than fair value less costs of disposal, the amount of the difference is recognised as a loss for the relevant period. Assets held for sale are not subject to scheduled depreciation.

Costs of disposal mean the additionally incurred costs that are directly attributable to the sale of an asset (or a disposal group), with the exception of financing costs and the income tax expense.

The criteria for classifying an asset as held for sale are considered met only if the sale is very likely and the asset or the disposal group can be immediately sold in its current condition. In principle, it may be expected that the planned sale will take place within one year of the time of classification.

Investment property

The item “Investment property” consists of land and buildings held for the purposes of generating rental income and/or appreciation in value.

Investment property is measured at acquisition or production cost, as reduced by scheduled use-related depreciation and, where applicable, impairment losses (cost model).

Each part of a property with an acquisition value that is significant in relation to the value of the entire property was subjected to separate scheduled depreciation. In so doing, a distinction was made, at a minimum, between shell construction and interior outfitting/technical systems.

The individual useful lives of shell construction and interior outfitting/technical systems were estimated by architects and engineers in the property division of the W&W Group. For shell construction, the maximum useful life was estimated to be 80 years (previous year: 80 years) for residential properties and 50 years (previous year: 50 years) for commercial properties, whereas for interior outfitting/technical systems, the maximum useful life was estimated to be 25 years (previous year: 25 years).

Shell construction and interior outfitting/technical systems were subjected to scheduled depreciation on a straight-line basis over the expected remaining useful life.

Investment property was tested for impairment in two steps. First, it was examined whether there was evidence of impairment on the reporting date. If this was the case, the anticipated recoverable amount was determined as the net realisable value (fair value less costs of disposal). If this value was less than amortised cost, an impairment loss was taken in the corresponding amount. In addition, it was examined on the reporting date whether there was evidence that an impairment loss taken for investment property in earlier periods no longer existed or might have declined. If this was the case, the recoverable amount was likewise determined and, if appropriate, the carrying amount was modified to reflect the recoverable amount, paying regard to amortised cost.

The fair value of investment property is essentially determined using the discounted cash flow method, with deposits and withdrawals planned in detail (term and reversion income approach). In this regard, significant non-observable inputs were used, for which reason this method for investment property was allocated to Level 3 in the measurement hierarchy for determining fair value.

In connection with determining fair value, expected future cash inflows (rents, other revenues) and cash outflows (maintenance, non-apportionable operating expenses, vacancy costs, costs for re-leasing) were discounted to present value for a 10-year forecast period and planned in detail.

Cash inflows and outflows are considered on an individual basis, i.e. each lease and each construction measure was planned separately. Likewise, vacancy periods, real estate agent costs, etc. in the commercial area were viewed separately for each rental unit. With regard to residential properties, market-based assumptions about the change in the average rents of all residential units over the forecast period were taken as a basis. Because residential units are similar, it was elected to dispense with individual planning.

In particular, the following significant non-observable inputs were used:

- The interest rate of a risk-free financial investment, plus a risk premium, was used as the adjusted capitalisation interest rate in the term period. The risk premium for properties ranged from 239 basis points (previous year: 230 basis points) for, for example, residential properties in top locations to 824 basis points (previous year: 680 basis points) for, for example, office locations and sites without any discernible advantages/strengths. This resulted in an adjusted capitalisation interest rate of between 2.50% and 8.35%, although the range may vary in some cases due to special aspects of the property or location.
- The interest rate determined in the term period serves as the adjusted capitalisation interest rate or adjusted discount rate in the reversion period, but it is normally increased by 50 basis points because of low certainty about reversion rental income. The resulting capitalisation interest rate or discount rate ranges between 3.00% and 8.35%.
- An inflation rate of 1.5% p.a. was used as the basis for determining rent increases and changes in average rents in the forecast period. For commercial properties, this was the basis used to make a property-specific, contractually conforming forecast of rent trends independent of location, site, building age and type of use. For residential properties, the basis used was the anticipated change in comparable local rents. In addition, on the basis of past experience, an assumption was made as to the frequency of tenant turnover p.a. for newly rented residential units. In the area of residential properties, it was assumed that rents could be expected to increase by 1.00% to 2.00% p.a. on average.
- Recognised ancillary purchase costs include land transfer tax (varies from state to state in Germany) plus 1.50% for notary and other costs.
- The expected occupancy rate of the entire property portfolio was approximately 96% on average. The expected rate was 97-99% for residential properties and 92-95% for commercial properties.
- Rent-free periods were taken into consideration only if this was unavoidable due to the type of use and the competitive situation at the location. In such cases, two to six months were used on a case-by-case basis.

Investment property is initially valued using outside appraisers (see Note 8). Thereafter, it is valued on an ongoing basis by commercial and technical employees (portfolio managers, controllers, architects and engineers) from the Group's property division. Management's assumptions are taken into consideration in making valuations. With property investments under outside management, fair value is normally determined by outside appraisers. Property fair values shown in the notes to the consolidated financial statements were likewise determined using the above-described method.

Reinsurers' portion of technical provisions

The reinsurers' portion of technical provisions is recognised in the balance sheet on the assets side.

All reinsurance contracts concluded by W&W Group companies transfer significant insurance risk, i.e. they are insurance contracts within the meaning of IFRS 4. The reinsurers' portion of technical provisions is determined from gross technical provisions in conformity with the contractual terms (see also the notes on the corresponding liability items). The reinsurers' portion of technical provisions is tested for impairment on each reporting date.

Other assets

The amount of the impairment loss is determined in conformity with the rules of IAS 36. According to this standard, it is determined for intangible assets and property, plant and equipment whether the asset's recoverable amount (its fair value less costs of disposal or its value in use, whichever is higher) is lower than its carrying amount. The amount of the impairment loss is the resulting difference. In the event that an impairment loss is reversed, this is recognised as a gain, but not by more than the prior impairment loss.

Intangible assets

Allocated to the item “Intangible assets” are software, brand names, copyrights and other intangible assets. An intangible asset must satisfy the following requirements: (a) it must be an asset, (b) it must be identifiable, (c) it must be devoid of any physical substance and (d) it must have a non-monetary character.

All intangible assets exhibit a limited useful life, are measured at amortised cost (cost model) and are amortised on a straight-line basis over their estimated useful life.

Internally developed software from which the Group is likely to receive a future economic benefit and that can be reliably measured is capitalised at its production cost and amortised on a straight-line basis over its estimated useful life. Production costs for internally developed software consist of all directly attributable costs that are necessary for developing and producing the respective asset and preparing it in such a way that it is capable of operating in the manner intended.

Research and development costs that are not required to be capitalised are treated as an expense in the period. If the acquisition or production of software takes longer than one year, the directly attributable borrowing costs incurred up to completion are capitalised as a component of the production costs for the qualified asset.

Internally developed and acquired software is generally amortised on a straight-line basis over a period of three to five years. Brand names are amortised on a straight-line basis over a useful life of 20 years, and other acquired intangible assets are amortised on a straight-line basis over a useful life of at most 15 years.

Scheduled amortisation of and impairment losses taken for intangible assets are recognised as general administrative expenses under the item “Depreciation/amortisation”.

Property, plant and equipment

Recognised under “Property, plant and equipment” are property for own use and plant and equipment. Property for own use means land and buildings used by Group companies.

Property, plant and equipment is measured pursuant to the cost model at acquisition or production cost, as reduced by scheduled use-related depreciation and, where applicable, impairment losses.

Property for own use is measured using the same valuation methods that apply to the recognition of investment property. Reference is therefore made to the corresponding comments.

Plant and equipment are subjected to scheduled depreciation on a straight-line basis over their estimated useful life, generally up to at most 13 years. Acquired EDP equipment is depreciated on a straight-line basis over its estimated useful life, normally up to at most seven years.

Economic useful life is regularly reviewed in connection with preparation of the financial statements. Modifications that need to be made are recognised as a correction to scheduled depreciation over the remaining useful life of the respective asset.

In addition, as at each reporting date, it is reviewed whether there is evidence of impairment to the corresponding asset. If this is the case, impairment is determined by comparing the carrying amount with the recoverable amount (fair value less costs of disposal or value in use, whichever is higher). If an item of property, plant and equipment does not generate cash flows that are largely independent of cash flows from other items of property, plant and equipment or groups of property, plant and equipment, impairment is tested not on the level of the specific item of property, plant and equipment but rather on the level of the cash-generating unit to which the item of property, plant and equipment is to be allocated. If it is necessary to take an impairment loss, it corresponds to the amount by which the carrying amount exceeds the recoverable amount for the item of property, plant and equipment or, if applicable, for the cash-generating unit, whichever is lower. If fair value less costs of disposal cannot be determined, the recoverable amount corresponds to the value in use. The value in use is determined as the present value of forecast cash flows from continued use. Once there is evidence that the reasons for taking the impairment loss no longer exist, it is tested for reversal.

Scheduled depreciation of and impairment losses taken for property for own use and plant and equipment are recognised as general administrative expenses under the item “Depreciation/amortisation”. Income for property for own use related to the pro rata temporis release of disposal gains in connection with sale-leaseback transactions is recognised as other operating income.

Inventories

Inventories are recognised at acquisition or production cost or at net realisable value, whichever is lower.

Production costs are determined on the basis of individual costs and directly attributable overhead costs. The scope of production costs is determined by the costs expended up to the point of completion and readiness for use (total costs-of-conversion approach). Acquisition and production costs for non-interchangeable and special inventories are determined by specific allocation. Certain acquisition and production costs for interchangeable inventories are determined according to the first-in, first-out (FIFO) method or the weighted average cost method.

Net realisable value corresponds to the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Leasing

A lease is an agreement under which the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

A finance lease is a lease that essentially transfers from the lessor to the lessee all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

With a finance lease, the lessee recognises the leased asset in its balance sheet and creates a corresponding financial liability. Recognised depreciable leased assets are depreciated on a straight-line basis according to the same principles applicable to other comparable assets owned by the W&W Group. Lease payments are divided into financing costs and a repayment portion, whereby the financing costs are recognised as an expense under “Current net income/expense” (interest expenses under “Net interest income/expense”). The repayment portion reduces the financial liability. Recognised leased assets are tested for impairment as at each reporting date. If the recoverable amount of the leased asset is less than its carrying amount, an impairment loss is taken. If the reasons for taking the impairment loss no longer exist, it is tested for reversal.

The Group did not carry out any finance lease business as lessor.

In the W&W Group, lease payments made by the lessee under an operating lease are generally recognised as general administrative expenses on a straight-line basis over the lease term.

The lessor recognises the assets under an operating lease in the corresponding item, depending on the features of those assets. Income from operating leases is generally recognised on a straight-line basis over the lease term. Costs, including depreciation, incurred in connection with operating leases are recognised as an expense in the consolidated income statement. The depreciation rates for depreciable leased assets are consistent with those for similar assets. Recognised leased assets are tested for impairment as at each reporting date. If the recoverable amount of the leased asset is less than its carrying amount, an impairment loss is taken. If the reasons for taking the impairment loss no longer exist, it is tested for reversal.

In some cases, sale-leaseback transactions occur. A sale-leaseback transaction consists of the sale and simultaneous leaseback of an asset. The treatment of such transactions follows the rules for operating or finance leases. Profit or loss from the sale is deferred according to the specific rules in IAS 17.

Current tax assets, deferred tax assets, current tax liabilities and deferred tax liabilities

Current tax assets and liabilities are recognised in the amount of the expected refund from or payment to the relevant tax authorities. Deferred tax assets and liabilities are created because of temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet drawn up pursuant to IFRS and the tax carrying amounts pursuant to local tax rules of the Group companies. Deferred taxes are calculated at the respective country-specific tax rates. Deferred tax assets are recognised for tax loss carryforwards to the extent that, in accordance with planning calculations, it is probable that they can be utilised in the future. Deferred tax assets from temporary differences and loss carryforwards are tested for impairment as at each reporting date.

Technical provisions

In general

Technical provisions are recognised on the liabilities side in gross amounts, i.e. before deduction of the reinsurers' portion of technical provisions. The reinsurance portion is determined in accordance with contractual reinsurance agreements and recognised separately on the assets side.

All insurance contracts concluded by W&W Group companies transfer significant insurance risk, i.e. they are insurance contracts within the meaning of IFRS 4.

Pursuant to IFRS 4.14 (a), liabilities may not be recognised for fluctuation reserves to be created in property and casualty insurance according to national rules or for reserves similar to fluctuation reserves.

Reserves are created for assumed reinsurance business according to the information provided by the prior insurer. If such information was unavailable, the reserves were determined by the data available to us. In the case of co-insurance and pools in which direction has been in the hands of outside companies, the same approach was taken.

The provision for unearned premiums corresponds to that portion of written premiums that constitutes income for a certain period of time after the reporting date. For each insurance contract, the provision for unearned premiums is accrued either to the precise day or to the precise month. The provision for unearned premiums in transport insurance in the area of property/casualty insurance is recognised under the item “Provision for outstanding insurance claims”.

Life insurance

The provision for future policy benefits is determined according to actuarial principles for each contract prospectively, taking into account the month of commencement, as the present value of future guaranteed insurance benefits, less the present value of future premiums. Future administrative costs are mainly taken into account implicitly.

For times when no premiums are paid, a provision for administrative costs is created within the provision for future policy benefits. It is currently deemed to be sufficiently high. With unit-linked life and annuity insurance, only contingent guarantee components are recognised in the provision for future policy benefits.

In the case of insurance policies with regular premium payments, one-off acquisition costs are explicitly recognised using Zillmerisation. To the extent permitted, claims that are not yet due are recognised under “Receivables from policyholders”.

The applied actuarial interest rate and the biometric actuarial bases correspond to those that also form part of the calculation of premium rates. Interest rates ranged from 0.30% (previous year: 0.90%) to 4.0% (previous year: 4.0%). Exceptions to this are explained in the following sections. The average actuarial interest rate for the provision for future policy benefits was 2.0% (previous year: 2.1%). The standard industry tables recommended by the German Association of Actuaries (DAV) were used for the biometric actuarial bases. In exceptional cases, tables based on our own past experience were used.

As a result of European case law, only so-called “Unisex rates” have been permitted to be offered since 21 December 2012, which are calculated in a gender-neutral manner. For this purpose, the company uses its own, gender-neutral biometric actuarial bases, which are derived from the gender-neutral tables recommended by the DAV.

For insurance policies for which an actuarial interest rate was originally used that is no longer appropriate under Section 341f (2) of the German Commercial Code (HGB), the provision for future policy benefits in the new portfolio was determined for the period of the next 15 years using the reference interest rate of 2.09% (previous year: 2.21%) specified in Section 5 (3) of the German Regulation on Calculation of the Provision for Future Policy Benefits (DeckRV) and thereafter using the original actuarial interest rate. In the 2018 financial year, calculation of the reference interest rate in accordance with Section 5 (3) DeckRV was undertaken for the first time pursuant to the version in effect from 23 October 2018. In the old portfolio, interest reinforcement was created pursuant to the business plan in a manner analogous to the additional interest reserve. For this purpose, a measurement interest rate of 2.09% (previous year: 2.21%) was used for the insurance policies of Württembergische Lebensversicherung AG, a measurement interest rate of 2.09% (previous year: 2.21%) was used for the insurance policies of Karlsruher Lebensversicherung AG, and a measurement interest rate of 2.54% (previous year: 2.61%) was used for ARA Pensionskasse AG. In calculating interest reinforcement and the additional interest reserve, likelihoods of capital disbursement were taken into account that are specific to each company. In the case of endowment insurance policies of Württembergische Lebensversicherung AG, the mortality table DAV 2008T was, in addition, used as the reserve level.

In order to take increased life expectancy into account with regard to annuity insurance, an additional provision for future policy benefits was created. Current mortality studies of annuity insurance have shown that the safety margins built into the original actuarial bases no longer meet the actuarial safety requirements. In order to maintain an appropriate safety level going forward, the safety margin was bolstered in the 2017 financial year in accordance with DAV recommendations as part of the ongoing review of trend assumptions, and the provision for future policy benefits for pensions was increased. This was based on the DAV-developed mortality tables DAV 2004 R-Bestand (at the rate of 7/20) and DAV 2004 R-B20 (at the rate of 13/20), on entity-specific probabilities of capital disbursements and on the principles for calculating the provision for future policy benefits that were published by the German Federal Financial Supervisory Authority (BaFin) in January 2005.

(Supplemental) insurance policies for occupational disability were compared collectively against the DAV's currently applicable actuarial bases, and where necessary a supplemental provision for future policy benefits was created.
For supplemental long-term care annuity insurance policies, actuarial bases are used that are deemed sufficient pursuant to the guideline “Reserving for (supplemental) long-term care annuity insurance policies in the portfolio” enacted by the DAV in the 2008 financial year.

The actuarial bases used for calculating the provision for future policy benefits are reviewed annually for sufficient safety margins, taking into consideration the actuarial bases recommended by the DAV and BaFin and the observable trends in the portfolio. The explanatory report by the responsible actuary pursuant to Section 141 (5) No. 2 and No. 4 sentence 2 of the German Act on the Supervision of Insurance Undertakings (VAG) demonstrates that all actuarial bases were selected with sufficient caution pursuant to regulatory and commercial law provisions.

The provision for outstanding insurance claims was created for future payment obligations that result from insurance claims that occurred on or before the reporting date but have not yet been settled. It also contains anticipated claim adjustment expenses. The amounts and disbursement times of insurance benefits are still uncertain.

The provision for insurance claims that have already been reported by the reporting date is generally determined separately (separate measurement). For insurance claims that had already occurred by the reporting date but were still unknown, a provision for late outstanding claims was created, whose amount was determined on the basis of operational experience in past years.

The provision for premium refunds consists of two parts. Assigned to the first part – premiums allocated according to commercial law rules, i.e. the provision for premium refunds in accordance with the German Commercial Code (HGB) – is the portion of each insurance company's net profit that is attributable to policyholders. The second part of the provision for premium refunds – the provision for deferred premium refunds – contains the portions of the cumulative measurement differences between the annual financial statements of the individual companies under national law and the consolidated financial statements pursuant to IFRS that are attributable to policyholders. These temporary measurement differences are included in the provision for deferred premium refunds at the rate of 90% (previous year: 90%) at which policyholders participate at a minimum upon realisation.

Technical provisions in the area of life insurance, insofar as the investment risk is borne by policyholders, are determined for each individual contract using the retrospective method. In this regard, unless they are used for the purposes of financing guarantees, received premiums are invested in fund units. The risk and cost components are withdrawn from the fund balance on a monthly basis, where applicable subject to offsetting against the corresponding surplus components. The carrying amount of this item corresponds to the carrying amount of capital investments for the account and risk of holders of life insurance policies under the item "Financial assets at fair value through profit or loss".

Health insurance

In health insurance, the average actuarial interest rate for the provision for future policy benefits was 2.36% (previous year: 2.59%). The mortality tables published by the German Federal Financial Supervisory Authority (BaFin) were used for the biometric actuarial bases. In calculating the provision for future policy benefits in health insurance, assumptions are made about probabilities of withdrawal and about current health costs and those that increase with age. These assumptions are based on our own experience and on reference values ascertained industry-wide. The actuarial bases are reviewed on a regular basis in connection with premium adjustments and are then adjusted where applicable with the consent of the trustee.

In health insurance, provisions for outstanding insurance claims are extrapolated on the basis of claims made during the reporting year. The extrapolation is based on the average ratio of claims made in the previous year to those made in the three financial years preceding the reporting date.

In health insurance, the provision for premium refunds consists of two parts. Assigned to the first part – premiums allocated according to commercial law rules, i.e. the provision for premium refunds in accordance with the German Commercial Code (HGB) – is the portion of net profit that is attributable to policyholders and not directly credited. The minimum statutory requirements were observed in connection with this allocation. The second part of the provision for premium refunds – the provision for deferred premium refunds – contains the portions of the cumulative measurement differences between the annual financial statements of the health insurer under national law and the consolidated financial statements pursuant to IFRS that are attributable to policyholders. These temporary measurement differences are included in the provision for deferred premium refunds at the rate of 80% (previous year: 80%) at which policyholders participate at a minimum upon realisation.

In health insurance, other technical provisions include, in particular, the provision for cancellations. It is calculated on the basis of the negative parts of the ageing provision and the parts of the carryover values exceeding the standard ageing provisions.

One-off acquisition costs for health insurance are recognised using Zillmerisation, and the net positive provision for future policy benefits is accounted for under the item "Provision for future policy benefits".

Property/casualty insurance

The provision for outstanding insurance claims (provision for claims) is created on a policy-by-policy basis for future payment obligations that result from insurance claims that occurred on or before the reporting date but have not yet been settled. It also contains anticipated claim adjustment expenses. The amounts and disbursement times of insurance benefits are still uncertain.

The provision for late outstanding claims was determined from the databases of prior financial years, as well as based on past experience. In this regard, the provision for late outstanding claims is calculated using a method recommended by the German Federal Financial Supervisory Authority (BaFin). Claims reported during the reporting year are allocated to the respective year of occurrence by number and expense and compared with the claims made during the corresponding years. These ratios are applied to the average unit cost for settled claims, resulting in the anticipated unit cost rates for claims that were reported after the reporting year but that occurred during the reporting year, and these are then multiplied by the anticipated unit figures to calculate the provision for late outstanding claims. The provisions for claims are not discounted, other than the provision for future annuity benefits in property insurance. The provision for claim adjustment expenses was determined in accordance with the letter of the German Federal Minister of Finance of 2 February 1973.

The provision for future annuity benefits in property/casualty insurance is calculated for each individual contract according to actuarial principles and, as is the case with the provision for future policy benefits, using the prospective method. The mortality tables recommended by the German Association of Actuaries (DAV), DAV HUR 2006, were used, and they contain suitable safety margins. The maximum actuarial interest rate of 0.9%, which has been in effect since 1 January 2017, was used for all annuity commitments. Future administrative costs were measured at 2% of the provision for future annuity benefits, a rate that is deemed sufficiently conservative.

Other technical provisions in property/casualty insurance consist primarily of provisions for cancellations, the provision for unused premiums from dormant motor insurance policies, and the provision for impending losses. The provision for cancellations is created for the anticipated cessation or reduction of the technical risk associated with premiums to be refunded.

Other provisions

Provisions for pensions

The company pension scheme in the W&W Group consists of both defined-contribution and defined-benefit commitments. Prior to reorganising the company pension scheme in 2002, all employees at Wüstenrot companies (Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank, Wüstenrot Immobilien GmbH, Wüstenrot Haus- und Städtebau GmbH and Gesellschaft für Markt- und Absatzforschung mbH) were granted defined-benefit pension commitments. At Württembergische Versicherung AG, Württembergische Lebensversicherung AG and Württembergische Krankenversicherung AG, defined-contribution commitments were granted (Pensionskasse der Württembergische). In addition, managers, senior executives and directors received pension commitments (defined-benefit commitments). At Wüstenrot & Württembergische AG, W&W Informatik GmbH and W&W Asset Management GmbH, both defined-benefit and defined-contribution commitments were granted. The various defined-benefit commitments in the Group are primarily structured in a manner dependent on salary and length of service and sometimes as fixed-amount commitments. Since 2002, pension commitments for new hires have been financed Group-wide by ARA Pensionskasse AG (defined-contribution commitments). Managers, senior executives and directors receive pension commitments (defined-contribution-oriented defined-benefit commitments) that are reinsured by ARA Pensionskasse AG.

Commitments under defined-benefit plans are measured using the projected unit credit method on the basis of expert actuarial opinions. Taken into account in doing so are both the pensions and acquired pension entitlements known on the reporting date and the increases in salary and pensions expected in the future. Pursuant to IAS 19.83, the rate used to measure pension provisions is to be determined on each reporting date on the basis of yields on senior fixed-income corporate bonds. The currency and term of the underlying corporate bonds must be consistent with the currency and estimated term of the commitments to be met.

Actuarial gains and losses from experience-related adjustments and changes to actuarial assumptions are recognised directly in equity for the period in which they are incurred within the reserve for pension commitments and form a component of other comprehensive income.

Income and expenses from pension commitments are recognised in the consolidated income statement under “Personnel expenses” (service cost). Past service cost is recognised immediately in full as an expense under “Personnel expenses”.

Assets transferred to an outside pension fund constitute plan assets, which are netted at their fair value against existing defined-benefit commitments.

Provisions for other long-term employee benefits

Other long-term employee benefits include commitments for early retirement, agreements on phased-in early retirement (“Altersteilzeit”), the granting of long-service benefits, long-term occupational disability benefits, death benefits and other social benefits. Actuarial gains and losses arising in connection with the accounting for other long-term employee benefits are recognised in the income statement.

For information about the corresponding actuarial interest rates, please see Note 20.

Miscellaneous provisions

Miscellaneous provisions are measured and recognised in the anticipated settlement amount, provided there are legal or constructive obligations to third parties based on past business events or occurrences and the outflow of resources is likely. The settlement amount is determined on the basis of best estimates. Miscellaneous provisions are recognised if they can be reliably determined. They are not set off against refund claims. The determined obligations are discounted at market interest rates that correspond to the risk and the period until settlement, provided that the resulting effects are material.

Provisions for restructuring are recognised if a detailed formal plan for the restructuring was approved and the main restructuring measures contained in it have been publicly announced, or the restructuring plan has already begun to be implemented.

Provisions are created for the refunding of closing fees in the event of loan waivers where concluded home loan savings contracts contain the obligation to refund closing fees to home loan savings customers when certain contractually agreed criteria are met (e.g. loan waiver). Under the assumption that, in the event of a loan waiver by home loan savings customers, the claim to closing fees was earned by the reporting date at the latest, the present value is calculated on the basis of a probability-based forward projection of past statistical data that constitutes the best estimate of the current obligation. Uncertainties in determining the future amount of the obligation arise, in particular, from the established assumptions concerning the input parameters used, such as statistical data, termination behaviour and loan waiver ratio.

Provisions for interest bonus options are created where the obligation to pay interest bonuses to home loan and savings customers is contained in concluded home loan and savings contracts. Taking as a basis the bonus claims earned by the reporting date that may potentially need to be disbursed, the present value is calculated on the basis of a probability-based forward projection that constitutes the best estimate of the current obligation. Uncertainties in determining the future amount of the obligation may arise, in particular, from the established assumptions concerning the input parameters used, such as termination behaviour and bonus utilisation behaviour.

Additional provisions include, for example, provisions for contingent losses from pending transactions, which are created if a contingent liability results from a pending transaction.

There are no assets for expected reimbursements in connection with recognised miscellaneous provisions.

Equity

This item consists of (1) paid-in capital, (2) earned capital and (3) non-controlling interests in equity.

Paid-in capital consists of share capital and the capital reserve. Share capital consists of registered no-par-value shares that are fully paid up. Outstanding contributions to share capital are to be openly set off against it. The capital reserve is generated from the premium realised above the mathematical value when shares are issued.

Earned capital is composed of retained earnings and other reserves. Retained earnings consist of statutory reserves and reinvested profits. Other reserves include:

- the reserve for financial assets at fair value through other comprehensive income,
- the reserve for financial assets accounted for using the equity method,
- the reserve for cash flow hedges,
- the reserve for currency translation and
- the reserve for pension commitments.

The reserve for financial assets at fair value through other comprehensive income consists of unrealised gains and losses from the measurement of financial assets at fair value through other comprehensive income. The reserve for financial assets accounted for using the equity method consists of unrealised gains and losses from the measurement of financial assets accounted for using the equity method. The reserve for cash flow hedges consists of unrealised gains and losses from the measurement of derivative financial instruments that are utilised for cash flow hedge accounting and meet the criteria of hedge accounting. The reserve for currency translation includes translation differences from the consolidation of subsidiaries whose functional currency is not the euro. The reserve for pension commitments consists of actuarial gains and losses from defined-benefit plans.

The aforementioned components of other reserves are generally created by taking into consideration deferred taxes and, in the area of life and health insurance, also taking into consideration the provision for deferred premium refunds. Non-controlling interests in equity consist of the interests of non-Group third parties in the equity of subsidiaries.

Repurchase agreements and securities lending transactions

In the W&W Group, only genuine repurchase agreements (repos) are entered into. Genuine repurchase agreements are contracts under which securities are sold for consideration but where it is at the same time agreed that such securities have to be purchased back at a later point in exchange for payment to the seller of an amount agreed to in advance.

Securities sold in connection with repurchase agreements continue to be recognised in the seller's balance sheet in accordance with the prior categorisation, since it retains the risk and opportunities associated with ownership of the security. At the same time, the seller recognises a financial liability in the amount received. If there is a difference between the amount received upon sale of the security and the amount to be paid when repurchasing it, it is imputed over the term of the agreement using the effective interest method and recognised in the income statement. Current income is recognised in the consolidated income statement according to the rules for the relevant securities category. Securities lending transactions are accounted for in the same way as repurchase agreements. Lent securities continue to be recognised in the balance sheet in the relevant category.

By contrast, borrowed securities are not recognised. If borrowed securities are sold to a third party, the obligation to return them is recognised under “Financial liabilities at fair value through profit or loss”. A corresponding liability is recognised for received cash collateral, and a corresponding receivable is recognised for provided cash collateral. If securities are provided as collateral, they continue to be recognised by the collateral provider. Income and expenses from securities lending transactions are recognised in the consolidated income statement corresponding to the relevant term.

Detailed information about the scope of repurchase agreements and securities lending transactions entered into in the W&W Group can be found in Note 40 “Transfers of financial assets and granted and received collateral”.

Trust business

Trust business is generally characterised by a trustee acquiring property, assets or claims in its own name on behalf of the trustor and managing same in the interest of and at the instruction of the trustor. The trustee acts in its own name on behalf of others.

Trust assets and liabilities are recognised outside the balance sheet in the notes. Detailed information about the nature and scope of existing trust assets and liabilities in the W&W Group can be found in Note 41 “Trust business”.

Contingent liabilities

Contingent liabilities are potential obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the W&W Group.

Contingent liabilities are also current obligations that arise from past events but are not recognised because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the balance sheet.

If the outflow of resources is not probable, disclosures are made about these contingent liabilities in the notes (Note 54 “Contingent liabilities and other liabilities”). If contingent liabilities are assumed in connection with corporate mergers, they are recognised in the balance sheet at fair value at the time of acquisition.

Disclosures about select items in the consolidated income statement

Net financial result

The net financial result of the W&W Group consists of several components:

- Current net income/expense (such as interest surplus, dividends),
- Net income/expense from risk provision,
- Net measurement gain/loss, and
- Net income/expense from disposals.

Recognised under “Current net income/expense” are interest income and expenses, dividend income, the pro-rata share of the net income/expense for financial assets accounted for using the equity method and the current net income/expense from investment property. Interest income and expenses in the IFRS 9 categories “Financial assets at amortised cost” and “Financial assets at fair value through other comprehensive income” are recognised on an accrual basis using the effective interest method.

Recognised under “Net income/expense from risk provision” are all income and expenses that relate to lending business, securities business, primary insurance and reinsurance business and other business.

Recognised under “Net measurement gain/loss” are the following gains and losses:

- Measurement gains and losses from financial assets at fair value through profit or loss and such liabilities as equity instruments, fund units, derivative financial instruments and fixed-income financial instruments that do not pass the SPPI test.
- Gains and losses from the interest rate-based measurement of home loan savings provisions measured at present value.
- Recognised under “Net income/expense from hedges” is the net income/expense from hedged items and hedging instruments involving fair value hedges. Also recognised here is the impact on profit or loss from the ineffective portion of the hedging instrument and from the release of the reserve for cash flow hedges.
- Impairments/reversals of impairment losses taken on financial assets accounted for using the equity method.
- Impairments/reversals of impairment losses taken on investment property.
- Recognised under “Net currency income/expense” are currency gains and losses that result from the measurement or sale of financial instruments as well as all other capital investments.

Recognised under “Net income/expense from disposals” are disposal gains and losses for all financial assets and liabilities not at fair value through profit or loss (financial assets at amortised cost, financial assets at fair value through other comprehensive income, financial assets accounted for using the equity method and investment property, as well as liabilities). Pursuant to IFRS 9, financial assets must be remeasured at the time of derecognition. For this reason, all gains and losses from the derecognition of financial assets at fair value through profit or loss are generally recognised under “Net measurement gain/loss”.

The net financial result does not include any costs for the management of the financial instruments contained in them. These costs are recognised under “Commission expenses” and “General administrative expenses”.

Net commission income/expense

Recognised under “Net commission income/expense” are commission income and expenses, insofar as they are not recognised in connection with calculating the effective interest rate.

Commission income and expenses result in particular from home loan savings business, banking business, reinsurance business, investment business and brokering activities. Commission expenses also result from primary insurance business. Commission expenses are recognised at the time the service is received.

No commission income is recognised in primary insurance business, since customers are not billed separately for the costs associated with conclusion of insurance contracts.

Commission income from the conclusion of home loan savings contracts is recognised pursuant to IFRS 9, and commission income from reinsurance is recognised pursuant to IFRS 4, at the time the service is provided.

Commission income from home loan savings and banking business, brokering activities and investment business is recognised pursuant to IFRS 15 as revenue from contracts with customers (see Note 52). Such revenue is considered to exist where it relates to the provision of services to customers in connection with normal business activity. Revenue is realised when existing performance obligations are satisfied through transfer of control over the subject of the contract or the service.

Earned premiums (net)

Recognised under “Gross premiums written” from direct insurance business and assumed reinsurance business is generally all income that results from contractual relationships with policyholders and cedants concerning the granting of insurance cover. Gross premiums written are accrued for each insurance contract. Earned premiums (net) result from taking into account the change in the provision for unearned premiums determined from accruals and the deduction of paid reinsurance premiums from gross premiums written and from the change in the provision for unearned premiums.

Insurance benefits (net)

Recognised under “Insurance benefits (gross)” are payments on insurance claims as well as changes in the provision for future policy benefits, the provision for outstanding insurance claims, the provision for future policy benefits for unit-linked insurance contracts and other technical provisions. Also recognised under “Insurance benefits” are additions to the provision for premium refunds required by the German Commercial Code (HGB) and direct credits. Claim adjustment expenses are recognised under “General administrative expenses”.

Changes in the provision for deferred premium refunds that are attributable to changes based on remeasurement through profit or loss between national rules and IFRS are likewise recognised under “Insurance benefits”. A provision for deferred premium refunds owing to the participation of policyholders in unrealised gains and losses from financial assets at fair value through other comprehensive income and financial assets accounted for using the equity method, as well as in actuarial gains and losses from pension provisions, is created and released in equity in all cases.

Insurance benefits (net) result from the deduction of paid reinsurance premiums from insurance benefits (gross).

General administrative expenses

In the W&W Group, general administrative expenses consist of personnel expenses, materials costs, scheduled depreciation/amortisation, and impairment losses on property, plant and equipment and intangible assets.

W&W Group expenses are allocated to materials costs and personnel expenses according to the principles of the nature-of-expense method.

Net other operating income/expense

The item "Net other operating income/expense" mainly includes income and expenses from property development business. It also includes income and expenses from additions to and the release of provisions, income and expenses from disposals, other technical income and expenses, other income and expenses from currency translation that primarily result from technical provisions and miscellaneous income and expenses.

Income taxes

Actual income taxes are calculated on the basis of the respective national tax results and rules for the financial year. In addition, the taxes actually recognised in the financial year also include adjustment amounts for any tax payments or refunds due for periods that have not yet been finally assessed. If tax authorities dispute amounts listed in tax returns, tax provisions are created. The amount of the provision is based on the best estimate of the expected tax arrearage payment. Tax receivables are recognised once it is likely that they can be collected.

Income tax earnings and expenses are recognised in the consolidated income statement as income taxes and distinguished in the notes (Note 35) between actual and deferred taxes.

Disclosures about the cash flow statement

For the Group's cash flow statement, all cash flow is evaluated on the basis of the business models of the various Group entities – these are mainly the business models for the banks and the home loan and savings banks, as well as insurance companies – as to the extent to which it is contingent on operating activities or originates from investing or financing activities.

Cash flow from operating activities essentially consists of all payments from the credit and deposit business of the Group's banks and home loan and savings banks, the trading portfolio of the banks, the technical provisions and the receivables and liabilities from reinsurance business. It also includes tax payments, as well as cash flow from the receivables and liabilities of the operational business of all Group banks, insurance companies and other entities.

Cash flow from investing activities consists of investments in intangible assets and in property, plant and equipment both for bank and home loan savings business and for insurance business. It also includes deposits and disbursements under mortgage loans made by the insurance companies, real estate investments, equities, participations, assets accounted for using the equity method, various investment funds and fixed-income securities, as well as registered bonds and debenture bonds. Strategic investments in unconsolidated subsidiaries and other business entities also generate cash flow that is allocated to investing activities.

Cash flow from financing activities consists of cash flow that results from transactions with owners of the parent company and non-controlling interests in the equity of subsidiaries. Cash flow from financing activities also includes cash flow from subordinated bonds issued for corporate financing purposes, as well as distributions made for the purpose of settling the finance lease liabilities of consolidated companies.

On whole, the cash flow statement is only of minor significance for the Group. It is not used for liquidity and financial planning or for control.

The recognised cash and cash equivalents consist of cash on hand, deposits with central banks and balances with credit institutions payable on demand.

Utilisation of discretionary judgments and estimates

Exercise of discretionary judgment in applying accounting policies

The application of accounting policies is subject to various discretionary judgments by management that may materially influence amounts in the consolidated financial statements of the W&W Group. For instance, discretion is exercised with respect to the application of the rules on hedge accounting pursuant to IAS 39, to forecasts in the Group Management Report, to the provision for claims, to the restructuring provision, to the fair values of property and to assets held for sale.

Furthermore, management exercises discretion in the application of accounting policies in such a way that the cost model rather than the fair value model is used as the accounting policy for all investment property and for all property, plant and equipment, including property for own use.

Another far-reaching discretionary decision by management relates to the recognition of insurance-specific business transactions for which IFRSs do not include any specific rules. In conformity with IFRS 4 "Insurance Contracts", these are recognised for domestic Group companies in accordance with the relevant rules of commercial law pursuant to Sections 341 et seq. of the German Commercial Code (HGB) and the regulations based on them.

In connection with the determination of control of certain public funds, discretionary decisions are sometimes necessary in order to define the role of the outside fund manager as principal or agent. In such cases, contractual arrangements are looked at in order to evaluate whether the outside fund manager is to be classified as a principal or an agent. Material indicators used in evaluating the duty to consolidate are the fund manager's decision-making authority, including potential participatory rights of investors, the existing termination rights of investors with respect to the fund manager and their structure, and the amount of participation in the fund's success, particularly through the holding of units.

In applying the W&W Group's accounting policies, management also made the following significant discretionary decisions, which had a material impact on the amounts in the consolidated financial statements:

Exercise of discretion in connection with the initial application of IFRS 9 "Financial Instruments":

"Hold to collect" business model

Financial assets that are acquired with the intention to realise cash flows by collecting contractual payments over the life of the instrument are explicitly characterised as such in W&W in connection with the purchase and are maintained and reported on in a separate portfolio.

Sales are not inconsistent with the "Hold to collect" business model in the W&W Group in the following cases:

- Sales that are due an increased risk of default:
  In verifying whether the sale of an instrument is necessary in order to minimise potential credit losses due to a material deterioration of creditworthiness, various prerequisites need to be met. If they are, the sale is not inconsistent with the business model due to an increased risk of default.
- Sales that are made close to the maturity:
  In the W&W Group, we assume that sales of financial instruments with a certain residual term to maturity at the time of sale qualify as not inconsistent with the business model. In addition, it must be verified in each individual instance that the proceeds from the sales approximate the collection of the remaining contractual cash flows.
- Sales that are infrequent:
  From the standpoint of W&W, and for the purpose of IFRS 9, sales are not inconsistent with the "Hold to collect" business model if they are infrequent, i.e. they are attributable to events that are unique, non-recurring and outside of the company's power of control and could not have been reasonably foreseen by the company.
- Sales that are insignificant:
  W&W uses both portfolio-based and results-based criteria in evaluating significance.

SPPI
As a rule, contractual cash flows from financial assets are reviewed on the basis of each individual contract. For reasons of materiality, the W&W Group uses a cluster formation in the case of highly standardised portfolios. In connection with this cluster formation at the highest level, we first identify the most material financial assets of the W&W Group that are taken into consideration as part of SPPI testing. In this regard, clustering takes place on the basis of either specific contract arrangements or portfolio features.

If a financial asset is classified as not SPPI-compliant, a quantitative test is performed in order to determine whether the reasons for the deviation are de minimis. In addition, it is tested whether the event is not genuine, i.e. is extremely rare, highly abnormal and very unlikely to occur. In each of these case, the exercise of discretion is necessary.

Fair value option

In the case of initial recognition, financial assets and liabilities may voluntarily be measured permanently at fair value in order to avoid or significantly reduce inconsistent measurement (accounting mismatch). The W&W Group currently does not have any portfolios for which this fair value option is applied.

Financial assets at fair value through other comprehensive income

Changes in the value of equity instruments are allowed to be shown in equity. In the case of a disposal of the equity instrument, the disposal income/expense remains in equity (recycling does not take place) and is not recognised in the consolidated income statement. The W&W Group generally does not make use of this option.

Calculation of the risk provision

Calculation of the risk provision in the securities area
Pursuant to IFRS 9, a security with an external rating of “Investment grade” may be considered as having a low credit risk. The security is then assigned to Level 1.

If in addition to a significantly increased credit risk, there is objective evidence that a security is impaired, or if the issuer's probability of default is 100%, this security and all other securities of that issuer are as a rule assigned to Level 3.

Calculation of the risk provision in customer lending business
IFRS 9 requires that a lifetime expected credit loss be calculated for all financial instruments whose credit risk has increased significantly. Dividing contracts into those with and without a significant increase in credit risk is referred to as level assignment, since in this regard the contracts are assigned to one of three levels under IFRS 9. In customer lending business, this level assignment, as well as the determination of the need for a risk provision, generally takes place at the level of the debtor's individual contract. The determination of a significant increase in credit risk as at the reporting date is based on the rating at the time of initial recognition of the contract (initial rating) and the rating during the term of the customer relationship since that initial recognition (ongoing rating). Depending on the year of the relationship and the initial rating class, the contract is assigned to a different level if a relative threshold is exceeded. The determination of this relative threshold is based on a statistical distribution across the expected probability of default. In customer lending business, it is assumed that the credit risk has significantly increased if, for the remaining term of the contract, the probability of default based on current expectations exceeds the probability of default based on the original expectations.

With respect to level assignment, it has furthermore been specified, in the sense of a forward-looking concept for risk provision under IFRS 9, that the quantitative criteria are to be augmented with qualitative transfer criteria. If the borrower defaults on a certain contract, such that this contract is assigned to Level 3, all other contracts with the same borrower are as a rule also assigned to Level 3.

If the reasons for the default no longer exist, the contract(s) are transferred back to a higher level under IFRS 9, other than in the case of forbearance measures, since customer contracts with active forbearance measures remain in Level 2 for at least three years.

Assets held for sale under IFRS 5 and continued classification of Wüstenrot Bank AG Pfandbriefbank in the category "Held for sale":

According to IFRS 5, events or circumstances may extend the period to complete a sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). In the case of Wüstenrot Bank AG Pfandbriefbank, we remain committed to selling it.

Accounting estimates and assumptions

Principles

In drawing up the consolidated financial statements according to IFRS, estimates and assumptions have to be made that affect the carrying amount of assets, liabilities, income and expenses, as well as the disclosure of contingent liabilities. The application of several of the accounting principles described in the chapter "General accounting principles and application of IFRS" presupposes material estimates that are based on complex, subjective evaluations and assumptions and may relate to issues that exhibit uncertainties.

The estimating methods used and the decision about the suitability of the assumptions require management to exercise good judgment and decision-making power in order to determine the appropriate values. Estimates and assumptions are moreover based on past experience and expectations with respect to future events that appear reasonable under the given circumstances. In so doing, carrying amounts are determined carefully and, taking into account all relevant information, as reliably as possible. In determining values, existing uncertainties are suitably taken into account in conformity with the relevant standards. However, actual results may vary from estimates, since new findings have to be taken into account when determining values. Estimates and their underlying assumptions are therefore continuously reviewed. The effects of changes in estimates are accounted for in the period in which the estimate changes.

If estimates were necessary to a greater extent, these are explained comprehensively and in detail in the depiction of the accounting and measurement methods, in the relevant items and in the disclosures made in the notes to individual items.

The W&W Group has identified the following accounting principles, whose application is based to a considerable extent on estimates and assumptions, to be material.

Determining the fair value of assets and liabilities

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of fair value measurement in both cases is the same: to estimate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When no observable market transactions or market information is available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs.

The required degree of subjective measurement and estimates by management has a higher weight for those assets and liabilities that are measured using special, complex models and for which some or all inputs are not observable. The values determined in this way are significantly influenced by the assumptions that have to be made.

If fair value cannot be reliably determined, the carrying amount is used as an approximate value to measure fair value. This essentially relates to loans under home loan savings contracts from collective business due to the special features of home loan savings products and the variety of rate constructions. These loans are allocated to the item "Financial assets at amortised cost" and are accordingly measured for accounting purposes at amortised cost. For further information about this, please see Note 5 "Financial assets at amortised cost".

Determining the fair value of investment property

In the W&W Group, investment property is recognised pursuant to the cost model. Fair values of investment property are determined using the discounted cash flow method. In connection with this method, expected deposits (rents, other revenues) and disbursements (maintenance, non-apportionable operating expenses, vacancy costs, costs for re-leasing) are discounted to present value, as are sales proceeds expected in the last forecast year. The interest rate of a risk-free financial investment, plus a risk premium, is used as the internal interest rate.

Impairment and reversal of impairment losses

With the exception of financial assets at fair value through profit or loss, all financial and non-financial assets are tested at regular intervals for objective evidence of impairment.

For details about the impairment of financial assets, please see the chapter "Accounting and measurement methods: Notes concerning the consolidated balance sheet", in the section "Risk provision – Financial assets". The uncertainties that exist in connection with calculating the risk provision for financial assets are also explained there.

Beneficial changes in the amount of the risk provision for financial assets are recognised as reversals of impairment losses in the income statement. An impairment loss is reversed if, as a result of beneficial changes, the estimated amount of the risk provision falls below the originally estimated value that was taken into consideration in the estimated cash flows in connection with the calculation at the time of initial recognition.

In addition to the estimates that need to be made concerning the foregoing aspects, the amount of the impairment loss to be recognised is characterised by further uncertainties in estimation. These result, in particular, from assumptions and estimates concerning the time at which future cash flows will be received, as well as their amount at such time, which in turn are based on past experience with respect to the probabilities of occurrence and the assessment of future developments and long-term prospects for success. In addition, in the course of testing for impairment, estimates are made about incurred sales costs and trends in discounting factors that are in line with the market.

The assumptions and estimates that are made may be subject to changes over time, which will lead to impairment losses or reversals of impairment losses in future periods.

In reliance on the method for identifying impaired assets, impairment losses are reversed if there are sufficiently objectifiable criteria indicating permanent value recovery and it is moreover permissible to reverse the impairment loss pursuant to the applicable standard. For instance, impairment losses to goodwill may not be reversed.

Other assets

In addition, an impairment loss is always required to be taken on intangible assets and property, plant and equipment when the carrying amount of an asset is higher than its recoverable amount. The recoverable amount means an asset's fair value less costs of disposal or its value in use, whichever is higher. Fair value less costs of disposal corresponds to market value within the meaning of IFRS 13 less costs of disposal. Value in use means the present value of the estimated future cash flows from continued use by Group companies. Estimates need to be made with respect to the amount and timing of cash flows as well as costs of disposal.

It must be tested as at every reporting date whether there is evidence that an asset is impaired. Impairment is also tested where events or changed underlying conditions indicate that the value of an asset might have declined.

Other items

Property, plant and equipment and inventories are subject to estimates. These are described in the chapter "Accounting and measurement methods".

Creation of provisions

Technical provisions

Among technical provisions, the following types of provisions, in particular, are materially influenced by estimates and assumptions (their carrying amounts and further information can be found starting at Note 19):

- Provision for future policy benefits

The provision for future policy benefits is estimated according to actuarial methods as the present value of future obligations less the present value of future premiums. The amount of the provision for future policy benefits is dependent on forward-looking assumptions about trends in investment yields achievable on the capital market, life expectancy, and other statistical data, as well as the costs incurred in connection with management of the contracts. Necessary adjustments to forward-looking assumptions have material effects on the amount of the provision for future policy benefits.

- Provision for outstanding insurance claims
  In determining the amount of the provision, forward-looking assumptions are necessary, such as about claim trends, claim adjustment costs and premium adjustments. Necessary adjustments to forward-looking assumptions have material effects on the amount of the provision for outstanding insurance claims.

Other provisions

- Provisions for pensions and other long-term employee benefits

In calculating provisions for pensions and other long-term employee benefits, assumptions and estimates are necessary concerning the underlying conditions, such as actuarial interest rate, salary increases, future pension increases and mortality.

For further quantitative disclosures, please see Note 20 "Other provisions".

- Miscellaneous provisions_

The amount recognised as a provision constitutes the best possible estimate of the expenditures needed to settle the current obligation as at the reporting date. The measurement and recognition of provisions are determined by the assumptions made with respect to probability of occurrence, expected payments and the underlying discount rate. Regarding the estimates underlying the provisions for interest bonus options, please see the chapter "Accounting and measurement methods", in the section "Miscellaneous provisions".

If the aforementioned criteria for creating provisions are not met, then the corresponding obligations are recognised as contingent liabilities (see Note 54).

Further information about all of the above types of provisions can be found in Note 19 "Technical provisions" and Note 20 "Other provisions".

Disclosures about select items in the consolidated income statement

Income taxes are subject to estimates. These are described in the chapter "Accounting and measurement methods" and here in the sections "Income taxes" and "Current tax assets, deferred tax assets, current tax liabilities and deferred tax liabilities".

Consolidation

Scope of consolidation

W&W AG is the parent company of the W&W Group. As at the reporting date, the scope of consolidation was as follows:

	Domestic	Foreign	Total
Subsidiaries			
Included as at 31 December 2018	25	4	29
Included as at 31 December 2017	24	4	28
Structured entities (public and special funds)			
Included as at 31 December 2018	16	5	21
Included as at 31 December 2017	16	6	22
Associates accounted for using the equity method			
Included as at 31 December 2018	2	–	2
Included as at 31 December 2017	2	–	2

Changes to the scope of consolidation

Additions to the scope of consolidation

W&W brandpool GmbH, Stuttgart, and the funds W&W Real Estate International 1, Frankfurt am Main, and LBBW-AM US Municipals 1, Stuttgart, were newly included in the scope of consolidation in the second half of 2018.

Disposals from the scope of consolidation

The funds W&W Global Strategies European Equity Value, Dublin, and LBBW-AM BSW, Stuttgart, were eliminated from the scope of consolidation in the first half of 2018, and the fund LBBW-AM 567, Stuttgart, in the second half of 2018.

Change in the shareholding in a subsidiary without creation or loss of the ability to control

Württembergische Lebensversicherung AG increased its shareholding in Karlsruher Lebensversicherung AG by 7.24% from 92.76% to 100.00%.

These changes had no material influence on the presentation of the net assets, financial position and financial performance of the W&W Group.

Interests in subsidiaries, including consolidated structured entities

Disposal restrictions

Statutory, contractual or regulatory restrictions, as well as protected rights of non-controlling interests, may restrict the ability of the Group, the parent company or a subsidiary to obtain access to assets and to make unimpeded transfers to or receive unimpeded transfers from other companies in the Group and to pay Group debts.

W&W AG has agreed to sell its subsidiary Wüstenrot Bank AG Pfandbriefbank to Oldenburgische Landesbank AG. Both parties have executed the contract. Transfer of control will take place following, inter alia, receipt of the official approvals, which is expected in the first half of 2019.

Since enactment of the German Life Insurance Reform Act (LVRG) in August 2014, the subsidiaries Württembergische Lebensversicherung AG, Karlsruher Lebensversicherung AG and Allgemeine Rentenanstalt Pensionskasse AG are subject to a statutory ban on distributions until further notice.

As credit institutions, the subsidiaries Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank must comply with extensive regulatory requirements. For example, the minimum liquidity standard (Liquidity Coverage Ratio, LCR) is intended to promote the short-term resilience of a credit institution's liquidity risk profile over a 30-day horizon in a stress scenario. The LCR is the ratio of the volume of High-Quality Liquid Assets (HQLA) that could be used to raise liquidity over a period of 30 days to the total volume of net stressed outflows in the same period arising from both actual and contingent exposures. As at 31 December 2018, the LCR was 435.95% (previous year: 305.73%) for the subsidiary Wüstenrot Bausparkasse AG and 331.87% (previous year: 579.43%) for the subsidiary Wüstenrot Bank AG Pfandbriefbank. The companies have been obligated since the fourth quarter of 2015 to maintain their LCR, pursuant to further specifications.

The Group is subject to the following restrictions with respect to the use to which assets may be put:

- Assets used in collateralised financing, e.g. repurchase agreements, securities lending transactions and other forms of collateralised lending.
- Assets used in collateral or margin agreements, e.g. to hedge derivative transactions.
- Assets used in the cover pool for German covered bonds.
- The assets of consolidated investment funds are subject to a variety of restrictions with respect to transferability between Group companies.
- The assets of consolidated insurance companies mainly serve to settle obligations to policyholders.
- Regulatory requirements and the requirements of central banks can limit the Group's ability to transfer assets to or from other companies in the Group.

With regard to assets and liabilities recognised in the consolidated financial statements that are subject to disposal restrictions, please also see Note 40 “Transfers of financial assets”.

With regard to regulatory requirements within the Group, please also see Note 49 “Regulatory solvency”.

During the reporting period, no public or special funds consolidated as structured entities were supported financially or otherwise, either voluntarily or as a result of contractual agreements, nor was there any intention to do so.

Interests in unconsolidated structured entities

As a result of its business activities, the W&W Group holds interests in unconsolidated structured entities that have been formed either as investment funds (public or special funds) or as alternative investment companies in the legal form of a corporation or partnership. These structured entities serve to meet various customer needs with respect to investment in various assets. Group companies mainly assume the role of investor, sometimes also that of fund manager or custodian.

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Moreover, a structured entity is classified as such based on the following features or attributes:

- restricted activities,
- a narrow and well-defined objective,
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support and/or
- financing in the form of multiple contractually linked instruments issued to investors that create concentrations of credit or other risks (tranches).

As at the reporting date, other than interests in investment funds and alternative investment companies, no structured entities were identified, either with an investment interest or as structured entities supported by W&W without an investment interest.

In the current financial year, no unconsolidated structured entities were financially supported, nor is there any intention to do so.

Interests in investment funds

As at 31 December, the carrying amounts, the investment strategy, the maximum loss risk and the scope vis-à-vis unconsolidated investment funds were as follows:

2018

in € thousands	Equity funds 31.12.2018	Pension funds 31.12.2018	Real estate funds 31.12.2018	Other funds 31.12.2018	Funds of unit-linked life insurance policies[2] 31.12.2018	Total 31.12.2018
Recognised assets (fund units held)						
Financial assets at fair value through profit or loss	107,648	666,561	3,021	104,706	1,711,146	2,593,082
Total	**107,648**	**666,561**	**3,021**	**104,706**	**1,711,146**	**2,593,082**
Maximum loss risk[1]	107,648	666,561	3,021	104,706	1,711,146	2,593,082
Total scope of fund assets as at the reporting date	328,343	3,252,905	2,758,528	49,197	152,139,107	158,528,080

1 The maximum loss risk is determined on the basis of fund units held and, where applicable, capital contribution calls not yet made and guarantees.
2 Capital investments are for the account and risk of policyholders.

2017

in € thousands	Equity funds 31.12.2017	Pension funds 31.12.2017	Real estate funds 31.12.2017	Other funds 31.12.2017	Funds of unit-linked life insurance policies 31.12.2017	Total 31.12.2017
Recognised assets (fund units held)						
Financial assets at fair value through profit or loss	4,785	832	1,548	4,405	1,927,627	1,939,197
Financial assets available for sale	115,201	811,700	2,643	97,157	–	1,026,701
Total	**119,986**	**812,532**	**4,191**	**101,562**	**1,927,627**	**2,965,898**
Maximum loss risk[1]	119,986	812,532	4,191	101,562	1,927,627	2,965,898
Total scope of fund assets as at the reporting date	88,904,480	14,861,584	15,041,619	29,396,952	134,974,898	283,179,533

1 The maximum loss risk is determined on the basis of fund units held and, where applicable, capital contribution calls not yet made and guarantees.

Unconsolidated investment funds are financed by issuing redeemable unit certificates. The carrying amount of the units corresponds to fair value. The types of income that the W&W Group receives from these held interests are mainly interest income, dividend income, income from the fair value measurement of fund units, and in some cases fees for acquisition, management and investment advice. The amount of current income and net measurement income depends, in particular, on general market trends in the respective investment class and on the specific investment decisions made by the respective fund manager. In addition to fund units held, there are occasional minor positions between the internal Group custodian and the investment funds, such as call money accounts and derivatives.

Interests in alternative investments, including private equity

Alternative investment companies maintain holdings in the area of alternative energy production from wind, photovoltaic, biomass and water. In addition, there are investments in the area of private equity, such as venture capital financing. Scope and size are primarily determined on the basis of fair value. The carrying amount of interests in alternative investments, including private equity, corresponds to the fair value under the item "Financial assets at fair value – Participations, shares, fund units – Participation in alternative investments, including private equity" and amounts to €1,239,010 thousand (previous year: €1,131,428 thousand). This carrying amount corresponds to the maximum loss risk. Financing is accomplished by issuing redeemable unit certificates.

The W&W Group as interest owner receives variable reflows, mainly in the form of distributions from alternative investments, including private equity. In addition, the investments are subject to fluctuations in value. Variable reflows are dependent on general market trends in the respective industry and on the specific business decisions made by the respective investment company.

Segment reporting

In conformity with IFRS 8 “Operating Segments”, segment information is generated on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance (so-called “Management approach”). In the W&W Group, the chief operating decision maker is the Management Board.

The reportable segments are identified on the basis of both products and services and according to regulatory requirements. In this context, some business segments are combined within the Home Loan and Savings Bank segment and the Life and Health Insurance segment. The following section lists the products and services through which revenue is generated by the reportable segments. There is no dependence on individual major accounts.

Home Loan and Savings Bank

The reportable segment Home Loan and Savings Bank consists of two business segments and includes a broad range of home loan savings and banking products primarily for private clients, e.g. home loan savings contracts, bridging loans, savings and investment products, current accounts, call money accounts, Maestro and credit cards, and mortgage and bank loans.

Life and Health Insurance

The reportable segment Life and Health Insurance consists of various business segments, all of which have similar economic characteristics and are comparable in terms of the aggregation criteria in IFRS 8.

The reportable segment Life and Health Insurance offers a variety of life and health insurance products for individuals and groups, including classic and unit-linked life and annuity insurance, term insurance, classic and unit-linked “Riester” and basic pensions, and occupational disability insurance, as well as full and supplementary private health insurance and nursing care insurance.

Property/Casualty Insurance

The reportable segment Property/Casualty Insurance offers a comprehensive range of insurance products for private and corporate customers, including general liability, casualty, motor, household, residential building, legal protection, transport and technical insurance.

As in previous years, the performance of each segment was measured based on the segment earnings under IFRS. Transactions between the segments were carried out on an arm's length basis.

All other business activities of the W&W Group, such as central Group functions, asset management activities, property development and the marketing of home loan savings and banking products outside of Germany, are subsumed under “All other segments”, since they are not directly related to the other reportable segments. It also includes interests in subsidiaries of W&W AG that are not consolidated in “All other segments” because they are allocated to another segment.

The column “Consolidation/reconciliation” includes consolidation adjustments required to reconcile segment figures to Group figures.

The measurement principles for segment reporting correspond to the accounting and measurement methods applied to the IFRS consolidated financial statements. An exception to this are the interests in the subsidiaries of W&W AG that are not consolidated in “All other segments”. These are measured there at fair value through other comprehensive income (which is not reclassified to the consolidated income statement).

Segment income statement

in € thousands	Home Loan and Savings Bank 1.1.2018 to 31.12.2018 IFRS 9	Home Loan and Savings Bank 1.1.2017 to 31.12.2017[4] IAS 39	Life and Health Insurance 1.1.2018 to 31.12.2018 IFRS 9	Life and Health Insurance 1.1.2017 to 31.12.2017[4] IAS 39
Current net income	284,728	240,045	827,939	807,988
Net income/expense from risk provision	8,840	13,036	−5,106	294
Net measurement gain/loss	−40,289	9,057	−455,369	84,907
Net income from disposals	128,845	152,787	485,498	532,650
Net financial result	**382,124**	**414,925**	**852,962**	**1,425,839**
Net commission income/expense	17,342	5,525	−140,162	−131,557
Earned premiums (net)	–	–	2,253,614	2,149,865
Insurance benefits (net)	–	–	−2,649,077	−3,152,141
General administrative expenses[3]	−337,868	−360,020[5]	−263,329	−260,907[5]
Net other operating income/expense	24,453	29,537	−14,432	−29,948[5]
Segment net income from continued operations before income taxes	**86,051**	**89,967**	**39,576**	**1,151**
Income taxes	−26,965	−31,470	−14,841	30,669
Segment net income after taxes	**59,086**	**58,497**	**24,735**	**31,820**
Other information				
Total revenue[6]	1,053,708	1,114,524	3,042,664	2,972,459
thereof with other segments	28,336	29,205[7]	32,134	31,585
thereof with external customers	1,025,372	1,085,319	3,010,530	2,940,874
Interest income	791,496	882,734	650,947	686,280
Interest expenses	−506,970	−642,739	−36,276	−60,139
Scheduled amortisation/depreciation	−2,322	−3,143	−44,807	−46,622
Impairment losses[8]	–		−1,732	−881
Reversals of impairment losses[8]	–	–	2,128	2,024
Material non-cash items	37,765	17,734	385,285	−713
Segment assets[9]	29,436,647	30,804,326	34,911,322	33,806,194
Segment liabilities[9]	27,840,950	29,027,310	34,259,565	33,270,897
Financial assets accounted for using the equity method[9]	–	–	43,102	44,468

1 Includes amounts from proportional profit transfers eliminated in the Consolidation column.
2 The column "Consolidation/reconciliation" includes the effects of consolidation between segments.
3 Includes rental income with other segments and service revenues.
4 Structure of net financial result adjusted. Explanations can be found in the chapter "Changes in the depiction of the financial statements".
5 Prior-year figures adjusted. See the chapter "Changes in the depiction of the financial statements".
6 Interest, commission and rental income and earned premiums (net) from insurance business.
7 Includes cross-segment premiums ceded to reinsurers.
8 Impairment losses and reversals of impairment losses relate to intangible assets, property, plant and equipment and investment property.
9 Values as at 31 December 2018 and 31 December 2017, respectively.

Property/Casualty Insurance		Total for reportable segments		All other segments[1]		Consolidation/ reconciliation[2]		Group	
1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017[4]	1.1.2018 bis 31.12.2018	1.1.2017 to 31.12.2017[4]	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017[4]	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017[4]	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017[4]
IFRS 9	IAS 39	IFRS 9	IAS 39	IFRS 9	IAS 39	IFRS 9	IAS 39	IFRS 9	IAS 39
77,228	46,421	1,189,895	1,094,454	232,005	116,021	−170,182	−75,144	1,251,718	1,135,331
−878	1,799	2,856	15,129	−5,752	−5,394	224	–	−2,672	9,735
−38,847	−14,520	−534,505	79,444	−33,342	−55,087	14,622	47,112	−553,225	71,469
23,382	22,144	637,725	707,581	−190	22,658	–	−2,050	637,535	728,189
60,885	**55,844**	**1,295,971**	**1,896,608**	**192,721**	**78,198**	**−155,336**	**−30,082**	**1,333,356**	**1,944,724**
−246,537	−225,010	−369,357	−351,042	−56,852	−49,232	−2,397	−1,546	−428,606	−401,820
1,490,104	1,415,025	3,743,718	3,564,890	269,633	257,194	−13,287	−12,777	4,000,064	3,809,307
−760,056	−743,114	−3,409,133	−3,895,255	−161,622	−157,472	17,020	22,317	−3,553,735	−4,030,410
−361,104	−346,458[5]	−962,301	−967,385[5]	−112,799	−95,593[5]	2,027	459[5]	−1,073,073	−1,062,519[5]
15,043	14,224[5]	25,064	13,813[5]	29,658	29,917[5]	−12,238	−10,563[5]	42,484	33,167[5]
198,335	**170,511**	**323,962**	**261,629**	**160,739**	**63,012**	**−164,211**	**−32,192**	**320,490**	**292,449**
−66,959	−44,730	−108,765	−45,531	−27,364	−58,200	30,828	69,319	−105,301	−34,412
131,376	**125,781**	**215,197**	**216,098**	**133,375**	**4,812**	**−133,383**	**37,127**	**215,189**	**258,037**
1,696,785	1,621,742	5,793,157	5,708,725	447,442	435,417	−256,132	−249,700	5,984,467	5,894,442
−207,181[7]	−192,920[7]	−146,711	−132,130	402,843	381,830	−256,132	−249,700	–	–
1,903,966	1,814,662	5,939,868	5,840,855	44,599	53,587	–	–	5,984,467	5,894,442
64,861	71,071	1,507,304	1,640,085	106,561	107,270	−29,460	−30,518	1,584,405	1,716,837
−13,888	−48,917	−557,134	−751,795	−54,690	−70,752	29,349	30,669	−582,475	−791,878
−6,974	−4,380	−54,103	−54,145	−51,165	−52,769	1,400	1,399	−103,868	−105,515
–	–	−1,732	−881	−6	–	–	–	−1,738	−881
–	–	2,128	2,024	–	–	–	–	2,128	2,024
20,840	−6,188	443,890	10,833	2,273	46,064	−1,991	−46,246	444,172	10,651
4,686,166	4,524,392	69,034,135	69,134,912	7,382,713	6,366,411	−4,377,607	−3,483,154	72,039,241	72,018,169
3,335,945	3,329,654	65,436,460	65,627,861	4,230,562	4,168,480	−1,864,112	−1,743,030	67,802,910	68,053,311
54,404	64,271	97,506	108,739	6,812	6,533	−11,302	−19,803	93,016	95,469

Information by region (Group)

in € thousands	Revenue from external customers[1] 1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017	Non-current assets[2] 31.12.2018	31.12.2017
Germany	5,898,080	5,811,244	2,193,945	2,050,555
Czech Republic	85,586	81,788	5,256	6,188
Other countries	801	1,410	542	550
Total	**5,984,467**	**5,894,442**	**2,199,743**	**2,057,293**

1 Revenues were allocated to the operating units based on the country of registration, and they consist of interest, commission and rental income, and earned premiums (net) from insurance business.
2 Non-current assets include investment property, intangible assets with the exception of capitalised insurance portfolios, and property, plant and equipment.

Notes concerning the consolidated balance sheet

(1) Cash reserves

in € thousands	31.12.2018	31.12.2017
Cash on hand	138	172
Deposits with central banks	83,487	153,582
Deposits with foreign postal giro offices	273	341
Cash reserves	**83,898**	**154,095**

The fair value of cash reserves corresponds to the carrying amount.

(2) Non-current assets held for sale and discontinued operations

in € thousands	31.12.2018	31.12.2017
	IFRS 9	IAS 39
Cash reserves	201,362	479,033
Financial assets at fair value through profit or loss	10,450	–
Financial assets at fair value through other comprehensive income	898,281	–
Financial assets at amortised cost	105,149	–
Financial assets at fair value through profit or loss	–	160,383
Financial assets available for sale	–	718,949
Receivables	–	198,746
Risk provision	–	–976
Investment property	7,678	36,485
Other assets	13,660	13,192
Non-current assets held for sale and discontinued operations	**1,236,580**	**1,605,812**

in € thousands	31.12.2018	31.12.2017
Liabilities	874,967	945,892
Financial liabilities at fair value through profit or loss	24,929	16,130
Other provisions	33,247	36,607
Subordinated capital	5,813	–
Other liabilities	13,696	18,546
Liabilities under non-current assets classified as held for sale and discontinued operations	**952,652**	**1,017,175**

Non-current assets held for sale and discontinued operations consist of the assets and debts of a subsidiary, which constitutes a disposal group, as well as one property.

The disposal group held for sale as at 31 December 2018 has to do with the assets and debts of a subsidiary allocated to the Home Loan and Savings Bank segment. The sale was made for strategic reasons and is expected to close during the 2019 financial year. The financial assets at fair value through other comprehensive income that are associated with this disposal group mainly consist of senior fixed-income securities (€810.2 million) and senior debenture bonds and registered bonds (€82.5 million), whereas the liabilities primarily consist of liabilities to customers (€867.5 million). Cumulative unrealised gains and losses recognised under "Other reserves (other comprehensive income)" amounted to €11.8 million (previous year: €7.5 million). The following assets and liabilities were not measured pursuant to IFRS 5 but instead on the basis of the relevant standards.

- Financial instruments (IFRS 9 for 2018, and IAS 39 for 2017)
- Deferred taxes (IAS 12)
- Pension provisions (IAS 19)

The property held for sale as at 31 December 2018 has to do with a physical rehabilitation facility in third-party use in Bad Nenndorf allocated to the Life and Health Insurance segment. The sale is taking place for reasons of diversification and thus serves to further optimise the asset portfolio in the W&W Group.

Between 31 December 2018 and the release of the consolidated financial statements for publication, the Executive Board sold European government bonds with a market value of €258 million, which had been held in the Life and Health Insurance segment. This resulted in a gain of €14 million.

The non-current assets held for sale and discontinued operations as at 31 December 2017 included a commercial property in Mannheim, which was disposed of in the second half of 2018, as well as two commercial properties in third-party use in Ettlingen and Berlin, which were disposed of in the first half of 2018. All three properties were allocated to the Life and Health Insurance segment, and in each case, they were sold for reasons of diversification, thus serving to further optimise the asset portfolio in the W&W Group. The sale of the three properties resulted in a gain of €21.5 million, which was recognised in "Net income/expense from disposals".

The income statement for the subsidiary included in the disposal group, prior to consolidation, was as follows:

in € thousands	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Current net income	**10,761**	**14,026**
Net interest income	10,761	14,023
Interest income	19,661	21,594
Interest expenses	-8,900	-7,571
Dividend income	–	3
Net income/expense from risk provision	**-1,877**	**229**
Income from risk provision	541	1,562
Expenses from risk provision	-2,418	-1,333
Net measurement loss	**-6,042**	**-241**
Measurement gains	5,129	6,354
Measurement losses	-11,171	-6,595
Net income from disposals	**7,899**	**15,322**
Income from disposals	7,934	16,589
Expenses from disposals	-35	-1,267
Net financial result	**10,741**	**29,336**
Net commission income	**28,639**	**26,066**
Commission income	36,911	35,060
Commission expenses	-8,272	-8,994
General administrative expenses	**-27,059**	**-37,227**
Personnel expenses	-9,780	-11,976
Materials costs	-17,274	-21,215
Depreciation/amortisation	-5	-4,036
Net other operating income/expense	**-2,839**	**1,246**
Other operating income	1,196	1,241
Other operating expenses	-4,035	5
Net income for the disposal group in the Home Loan and Savings Bank segment before income taxes	**9,482**	**19,421**
Income taxes	581	-1,907
Net income for the disposal group in the Home Loan and Savings Bank segment after income taxes	**10,063**	**17,514**

(3) Financial assets at fair value through profit or loss

in € thousands	31.12.2018
	IFRS 9
Participations, shares, fund units	3,034,166
Fixed-income financial instruments that do not pass the SPPI test	1,181,283
Derivative financial instruments	167,782
Senior fixed-income securities	684,362
Capital investments for the account and risk of holders of life insurance policies	1,711,146
Financial assets at fair value through profit or loss	**6,778,739**

in € thousands	31.12.2017
	IAS 39
Designated as financial assets at fair value through profit or loss	**2,553,068**
Equity instruments	547
Structured products	624,894
Capital investments for the account and risk of holders of life insurance policies	1,927,627
Financial assets held for trading	**284,244**
Equity instruments	11,023
Derivative financial instruments	273,221
Financial assets at fair value through profit or loss	**2,837,312**

(4) Financial assets at fair value through other comprehensive income

	Fair value/carrying amount
in € thousands	31.12.2018
	IFRS 9
Subordinated securities and receivables	663,037
Senior debenture bonds and registered bonds	12,599,732
Senior fixed-income securities	18,781,933
Financial assets at fair value through other comprehensive income	**32,044,702**

	Amortised cost	Unrealised gains	Unrealised losses	Fair value/carrying amount
in € thousands	31.12.2017	31.12.2017	31.12.2017	31.12.2017
	IAS 39	IAS 39	IAS 39	IAS 39
Equity instruments	**2,719,580**	**545,236**	**-86,353**	**3,178,463**
Participations	1,069,422	328,154	-32,390	1,365,186
Equities	685,900	145,576	-44,900	786,576
Fund units	964,258	71,506	-9,063	1,026,701
Subordinated securities and receivables	**1,205,893**	**77,117**	**-886**	**1,282,124**
Senior fixed-income securities	**18,830,239**	**788,510**	**-170,803**	**19,447,946**
Financial assets available for sale	**22,755,712**	**1,410,863**	**-258,042**	**23,908,533**

Risk provision by class for debt instruments required to be measured at fair value through other comprehensive income

in € thousands	31.12.2018	1.1.2018	31.12.2017
	IFRS 9	IFRS 9	IAS 39
Subordinated securities and receivables	–640	–373	–
Senior debenture bonds and registered bonds	–7,931	–5 628	–
Senior fixed-income securities	–23,158	–14 087	–
Risk provision	**–31,729**	**–20 088**	**–**

(5) Financial assets at amortised cost

To enable a better understanding of the information, the following table provides a detailed breakdown of the carrying amounts as at 31 December 2018 by risk provision:

in € thousands	31.12.2018
	IFRS 9
Subordinated securities and receivables	**133,380**
Credit institutions	64,776
Other financial companies	39,371
Other companies	29,233
Senior debenture bonds and registered bonds	**1,087,957**
Credit institutions	818,871
Other financial companies	40,045
Public authorities	225,925
Portfolio hedge adjustment	3,116
Senior fixed-income securities	**1,054,900**
Construction loans	**23,098,798**
Loans under home loan savings contracts	1,868,170
Preliminary and interim financing loans	**12,282,229**
Other construction loans	8,852,120
Portfolio hedge adjustment	96,279
Other loans and receivables	**2,727,380**
Other loans and advances[1]	2,423,689
Miscellaneous receivables[2]	303,691
Receivables from reinsurance business	79,840
Receivables from insurance agents	46,323
Receivables from policyholders	174,415
Miscellaneous other receivables	3,113
Financial assets at amortised cost	**28,102,415**

1 Receivables that constitute a class pursuant to IFRS 7.
2 Receivables that do not constitute a class pursuant to IFRS 7 and essentially contain receivables from insurance business with disclosure requirements pursuant to IFRS 4.

Included under “Other receivables” are loans and advances to credit institutions, not including risk provision, of €1,989.2 million, of which €1,289.6 million were due on demand and €653.7 million were not due on demand.

The sub-item “Portfolio hedge adjustment” includes a measurement item from the interest-rate-based measurement of loans and advances to customers, registered bonds and debenture bonds designated in connection with the portfolio fair value hedge. Recognised here was the change in the hedged item as relates to the hedged risk. The portfolio as at 31 December 2018 resulted from former portfolio fair value hedges.

Receivables as at 31 December 2017 (before risk provision)

in € thousands	31.12.2017
	IAS 39
Subordinated securities and receivables	**80,224**
First-rate receivables from institutional investors[1]	**14,076,295**
Credit institutions	10,021,183
Other financial companies	135,311
Other companies	44,255
Public authorities	3,871,927
Portfolio hedge adjustment	3,619
Construction loans	**23,525,418**
Loans under home loan savings contracts	1,937,940
Preliminary and interim financing loans	12,206,056
Other construction loans	9,242,521
Portfolio hedge adjustment	138,901
Other loans and receivables	**2,430,203**
Other loans and advances[2]	2,083,632
to customers	559,163
to credit institutions	1,524,469
due on demand	758,762
not due on demand	765,707
Miscellaneous receivables[3]	346,571
Receivables from reinsurance business	72,388
Receivables from insurance agents	63,480
Receivables from policyholders	205,326
Miscellaneous other receivables	5,377
Receivables	**40,112,140**

1 Includes senior debenture bonds and registered bonds.
2 Receivables that constitute a class pursuant to IFRS 7.
3 Mainly includes receivables from insurance business that were measured pursuant to IFRS 4.

The carrying amount of receivables as a whole less impairments in the form of risk provision amounted to €39,959.1 million.

Risk provision by class for financial assets at amortised cost

in € thousands	31.12.2018	1.1.2018	31.12.2017
	IFRS 9	IFRS 9	IAS 39
Subordinated securities and receivables	-145	-69	-17
Senior debenture bonds and registered bonds	-741	-425	-1,230
Senior fixed-income securities	-469	-353	—
Construction loans	-128,293	-145,612	-121,412
Other loans and advances	-29,623	-12,768	-8,572
Miscellaneous receivables	-10,634	-14,623	-21,840
Risk provision	**-169,905**	**-173,850**	**-153,071**

Until 31 December 2017, pursuant to IAS 39, a €16.2 million risk provision for loan and advances to home loan savings customers was deducted directly from the receivables item in “Other loans and advances to customers” and not recognised under the item “Risk provision”. Under IFRS 9, it is recognised as at 30 June 2018 in the risk provision under “Other loans and advances”.

Until 31 December 2017, pursuant to IAS 39, a €7.2 million risk provision for the reinsurers' portion of technical provisions was contained in the risk provision for “Miscellaneous receivables”. Under IFRS 9, it has been recognised from 1 January 2018 not in the risk provision for financial assets at amortised cost but instead under the item “Reinsurers' portion of technical provisions”.

(6) Positive market values from hedges

in € thousands	31.12.2018	31.12.2017
Fair value hedges	**61,686**	**50,506**
Hedging of interest rate risk	61,686	50,506
Positive market values from hedges	**61,686**	**50,506**

(7) Financial assets accounted for using the equity method

in € thousands	31.12.2018	31.12.2017
Carrying amount as at 1 January	**95,469**	**97,407**
Additions	256	—
Disposals	—	-77
Dividend payments	-5,670	-5,666
Pro rata share of net income	3,283	3,032
Changes recognised directly in equity	-322	773
Carrying amount as at 31 December	**93,016**	**95,469**

For all financial assets in the portfolio that are accounted for using the equity method, the following table presents, among other things, all assets, liabilities, revenue and net income for each company, as well as the shares thereof attributable to the W&W Group:

	BWK GmbH Unternehmens-beteiligungsgesellschaft	V-Bank AG
Investment purpose	Strategic investment	Strategic investment
Principal place of business	Stuttgart, Germany	Munich, Germany
Closing date for financial statements	31 December	31 December
Measurement standard	At equity	At equity

	BWK GmbH Unternehmens-beteiligungsgesellschaft		V-Bank AG		Total	
in € thousands	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Holding, in %	35.00	35.00	15.00	14.76		
Assets	255,589	265,908	1,872,481	1,331,225	2,128,070	1,597,133
Liabilities	9,291	11,806	1,835,088	1,293,977	1,844,379	1,305,783
Net assets (100%)	**246,298**	**254,102**	**37,393**	**37,248**	**283,691**	**291,350**
Group share of net assets	**86,204**	**88,936**	**5,609**	**5,497**	**91,813**	**94,433**
Reconciliation	–	–	1,203	1,036	1,203	1,036
Carrying amount of financial assets accounted for using the equity method	**86,204**	**88,936**	**6,812**	**6,533**	**93,016**	**95,469**

	BWK GmbH Unternehmens-beteiligungsgesellschaft		V-Bank AG		Total	
in € thousands	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Revenue	15,731	15,308	19,889	18,689	35,620	33,997
Net income (100%)	7,697	7,210	3,925	3,392	11,622	10,602
Other comprehensive income (100%)	–	2,757	−2,148	−1,279	−2,148	1,478
Total income (100%)	**7,697**	**9,967**	**1,777**	**2,113**	**9,474**	**12,080**
Group share of net income	2,694	2,523	589	509	3,283	3,032
Group share of other comprehensive income	–	965	−322	−192	−322	773
Group share of total income	**2,694**	**3,488**	**267**	**317**	**2,961**	**3,805**
Dividends received	5,425	5,425	245	804	5,670	6,229

No publicly quoted market prices are available for the interests in associates in the W&W Group that are accounted for using the equity method.

(8) Investment property

As at the end of the year, the fair value of investment property amounted to €2,312.4 million (previous year: €2,145.5 million). There are no restrictions on the ability to sell investment property or on the ability to dispose of income and sales proceeds.

As at 31 December 2018, there were contractual obligations to purchase and construct investment property amounting to €248.4 million (previous year: €287.5 million). There are no material contractual obligations to develop investment property or for repairs, maintenance or improvements.

in € thousands	2018	2017
Gross carrying amounts as at 1 January	**2,054,138**	**2,137,641**
Additions	216,289	122,453
Disposals	-8,707	-71
Reclassifications	—	-2,546
Classified as held for sale	-64,820	-203,339
As at 31 December	**2,196,900**	**2,054,138**
Cumulative depreciation and impairments as at 1 January	**-370,597**	**-395,413**
Additions (scheduled depreciation)	-42,660	-,4,343
Additions (impairments)	-1,732	-881
Disposals	1,870	49
Reversals of impairment losses	2,129	2,024
Reclassifications	—	1,141
Classified as held for sale	41,145	66,826
As at 31 December	**-369,845**	**-370,597**
Net carrying amounts as at 1 January	**1,683,541**	**1,742,228**
Net carrying amounts as at 31 December	**1,827,055**	**1,683,541**

Additions contain capitalised construction costs in the amount of €4.3 million (previous year: €12.7 million).

Impairment losses in the current period in the amount of €0.9 million (previous year: €1.9 million) relate to various residential and commercial properties for which the net realisable value was less than the carrying amount. The reasons for this include, by way of example, declines in land values and achievable sales prices.

(9) Reinsurers' portion of technical provisions

in € thousands	31.12.2018	31.12.2017
Provision for unearned premiums	12,629	11,849
Provision for future policy benefits	81,388	90,370
Provision for outstanding insurance claims	206,411	223,436
Other technical provisions	-3,216	—
Reinsurers' portion of technical provisions	**297,212**	**325,655**

Further remarks can be found at the corresponding liability items starting at Note 19.

(10) Intangible assets

in € thousands	31.12.2018	31.12.2017	Remaining amortisation period (years)
Software	85,014	84,025	1–5
Brand names	14,473	16,081	9
Other purchased intangible assets	214	326	1–7
Intangible assets	**99,701**	**100,432**	–

Changes to intangible assets in 2018

in € thousands	Purchased insurance portfolios	Externally procured software	Internally developed software	Brand names	Other purchased intangible assets	Total
Gross carrying amounts as at 1 January	**15,727**	**370,489**	**52,482**	**32,162**	**17,622**	**488,482**
Additions	–	31,434	–	–	2	31,436
Disposals	–	-4,312	–	–	-10	-4,322
Reallocations	–	–	–	–	6	6
Changes from currency translation	–	-110	–	–	–	-110
As at 31 December	**15,727**	**397,501**	**52,482**	**32,162**	**17,620**	**515,492**
Cumulative amortisation and impairments as at 1 January	**-15,727**	**-,286,782**	**-52,164**	**-16,081**	**-17,296**	**-388,050**
Additions (scheduled amortisation)	–	-30,182	-120	-1,608	-113	-32,023
Reallocations	–	4,198	–	–	3	4,201
Changes from currency translation	–	81	–	–	–	81
As at 31 December	**-15,727**	**-312,685**	**-52,284**	**-17,689**	**-17,406**	**-415,791**
Net carrying amounts as at 1 January	**–**	**83,707**	**318**	**16,081**	**326**	**100,432**
Net carrying amounts as at 31 December	**–**	**84,816**	**198**	**14,473**	**214**	**99,701**

Changes to intangible assets in 2017

in € thousands	Purchased insurance portfolios	Externally procured software	Internally developed software	Brand names	Other purchased intangible assets	Total
Gross carrying amounts as at 1 January	**15,727**	**352,214**	**64,027**	**32,162**	**17,574**	**481,704**
Additions	–	31,431	228	–	48	31,707
Disposals	–	-1,003	–	–	–	-1,003
Classified as held for sale	–	-12,922	-11,773	–	–	-24,695
Changes from currency translation	–	769	–	–	–	769
As at 31 December	**15,727**	**370,489**	**52,482**	**32,162**	**17,622**	**488,482**
Cumulative amortisation and impairments as at 1 January	**-15,727**	**-269,742**	**-63,907**	**-14,473**	**-17,131**	**-380,980**
Additions (scheduled amortisation)	–	-27,509	-30	-1,608	-165	-29,312
Disposals	–	975	–	–	–	975
Classified as held for sale	–	10,025	11,773	–	–	21,798
Changes from currency translation	–	-531	–	–	–	-531
As at 31 December	**-15,727**	**-286,782**	**-52,164**	**-16,081**	**-17,296**	**-388,050**
Net carrying amounts as at 1 January	**–**	**82,472**	**120**	**17,689**	**443**	**100,724**
Net carrying amounts as at 31 December	**–**	**83,707**	**318**	**16,081**	**326**	**100,432**

Wüstenrot Holding AG and W&W AG are parties to a brand name transfer and use agreement. As at 31 December 2018, the carrying amount of the resulting intangible asset amounted to €14.5 million (previous year: €16.1 million). The asset has a limited useful life, and it is being amortised on a straight-line basis over 20 years. Its remaining useful life is 9 years. As at 31 December 2018, the capitalised brand name was offset by a financial liability to Wüstenrot Holding AG in the amount of €17.0 million (previous year: €18.9 million).

Total expenditures for research and development that were recognised in the income statement for the 2018 financial year amounted to €35.6 million (previous year: €48.6 million).

There were obligations to purchase intangible assets in the amount of €4.3 million (previous year: €6.7 million). These have to do with software licences of W&W Informatik GmbH.

(11) Property, plant and equipment

There were obligations to purchase property, plant and equipment in the amount of €11.3 million (previous year: €7.5 million).

Property for own use included leased assets in the amount of €16.6 million (previous year: €19.1 million). Scheduled depreciation of leased assets included in property for own use was recognised in the amount of €2.5 million (previous year: €2.7 million). Plant and equipment included leased assets in the amount of €2.8 million (previous year: €3.8 million). Scheduled depreciation of leased assets included in plant and equipment was recognised in the amount of €1.1 million (previous year: €1.1 million).

Additions to property for own use included costs for assets under construction in the amount of €20.3 million (previous year: €61.1 million).

Property, plant and equipment

	Property for own use		Plant and equipment		Total	
in € thousands	2018	2017	2018	2017	2018	2017
Gross carrying amounts as at 1 January	**494,012**	**433,450**	**195,738**	**196,109**	**689,750**	**629,559**
Additions	20,569	61,543	10,861	22,223	31,430	83,766
Disposals	-248	-3,793	-32,653	-19,559	-32,901	-23,352
Reclassifications	–	2,546	–	–	–	2,546
Classified as held for sale	-7,098	–	–	-3,306	-7,098	-3,306
Changes from currency translation	-11	266	-36	271	-47	537
As at 31 December	**507,224**	**494,012**	**173,910**	**195,738**	**681,134**	**689,750**
Cumulative depreciation and impairments as at 1 January	**-245,512**	**-231,851**	**-154,837**	**-158,723**	**-400,349**	**-390,574**
Additions (scheduled depreciation)	-14,004	-14,779	-15,180	-17,080	-29,184	-31,859
Additions of disposals	–	–	-6	–	-6	–
Disposals	178	2,429	32,191	18,400	32,369	20,829
Reclassifications	–	-1,140	–	–	–	-1,140
Classified as held for sale	3,460	–	–	2,781	3,460	2,781
Changes from currency translation	6	-171	31	-215	37	-386
As at 31 December	**-255,872**	**-245,512**	**-137,801**	**-154,837**	**-393,673**	**-400,349**
Net carrying amounts as at 1 January	**248,500**	**201,599**	**40,901**	**37,386**	**289,401**	**238,985**
Net carrying amounts as at 31 December	**251,352**	**248,500**	**36,109**	**40,901**	**287,461**	**289,401**

(12) Inventories

Inventories in the amount of €193.4 million (previous year: €93.5 million) relate to property development business and primarily include land and buildings held for sale, as well as land with buildings under construction. The carrying amount of inventories recognised at the lower fair value less costs of disposal amounted to €14.5 million (previous year: €6.8 million). Also recognised under "Inventories" were raw materials and consumables in the amount of €0.3 million (previous year: €0.4 million).

No impairment provisions were created for inventories in either the reporting year or the previous year. Expenses for the utilisation of inventories during the reporting period amounted to €58.0 million (previous year: €59.1 million). Inventories in the amount of €0.5 million (previous year: €0) were pledged as collateral for liabilities in the reporting year.

(13) Current tax assets

Current tax assets relate to current tax receivables, and they are expected to be realised in the amount of €28.5 million (previous year: €57.7 million) within 12 months.

(14) Deferred tax assets

Deferred tax assets were recognised in connection with the following items:

in € thousands	31.12.2018	31.12.2017
Financial assets/liabilities at fair value through profit or loss	97,185	103,482
Financial assets recognised directly in OCI	11,612	–
Financial assets accounted for at amortised costs	8,429	–
Financial assets available for sale	–	40,084
Receivables	–	24,810
Positive and negative market values from hedges	36,138	21,499
Financial assets accounted for using the equity method	–	31
Liabilities	14,293	13,185
Technical provisions	155,328	157,275
Provisions for pensions and other obligations	260,982	266,430
Other items	241,645	136,354
Tax loss carryforward	7	16,474
Deferred tax assets	**825,619**	**779,624**

In the reporting year, the portion of the changes to deferred tax assets recognised directly in equity for some items was mainly attributable to the initial application of IFRS 9 and IFRS 15 and was booked against retained earnings and other comprehensive income. The current effects recognised directly in equity can be seen in the consolidated statement of comprehensive income. The changes recognised in the income statement for some items are described in Note 35.

Deferred taxes on provisions for pensions and other obligations in the amount of €239.7 million (previous year: €246.5 million) were recognised directly in the reserve for pension commitments.

Deferred tax assets in the amount of €103.2 million (previous year: €97.5 million) and deferred taxes on tax loss carryforwards in the amount of €0.0 million (previous year: €16.4 million) are expected to be realised within 12 months.

Deferred taxes for deductible temporary differences and tax loss carryforwards that related to corporate income and trade taxes in the amount of €1.8 million (previous year: €3.2 million) were not recognised, as they are not expected to be realised in the medium term.

(15) Other assets

Other assets mainly had to do with prepaid insurance benefits for the following year and deferred lease and maintenance costs.

(16) Financial liabilities at fair value through profit or loss

in € thousands	31.12.2018	31.12.2017
Financial liabilities held for trading	**455,318**	**533,614**
Derivative financial instruments	455,318	533,614
Financial liabilities at fair value through profit or loss	**455,318**	**533,614**

The change in the sub-item "Derivative financial instruments" is the result of market and portfolio changes to interest-rate-based and currency-based derivatives that are not used in connection with hedge accounting.

(17) Liabilities

in € thousands	31.12.2018	31.12.2017
Liabilities evidenced by certificates	**1,286,568**	**918,938**
Liabilities to credit institutions	**1,454,518**	**2,735,133**
Liabilities to customers[1]	**23,580,660**	**23,822,677**
Deposits from home loan savings business and savings deposits	19,299,783	19,088,690
Other liabilities	4,277,279	4,690,654
Down payments received	3,598	43,333
Finance lease liabilities	**20,133**	**23,951**
Miscellaneous liabilities	**1,243,198**	**1,253,635**
Other liabilities[2]	351,985	360,853
Sundry liabilities[3]	891,213	892,782
Liabilities from reinsurance business	119,827	129,243
Liabilities from direct insurance business	639,377	636,066
Other sundry liabilities	132,009	127,473
Liabilities	**27,585,077**	**28,754,334**

1 The W&W Group adopted IFRS 15 according to the cumulative method. Applying this method, comparative data will not be adjusted.
2 Liabilities that constitute a class pursuant to IFRS 7.
3 Liabilities that do not constitute a class pursuant to IFRS 7 and essentially contain liabilities from insurance business with disclosure requirements pursuant to IFRS 4.

Of the other liabilities from liabilities to customers, €3,030.2 million (previous year: €3,170.9 million) are due on demand and €1,247.0 million (previous year: €1,519.8 million) have a fixed term.

Of the liabilities from direct insurance business within sundry liabilities, €585.9 million (previous year: €578.9 million) were attributable to policyholders and €53.5 million (previous year: €57.2 million) to insurance agents.

The fair value of each liability can be obtained from the measurement hierarchy. The carrying amount of sundry liabilities corresponds to fair value.

(18) Negative market values from hedges

in € thousands	31.12.2018	31.12.2017
Fair value hedges	**126,449**	**70,311**
Hedging of interest rate risk	126,449	70,311
Negative market values from hedges	**126,449**	**70,311**

(19) Technical provisions

		Gross
in € thousands	31.12.2018	31.12.2017
Provision for unearned premiums	242,680	245,008
Provision for future policy benefits	28,971,646	28,893,728
Provision for outstanding insurance claims	2,547,021	2,547,305
Provision for premium refunds	2,928,607	2,093,507
Other technical provisions	38,258	36,115
Technical provisions	**34,728,212**	**33,815,663**

Provision for unearned premiums

	Gross	Reinsurers' portionr	Gross	Reinsurers' portion
in € thousands	2018	2018	2017	2017
As at 1 January	**245,008**	**11,849**	**249,337**	**11,106**
Additions	242,680	12,629	245,008	11,849
Withdrawals	-245,008	-11,849	-249,337	-11,106
As at 31 December	**242,680**	**12,629**	**245,008**	**11,849**

Provision for future policy benefits

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	31.12.2018	31.12.2018	31.12.2017	31.12.2017
Life insurance	28,189,901	81,388	28,201,300	90,370
Health insurance	781,745	—	692,428	—
Provision for future policy benefits	**28,971,646**	**81,388**	**28,893,728**	**90,370**

Provision for future policy benefits by type of business operated as life insurance

in € thousands	Gross 2018	Reinsurers' portion 2018	Gross 2017	Reinsurers' portion 2017
Provision for future policy benefits	26,273,673	–	26,074,195	–
Provision for future policy benefits for unit-linked insurance contracts	1,927,628	–	1,633,192	–
Receivables not yet due from policyholders	-123,876	–	-135,498	–
As at 1 January	**28,077,425**	**90,370**	**27,571,889**	**89,562**
Additions from premiums[1]	1,598,447	–	1,493,469	–
Use and release[1]	-2,194,862	–	-2,279,176	–
Interest[1]	709,428	–	740,792	–
Other changes[1]	-114,420	-8,982	550,451	808
As at 31 December	**28,076,018**	**81,388**	**28,077,425**	**90,370**
Provision for future policy benefits	26,478,755	–	26,273,673	–
Provision for future policy benefits for unit-linked insurance contracts	1,711,146	–	1,927,628	–
Receivables not yet due from policyholders	-113,883	–	-123,876	–

1 We determined the allocation of changes in the financial year on the basis of preliminary profit sourcing. The figures for the previous year were adjusted to conform to definitive profit sourcing.

Ageing provision in the area of health insurance

in € thousands	2018	2017
As at 1 January	**692,428**	**603,022**
Share of association rates	-63,922	-58,376
As at 1 January, not including association rates	**628,506**	**544,646**
Premiums from the provision for premium refunds	10,545	8,375
Additions from premiums	58,171	57,201
Interest	15,834	15,193
Direct credits	327	3,091
As at 31 December, not including association rates	**713,383**	**628,506**
Share of association rates	68,362	63,922
As at 31 December	**781,745**	**692,428**

Provision for outstanding insurance claims

in € thousands	Gross 31.12.2018	Reinsurers' portion 31.12.2018	Gross 31.12.2017	Reinsurers' portion 31.12.2017
Life and health insurance	208,507	7,309	201,657	11,969
Property/casualty insurance and reinsurance	2,338,514	199,102	2,345,648	211,467
Provision for outstanding insurance claims	**2,547,021**	**206,411**	**2,547,305**	**223,436**

In the area of life and health insurance, the provision for outstanding insurance claims changed as follows:

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	2018	2018	2017	2017
As at 1 January	**201,657**	**11,969**	**207,494**	**12,071**
Changes recognised in the income statement	6,850	–4,660	–5,837	–102
As at 31 December	**208,507**	**7,309**	**201,657**	**11,969**

In the area of property/casualty insurance and reinsurance, the provision for outstanding insurance claims changed as follows:

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	2018	2018	2017	2017
As at 1 January prior to reclassification	**2,345,648**	**199,237**	**2,317,581**	**199,237**
Reclassification according to IFRS9	–	–7,214	–	–
As at 1 January after reclassification	**2,345,648**	**204,253**	**2,317,581**	**199,237**
Additions	583,559	40,647	589,634	50,472
Use	–444,028	–46,768	–393,703	–30,337
Release	–148,097	786	–151,704	–6,783
Changes from currency translation	1,432	184	–16,160	–1,122
As at 31 December	**2,345,648**	**199,102**	**2,345,648**	**211,467**

Until 31 December 2017, pursuant to IAS 39, a €7.2 million risk provision for the reinsurers' portion of technical provisions was contained in the risk provision for "Other receivables". Under IFRS 9, it has been recognised from 1 January 2018 not in the risk provision for financial assets at amortised cost but instead under the item "Reinsurers' portion of technical provisions".

The run-off triangles (gross and net) depicted below show the run-off of the provision for outstanding insurance claims in the area of property/casualty insurance and reinsurance.

With the gross run-off triangle, the provision for outstanding insurance claims (gross) is reconciled on the reporting date after deduction of the provision for claim adjustment expenses. With the net run-off triangle, the reinsurers' portion is deducted, in addition, when reconciling the net provision.

Gross run-off triangle[1]

in € thousands	31.12.2009	31.12.2010	31.12.2011	31.12.2012
Provision for outstanding insurance claims (gross)	**2,258,500**	**2,202,643**	**2,138,684**	**2,115,807**
Less provision for claim adjustment expenses	170,523	170,487	151,053	143,828
Provision for outstanding insurance claims (gross)	**2,087,977**	**2,032,156**	**1,987,631**	**1,971,979**
Payments, cumulative (gross)				
One year later	349,610	333,833	323,446	342,885
Two years later	505,236	473,612	470,817	466,803
Three years later	606,390	574,571	554,140	568,052
Four years later	685,578	638,949	634,042	636,356
Five years later	739,475	707,944	690,416	686,623
Six years later	801,919	757,448	733,169	733,089
Seven years later	846,355	795,821	774,277	–
Eight years later	880,268	832,241	–	–
Nine years later	910,971	–	–	–
Original provision, reestimated (gross)				
One year later	1,937,934	1,900,053	1,864,927	1,867,591
Two years later	1,854,617	1,809,559	1,768,517	1,801,134
Three years later	1,782,319	1,719,811	1,727,154	1,746,498
Four years later	1,701,983	1,687,446	1,688,593	1,715,199
Five years later	1,685,453	1,666,085	1,675,483	1,671,041
Six years later	1,671,109	1,658,294	1,637,511	1,620,406
Seven years later	1,672,413	1,630,541	1,596,263	–
Eight years later	1,650,739	1,593,276	–	–
Nine years later	1,618,291	–	–	–
Cumulative gross surplus (deficit) excluding currency rate effects	**469,687**	**438,880**	**391,368**	**351,573**
Cumulative gross surplus (deficit) including currency rate effects	**444,485**	**423,423**	**377,701**	**356,467**

1 The run-off triangle retroactively includes Group companies newly consolidated and retroactively excludes Group companies deconsolidated.

	31.12.2013	31.12.2014	31.12.2015	31.12.2016	31.12.2017	31.12.2018
	2,298,051	**2,307,159**	**2,320,346**	**2,317,581**	**2,345,648**	**2,338,514**
	146,869	151,782	149,474	152,178	159,303	152,178
	2,151,182	**2,155,377**	**2,170,872**	**2,165,403**	**2,186,345**	**2,186,336**
	423,322	364,833	348,789	344,452	381,744	–
	587,072	505,919	480,556	483,154	–	–
	682,855	591,536	568,893	–	–	–
	744,049	656,358	–	–	–	–
	797,797	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	2,075,251	2,021,321	2,028,815	2,017,472	2,035,807	–
	1,970,230	1,927,813	1,899,667	1,880,631	–	–
	1,917,310	1,837,551	1,798,574	–	–	–
	1,845,499	1,753,505	–	–	–	–
	1,782,454	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	368,728	**401,872**	**372,297**	**284,771**	**150,538**	**–**
	347,055	**386,402**	**378,500**	**299,070**	**147,366**	**–**

Net run-off triangle[1]

in € thousands	31.12.2009	31.12.2010	31.12.2011	31.12.2012
Provision for outstanding insurance claims (gross)	**2,258,500**	**2,202,643**	**2,138,684**	**2,115,807**
Reinsurers' portion	287,061	243,629	240,553	213,375
Provision for outstanding insurance claims (net)	**1,971,439**	**1,959,014**	**1,898,131**	**1,902,432**
Less provision for claim adjustment expenses	163,587	161,599	145,605	146,226
Provision for outstanding insurance claims (net)	**1,807,852**	**1,797,415**	**1,752,526**	**1,756,206**
Payments, cumulative (net)				
One year later	309,573	308,239	292,000	314,905
Two years later	446,424	429,469	420,514	427,222
Three years later	531,379	516,963	493,036	518,813
Four years later	599,306	572,590	564,039	576,288
Five years later	644,506	632,887	609,585	619,557
Six years later	697,746	672,583	645,340	658,478
Seven years later	732,375	704,098	678,902	–
Eight years later	759,896	733,118	–	–
Nine years later	783,199	–	–	–
Original provision, reestimated (net)				
One year later	1,674,852	1,657,659	1,631,744	1,652,034
Two years later	1,583,566	1,572,665	1,533,715	1,580,346
Three years later	1,519,164	1,485,203	1,486,977	1,532,754
Four years later	1,440,743	1,445,935	1,454,094	1,502,142
Five years later	1,415,218	1,430,759	1,441,670	1,463,334
Six years later	1,409,210	1,424,467	1,409,041	1,414,419
Seven years later	1,411,802	1,402,051	1,369,512	–
Eight years later	1,394,832	1,366,532	–	–
Nine years later	1,364,291	–	–	–
Cumulative net surplus (deficit) excluding currency rate effects	**443,561**	**430,883**	**383,014**	**341,787**
Cumulative net surplus (deficit) including currency rate effects	**422,876**	**416,833**	**382,273**	**350,456**
Net run-off ratios, in %				
Excluding currency rate effects	24.54	23.97	21.85	19.46
Including currency rate effects	23.39	23.19	21.81	19.96

1 The run-off triangle retroactively includes Group companies newly consolidated and retroactively excludes Group companies deconsolidated.

31.12.2013	31.12.2014	31.12.2015	31.12.2016	31.12.2017	31.12.2018
2,298,051	**2,307,159**	**2,320,346**	**2,317,581**	**2,345,648**	**2,338,514**
316,616	237,472	218,041	199,237	211,467	199,102
1,981,435	**2,069,687**	**2,102,305**	**2,118,344**	**2,134,181**	**2,139,412**
148,891	149,880	151,350	153,953	160,848	153,402
1,832,544	**1,919,807**	**1,950,955**	**1,964,391**	**1,973,333**	**1,986,010**
307,660	323,041	308,063	314,233	334,172	–
438,212	440,783	427,759	436,488	–	–
512,108	516,509	502,780	–	–	–
564,949	572,962	–	–	–	–
610,641	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
1,734,546	1,793,132	1,817,162	1,826,697	1,829,213	–
1,638,230	1,702,937	1,697,479	1,693,847	–	–
1,588,680	1,618,970	1,598,995	–	–	–
1,523,096	1,536,901	–	–	–	–
1,462,090	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
370,454	**382,906**	**351,960**	**270,544**	**144,120**	**–**
355,127	**369,287**	**360,586**	**287,286**	**144,052**	**–**
20.22	19.95	18.04	13.77	7.30	–
19.38	19.24	18.48	14.62	7.30	–

Provision for premium refunds

The provision for premium refunds changed as follows:

in € thousands	2018	2017
As at 1 January	**2,093,507**	**2,201,023**
Provision for premium refunds as at 1 January	**1,430,240**	**1,471,170**
Additions	274,355	158,689
Withdrawals with effect on liquidity	–148,759	–139,566
Withdrawals with no effect on liquidity	67,552	–60,053
As at 31 December	**1,488,284**	**1,430,240**
Provision for deferred premium refunds as at 1 January	**663,267**	**729,853**
Reclassification according to IFRS 9	1,458,150	—
Provision for deferred premium refunds as at 1 January	**2,121,417**	**729,853**
Changes recognised in the income statement	–38,443	15,645
Changes recognised directly in equity	–642,651	–82,231
As at 31 December	**1,440,323**	**663,267**
As at 31 December	**2,928,607**	**2,093,507**

Other technical provisions

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	2018	2018	2017	2017
As at 1 January	**36,115**	**—**	**33,904**	**1,023**
Additions	38,258	—	36,115	—
Use and release	–36,115	–3,216	–33,904	–1,023
As at 31 December	**38,258**	**–3,216**	**36,115**	**—**

(20) Other provisions

in € thousands	31.12.2018	31.12.2017
Provisions for pensions	1,513,309	1,540,299
Provisions for other long-term employee benefits	45,533	53,858
Provisions for pensions and other long-term employee benefits	**1,558,842**	**1,594,157**
Other provisions	1,091,752	1,109,816
Risik provision for granted loans and financial guarantees	3,207	–
Miscellaneous provisions	**2,653,801**	**2,703,973**

Provisions for pensions and other long-term employee benefits

Provisions for pensions

The change in the projected benefit obligation is depicted in the following:

Projected benefit obligation

	Present value of pension commitments		Fair value of plan assets		Net liabilities (net asset) of defined penisons plans/reported penison provisions	
in € thousands	2018	2017	2018	2017	2018	2017
As at 1 January	**1,863,551**	**1,921,840**	**323,252**	**–**	**1,540,299**	**1,921,840**
Income and expenses recognised in the consolidated income statement	51,178	51,856	4,720	3,385	46,458	48,471
Current service cost	22,088	23,769	–	–	22,088	23,769
Gains/losses from plan settlements and curtailments	1,499	-352	–	–	1,499	-,352
Interest expenses	27,591	28,439	2	–	27,589	28,439
Prospective income from plan assets	–	–	4,718	3,385	-,4,718	-,3,385
Actuarial gains (-) or losses (+) recognised in other comprehensive income	-44,693	-15,955	-,16,901	4,512	-,27,792	-,20,467
Other effects	–	–	–	326,856	–	-,326,856
Contributions to pension plans	–	–	–	326,856	–	-,326,856
Employer	–	–	–	326,856	–	-,326,856
Pension payments (utilisation)	-63,338	-63,145	-,17,682	-,11,501	-,45,656	-,51,644
Classified als held for sale	–	-31,045	–	–	–	-,31,045
As at 31 December	**1,806,698**	**1,863,551**	**293,389**	**323,252**	**1,513,309**	**1,540,299**

There was no past service cost for either the current or the previous financial year. The projected benefit obligation corresponds to the carrying amount of the provision for pensions as at 1 January and 31 December of each financial year.

Current service cost is recognised in the consolidated income statement under “General administrative expenses”. Interest expenses are recognised under “Current net income/expense”.

The plan assets capable of being netted in connection with the outsourcing of pension commitments can be broken down as follows:

List of plan assets by investment class

in € thousands	31.12.2018	31.12.2017
Financial assets	294,634	323,323
Cash reserves	38,136	131,192
Participations, shares, fund units	23,629	2,676
Senior fixed-income securities	232,869	182,329
Derivative financial instruments	–	7,126
Financial liabilities	**1,245**	**71**
Liabilities to credit institutions	1	–
Other liabilities	61	71
Derivative financial instruments	1,183	–
Total	**293,389**	**323,252**

The following material actuarial assumptions were used in determining pension provisions under defined-benefit plans:

in %	2018	2017
Actuarial interest rate	1.70	1.50
Trend in pensions	2.00	2.00
Trend in the projected benefit obligation	3.00	3.00
Trend in salaries	3.00	3.00
Trend in inflation	2.00	2.00
Biometrics	Heubeck mortality tables 2018G	Heubeck mortality tables 2005G

The conversion of the Heubeck mortality tables from 2005 G to 2018 G resulted in actuarial losses of €17.4 million, which were recognised in other comprehensive income.

Sensitivity analysis

Changes in assumptions would have had the following effects on the defined-benefit obligation (DBO). In the process, each sensitivity analysis is performed independently of the others.

Present value of defined-benefit pension commitments

		31.12.2018		31.12.2017	
		Present value in € millions	Change in %	Present value in € millions	Change in %
Discount rate	+50 bp	1,699.6	–7.2	1,749.9	–7.6
	–50 bp	1,985.1	8.4	2,058.2	8.7
Trend in pension/inflation	+25 bp	1,883.0	2.8	1,944.9	2.7
	–25 bp	1,788.4	–2.4	1,845.1	–2.6
Trends in salaries/projected benefit obligation	+25 bp	1,841.8	0.5	1,902.2	0.4
	–25 bp	1,827.5	–0.3	1,882.7	–0.5
Life expectancy	By one more year	1,901.6	3.8	1,963.7	3.7

With respect to biometrics, the effects are depicted if life expectancy increases by one year. This is approximately achieved through a reduction of mortality probabilities by 10%.

There are no extraordinary company-specific or plan-specific risks. The change in obligations is depicted for the current and the subsequent three financial years through annual forecasts.

Internal financing through pension provisions without explicit plan assets is an intentional, proven strategy for financing pension commitments. In so doing, sufficient risk offsetting takes place. There is no liquidity problem.

The weighted average term to maturity of benefit obligations (Macaulay duration) amounts to 15.9 years (previous year: 16.3 years).

Provisions for other long-term employee benefits

In measuring other long-term employee benefits, actuarial interest rates were used that corresponded to the shorter terms to maturity of the commitments (e.g. for early retirement, 0.30% (previous year: 0.25%); contracts for phased-in early retirement (“Altersteilzeit”), 0.80% (previous year: 0.50%); long-term service benefits, 0.80% (previous year: 0.50%)).

Other provisions in 2018

	For restructuring	For the refunding of closing fees in the case of loan waivers	For the interest bonus option	Other	Total
in € thousands					
As at 1 January	**14,483**	**33,307**	**1,016,944**	**45,082**	**1,109,816**
Additions	64	2,447	130,771	19,612	152,894
Use	–1,159	–2,936	–137,830	–13,464	–155,389
Release	–10,471	–966	–3,402	–7,477	–22,316
Interest effect	12	384	8,403	88	8,887
Reclassifications	–765	—	—	–1,319	–2,084
Changes from currency translation	—	—	–51	–5	–56
As at 31 December	**2,164**	**32,236**	**1,014,835**	**42,517**	**1,091,752**

Other provisions in 2017

in € thousands	For restructuring	For the refunding of closing fees in the case of loan waivers	For the interest bonus option	Other	Total
As at 1 January	**17,004**	**32,875**	**1,041,634**	**67,771**	**1,159,284**
Additions	7,768	3,286	157,648	19,915	188,617
Use	-2,292	-2,352	-139,194	-20,517	-164,355
Release	-6,567	-7	-31,165	-18,675	-56,414
Classified as held for sale	–	–	–	-824	-824
Interest effect	28	-495	-12,394	23	-12,838
Reclassifications	-1,458	–	–	-2,626	-4,084
Changes from currency translation	–	–	415	15	430
As at 31 December	**14,483**	**33,307**	**1,016,944**	**45,082**	**1,109,816**

The change in the risk provision for issued loan commitments and financial guarantees is described in Note 46.

The expected maturities of the amounts recognised in the balance sheet can be broken down as follows:

2018

in € thousands	Within 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Other provisions for restructuring	2,164	–	–	–	2,164
Other provisions for the refunding of closing fees in the case of loan waivers	4,075	5,108	23,053	–	32,236
Other provisions for the interest bonus option	237,388	315,271	462,176	–	1,014,835
Other	26,078	12,254	4,185	–	42,517
Other provisions, total	**269,705**	**332,633**	**489,414**	**–**	**1,091,752**

2017

in € thousands	Within 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Other provisions for restructuring	8,840	5,643	–	–	14,483
Other provisions for the refunding of closing fees in the case of loan waivers	5,685	6,310	21,312	–	33,307
Other provisions for the interest bonus option	272,233	331,302	413,118	291	1,016,944
Other	33,785	5,920	195	5,182	45,082
Other provisions, total	**320,543**	**349,175**	**434,625**	**5,473**	**1,109,816**

(21) Current tax liabilities

Current tax liabilities amounted to €206.4 million (previous year: €182.0 million) and are expected to be realised within 12 months.

(22) Deferred tax liabilities

Deferred tax liabilities were recognised in connection with the following items:

in € thousands	31.12.2018	31.12.2017
	IFRS 9	IAS 39
Financial assets/liabilities at fair value through profit or loss	29,248	19,086
Financial assets recognised directly in OCI	134,577	–
Financial assets at amortised costs	43,872	–
Financial assets available for sale	–	85,199
Receivables	–	54,202
Positive and negative market values from hedges	16,189	15,443
Financial assets accounted for using the equity method	1,845	1,956
Liabilities	80,414	68,184
Technical provisions	159,043	150,665
Other items	105,125	103,191
Deferred tax liabilities	**570,313**	**497,926**

In the reporting year, the portion of the changes to deferred tax liabilities recognised directly in equity for some items was mainly attributable to the initial application of IFRS 9 and IFRS 15 and was booked against retained earnings and other comprehensive income. The current effects recognised directly in equity can be seen in the consolidated statement of comprehensive income. The changes recognised in the income statement for some items are described in Note 35.

Deferred tax liabilities in the amount of €40.7 million (previous year: €35.6 million) are expected to be realised within 12 months.

(23) Other liabilities

This item includes contract liabilities in the amount of €23.3 million (previous year: €40.6 million) and deferred income and accrued expenses in the amount of €9.9 million (previous year: €6.5 million).

The W&W Group has been applying IFRS 15 pursuant to the cumulative method. Under this method, comparative information is not adjusted

(24) Subordinated capital

Subordinated capital is depicted in the reporting about liquidity risk (Note 48) and takes into consideration existing options to repay it prior to final maturity.

	Carrying amount	
in € thousands	31.12.2018	31.12.2017
Subordinated liabilities	433,270	443,545
Profit participation certificates	2,206	7,431
Subordinated capital	**435,476**	**450,976**

(25) Equity

in € thousands	31.12.2018	31.12.2017
Interests of W&W shareholders in paid-in capital	1,485,595	1,484,645
Interests of W&W shareholders in earned capital	2,725,867	2,459,522
Non-controlling interests in equity	24,869	20,691
Equity	**4,236,331**	**3,964,858**

We propose appropriating the unappropriated surplus of €65.3 million that was generated by W&W AG in the 2018 financial year as follows: distribution of a dividend in the amount of €0.65 for each share entitled to receive dividends.

The proposal assumes that at the time when the resolution on the appropriation of profit is adopted by the Annual General Meeting, the company does not hold any treasury shares, which pursuant to Section 71b of the German Stock Corporation Act (AktG) are not entitled to receive dividends. In the event that the company holds treasury shares that are not entitled to receive dividends pursuant to Section 71b AktG when the resolution on the appropriation of profit is adopted by the Annual General Meeting, the distribution of €0.65 per share entitled to receive dividends will remain unchanged, and a correspondingly modified resolution on the appropriation of profit will be proposed to the Annual General Meeting. The modification will be carried out in such a way that the total amount of the dividend will be reduced by the amount corresponding to the number of treasury shares held by the company multiplied by €0.65 (dividend per share entitled to receive dividends), with such amount then being carried forward to new account.

On 13 June 2018, the Annual General Meeting of W&W AG resolved to distribute a dividend in the amount of €0.65 (previous year: €0.60) per share from the unappropriated surplus for the 2017 financial year as calculated in accordance with the German Commercial Code (HGB), which amounted to €65.2 million (previous year: €63.4 million). Based on the shares entitled to receive dividends, this corresponded to a maximum distribution of €60.9 million (previous year: €56.1 million).Of the remaining amount, €4.0 million (previous year: €7.0 million) was allocated to "Other reserves", and €0.2 million (previous year: €0.2 million) was carried forward.

Dividends totalling €60,854,946 were distributed on 18 June 2018.

Share capital

Share capital is divided into 93,622,994 registered no-par-value shares and is fully paid up. In legal terms, these are ordinary shares.

This means that they carry voting and dividend rights, a right to share in liquidation proceeds and subscription rights. There are no preferential rights or restrictions.

Changes in the number of shares outstanding

	31.12.2018	31.12.2017
As at 1 January	**93,550,955**	**93,476,940**
Disposals	72,039	74,015
As at 31 December	**93,622,994**	**93,550,955**

Authorised capital
Pursuant to Article 5 (5) of the Articles of Association of W&W AG, the Executive Board is authorised for a period of five years ending on 12 June 2023 to increase, on one or more occasions, the company's share capital by up to €100 million via issuance of new registered no-par-value shares in exchange for cash or contributions in kind, subject to the approval of the Supervisory Board. Shareholders are entitled to a statutory subscription right.

Contingent capital
By resolution adopted at the Annual General Meeting on 13 June 2018, the Executive Board was authorised to issue warrant bonds, convertible bonds, participation rights, profit participation bonds or a combination of these instruments on or before 12 June 2023. Article 5 (6) of the Articles of Association accordingly provides that the share capital

of W&W AG is contingently increased by the nominal amount of not more than €240,000 thousand, divided into not more than 45,889,102 no-par-value registered shares.

Non-controlling interests in equity

The non-controlling interests in equity can be broken down as follows:

in € thousands	31.12.2018	31.12.2017
Interest in unrealised gains and losses	4,936	2,960
Interest in the consolidated net profit	1,026	1,395
Other interests	18,907	16,336
Non-controlling interests in equity	**24,869**	**20,691**

The following table provides information for the WürttLeben subgroup, in which there are non-controlling interests that are material for W&W AG:

	WürttLeben subgroup, Stuttgart	
in € thousands	31.12.2018	31.12.2017
Participation of non-controlling interests, in %	5.11	5.11
Assets (100%)	33,912,146	32,966,745
Liabilities (100%)	33,320,201	32,483,715
Net assets (100%)	**591,945**	**483,030**
Net assets attributable to WürttLeben/Wüstenrot stavebni Sporitelna	591,945	481,947
Net assets attributable to non-controlling interests	–	1,083
Carrying amount of non-controlling interests in net assets	**30,248**	**25,711**
Net income (100%)	20,217	27,440
Net income attributable to WürttLeben/Wüstenrot stavebni Sporitelna	20,208	27,432
Net income attributable to non-controlling interests	9	8
Other comprehensive income (100%)	-70,250	-9,863
Total income (100%)	**-50,033**	**17,577**
Total net income allocated to non-controlling interests	**1,042**	**1,410**
Dividends paid to non-controlling interests	–	–
Cash flows (100%)	221,468	22,548

Employee share ownership programme

An employee share ownership programme was conducted in the first half-year of 2018. It enabled all employees of companies in the W&W Group to acquire up to 40 shares (previous year: 40 shares) of W&W AG at a price of €13.18 (previous year: €13.60) per share, which represented a discount of €5.00 per share. Employees are required to hold these shares for at least three years (previous year: three years). The purchase price was established based on the XE-TRA closing price on 3 April 2018.

Treasury shares in the portfolio were used for this programme. Employees acquired a total of 72,039 (previous year: 74,015) of these shares. Thus, as at 31 December 2018, W&W AG still held 126,726 (previous year: 198,765) treasury shares. This resulted in personnel expenses of €0.4 million (previous year: €0.4 million).

Notes concerning the consolidated income statement

(26) Current net income/expense

in € thousands	31.12.2018	31.12.2017[1]
	IFRS 9	IAS 39
Interest income	**1,584,405**	**1,716,837**
Subordinated securities and receivables	20,715	44,162
Fixed-income financial instruments that do not pass the SPPI test	43,964	–
Structured products	–	5,077
Derivative financial instruments	75,580	85,669
Senior debenture bonds and registered bonds	351,468	409,549
Senior fixed-income securities	402,151	394,610
Construction loans	651,486	723,830
Other loans and receivables	31,898	43,722
Other loans and advances	21,403	17,022
Other receivables	10,495	26,700
Other	7,143	10,218
Interest expenses	**–582,475**	**–791,878**
Liabilities evidenced by certificates	–29,308	–8,958
Deposit liabilities and other liabilities	–386,650	–471,483
Finance lease liabilities	–362	–474
Reinsurance liabilities	–1,729	–2,846
Miscellaneous liabilities	–6,372	–85,903
Subordinated capital	–19,939	–21,235
Derivative financial instruments	–100,063	–159,767
Other	–38,052	–41,212
Dividend income	**192,044**	**155,590**
Other current net income	**57,744**	**54,782**
Net income from financial assets accounted for using the equity method	3,283	3,594
Net income from investment property	54,426	51,186
Other	35	2
Current net income	**1,251,718**	**1,135,331**

1 Structure of net financial result adjusted. Explanations can be found in the chapter "Changes in the depiction of the financial statements".

Net income from investment property contains income from leasing in the amount of €121.9 million (previous year: €118.5 million). In addition, it contains directly attributable operating expenses for repairs, maintenance and management, as well as depreciation. These expenses consisted of €64.7 million (previous year: €65.1 million) for rental units that generated rental income and €1.9 million (previous year: €3.1 million) for rental units that did not generate any rental income.

(27) Net expense from risk provision

in € thousands	31.12.2018	31.12.2017[1]
	IFRS 9	IAS 39
Income from risk provision	**91,995**	**83,849**
Release of risk provision	77,431	60,308
Subordinated securities and receivables	73	4
Senior debenture bonds and registered bonds	1,154	324
Senior fixed-income securities	4,771	—
Construction loans	66,571	52,218
Other loans and receivables	4,567	7,762
Other loans and advances	2,189	4,227
Other receivables	2,378	3,535
Share of risk provision in technical provisions	295	—
Release of provisions in lending business, for irrevocable commitments, for financial guarantees	2,997	957
Receipts on written-down securities and receivables	11,567	11,700
Other receivables	—	10,884
Expenses from risk provision	**−94,667**	**−74,114**
Additions to risk provision	−90,827	−61,062
Subordinated securities and receivables	−431	−2
Senior debenture bonds and registered bonds	−3,780	−267
Senior fixed-income securities	−14,450	—
Construction loans	−55,554	−56,606
Other loans and receivables	−16,418	−4,187
Other loans and advances	−14,519	−2,148
Other receivables	−1,899	−2,039
Share of risk provision in technical provisions	−194	—
Additions to provisions in lending business, for irrevocable commitments, for financial guarantees	−3,840	−683
Direct write downs	—	−10,704
Other expenses	—	−1,665
Net income/expense from risk provision	**−2,672**	**9,735**

1 Structure of net financial result adjusted. Explanations can be found in the chapter "Changes in the depiction of the financial statements".

(28) Net measurement gain/loss

in € thousands	31.12.2018	31.12.2017[2]
	IFRS 9	IAS 39
Net income/expenses from financial assets/liabilities at fair value through profit or loss	**–427,055**	**127,892**
Participations, shares, fund units	–153,708	–34,745[3]
Senior fixed-income securities	–24,515	–4,966
Derivative financial instruments	44,244	–27,152
Capital investments for the account and risk of holders of life insurance policies	–252,820	156,874
Fixed-income financial instruments that do not pass the SPPI test	–40,256	—
Structured products	—	37,881
Net income/expense from the discounting of provisions for home loan savings business	**–15,280**	**45,113**
Net expense from hedges[1]	**–43,242**	**–50,716**
Impairments/reversals of impairment losses taken on investment property	**397**	**1,583**
Net currency expense	**–68,045**	**–52,403**
Participations, shares, fund units	41,675	–3,763
Subordinated securities and receivables	638	–5,772
Fixed-income financial instruments that do not pass the SPPI test	3,398	—
Structured products	—	–41,701
Senior debenture bonds and registered bonds	—	959
Senior fixed-income securities	132,597	–355,217
Other loans and receivables	22,252	–17,498
Derivative financial instruments	–284,873	406,390
Capital investments for the account and risk of holders of life insurance policies	15,076	–35,801
Liabilities	1,192	—
Net measurement gain/loss	**–553,225**	**71,469**

1 Hedge accounting (hedged items and hedging instruments).
2 Structure of net financial result adjusted. Explanations can be found in the chapter "Changes in the depiction of the financial statements".
3 Includes impairments taken on equity instruments in the amount of €39,726 thousand that were recognised in the previous year under "Expenses from financial assets available for sale".

The net income/expense from financial assets/liabilities at fair value through profit or loss included measurement gains in the amount of €432.7 million (previous year: €295.0 million) and measurement losses in the amount of €859.7 million (previous year: €235.4 million). Of this, measurement gains in the amount of €119.8 million (previous year: €170.6 million) and measurement losses in the amount of €106.1 million (previous year: €201.2 million) were attributable to derivatives, which mainly hedged interest-rate-dependent measurement gains and losses on capital investments.

The net currency expense included gains in the amount of €450.9 million (previous year: €328.8 million) and losses in the amount of €518.9 million (previous year: €348.8 million). Of this, currency gains in the amount of €137.8 million (previous year: €305.2 million) and currency losses in the amount of €293.2 million (previous year: €37.3 million) were attributable to currency derivatives, which hedged currency gains and losses on capital investments.

(29) Net income from disposals

in € thousands	31.12.2018	31.12.2017[1]
	IFRS 9	IAS 39
Income from disposals	**737,631**	**979,923**
Participations, shares, fund units	–	118,482
Subordinated securities and receivables	2,887	3,247
Structured products	–	3,445
Senior debenture bonds and registered bonds	499,718	192,559
Senior fixed-income securities	192,534	373,510
Derivative financial instruments	–	176,635
Cash flow hedges	–	30,130
Capital investments for the account and risk of holders of life insurance policies	–	3,544
Financial assets accounted for using the equity method	–	18,302
Investment property	42,492	60,069
Expenses from disposals	**–100,096**	**–251,734**
Participations, shares, fund units	–	–16,642
Subordinated securities and receivables	–1,286	–3,669
Structured products	–	–1,171
Senior debenture bonds and registered bonds	–662	–940
Senior fixed-income securities	–97,623	–48,965
Derivative financial instruments	–	–161,206
Cash flow hedges	–	–13,881
Capital investments for the account and risk of holders of life insurance policies	–	–1,127
Financial assets accounted for using the equity method	–15	–77
Investment property	–6	–383
Other	–504	–3,673
Net income from disposals	**637,535**	**728,189**

1 Structure of net financial result adjusted. Explanations can be found in the chapter "Changes in the depiction of the financial statements".

(30) Net commission expense

in € thousands	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.201
Commission income	**275,444**	**257,406**
from the conclusion of building savings contracts	140,186	122,743
from banking/home loan savings business	39,448	39,151
from reinsurance	23,178	24,766
from brokering activities	34,013	31,960
from investment business	37,486	36,971
from other business	1,133	1,815
Commission expenses	**–704,050**	**–659,226**
from insurance	–450,988	–421,623
from banking/home loan savings business	–183,606	–176,247
from reinsurance	–1,342	–1,360
from brokering activities	–10,810	–9,451
from investment business	–25,817	–24,031
from other business	–31,487	–26,514
Net commission expense	**–428,606**	**–401,820**

The net commission expense includes income in the amount of €0.7 million (previous year: €1.4 million) and expenses in the amount of €2.0 million (previous year: €2.3 million) from trust and other fiduciary activities. These include the management or investment of assets on behalf of individuals, trusts, pension funds and other institutions.

During the reporting period, transactions involving financial instruments not at fair value through profit or loss generated commission income in the amount of €8.6 million (previous year: €9.3 million) and commission expenses in the amount of €4.6 million (previous year: €3.4 million).

(31) Earned premiums (net)

Life and health insurance

in € thousands	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Gross premiums written	2,211,253	2,115,638
Change in the provision for unearned premiums	5,550	5,845
Premiums from the provision for premium refunds	53,136	46,534
Earned premiums (gross)	**2,269,939**	**2,168,017**
Premiums ceded to reinsurers	−29,612	−30,930
Earned premiums (net)	**2,240,327**	**2,137,087**

Property/casualty insurance and reinsurance

in € thousands	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Gross premiums written	1,854,195	1,757,724
Direct	1,847,725	1,750,923
Reinsurance	6,470	6,801
Change in the provision for unearned premiums	−3,222	−1,516
Earned premiums (gross)	**1,850,973**	**1,756,208**
Premiums ceded to reinsurers	−91,236	−83,988
Earned premiums (net)	**1,759,737**	**1,672,220**

(32) Insurance benefits (net)

Benefits under insurance contracts from direct business are shown without claim adjustment expenses. These are contained in general administrative expenses. Insurance benefits under reinsurance and the reinsurers' portion of insurance benefits may consist of both claim payments and adjustment expenses.

Recognised under the item “Change in the provision for premium refunds” are additions to the provision for premium refunds, as well as the change in the provision for deferred premium refunds recognised in the income statement.

Life and health insurance

in € thousands	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Payments for insurance claims	−2,312,838	−2,377,871
Gross amount	−2,326,076	−2,395,113
Thereof to: reinsurers' portion	13,238	17,242
Change in the provision for outstanding insurance claims	−11,498	5,733
Gross amount	−6,850	5,833
Thereof to: reinsurers' portion	−4,648	−100
Change in the provision for future policy benefits	−71,777	−583,340
Gross amount	−78,806	−584,147
Thereof to: reinsurers' portion	7,029	807
Change in the provision for premium refunds	−235,622	−173,773
Gross amount	−235,622	−173,773
Thereof to: reinsurers' portion	—	—
Change in other technical provisions	−33	−29
Gross amount	−33	−29
Thereof to: reinsurers' portion	—	—
Insurance benefits (net)	**−2,631,768**	**−3,129,280**
Gross amount, total	−2,647,387	−3,147,229
Thereof to (total): reinsurers' portion	15,619	17,949

Property/casualty insurance and reinsurance

in € thousands	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Payments for insurance claims	−919,963	−867,576
Gross amount	−984,452	−915,389
Thereof to: reinsurers' portion	64,489	47,813
Change in the provision for outstanding insurance claims	3,122	−30,888
Gross amount	8,570	−44,239
Thereof to: reinsurers' portion	−5,448	13,351
Change in the provision for premium refunds	−290	−562
Gross amount	−290	−562
Thereof to: reinsurers' portion	—	—
Change in other technical provisions	−4,836	−2,104
Gross amount	−1,620	−1,081
Thereof to: reinsurers' portion	−3,216	−1,023
Insurance benefits (net)	**−921,967**	**−901,130**
Gross amount, total	−977,792	−961,271
Thereof to (total): reinsurers' portion	55,825	60,141

(33) General administrative expenses

in € thousands	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Personnel expenses	**–588,962**	**–593,183**
Wages and salaries	–446,409	–444,619
Social remittances	–80,456	–77,985
Expenses for pension scheme and support	–48,736	–52,464
Other	–13,361	–18,115
Materials costs	**–422,892**	**–404,743[1]**
Depreciation/amortisation	**–61,219**	**–64,593**
Property for own use	–14,004	–14,779
Plant and equipment	–15,191	–17,605
Intangible assets	–32,024	–32,209
General administrative expenses	**–1,073,073**	**–1,062,519[1]**

1 Previous years' figure adjusted, see chapter "Changes in the presentation of the financial statement".

During the reporting period, contributions totalling €16.2 million (previous year: €16.5 million) were paid towards defined-contribution plans. In addition, employer contributions totalling €40.0 million (previous year: €40.5 million) were paid towards statutory pension insurance.

General administrative expenses contain personnel expenses totalling €15.1 million (previous year: €15.7 million) for phased-in early retirement ("Altersteilzeit") and early retirement.

(34) Net other operating income/expense

in € thousands	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Other operating income	**178,390**	**180,469[1]**
Sales proceeds from inventories (property development business)	60,842	70,649[1]
Release of provisions	26,881	28,664
Income from sales	8,806	3,601
Other income from currency translation	1,781	15,283
Other technical income	25,562	19,560
Miscellaneous income	54,518	42,712[1]
Other operating expenses	**–135,906**	**–147,302**
Other taxes	–3,263	–6,697
Expenses from inventories (property development business)	–51,276	–44,286
Additions to provisions	–3,505	–14,005
Losses from sales	–577	–1,470
Other expenses from currency translation	–2,702	–699
Other technical expenses	–54,024	–49,765
Miscellaneous expenses	–20,559	–30,380
Net other operating expense	**42,484**	**33,167[1]**

1 Previous years' figure adjusted, see chapter "Changes in the presentation of the financial statement".

(35) Income taxes

in € thousands	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Current income taxes paid for the reporting period	–156,074	–78,933
Current taxes paid for other periods	6,454	50,047
Deferred taxes	44,319	–5,526
Income taxes	**–105,301**	**–34,412**

Deferred taxes recognised in the income statement were created in connection with the following items:

Deferred taxes

in € thousands	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Financial assets/liabilities at fair value through profit or loss	–16,068	–20,313
Finanzielle Vermögenswerte erfolgsneutral zum beizulegenden Zeitwert bewertet (OCI)	63,499	–
Finanzielle Vermögenswerte zu fortgeführten Anschaffungskosten bewertet	–31,268	–
Zur Veräußerung verfügbare finanzielle Vermögenswerte	–	30,319
Forderungen	–	25,145
Positive and negative market values from hedges	16,209	5,514
Financial assets accounted for using the equity method	–312	3,174
Liabilities	724	–10,845
Technical provisions	–10,326	13,528
Provisions for pensions and other obligations	6,936	–34,316
Other items	31,391	–33,840
Tax loss carryforward	–16,466	16,108
Deferred taxes	**44,319**	**–5,526**

The following reconciliation statement shows the relationship between the income taxes expected and those actually recognised in the consolidated financial statements:

in € thousands	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Consolidated earnings before income taxes from continued operations	**320,490**	**292,449**
Uniform consolidated tax rate, in %	30,58	30,58
Expected income taxes	–98,006	–89,431
Tax rate discrepancies of Group companies	4,603	5,681
Effects of tax-free income	8,095	8,518
Effects of non-deductible expenses	–9,343	–3,358
Prior-period effects (current and deferred)	–6,219	53,171
Other	–4,431	–8,993
Income taxes	**–105,301**	**–34,412**

The applicable income tax rate of 30.58% selected as the basis for the reconciliation statement is composed of the corporate income tax rate of 15%, the solidarity surcharge on corporate income tax of 5.5%, and an average tax rate for trade tax of 14.75%.

No deferred tax liabilities were recognised for temporary differences in the amount of €322,3 million (previous year: €217.1 million) in connection with interests in subsidiaries, since it is not probable that these temporary differences will reverse in the foreseeable future.

(36) Earnings per share

Basic earnings per share are determined by dividing the consolidated net profit by the weighted average number of shares:

		1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
		IFRS 9	IAS 39
Result attributable to shareholders of W&W AG	in €	214,207,527	256,641,539
Number of shares at the beginning of the financial year	#	93,550,955	93,476,940
Number of shares held by the company	#	–126,726	–198,765
Weighted average number of shares	#	93,604,639	93,532,299
Basic (= diluted) earnings per share	in €	**2.29**	**2.74**

There currently are no potential shares that would have a diluting effect. Diluted earnings per share thus correspond to basic earnings per share.

Notes concerning the consolidated statement of comprehensive income

(37) Unrealised gains and losses

in € thousands	Financial assets at fair value through other comprehensive income Previous year: Financial assets available for sale		Financial assets accounted for using the equity method		Cash flow hedges	
	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
	IFRS 9	IAS 39	IFRS 9	IAS 39	IFRS 9	IAS 39
Recognised in other comprehensive income	−435,153	150,872	−161	773	—	−4,106
Reclassified to the consolidated income statement	−599,625	−324,695	—	—	1,402	−16,249
Unrealised gains/losses (gross)	**−1,034,778**	**−173,823**	**−161**	**773**	**1,402**	**−20,355**

Notes concerning financial instruments and fair value

(38) Disclosures concerning the measurement of fair value

To increase the comparability, consistency and quality of fair value measurements, the IFRSs establish a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). This hierarchy consists of three levels:

Level 1: Assigned to this level are financial instruments that are measured using unadjusted quoted prices for identical assets and liabilities on an active market.

Level 2: Assigned to this level are financial instruments that are measured by means of a recognised measurement model using input factors that can be directly (i.e. as price) or indirectly (i.e. derived from prices) observed for the asset or liability.

Level 3: Assigned to this level are financial instruments that are measured by means of a recognised measurement model for which the material data used is not based on observable market data (non-observable input factors).

The level to which the financial instrument is assigned in its entirety is determined on the basis of the lowest level input factor in the hierarchy that is significant to the entire measurement of fair value. For this purpose, the significance of an input factor is evaluated in relation to fair value in its entirety. In evaluating the significance of a given input factor, the specific features of the asset or liability are analysed and regularly reviewed during the reporting period.

If fair value cannot be reliably determined, the carrying amount is used as an approximate value to measure fair value. In this case, such financial instruments are assigned to Level 3.

The level classification is determined on a regular basis throughout the reporting period and leads to regroupings between levels as at the reporting date.

The following table depicts all financial assets and liabilities for which fair value is to be determined.

For accounting purposes, the only financial instruments measured at fair value in the W&W Group are those that are assigned to the categories

- Financial assets/liabilities at fair value through profit or loss,
- Financial assets at fair value through other comprehensive income (previous year: Financial assets available for sale) and
- Positive/negative market values from hedges.

The disclosures in the table “2018 measurement hierarchy (items that were not measured at fair value)” consist of those financial instruments and non-financial assets and liabilities for which fair value is provided in the notes.

2018 measurement hierarchy (items that were measured at fair value)

	Level 1	Level 2	Level 3	Fair value/ carrying amount
in € thousands	31.12.2018	31.12.2018	31.12.2018	31.12.2018
	IFRS 9	IFRS 9	IFRS 9	IFRS 9
Financial assets at fair value through profit or loss	**571,820**	**4,615,088**	**1,591,831**	**6,778,739**
Participations, shares, fund units	527,264	951,482	1,555,420	3,034,166
Participations other than in alternative investments	–	94,153	228,229	322,382
Participations in alternative investments, including private equity	–	–	1,239,010	1,239,010
Equities	527,264	–	63,574	590,838
Fund units	–	857,329	24,607	881,936
Fixed-income financial instruments that do not pass the SPPI test	–	1,145,446	35,837	1,181,283
Derivative financial instruments	44,556	123,226	–	167,782
Interest-rate-based derivatives	–	99,661	–	99,661
Currency-based derivatives	–	11,546	–	11,546
Equity- and index-based derivatives	44,556	12,006	–	56,562
Other derivatives	–	13	–	13
Senior fixed-income securities	–	684,362	–	684,362
Capital investments for the account and risk of holders of life insurance policies	–	1,710,572	574	1,711,146
Financial assets at fair value through other comprehensive income	**–**	**32,044,702**	**–**	**32,044,702**
Subordinated securities and receivables	–	663,037	–	663,037
Senior debenture bonds and registered bonds	–	12,599,732	–	12,599,732
Credit institutions	–	9,075,625	–	9,075,625
Other financial companies	–	132,293	–	132,293
Public authorities	–	3,391,814	–	3,391,814
Senior fixed-income securities	–	18,781,933	–	18,781,933
Credit institutions	–	6,288,274	–	6,288,274
Other financial companies	–	967,120	–	967,120
Other companies	–	1,243,873	–	1,243,873
Public authorities	–	10,282,666	–	10,282,666
Positive market values from hedges	**–**	**61,686**	**–**	**61,686**
Total assets	**571,820**	**36,721,476**	**1,591,831**	**38,885,127**

2018 measurement hierarchy (items that were measured at fair value)

in € thousands	Level 1	Level 2	Level 3	Fair value/ carrying amount
	31.12.2018	31.12.2018	31.12.2018	31.12.2018
	IFRS 9	IFRS 9	IFRS	IFRS 9
Financial liabilities at fair value through profit or loss	**1,000**	**454,318**	**—**	**455,318**
Derivative financial instruments	1,000	454,318	–	455,318
Interest-rate-based derivatives	435	431,131	–	431,566
Currency-based derivatives	–	20,797	–	20,797
Equity- and index-based derivatives	565	2,390	–	2,955
Negative market values from hedges	**—**	**126,449**	**—**	**126,449**
Total liabilities	**1,000**	**580,767**	**—**	**581,767**

2017 measurement hierarchy (items that were measured at fair value)

in € thousands	Level 1	Level 2	Level 3	Fair value/ carrying amount
	31.12.2017	31.12.2017	31.12.2017	31.12.2017
	IAS 39	IAS 39	IAS 39	IAS 39
Financial assets at fair value through profit or loss	**37,011**	**2,795,199**	**5,102**	**2,837,312**
Designated as financial assets at fair value through profit or loss	–	2,548,896	4,172	2,553,068
Equity instruments	–	547	–	547
Fund units	–	547	–	547
Structured products	–	624,894	–	624,894
Interest-rate-based structured products	–	181,813	–	181,813
Equity- and index-based structured products	–	443,081	–	443,081
Capital investments for the account and risk of holders of life insurance policies	–	1,923,455	4,172	1,927,627
Financial assets held for trading	37,011	246,303	930	284,244
Equity instruments	–	10,104	919	11,023
Fund units	–	10,104	919	11,023
Derivative financial instruments	37,011	236,199	11	273,221
Interest-rate-based derivatives	794	149,754	–	150,548
Currency-based derivatives	–	82,415	–	82,415
Equity- and index-based derivatives	36,132	4,030	–	40,162
Loan-based derivatives	85	–	11	96
Financial assets available for sale	**757,158**	**21,719,124**	**1,432,251**	**23,908,533**
Equity instruments	757,158	1,024,058	1,397,247	3,178,463
Investments, excluding alternative investments	–	–	233,758	233,758
Credit institutions	–	–	23,757	23,757
Other financial companies	–	–	4,946	4,946
Other companies	–	–	205,055	205,055

2017 measurement hierarchy (items that were measured at fair value)

in € thousands	Level 1	Level 2	Level 3	Fair value/ carrying amount
	31.12.2017	31.12.2017	31.12.2017	31.12.2017
	IAS 39	IAS 39	IAS 39	IAS 39
Alternative investments, including private equity	–	–	1,131,428	1,131,428
Other financial companies	–	–	1,090,566	1,090,566
Other companies	–	–	40,862	40,862
Equities	757,158	–	29,418	786,576
Credit institutions	82,821	–	26,004	108,825
Other financial companies	72,205	–	3,414	75,619
Other companies	602,132	–	–	602,132
Fund units	–	1,024,058	2,643	1,026,701
Subordinated securities and receivables	–	1,247,120	35,004	1,282,124
Credit institutions	–	499,666	–	499,666
Other financial companies	–	343,688	35,004	378,692
Other companies	–	403,766	–	403,766
Senior fixed-income securities	–	19,447,946	–	19,447,946
Credit institutions	–	6,367,701	–	6,367,701
Other financial companies	–	1,319,195	–	1,319,195
Other companies	–	1,823,820	–	1,823,820
Public authorities	–	9,937,230	–	9,937,230
Positive market values from hedges	**–**	**50,506**	**–**	**50,506**
Total assets	**794,169**	**24,564,829**	**1,437,353**	**26,796,351**
Financial liabilities at fair value through profit or loss	**312**	**533,302**	**–**	**533,614**
Financial liabilities held for trading	312	533,302	–	533,614
Derivative financial instruments	312	533,302	–	533,614
Interest-rate-based derivatives	84	518,284	–	518,368
Currency-based derivatives	–	4,290	–	4,290
Equity- and index-based derivatives	228	10,728	–	10,956
Negative market values from hedges	**–**	**70,311**	**–**	**70,311**
Total liabilities	**312**	**603,613**	**–**	**603,925**

2018 measurement hierarchy (items that were not measured at fair value)

	Level 1	Level 2	Level 3	Fair value	Carrying amount
in € thousands	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9
Cash reserves	**83,760**	**–**	**–**	**83,760**	**83,760**
Deposits with central banks	83,487	–	–	83,487	83,487
Deposits with foreign postal giro offices	273	–	–	273	273
Financial assets at amortised cost	**–**	**12,052,244**	**16,724,586**	**28,776,830**	**28,102,415**
Subordinated securities and receivables	–	141,391	–	141,391	133,380
Senior debenture bonds and registered bonds	–	1,241,856	–	1,241,856	1,087,957
Senior fixed-income securities	–	1,173,253	–	1,173,253	1,054,900
Construction loans	–	8,044,684	15,447,127	23,491,811	23,098,798
Other loans and receivables	–	1,451,060	1,277,459	2,728,519	2,727,380
Other loans and advances	–	1,451,060	973,768	2,424,828	2,423,689
Other receivables	–	–	303,691	303,691	303,691
Investment property	**–**	**–**	**2,312,429**	**2,312,429**	**1,827,055**
Total assets	**83,760**	**12,052,244**	**19,037,015**	**31,173,019**	**30,013,230**
Liabilities	–	4,129,001	22,668,822	27,689,035	27,585,077
Liabilities evidenced by certificates	–	1,286,147	–	1,286,147	1,286,568
Liabilities to credit institutions	–	903,495	564,078	1,467,573	1,454,518
Liabilities to customers	–	1,928,383	21,739,776	23,668,159	23,580,660
Finance lease liabilities	–	–	20,271	20,271	20,133
Miscellaneous liabilities	–	13,107	1,233,778	1,246,885	1,243,198
Other liabilities	–	10,976	344,697	355,673	351,985
Sundry liabilities	–	2,131	889,081	891,212	891,213
Subordinated capital	**–**	**470,792**	**–**	**470,792**	**435,476**
Total liabilities	**–**	**4,599,793**	**22,668,822**	**28,159,827**	**28,020,553**

2017 measurement hierarchy
(items that were not measured at fair value)

	Level 1	Level 2	Level 3	Fair value	Carrying amount
in € thousands	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39
Cash reserves	**153,923**	**—**	**—**	**153,923**	**153,923**
Deposits with central banks	153,583	–	–	153,583	153,583
Deposits with foreign postal giro offices	340	–	–	340	340
Receivables	**—**	**26,047,536**	**16,435,243**	**42,482,779**	**39,765,569**
Subordinated securities and receivables	–	102,117	–	102,117	80,224
First-rate receivables from institutional investors	–	16,404,484	–	16,404,484	14,076,295
Credit institutions	–	11,671,623	–	11,671,623	10,021,183
Other financial companies	–	134,245	–	134,245	135,311
Other companies	–	45,546	–	45,546	44,255
Public authorities	–	4,553,070	–	4,553,070	3,871,927
Portfolio hedge adjustment	–	–	–	–	3,619
Building loans	–	8,706,877	15,176,041	23,882,918	23,525,418
Building loans to retail customers secured by mortgages	–	8,636,507	12,313,845	20,950,352	20,589,754
Building loans to retail customers not secured by mortgages	–	70,370	2,862,196	2,932,566	2,935,664
Other loans and receivables					
Other loans and advances	–	834,058	1,259,202	2,093,260	2,083,632
Investment property	**—**	**—**	**2,145,475**	**2,145,475**	**1,683,541**
Total assets	**153,923**	**26,047,536**	**18,580,718**	**44,782,177**	**41,603,033**
Liabilities	**—**	**4,701,115**	**23,316,859**	**28,017,974**	**27,861,552**
Liabilities evidenced by certificates	–	929,423	–	929,423	918,938
Liabilities to credit institutions	–	2,172,408	587,098	2,759,506	2,735,133
Liabilities to customers	–	1,592,241	22,350,930	23,943,171	23,822,677
Finance lease liabilities	–	–	24,592	24,592	23,951
Miscellaneous liabilities					
Other liabilities	–	7,043	354,239	361,282	360,853
Subordinated capital	**—**	**509,840**	**—**	**509,840**	**450,976**
Total liabilities	**—**	**5,210,955**	**23,316,859**	**28,527,814**	**28,312,528**

Changes in Level 3 (2018 – IFRS 9)

in € thousands	Participations other than in alternative investments	Participations in alternative investments	Equities
As at 1 January 2018	**233,758**	**1,131,428**	**29,418**
Total net income/expense for the period	-11,938	39,927	-3,854
Income recognised in the consolidated income statement	13,572	101,017	–
Expenses recognised in the consolidated income statement	-25,510	-61,090	-3,854
Unrealised gains/losses (–) from financial assets at fair value through other comprehensive income (gross)	–	–	–
Purchases	20,125	118,076	38,010
Sales	-18,296	-53,954	–
Reclassifications	–	–	–
Transfers from Level 3	–	–	–
Transfers to Level 3	4,580	3,533	–
As at 31 December 2018	**228,229**	**1,239,010**	**63,574**
Income recognised in the consolidated income statement as at 31 December[1]	13,572	101,017	–
Expenses recognised in the consolidated income statement as at 31 December[1]	-25,510	-61,090	-840

1 The net income/expense includes period income and expenses for assets still in the portfolio at the end of the reporting period.

	Financial assets at fair value through profit or loss				Total
	Fund units	Fixed-income financial instru-ments that do not pass the SPPI test	Derivative financial instruments	Capital investments for the account and risk of holders of life insurance policies	
	3,562	**35,004**	**11**	**4,172**	**1,437,353**
	−307	–	–	−2,270	21,558
	1,451	–	–	–	116,040
	−1,758	–	–	−2,270	−94,482
	–	–	–	–	–
	119,797	–	–	2,320	298,328
	−98,445	833	−11	−3,648	−173,521
	–	–	–	–	–
	–	–	–	–	–
	–	–	–	–	8,113
	24,607	**35,837**	**–**	**574**	**1,591,831**
	1,451	–	–	–	116,040
	−1,758	–	–	−2,270	−91,468

Changes in Level 3 (2017 – IAS 39)

	Designated as financial assets at fair value through profit or loss	Financial assets held for trading				
	Capital investments for the account and risk of holders of life insurance policies	Equity instruments	Derivative financial instruments			
		Fund units		Participations other than in alternative investments		
				Credit institutions	Other financial companies	Other companies
in € thousands						
As at 1 January 2017	**2,009**	**1,327**	**1**	**22,610**	**5,304**	**244,098**
Total comprehensive income for the period	1,025	-408	–	1,147	870	-12,482
Income recognised in the consolidated income statement	1,025	–	–	–	–	–
Expenses recognised in the consolidated income statement	–	-408	–	–	–	-9,029
Unrealised gains/losses (-) from financial assets available for sale (gross)	–	–	–	1,147	870	-3,453
Purchases	618	–	11	–	–	3,508
Sales	-152	–	-1	–	–	-30,109
Transfers to Level 3	672	–	–	–	–	40
Classified as held for sale	–	–	–	–	-1,228	–
Changes in the scope of consolidation	–	–	–	–	–	–
As at 31 December 2017	**4,172**	**919**	**11**	**23,757**	**4,946**	**205,055**
Income recognised in the consolidated income statement as at 31 December[1]	968	–	–	–	–	–
Expenses recognised in the consolidated income statement as at 31 December[1]	–	-408	–	–	–	-9,029

1 The net income/expense includes period income and expenses for assets still in the portfolio at the end of the reporting period.

	Financial assets available for sale						Total
					Equity instruments	Subordinated securities and receivables	
	Participations in alternative investments, including private equity			Equities	Fund units		
	Other financial companies	Other companies	Credit institutions	Other financial companies		Other financial companies	
	1,025,720	**29,870**	**27,507**	**6,783**	**3,702**	**21,595**	**1,390,526**
	–22,477	32	–1,503	–566	569	–	–33,793
	–	–	–	–	–	–	1,025
	–15,803	–	–	–	–163	–	–25,403
	–6,674	32	–1,503	–566	732	–	–9,415
	194,459	–	–	–	–	13,409	212,005
	–107,136	–	–	–2,803	–1,878	–	–142,079
	–	–	–	-	250	–	962
	–	–	–	-	–	–	–1,228
	–	10,960	–	-	–	–	10,960
	1,090,566	**40,862**	**26,004**	**3,414**	**2,643**	**35,004**	**1,437,353**
	–	–	–	–	–	–	968
	–15,235	–	–	–	–163	–	–24,835

Effects of alternative assumptions for financial instruments in Level 3

Nearly all of the securities in Level 3 consist of unquoted interests in investments that are not fully consolidated or not accounted for using the equity method, alternative investments or private equity funds. Their fair values are normally determined by each company's management. The majority of these securities, amounting to €1,093.2 million (previous year: €1,063.8 million), were measured on the basis of net asset value. Of this amount, €4.8 million (previous year: €8.3 million) was attributable to "Participations other than in alternative investments", as well as unquoted equities and fund certificates, and €1,088.4 million (previous year: €1,055.5 million) to participations in alternative investments, including private equity. These values were determined on the basis of specific information that is not publicly available, to which the W&W Group does not have access. Thus, it was not possible to subject them to a sensitivity analysis.

In the W&W Group, net asset values (2018: €149.0 million; previous year: €151.7 million) are measured for Group property investments that are assigned to "Participations other than in alternative investments". These are based on discount rates that essentially determine the property's fair value. A change in discount rates by +100 basis points in connection with a sensitivity analysis leads to a reduction in fair value to €137.3 million (previous year: €140.7 million), while a change in discount rates by -100 basis points leads to an increase to €161.8 million (previous year: €163.7 million).

All changes in fair values are reflected in the consolidated income statement.

The most significant measurement parameter for interests measured using the capitalised earnings method (2018: €59.3 million; previous year: €64.5 million) is the risk-adjusted discount rate. A material increase in the discount rate reduces fair value, whereas a decline increases fair value. However, a change by 10% has only a minor influence on the presentation of the net assets, financial position and financial performance of the W&W Group.

In addition, for certain interests, fair value is deemed to be approximated by amortised cost. In this case, as well, a sensitivity analysis is not possible due to lack of the specific parameters used.

The measurement methods used are listed in the following table "Quantitative information about the measurement of fair value in Level 3".

Quantitative information about the measurement of fair value in Level 3 for 2018

	Fair value	Measurement method	Non-observable input factors	Range, in %
in € thousands	31.12.2018			31.12.2018
	IFRS 9			
Financial assets at fair value through profit or loss	**1,591,831**			
Participations, shares, fund units	1,555,420			
Participations other than in alternative investments	228,229			
	27,947	Capitalised earnings method	Discount rate	6.85-11.70
	39,949	Approximation method	n/a	n/a
	160,333	Net asset value	Discount rate	2.49-8.91
Participations in alternative investments, including private equity	1,239,010			
	31,353	Capitalised earnings method	Discount rate	4.24
	75,306	Approximation method	n/a	n/a
	1,132,351	Net asset value	n/a	n/a
Equities	63,574			
	26,004	Approximation method	n/a	n/a
	37,570	Net asset value	n/a	n/a
Fund units	24,607			
	1,328	Approximation method	n/a	n/a
	23,279	Net asset value	n/a	n/a
Fixed-income financial instruments that do not pass the SPPI test	35,837	Approximation method	n/a	n/a
Capital investments for the account and risk of holders of life insurance policies	574	Net asset value	n/a	n/a

Quantitative information about the measurement of fair value in Level 3 for 2017

	Fair value	Measurement method	Non-observable input factors	Range, in %
in € thousands	31.12.2017			31.12.2017
	IAS 39			
Financial assets at fair value through profit or loss	**5,102**			
Designated as financial assets at fair value through profit or loss	4,172			
Capital investments for the account and risk of holders of life insurance policies	4,172	Net asset value	n/a	n/a
Financial assets held for trading	930			
Equity instruments	919			
Fund units	919	Net asset value	n/a	n/a
Derivative financial instruments	11			
Other derivatives	11	Black-Scholes Model	Index weighting, volatility	n/a
Financial assets available for sale	**1,432,251**			
Equity instruments	1,397,247			
Participations other than in alternative investments	233,758			
	34,992	Capitalised earnings method	Discount rate	6,63– 9,54
	24,866	Approximation method	n/a	n/a
	173,900	Net asset value	Discount rate	4,17– 8,91
Alternative investments, including private equity	1,131,428			
	29,551	Capitalised earnings method	Discount rate	4,42
	46,379	Approximation method	n/a	n/a
	1,055,498	Net asset value	n/a	n/a
Equities	29,418			
	26,004	Approximation method	n/a	n/a
	3,414	Net asset value	n/a	n/a
Fund units	2,643			
	2,222	Approximation method	n/a	n/a
	421	Net asset value	n/a	n/a
Subordinated securities and receivables	35,004			
	35,004	Approximation method	n/a	n/a

(39) Disclosures concerning hedges

Impairment losses

	Cash flow hedges	Fair value hedges
	Hedging of interest rate risk through interest rate swaps	Hedging of interest rate risk through interest rate swaps
in € thousands	31.12.2018	31.12.2018
Nominal values of hedges	–	1,823,000
up to 1 year	–	–
1 to 5 years	–	229,000
longer than 5 years	–	1,594 000
Positive market values from hedges	–	61,686
Negative market values from hedges	–	126,449
Changes in fair value	–	11,192

The hedging instruments are recognised in the items "Positive market values from hedges" and "Negative market values from hedges".

Impairment losses

	Cash flow hedges Hedging of interest rate risk through interest rate swaps		Fair value hedges Hedging of interest rate risk through interest rate swaps	
	Existing hedges	Terminated hedges	Existing hedges	Terminated hedges
in € thousands	31.12.2018	31.12.2018	31.12.2018	31.12.2018
Carrying amounts of hedges				
Assets	n/a	n/a	575,538	n/a
Liabilities	n/a	n/a	1,322,940	n/a
Cumulative changes and changes attributable to the hedged risk				
Assets	n/a	n/a	7,030	2,472
Liabilities	n/a	n/a	7,613	3,350
Changes in the hedged risk	–	n/a	–10,741	n/a
Reserve for cash flow hedges	–	–153	n/a	n/a

The hedged items are contained in the following balance sheet items:

- Financial assets at fair value through other comprehensive income
- Financial assets at amortised cost
- Liabilities

Disclosures concerning the effects in the consolidated statement of comprehensive income

	Cash flow hedges	Fair value hedges
	Hedging of interest rate risk through interest rate swaps	Hedging of interest rate risk through interest rate swaps
in € thousands	31.12.2018	31.12.2018
Unrealised gains and losses recognised in other comprehensive income	–	n/a
Income/expenses from ineffective portions	–	458
Reserves for cash flow hedges reclassified to the consolidated income statement	1,402	n/a

The income and expenses from ineffective portions and the reserves for cash flow hedges reclassified to the consolidated income statement are included in the net measurement gain/loss in the consolidated income statement.

In the previous year, income from fair value hedges amounted to €3.1 million from the measurement of hedged items and €6.6 million from the measurement of derivative hedging instruments. Expenses amounted to €6.5 million from the measurement of hedged items and €3.3 million from the measurement of derivative hedging instruments.

The following table shows for the 2017 financial year the nominal values of derivatives for the individual maturity bands, as well as the positive and negative market values for all derivatives of the W&W Group, i.e. both derivative financial instruments that are embedded as a hedging instrument in a hedge recognised under the criteria of hedge accounting and those derivative financial instruments that were recognised in accordance with IAS 39 under the former sub-items “Financial assets held for trading” and “Financial liabilities held for trading”.

Remaining maturity in 2017

	Within 1 year	1 to 5 years	Later than 5 years	Nominal values, total	Positive market values	Negative market values
in Mio €						
Interest-rate-based derivatives						
OTC						
Swaps	1,236.6	4,890.0	5,529.7	11,656.3	194.6	548.4
Option purchases	1,500.0	2,250.0	–	3,750.0	4.5	–
Option sales	1,500.0	2,250.0	–	3,750.0	–	0.9
Other	784.0	345.0	–	1,129.0	2.0	39.3
Exchange-traded						
Futures	63.2	–	–	63.2	0.8	0.1
Currency-based derivatives						
OTC						
Foreign exchange forwards	6,157.8	–	–	6,157.8	82.4	4.3
Equity- and index-based derivatives						
OTC						
Option purchases	31.5	–	–	31.5	4.0	–
Option sales	–	–	–	–	–	10.8
Exchange-traded						
Futures	62.7	–	–	62.7	–	0.2
Options	21.5	113.1	–	134.6	36.2	–
Other derivatives	**12.9**	**–**	**–**	**12.9**	**0.1**	**-**
Derivatives	**11,370.2**	**9,848.1**	**5,529.7**	**26,748.0**	**324.6**	**604.0**

(40) Transfers of financial assets and granted and received collateral, as well as netting of financial assets and liabilities

During the reporting period and in the previous year, financial assets were transferred that were not or were not fully derecognised. In the W&W Group, all of these had to do with securities that were sold in connection with repurchase agreements or lent in connection with securities lending transactions. All of these securities are allocated to the category "Financial assets at fair value through profit or loss" (previous year: "Financial assets available for sale") and to the classes resulting from this, and they are subject to the same market price and counterparty credit risks.

Repurchase agreements are characterised by the fact that securities are sold for consideration, but at the same time it is agreed that such securities have to be purchased back at a later point against payment to the seller of an amount agreed to in advance. In addition to the purchase price, collateral is granted and received, depending on the market value of the securities sold. In securities lending transactions, securities are lent against the granting of cash or non-cash collateral. After the borrowing period expires, the securities are returned to the lender. Sold or lent securities continue to be recognised in the balance sheet of the W&W Group in accordance with the previous categorisation. The ability of the W&W Group to dispose of these securities is restricted. At the same time, a financial liability is recognised in the amount of money received. Non-cash collateral is recognised only if the W&W Group is authorised to re-sell or pledge it without the issuer being in default in payment. This was not the case.

The relationship between securities that were sold in connection with repurchase agreements and those that were lent in connection with securities lending transactions, as well as the associated liabilities, is as follows:

Transferred financial assets 2018

	Carrying amount		
	Repurchase agreements	Securities lending transactions	Total
in € thousands	31.12.2018	31.12.2018	31.12.2018
	IFRS 9	IFRS 9	IFRS 9
Financial assets at fair value through profit and loss	**—**	**29,606**	**29,606**
Investments, shares, fund units	—	7,899	7,899
Senior fixed-income securities	—	21,707	21,707
Total	**—**	**29,606**	**29,606**
Associated liabilities	—	—	—
Net position	—	29,606	29,606

Transferred financial assets 2017

	Carrying amount		
	Repurchase agreements	Securities lending transactions	Total
in € thousands	31.12.2017	31.12.2017	31.12.2017
Financial assets available for sale	**977,995**	**23,048**	**1,001,043**
Equity instruments	—	23,048	23,048
Senior fixed-income securities	977,995	—	977,995
Total	**977,995**	**23,048**	**1,001,043**
Associated liabilities	977,995	—	977,995
Net position	—	23,048	23,048

As was the case in the previous year, as at 31 December 2018 no securities had been taken in and then passed on in connection with reverse repurchase agreements.

Likewise, there were no other business transactions under which the W&W Group retained ongoing commitments from the transfer.

Assets granted as collateral

Financial assets granted as collateral in 2018

in € thousands	Transferred financial assets	Other collateral granted	Granted but as yet unused collaterals	Total
	31.12.2018	31.12.2018	31.12.2018	31.12.2018
	IFRS 9	IFRS 9	IFRS 9	IFRS 9
Financial assets at fair value through profit or loss	**29,606**	**–**	**–**	**29,606**
Participations, shares, fund units	7,899	–	–	7,899
Senior fixed-income securities	21,707	–	–	21,707
Financial assets at fair value through other comprehensive income	**–**	**–**	**87,708**	**87,708**
Senior fixed-income securities	–	–	87,708	87,708
Financial assets at amortised cost	**–**	**296,283**	**45,373**	**341,656**
Senior fixed-income securities	–	–	45,373	45,373
Construction loans	–	296,283	–	296,283
Total	**29,606**	**296,283**	**133,081**	**458,970**

Financial assets granted as collateral in 2017

in € thousands	Transferred financial assets	Other collateral granted	Granted but as yet unused collaterals	Total
	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Financial assets available for sale	**1,001,043**	**–**	**1,201,944**	**2,202,987**
Equity instruments	23,048	–	–	23,048
Senior fixed-income securities	977,995	–	1,201,944	2,179,939
Receivables	**–**	**414,450**	**–**	**414,450**
Building loans	–	414,450	–	414,450
Total	**1,001,043**	**414,450**	**1,201,944**	**2,617,437**

1 Previous year's figure adjusted.

Granted but as yet unused collateral mainly has to do with securities on deposit with Clearstream International S.A. In the reporting period just ended, as was the case in the previous year, no securities were pledged from the custodial account with Clearstream International S. A. for settlement and custodial services in connection with issued covered bonds.

In addition, loans in the amount of €296.3 million (previous year: €414.5 million) were assigned as collateral in connection with the utilisation of promotional loan programmes.

The amount of cash collateral granted for derivatives amounted to €510.0 million (previous year: €523.5 million).

Aside from the securities pledged as collateral for the foregoing repurchase agreements, no cash collateral was provided was provided for them (previous year: cash collateral provided in the amount €3.5 million).

As at the reporting date, as was the case in the previous year, no loans had been obtained from the Deutsche Bundesbank in connection with open market operations. Therefore, as at the reporting date, no securities granted as collateral were on deposit in the Deutsche Bundesbank custodial account. To secure these loans, the Deutsche Bundesbank requires as collateral a correspondingly high deposit of securities in the Deutsche Bundesbank custodial account. Securities that are on deposit in the custodial account of Deutsche Bundesbank in order to collateralise loans may be substituted at will with other securities accepted by the European Central Bank, provided that they do not fall below the required collateral value.

In addition, in accordance with regulatory requirements, the underwriting liabilities of German primary insurers in the W&W Group are covered by assets allocated to guarantee assets (financial instruments and properties). Assets allocated to guarantee assets are primarily available to settle policyholder claims. The pro rata allocation of individual assets to guarantee assets is not evident from the IFRS consolidated financial statements.

Assets received as collateral

Assets received as collateral may be liquidated only in the event of breach of contract. Collateral that can be resold or pledged without the issuer being in default in payment was not received.

No cash collateral was received under repurchase agreements (previous year: cash collateral received in the amount of €978.0 million).

Netting of financial instruments

The following table shows the derivatives recognised under the item "Financial assets at fair value through profit or loss" that are subject to a master netting agreement. The corresponding amounts that are not netted in the balance sheet consist of derivatives recognised under the item "Financial liabilities at fair value through profit or loss", as well as cash collateral received under existing contracts with the same counterparties. A netting of financial assets against the associated financial liabilities would have led to the following result:

Netting of financial assets in 2018

	Gross amount of financial assets recognised in the balance sheet	Associated amounts that are not netted in the balance sheet		Net amount
		Financial instruments	Cash collateral granted	
in € thousands	31.12.2018	31.12.2018	31.12.2018	31.12.2018
Derivatives	62,755	5,184	26,186	31,385

Netting of financial assets in 2017

	Gross amount of financial assets recognised in the balance sheet	Associated amounts that are not netted in the balance sheet		Net amount
		Financial instruments	Cash collateral granted	
in € thousands	31.12.2017	31.12.2017	31.12.2018	31.12.2017
Derivatives	131,281	3,393	51,371	76,517

The following table shows the derivatives recognised under the item "Financial liabilities at fair value through profit or loss" that are subject to a master netting agreement. The corresponding amounts that are not netted in the balance sheet consist of derivatives recognised under the item “Financial assets at fair value through profit or loss”, as well as cash collateral granted under existing contracts with the same counterparties. A netting of financial liabilities against the associated financial assets would have led to the following result: Furthermore, as was the case in the previous year, liabilities received in connection with repurchase agreements were compared with the pledged securities and the granted cash collateral:

Netting of financial liabilities in 2018

	Gross amount of financial liabilities recognised in the balance sheet	Associated amounts that are not netted in the balance sheet		Net amount
		Financial instruments	Cash collateral granted	
in € thousands	31.12.2018	31.12.2018	31.12.2018	31.12.2018
Derivatives	586,448	105,197	510,003	–28,752
Repurchase agreements, securities lending transactions and similar agreements	–	–	–	–

Netting of financial liabilities in 2017

	Gross amount of financial liabilities recognised in the balance sheet	Associated amounts that are not netted in the balance sheet		Net amount
		Financial instruments	Cash collateral granted	
in € thousands	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Derivatives	588,415	120,500	523,507	–55,592
Repurchase agreements, securities lending transactions and similar agreements	977,995	977,995	3,546	–3,546

1 Previous year's figure adjusted.

(41) Trust business

Trust business not required to be shown in the balance sheet had the following scope:

in € thousands	31.12.2018	31.12.2017
Trust assets pursuant to the German Building Code	12,476	12,288
Trust assets	**12,476**	**12,288**
Trust liabilities pursuant to the German Building Code	12,476	12,288
Trust liabilities	**12,476**	**12,288**

(42) Supplementary disclosures concerning the effect of financial instruments

Net gains and losses by category of financial instrument, which are depicted in the following table, consist of the following:

- Net gains consist of disposal gains, measurement gains, income from risk provision, subsequent receipts on written-down financial instruments and currency gains from measurement on the reporting date.
- Net losses consist of disposal losses, measurement losses, expenses from risk provision and currency losses from measurement on the reporting date.
- Interest income and expenses and commission income and expenses are not included in net gains and losses. Likewise, dividends are not recognised in net gains.

Net gains/net losses 2018

in € thousands	1.1.2018 to 31.12.2018
	IFRS 9
Financial assets/liabilities at fair value through profit or loss	**–631,609**
Financial assets at fair value through profit or loss by regulation	–631,609
Net gains	706,124
Net losses	–1,337,733
Financial assets at fair value in OCI	**696,492**
Net gains	836,284
Net losses	–139,792
Financial assets at amortised costs	**32,462**
Net gains	122,861
Net losses	–90,399
Finanical liabilities at amortised costs	**688**
Net gains	1,593
Net losses	–905

Net gains/net losses 2017

in € thousands	1.1.2017 to 31.12.2017
	IAS 39
Financial assets/liabilities at fair value through profit or loss	**516,765**
Financial assets/liabilities held for trading	394,862
Net gains	884,095
Net losses	–489,233
Designated as financial assets at fair value through profit or loss	121,903
Net gains	256,753
Net losses	–134,850
Financial assets available for sale	**27,346**
Net gains	507,260
Net losses	–479,914
Receivables	**181,553**
Net gains	301,061
Net losses	–119,508
Liabilities	**–3,674**
Net gains	—
Net losses	–3,674

In the 2018 financial year, total interest income from financial assets at amortised cost amounted to €744.9 million, and total interest expenses for liabilities and amortised cost amounted to €449.7 million.

In the 2018 financial year, total interest income from financial assets at fair value through other comprehensive income amounted to €708.8 million.

In the previous year, total interest income from financial assets and liabilities not at fair value through profit or loss, which also includes subordinated capital, amounted to €1,584.9 million, and total interest expenses amounted to €629.9 million.

In addition, in the 2018 financial year, currency translation – with the exception of currency translation involving financial instruments at fair value through profit or loss – generated currency income in the amount of €177.4 million (previous year: €55.3 million) and currency expenses in the amount of €40.9 million (previous year: €419.2 million).

Financial assets at amortised cost amounted to €28,186.3 million (previous year: €40,226.0 million), and financial assets at fair value through profit or loss amounted to €6,840.4 million (previous year: €2,887.8 million).

Financial liabilities at amortised cost amounted to €28,020.6 million (previous year: €29,205.0 million), and financial assets at fair value through profit or loss amounted to €581.8 million (previous year: €603.9 million).

(43) Gains and losses recognised from the derecognition of financial assets at amortised cost

In the reporting year, there were no material gains or losses from the derecognition of financial assets at amortised cost.

Disclosures concerning risks under financial instruments and insurance contracts

(44) Risk management

The systematic and controlled assumption of risk for the purpose of achieving the established return targets is an integral part of corporate governance. The W&W Group makes use of a comprehensive risk management and controlling system that consistently combines the systems and methods of the individual companies, which are geared to the particular business requirements.

The risk management and controlling system comprises the totality of all organisational regulations and measures that have been established to identify risks at an early stage and to handle the risks associated with entrepreneurial activity. Risk controlling is a part of risk management and includes the assessment, evaluation, monitoring and reporting of the risks encountered by the entities assuming them. It also monitors risk governance measures. Risk management in the W&W Group consists of the following key functions:

- **Legal:** Compliance with the relevant risk-related internal and external requirements for risk management and creation of the legal precondition for continuation of business operations.

- **Protection of the company as a going concern:** Avoidance of risks that endanger the company as a going concern, preservation of financial security and development of strategies to protect the company as a going concern and the capital basis necessary for this.

- **Quality assurance:** Establishment of a common understanding of risks, a pronounced awareness of risks and transparent communication of risks in the W&W Group, as well as active notification of flaws and any potential for improvement in risk management.

- **Value creation:** Governance impetus for risk hedging and conservation of value, promotion and assurance of effective value creation for shareholders through risk capital allocation that enables opportunities to be seized.

Based on the key functions of risk management, the following **overarching objectives** are pursued:

- **Creation of transparency with respect to risks,**
- **Utilisation of instruments appropriate for managing risks,**
- **Assurance and monitoring of capitalisation,**
- **Creation of a basis for risk- and value-oriented corporate governance,**
- **Promotion and establishment of a Group-wide risk culture.**

Another task of risk management is to protect the reputation of the W&W Group with its two venerable brands, “Wüstenrot” and “Württembergische”, and the digital brand “Adam Riese”. The reputation of the W&W Group as a stable, reliable and trustworthy partner of our customers constitutes a key factor for our sustainable success.

The W&W Group manages risks on the basis of a **risk management framework.** The **integrated risk strategy** establishes the strategic framework of the risk management system of the W&W Group (W&W financial conglomerate), the Solvency II group (insurance group), the financial holding group and Wüstenrot & Württembergische AG. The **Group Risk Policy** defines the organisational framework for risk management and is a prerequisite for an effective risk management system within the W&W Group. This framework ensures that the standard of quality is comparable across all business areas and that risk management is highly consistent on all Group levels. As a key component of the common risk culture, the Group Risk Policy and the processes and systems defined in it promote the requisite risk awareness.

Our risk governance is capable of managing our risks throughout the Group and at the individual company level. At the same time, it ensures that our overall risk profile corresponds to the objectives of the risk strategy.

The duties and responsibilities of all persons and committees involved in risk management issues are clearly defined. The organisational and operational structure clearly defines the individual areas of responsibility for all of the following bodies, committees and functions, as well as their interfaces and reporting lines among one another, thus ensuring the regular and timely flow of information across all levels of the W&W Group.

- The **Executive Board of W&W AG** bears overall responsibility for the proper business organisation of the W&W Group. It is the ultimate decision-making body on risk issues. This includes ensuring that the risk management system established Group-wide is effectively and appropriately implemented, maintained and enhanced. This also includes developing, promoting and integrating an appropriate risk culture. On the Executive Board of W&W AG, the Chief Risk Officer (CRO) is responsible for risk management.

- In its role as the control body overseeing the Executive Board, the **Supervisory Board of W&W AG** also monitors the appropriateness and effectiveness of the risk management system. In addition, it is regularly informed about the current risk situation. Certain types of transactions require approval by the Supervisory Board or its Risk and Audit Committee.

- The **Risk and Audit Committee of W&W AG,** as well as the corresponding committees at Wüstenrot Bausparkasse AG, Württembergische Versicherung AG and Württembergische Lebensversicherung AG, regularly assure themselves as to whether the organisation of risk management is appropriate in each area of responsibility. With regard to Wüstenrot Bank AG Pfandbriefbank, this responsibility was handled by the Supervisory Board for the whole of 2018.

- As the central body for the coordination of risk management, the **Group Board Risk** supports the Executive Board of W&W AG and the Management Board in risk issues. The permanent members of the Group Board Risk are the Chief Risk Officer (CRO) of W&W AG and the CROs of the Home Loan and Savings Bank and Insurance divisions. The risks associated with the third division are taken into account through its inclusion in Group-wide risk management. Other select members of this body are the (independent) risk controlling function of W&W AG, which also handles the responsibilities on behalf of the Solvency II group and the financial holding group, and the two (independent) risk controlling functions of the Home Loan and Savings Bank and Insurance divisions. The body meets once a month and, where necessary, on an ad hoc basis. The Group Board Risk monitors the risk profile of the W&W Group, its appropriate capitalisation and its liquidity. Moreover, it deliberates on Group-wide standards for risk organisation and for the deployment of uniform risk management methods and tools and proposes these to the members of the Executive Boards of the Group for approval.

- The **Insurance Risk Board** manages and monitors risks in the Insurance division. The **Home Loan and Savings Bank Risk Board** handles this duty in the Home Loan and Savings Bank division. The participation of the responsible Executive Board members and departments concerned guarantees the integration of circumstances pertaining to individual companies as well as the speedy exchange of information and quick action. We integrate risk-related aspects of our Czech subsidiaries via an independent reporting line of the **Czech Republic Risk Board** to the Group Board Risk.

The **risk management process** in the W&W Group is based on the closed control loop described in the Integrated Risk Strategy as well as in the following.

- **Risk identification.** In connection with the risk inventory process, the corporate and working environment is constantly monitored for potential risks, and identified risks must be reported without delay. This makes a decisive contribution to promoting an appropriate risk culture. We have implemented a uniform, Group-wide new-product process for the purpose of identifying risks associated with the introduction of new products and sales channels and with the cultivation of new markets. This process incorporates the risk controlling units at the level of the Group and the individual companies. The systematic identification of risks takes place in connection with the risk inventory. In addition, the risk situation is reviewed during the year, where called for. Here, assumed or potential risks are continually recorded, updated and documented. On the basis of an initial assessment for the respective individual company, defined threshold values are used to differentiate risks into material and immaterial risks. Also evaluated is the extent to which individual risks can take on a material character through interaction or accumulation (risk concentrations). Risks that are classified as material are actively managed in the four steps of the risk management process, which are described in more detail in the following. For risks that are classified as immaterial, the responsible business units monitor them during the year, using (early-warning) risk indicators in order to determine whether they have changed, and evaluate them in full at least once a year.

- **Risk assessment.** This process step includes all methods, processes and systems that serve to adequately assess identified risks. In connection with determining economic risk-bearing capacity, risks are generally assessed with a stochastic procedure using the value-at-risk standard, applying a confidence level of 99.5% and a one-year time horizon. If this procedure cannot be used for certain risk areas, we apply analytical computational procedures or regulatory standard procedures, as well as expert estimates. We include the results of these assessments in the calculation of risk-bearing capacity and in farther-reaching risk controlling instruments, taking into account potential risk concentrations. We regularly conduct sensitivity analyses in connection with stress scenarios for specific risk areas and across risk areas. Indicator analyses, such as (early-warning) risk indicators, augment the range of tools used to evaluate risk.

- Risk taking and risk governance. We define risk governance as the operational implementation of risk strategies in the risk-bearing business units. The decision to assume risk is made within the scope of business- and risk-specific requirements by the decision-making body in each individual company. Based on the risk strategy, the respective departments in our operating companies manage their own risk positions. Thresholds, signal systems and limit and line systems are used to support risk governance. If the specified thresholds are exceeded, predefined actions or escalation processes are initiated. The entity that assumed the risks is generally responsible for managing and controlling them. In performing this task, it decides about products and transactions. Continuous checks are made as to whether the risks incurred fit into the risk profile defined by the risk strategy of W&W Group or one of its individual companies, and whether the (risk) bearing capacity and specified risk limit and risk lines are complied with. Risk-taking and risk-monitoring tasks are strictly separated in terms of function. The sufficiency of risk capitalisation is evaluated from several aspects (supervisory, economic, accounting-related), which are essentially given equal weight.

- **Risk monitoring.** In order to identify risks early on, risk indicators are employed to monitor changes in the risk situation. Such indicators include financial and risk indicators (e.g. risk-bearing capacity ratios, limit utilisations), supervisory indicators (e.g. capital ratios, liquidity coverage ratio) and market indicators (e.g. stock prices, credit spreads). Material, quantifiable risks are controlled by means of limits and lines. Limits are set only in the amount that permits compliance with the respective minimum ratios for economic risk-bearing capacity even where the limits are maxed out. Business is transacted solely within the scope of these limits and lines. By creating a corresponding limit and line system, risk concentrations in particular are limited both at the level of the individual company and at the level of the financial conglomerate and the financial holding group. The monitoring of risks, which is independent of the assumption of risks, primarily takes place at the level of the individual company. Where material risks exist that affect more than just the individual company, they are also monitored at the Group level. The principle that risk taking and risk monitoring are separated in terms of function applies at all levels of the W&W Group. Monitoring activities are used to develop recommendations for action, which lead to corrective intervention being taken early on with respect to the objectives set forth in the business and risk strategy and are subject to corresponding measures controlling.

- **Risk reporting.** Risk reporting includes all processes, rules and formats in an enterprise that serve to communicate identified and, in some cases, measured risks. The recipients of the risk reports may be both internal, i.e. within the individual company and the W&W Group, and external, outside the Group in the general public. The established reporting processes ensure regular and timely reports are generated about the risk situation of various groups or individual companies. The information flow concerning the risk situation of the individual companies in the W&W Group is thus ensured by internal risk reporting, risk inventory and statement of risk-bearing capacity. The results of the companies affiliated with the Group are transmitted to the risk controlling function responsible for the W&W Group, which then aggregates them and analyses them for their impact on the W&W Group. The key element of the risk reporting system is the quarterly overall risk report, which is sent to the Group Board Risk, the Executive Board and the Supervisory Board. Presented in this report are, in particular, the amount of available capital, regulatory and economic capital adequacy, compliance with limits and lines, the results of stress testing and the risk governance measures that have already been taken and that still need to be taken. Also reported on in this connection are significant trends in early-warning risk indicators. This overall risk report is presented in the Group Board Risk, which works on it for the purpose of assessing risk and developing the resulting action recommendations for the W&W Group. These recommendations for action are implemented as measures and tracked by the responsible risk management units. Depending on how critical it is, information that is considered material from the standpoint of risk is forwarded immediately to the Group Board Risk, the Executive Board and the Supervisory Board. Processes and reporting procedures have been put in place for ad-hoc risk reporting at the Group and individual company level. Quantitative criteria are used as thresholds, which are generally in line with internal and supervisory parameters. In addition, ad-hoc risk reporting also takes place when qualitatively material events occur.

In managing the risk profile, attention is paid to avoiding **risk concentrations** from financial instruments and insurance contracts in order to maintain a balanced risk profile. In addition, in connection with risk governance, an effort is made to achieve an appropriate relationship between the risk capital requirements of the risk areas in order to limit susceptibility to individual risks.

Risk concentrations mean potential losses that may result either from the accumulation of similar risks or from the accumulation of different risks, such as at a single counterparty, and that are large enough to jeopardise the solvency or financial position of the individual company or the Group.

The potential losses in terms of risk concentration may result either from intra-risk concentrations or from inter-risk concentrations. Intra-risk concentrations describe those risk concentrations that arise from the synchronisation of risk positions within a risk area or at the Group level through the accumulation of similar risks at several companies affiliated with the Group. Inter-risk concentrations describe those risk concentrations that arise from the synchronisation of risk positions across various risk areas at the level of the individual company and the Group.

Because of the business model of the W&W Group and its individual companies, potential risk concentrations may result, in particular, from capital investments and from customer business (customer lending business, insurance business). However, owing to regulatory requirements and internal rating requirements, the W&W Group is heavily invested, in sectoral terms, in government bonds and financial services companies and, in regional terms, in Europe, which is typical for the industry. Accordingly, in addition to the credit risk associated with the relevant counterparty, the W&W Group in particular bears the systemic risk of the financial sector and the specific counterparties belonging to it.

On the other hand, because of their high granularity, our customer loan portfolios do not exhibit any appreciable risk concentrations.

Other concentrations exist through positions that we intentionally take in certain assets classes (equities, participations, bonds) through strategic asset allocation. As a financial conglomerate, the W&W Group is influenced to an extensive degree by a variety of external factors (e.g. low interest rates, changed customer behaviour, digitalisation, regulatory pressure, industry reputation). The risk concentrations here intentionally form a part of the business strategy. Operational risk concentrations may arise in connection with outsourcing (a single comprehensive mandate or several equivalent mandates) and through an accumulation of projects, particularly large projects.

Adequate instruments and methods are in place to control concentrations and avoid risk concentration as best as possible. We counter concentrations in the area of capital investments, inter alia, through diversification, the use of limit and line systems, and the monitoring of exposure concentrations. In lending and insurance business, we apply clearly defined acceptance and underwriting policies and purchase appropriate reinsurance coverage from various providers with good credit ratings.

For each risk area, we measure intra-risk concentrations implicitly through risk quantification and accompanying stress tests. In this regard, concentrations of market price risk are limited in connection with strategic asset allocation through the observance of specific mix ratios across various asset classes. Concentrations of counterparty credit risk are limited through a risk line system that restricts the volume of investment in specific debtor groups.

Potential inter-risk concentrations result from a heightened interdependency of risks across risk areas and thus from various risk areas. The total risk capital requirements at the level of W&W AG and the W&W Group are quantified in an undiversified manner by totalling the risk capital requirements of the individual risks areas (e.g. market price risk, counterparty credit risk, underwriting risk), which thus takes into account a high degree of interdependence between the risk areas. In addition, we perform stress tests across all risk areas.

For further information about risk management in the W&W Group, please see the risk reporting in the Management Report.

(45) Market price risks

The interest rate risk, which is a form of market price risk, describes the risk that assets and/or liabilities held in interest-bearing securities may change in value due to a shifting and/or twisting of market interest rate curves. The interest rate risk results from the market value risk of investments in conjunction with the obligation to generate the guaranteed interest and the guaranteed surrender values for policyholders.

If interest rates remain persistently low, this can pose income risks in the medium term for the W&W Group (particularly Württembergische Lebensversicherung AG), since new investments and reinvestments can be made only at lower interest rates, while the guaranteed interest yield pledged to customers (interest guarantee risk) still has to be met. The interest guarantee risk is managed through comprehensive asset liability management and a dynamic product and rate policy.

Section 5 of the German Regulation on Calculation of the Provision for Future Policy Benefits (DeckRV) also regulates the framework, which is recognised under tax law, for reinforcing the provision for future policy benefits in the form of an additional interest reserve. The amount of the additional interest reserve is determined by the reference interest rate, which is based on the average of Euro interest swap rates over 10 years. For the 2018 annual financial statements, we are applying the corridor method for the first time, and in doing so, we are modifying the calculation of the reference interest rate in a way that limits the year-on-year change. In 2018 the reference interest rate dropped to 2.09% (previous year: 2.21%).

Based on the regulations for the additional interest reserve, interest reinforcement established in the business plan was provided in the old portfolio. The amount of the interest rate reinforcement is determined by the measurement interest rate, which amounted to 2.09% (previous year: 2.21%) for Württembergische Lebensversicherung AG, to 2.09% (previous year: 2.21%) for Karlsruher Lebensversicherung AG and to 2.54% (previous year: 2.61%) for ARA Pensionskasse AG. In the WürttLeben group, the additional interest reserve and interest rate reinforcement were strengthened by €155.2 million (previous year: €446.2 million). The sharp drop was caused by the first-time application of the corridor method. In order to depict the build-up of the additional interest reserve and interest rate reinforcement as realistically as possible, capital disbursement probabilities were applied to each company, as was the case in the previous financial year. For 2019 we expect a further decline in the interest rates relevant to valuation and thus a further increase in the additional interest reserve and in interest rate reinforcement.

Since 2010, we have gradually increased the security level of the computation basis “Interest rate” for annuity insurance policies in the old portfolio by means of reserve reinforcements. A breakdown of the provision for future policy benefits by type of insured risk and by insurance amount is provided in the notes to the consolidated balance sheet.

Financial derivatives are used in the W&W Group to manage interest rate risk. Derivative management instruments primarily consist of interest rate swaps and interest rate options (swaptions), as well as futures, forward purchases and forward sales. They are predominantly used to hedge interest rate risks, but also to reduce risk concentrations. They are shown in the risk management and controlling process as economic hedging instruments or as hedges for the future purchase of securities.

If these economic hedges meet the requirements for hedge accounting, the hedges for the Home Loan and Savings Bank division are also depicted as such in the IFRS consolidated financial statements. In banking and insurance business, fixed-income positions are hedged against reinvestment risks and losses in asset value on both the individual transaction level and the portfolio level (fair value hedge). Moreover, in banking business, variable-yield receivables and securities in the category “Financial assets at fair value through other comprehensive income” and variable-yield liabilities are hedged against fluctuations in cash flows affecting net income (cash flow hedge).

The effects that a potential change in the interest rate level by 100 or 200 basis points (parallel shifting of the interest structure curve) would have on the consolidated income statement and on other comprehensive income are depicted in the following table. Because the interest rate level continues to remain very low, it was again elected to dispense with calculating a decline in the interest rate level by 200 bps, since the results did not appear meaningful.

The new arrangements under IFRS 9 concerning the classification, measurement and impairment of financial instruments are being applied for the first time in the 2018 annual financial statements.

The material effects on interest rate scenarios are attributable to positionings, particularly at Wüstenrot Bausparkasse AG.

The changes in the consolidated income statement are due, in particular, to derivative positions and fixed-income securities of Wüstenrot Bausparkasse AG. The changes in other comprehensive income are primarily attributable to bonds, including debenture bonds, of Wüstenrot Bausparkasse AG and Württembergischen Lebensversicherung AG.

In the Insurance division, the long duration in interest-bearing investments is reflected in the results. In addition, swaptions concluded to hedge against reinvestment risk in the case of low interest rates have an impact on the consolidated income statement, since their value rises sharply when interest rates fall but becomes worthless when interest rate rise. Furthermore, forward purchases of bonds that were concluded for the purpose of duration control and to limit reinvestment risks have a negative effect when interest rates rise and a positive effect on results when interest rates fall.

With respect to net income for the period and to net income recognised in other comprehensive income, there is no asset-value-oriented risk of a change in interest rates for receivables carried at amortised cost.

Risk of changes in interest rates: Net effect after deferred taxes and provision for deferred premium refunds

	Change in the consolidated income statement		Change in other comprehensive income	
in € thousands	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	IFRS 9	IAS 39	IFRS 9	IAS 39
+100 basis points	−69, 464	−40, 167	−645, 473	−481, 304
−100 basis points	96, 586	58, 721	723, 135	540, 235
+200 basis points	−122, 900	−67, 917	−1, 221, 400	−920, 667

Risks of changes in the prices of equity instruments

On the one hand, the risk of changes in the prices of equity instruments describes the general risk that assets and thus net income and/or equity may change negatively as a result of market movements. On the other, it also describes the specific risk characterised by issuer-related aspects.

In the W&W Group, the risk of changes in the prices of equity instruments is mainly characterised by equity and participation risk. Equity risk is the risk that losses may result from the change in the prices of open equity positions. Participation risk is the risk that losses may result from negative value changes regarding participations, from the cancellation of dividends or from the need to pay income subsidies. The risk of changes in the prices of equity instruments is managed through equity options and futures.

The following overview shows the effects that an increase or decrease in the market value of equity instruments by 10% and 20% would have on the consolidated income statement and on other comprehensive income. Also depicted are the effects after deferred taxes and, for life/health insurers, in addition the effects after the provision for deferred premium refunds. As a result of conversion to IFRS 9, any impact on results takes place in the consolidated income statement, and no values are recognised in other comprehensive income.

The changes affect, in particular, equity positions, participations and alternative investments of Württembergische Versicherung AG and Württembergische Lebensversicherung AG. Also having an effect are equity positions and participations of Wüstenrot & Württembergische AG, as well as corresponding positions in fund portfolios.

Risk of changes in prices: Net effect after deferred taxes and provision for deferred premium refunds

	Change in the consolidated income statement		Change in other comprehensive income	
in € thousands	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	IFRS 9	IAS 39	IFRS 9	IAS 39
+ 10%	74, 978	-3, 666	–	95, 710
-10%	-71, 792	-4, 789	–	-84, 962
+ 20%	150, 096	-6, 024	–	191, 421
-20%	-141, 372	-35, 146	–	-140, 944

Exchange rate risks

Exchange rate risk describes the risk that losses may result from a change in exchange rates. The extent of this risk depends on the number of open positions and on the potential that the relevant currency will experience a rate change.

The effects that an increase or decrease in key exchange rates would have on the consolidated income statement are depicted in the following table. Also taken into account were the effects of deferred taxes and, for life/health insurers, moreover the effects of the provision for deferred premium refunds. As a result of conversion to IFRS 9, any impact on results takes place in the consolidated income statement, and no values are recognised in other comprehensive income.

The depicted exchange rate risk results from both asset and liability positions and includes only monetary assets, i.e. means of payment and claims denominated in amounts of money, as well as obligations that have to be settled with a fixed or determinable amount of money. The exchange rate risk associated with equity instruments (non-monetary assets) is not included.

Exchange rate risk: Net effect after deferred taxes and provision for deferred premium refunds

	Change in the consolidated income statement		Change in other comprehensive income	
in € thousands	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	IFRS 9	IAS 39	IFRS 9	IAS 39
USD				
+ 10%	10, 812	-9,449	–	-3,214
- 10%	-10, 812	9,449	–	3,214
DKK				
+ 1%	314	184	–	2
- 1%	-314	-184	–	-2

In all, it can be seen from the table that, in accordance with the strategic positioning of our overall investment portfolio, exchange rate risk is of only minor significance.

For further information about the management of market price risk in the W&W Group, please see the risk reporting in the Management Report.

(46) Counterparty credit risk

We define counterparty risk as potential losses that may result if borrowers or debtors default or experience a deterioration in creditworthiness.

Counterparty credit risks can arise from the default or changed rating of securities (counterparty credit risk associated with capital investments) and from the default of business partners in customer lending business (counterparty credit risk associated with customer lending business). Moreover, risks for our Group can result from the default on receivables due from our counterparties in reinsurance (other counterparty credit risk).

We limit counterparty credit risks through the careful selection of issuers and reinsurance partners, as well as broadly diversified investments. In this context, we take into consideration the capital investment rules applicable to the respective business area. The contracting partners and securities are mainly limited to good credit ratings in the investment grade range. In customer lending business, we largely focus on construction financing loans for private customers, which are secured with in-rem collateral. Construction loans are mainly secured with first-rate land charges (Grundpfandrechte).

In addition, loans and advance payments on insurance policies are fully secured with life insurance policies.

Our strategic focus on residential property building loans excludes individual loans that endanger the portfolio.

The W&W Group monitors risks from the default on receivables due from policyholders, agents and reinsurers with the aid of EDP-supported controls of outstanding accounts. With regard to receivables from policyholders, the average default rate over the last three years to the reporting date amounted to 0.1% (previous year: 0.1%).0 With regard to receivables from agents, the average default rate over the last three years amounted to 2.0% (previous year: 1.6%). Because of the high credit rating of reinsurers, receivables from reinsurance do not constitute a material risk.

Reinsurance contracts are in place with counterparties on the reinsurance market that have flawless credit, meaning that the default risk is significantly reduced.

Breakdown of risk provision for financial assets at amortised cost in 2018

in € thousands	Opening balance as at 1.1.2018	Reclassifi-cations from Level 1	Reclassifi-cations from Level 2	Reclassifi-cations from Level 3	Additions for newly issued/ acquired financial assets	Additions for financial assets cur-rently in the portfolio
Subordinated securities and receivables	**−69**	**—**	**—**	**—**	**−35**	**−48**
Level 1	−69	—	—	—	−35	−48
Senior debenture bonds and registered bonds	**−425**	**—**	**—**	**—**	**−43**	**−273**
Level 1	−425	—	—	—	−43	−273
Senior fixed-income securities	**−353**	**—**	**—**	**—**	**—**	**−131**
Level 1	−353	—	—	—	—	−131
Construction loans	**−145,612**	**—**	**—**	**—**	**−6,646**	**−45,983**
Level 1	−15,633	661	−742	−161	−2,627	−1,760
Level 2	−45,962	−551	4,817	−2,003	−2,591	−18,664
Level 3	−84,017	−110	−4,075	2,164	−1,428	−25,559
Other loans and advances	**−12,768**	**—**	**—**	**—**	**−10,972**	**−399**
Level 1	983	—	—	—	−510	−1
Level 2	−11,184	—	5	−1	−10,358	−7
Level 3	−2,567	—	−5	1	−104	−391
Other receivables	**−14,623**	**—**	**—**	**—**	**−533**	**—**
Level 1	−14,623	—	—	—	−533	—
Risk provision for financial assets at amortised cost	**−173,850**	**—**	**—**	**—**	**−18,229**	**−46,834**

Additions/releases as a result of changes to the models/risk parameters	Releases of financial assets currently in the portfolio	Releases of derecognised financial assets as a result of repayment of principal, modification or disposal	Utilisation/ reclassification (write-off)	Changes from currency-translation	Interest effects	Reclassifications	Closing balance as at 31.12.2018
—	**2**	**1**	**—**	**—**	**—**	**4**	**–145**
—	2	1	—	—	—	4	–145
—	**—**	**—**	**—**	**—**	**—**	**—**	**–741**
—	—	—	—	—	—	—	–741
—	**4**	**9**	**—**	**3**	**—**	**—**	**–468**
—	4	9	—	3	—	—	–468
544	**39,339**	**16,349**	**14,022**	**535**	**–841**	**-**	**–128,293**
67	4,376	891	—	35	—	—	–14,893
298	23,243	2,492	—	115	—	—	–38,806
179	11,720	12,966	14,022	385	–841	—	–74,594
—	**976**	**975**	**10,839**	**–2**	**—**	**–18,272**	**–29,623**
—	12	468	75	—	—	–2,143	–1,116
—	13	411	10,764	—	—	–16,129	–26,486
—	951	96	—	–2	—	—	–2,021
—	**—**	**2,379**	**—**	**—**	**—**	**2,143**	**–10,634**
—	—	2,379	—	—	—	2,143	–10,634
544	**40,321**	**19,713**	**24,861**	**536**	**–841**	**–16,125**	**–169,904**

Breakdown of risk provision for financial assets at fair value through other comprehensive income in 2018

in € thousands	Opening balance as at 1.1.2018	Reclassifications from Level 1	Reclassifications from Level 2	Reclassifications from Level 3	Additions for newly issued/ acquired financial assets	Additions for financial assets currently in the portfolio
Subordinated securities and receivables	**–373**	**–**	**–**	**–**	**–109**	**–222**
Level 1	–373	–	–	–	–109	–222
Senior debenture bonds and registered bonds	**–5,628**	**–**	**–**	**–**	**–681**	**–2,761**
Level 1	–5,628	–	–	–	–681	–2,761
Senior fixed-income securities	**–14,087**	**–**	**–**	**–**	**–5,598**	**–8,009**
Level 1	–11,049	157	–	–	–5,598	–3,497
Level 2	–3,038	–157	–	–	–	–4,512
Risk provision for financial assets at fair value through OCI	**–20,088**	**–**	**–**	**–**	**–6,388**	**–10,992**

Breakdown of reinsurers' portion of technical provisions in 2018

in € thousands	Opening balance as at 1.1.2018	Reclassifications from Level 1	Reclassifications from Level 2	Reclassifications from Level 3	Additions for newly issued/ acquired financial assets	Additions for financial assets currently in the portfolio
Portion of the provision for outstanding insurance claims	**–7,214**	**–**	**–**	**–**	**–195**	**–**
Level 1	–7,214	–	–	–	–195	–
Reinsurers' portion of technical provisions	**–7,214**	**–**	**–**	**–**	**–195**	**–**

Additions/releases as a result of changes to the models/risk parameters	Releases of financial assets currently in the portfolio	Releases of derecognised financial assets as a result of repayment of principal, modification or disposal	Utilisation/ reclassification (write-off)	Changes from currency-translation	Interest effects	Reclassifications	Closing balance as at 31.12.2018
–	**11**	**53**	**–**	**–**	**–**	**–**	**–640**
–	11	53	–	–	–	–	–640
–	**218**	**921**	**–**	**–**	**–**	**–**	**–7,931**
–	218	921	–	–	–	–	–7,931
–	**1,639**	**2,897**	**–**	**–**	**–**	**–**	**–23,158**
–	1,127	2,754	–	–	–	–	–16,106
–	512	143	–	–	–	–	–7,052
–	**1,868**	**3,871**	**–**	**–**	**–**	**–**	**–31,729**

Additions/releases as a result of changes to the models/risk parameters	Releases of financial assets currently in the portfolio	Releases of derecognised financial assets as a result of repayment of principal, modification or disposal	Utilisation/ reclassification (write-off)	Changes from currency-translation	Interest effects	Reclassifications	Closing balance as at 31.12.2018
–	**–**	**295**	**–**	**–**	**–**	**–**	**–7,114**
–	–	295	–	–	–	–	–7,114
–	**–**	**295**	**–**	**–**	**–**	**–**	**–7,114**

Breakdown of the provision for off-balance-sheet business in 2018

in € thousands	Opening balance as at 1.1.2018	Reclassifi-cations from Level 1	Reclassifi-cations from Level 2	Reclassifi-cations from Level 3	Additions for newly issued/ acquired financial assets	Additions for financial assets cur-rently in the portfolio
Irrevocable loan commitments	**−2,608**	**—**	**—**	**—**	**−2,817**	**−716**
Level 1	−1,473	21	−2	—	−2,250	−142
Level 2	−1,008	−13	14	—	−548	−401
Level 3	−127	−8	−12	—	−19	−173
Provision for off-balance-sheet business	**−2,608**	**—**	**—**	**—**	**−2,817**	**−716**

	Additions/releases as a result of changes to the models/risk parameters	Releases of financial assets currently in the portfolio	Releases of derecognised financial assets as a result of repayment of principal, modification or disposal	Changes from currency translation	Closing balance as at 31.12.2018
	42	**566**	**2,326**	**—**	**–3,207**
	38	300	1,365	—	–2,143
	4	243	785	—	–924
	—	23	176	—	–140
	42	**566**	**2,326**	**—**	**–3,207**

Breakdown of risk provision in 2017

in € thousands	Opening balance 1.1.2017	Reclassifica-tions	Classified as held for sale
Subordinated securities and receivables	**−22**	**—**	**3**
Individual/collective impairment provisions	—	—	—
Impairments created on a portfolio basis	−22	—	3
First-rate receivables from institutional investors	**−1,297**	**—**	**10**
Individual/collective impairment provisions	—	—	—
Impairments created on a portfolio basis	−1,297	—	10
Construction loans	**−131,522**	**—**	**—**
Individual/collective impairment provisions	−98,020	-1,302	—
Impairments created on a portfolio basis	−33,502	1,302	—
Other loans and receivables	**−36,447**	**—**	**963**
Other loans and advances[1]	−13,027	—	963
Individual/collective impairment provisions	−12,611	—	629
Impairments created on a portfolio basis	−416	—	334
Miscellaneous receivables[2]	−23,420	—	—
Individual/collective impairment provisions	−3,532	—	—
Impairments created on a portfolio basis	−19,888	—	—
Risk provision	**−169,288**	**—**	**976**
Individual/collective impairment provisions	−114,163	−1,302	629
Impairments created on a portfolio basis	−55,125	1,302	347

1 Receivables that constitute a class pursuant to IFRS 7.
2 Receivables that do not constitute a class pursuant to IFRS 7 and essentially contain receivables from insurance business with disclosure requirements pursuant to IFRS 4.

Additions	Utilisation	Release	Currency effects	Interest effects	Closing balance 31.12.2017
–2	**–**	**4**	**–**	**–**	**–17**
–	–	–	–	–	–
–2	–	4	–	–	–17
–267	**–**	**324**	**–**	**–**	**–1,230**
–	–	–	–	–	–
–267	–	324	–	–	–1,230
–56,606	**9,721**	**52,073**	**–2,330**	**7,252**	**–121,412**
–30,810	9,721	26,837	–2,171	7,252	–88,493
–25,796	–	25,236	–159	–	–32,919
–4,188	**1,512**	**7,906**	**–158**	**–**	**–30,412**
–2,065	1,343	4,372	–158	–	–8,572
–1,852	1,343	4,218	–157	–	–8,430
–213	–	154	–1	–	–142
–2,123	169	3,534	–	–	–21,840
–580	169	623	–	–	–3,320
–1,543	–	2,911	–	–	–18,520
–61,063	**11,233**	**60,307**	**–2,488**	**7,252**	**–153,071**
–33,242	11,233	31,678	–2,328	7,252	–100,243
–27,821	–	28,629	–160	–	–52,828

Interest income accrued on impaired assets was recognised as an interest effect.

Newly issued construction loans totalling €5,219 million resulted in an increase in the risk provision in the amount of €6.6 million. Repayments of principal totalling €5,472 million resulted in a release from the risk provision in the amount of €16.3 million.

Newly acquired senior fixed-income securities at fair value through other comprehensive income totalling €8,102 million resulted in an increase in the risk provision in the amount of €5.6 million. Disposals and scheduled repayments totalling €6,971 million resulted in a release from the risk provision in the amount of €2.9 million.

Changes in the contractual cash flows of financial assets that did not result in derecognition were made to only an immaterial extent.

For assets directly written off in the reporting year, we are continuing to attempt to collect the contractually agreed amounts of €12.1 million despite an estimation that they are uncollectable.

Effects of collateral on the amount of expected credit losses

	Unimpaired assets			Impaired assets		
	Gross carrying amount before held collateral	Reduction of the maximum default risk through held collateral	Net carrying amount	Gross carrying amount before held collateral	Reduction of the maximum default risk through held collateral	Net carrying amount
in € thousands	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
Financial assets at fair value through other comprehensive income	**30,537,062**	**—**	**30,537,062**	**—**	**—**	**—**
Subordinated securities and receivables	657,985	—	657,985	—	—	—
Senior debenture bonds and registered bonds	11,249,654	—	11,249,654	—	—	—
Senior fixed-income securities	18,629,423	—	18,629,423	—	—	—
Financial assets at amortised cost	**27,908,503**	**20,212,318**	**7,696,185**	**255,902**	**196,992**	**58,910**
Subordinated securities and receiv-ables	133,525	—	133,525	—	—	—
Senior debenture bonds and registered bonds	1,085,582	—	1,085,582	—	—	—
Senior fixed-income securities	1,055,368	—	1,055,368	—	—	—
Construction loans	22,878,032	20,161,201	2,716,831	252,780	195,039	57,741
Construction loans secured with a land charge (Grundpfandrecht)	20,071,363	19,876,122	195,241	199,527	193,780	5,747
Construction loans secured otherwise	754,101	285,079	469,022	3,374	1,259	2,115
Unsecured construction loans	2,052,568		2,052,568	49,879		49,879
Other loans and receivables	2,755,996	51,117	2,704,879	3,122	1,953	1,169
Other loans and advances	2,450,001	51,117	2,398,884	3,122	1,953	1,169
Other receivables	305,995		305,995			—
Reinsurers' portion of technical provisions	**304,326**		**304,326**			**—**
Irrevocable loan commitments	**1,393,672**	**—**	**1,393,672**	**1,443**	**—**	**1,443**

There were no significant changes in the quality of collateral in the financial year.

Because of sufficient collateralisation, no risk provision was created in the financial year for gross carrying amounts totalling €1.5 million.

The irrevocable loan commitments mainly relate to construction loans, which are primarily secured with land charges (Grundpfandrechte) or otherwise.

The following table provides a breakdown of assets according to external and internal rating classes.

Assets by external rating class, per level

	AAA	AA	A	BBB	BB	B or worse	Total
in € thousands	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9
Financial assets at fair value through other comprehensive income	**13,858,348**	**9,770,745**	**2,637,057**	**3,352,107**	**489,414**	**429,391**	**30,537,062**
Subordinated securities and receivables	–	–	142,335	499,836	15,814	–	657,985
Level 1	–	–	142,335	499,836	15,814	–	657,985
Senior debenture bonds and registered bonds	7,248,474	3,430,087	535,361	35,732	–	–	11,249,654
Level 1	7,248,474	3,430,087	535,361	35,732	–	–	11,249,654
Senior fixed-income securities	6,609,874	6,340,658	1,959,361	2,816,539	473,600	429,391	18,629,423
Level 1	6,609,874	6,340,658	1,959,361	2,813,268	363,479	373,002	18,459,642
Level 2		–	–	3,271	110,121	56,389	169,781
Financial assets at amortised cost	**1,276,118**	**795,204**	**122,640**	**65,309**	**15,204**	**–**	**2,274,475**
Subordinated securities and receivables	–	–	70,165	63,360	–	–	133,525
Level 1	–	–	70,165	63,360	–	–	133,525
Senior debenture bonds and registered bonds	743,773	289,334	52,475	–	–	–	1,085,582
Level 1	743,773	289,334	52,475	–	–	–	1,085,582
Senior fixed-income securities	532,345	505,870	–	1,949	15,204	–	1,055,368
Level 1	532,345	505,870	–	1,949	15,204	–	1,055,368
Reinsurers' portion of technical provisions	**–**	**265,796**	**36,745**	**–**	**559**	**1,226**	**304,326**
Level 1	–	265,796	36,745	–	559	1,226	304,326
Total	**15,134,466**	**10,565,949**	**2,759,697**	**3,417,416**	**504,618**	**429,391**	**32,811,537**

Assets by external rating class, per level

	Internal rating: A1-A2	Internal rating: B1-B2	Internal rating C1-C2:	Internal rating: D-H	Internal rating: I-M	Internal rating: worse than M	Total
in € thousands	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9
Financial assets at amortised cost	**2,465,556**	**10,081,024**	**3,962,062**	**3,140,204**	**411,090**	**210,954**	**23,130,812**
Construction loans secured by a land charge (Grundpfandrecht)	2,465,556	10,081,024	3,962,062	3,140,204	411,090	210,954	20,270,890
Level 1	2,465,556	10,080,363	3,896,253	2,459,465	16,021	–	18,917,658
Level 2	–	661	65,809	676,488	367,750	42,997	1,153,705
Level 3	–	–	–	4,251	27,319	167,957	199,527
Construction loans secured otherwise	–	579,105	54,641	67,058	55,408	1,263	757,475
Level 1	–	579,089	51,979	61,417	26,866	–	719,351
Level 2	–	16	2,662	5,641	26,132	299	34,750
Level 3	–	–	–	–	2,410	964	3,374
Unsecured construction loans	310,256	1,017,408	442,973	246,983	65,841	18,986	2,102,447
Level 1	310,256	1,016,756	432,394	209,827	130	–	1,969,363
Level 2	–	652	10,579	37,069	29,379	5,526	83,205
Level 3	–	–	–	87	36,332	13,460	49,879
Irrevocable loan commitments[1]	**35,126**	**419,498**	**274,023**	**634,611**	**29,072**	**2,785**	**1,395,115**
Level 1	35,126	419,450	273,866	629,138	14,188	–	1,371,768
Level 2	–	48	157	5,473	14,782	1,444	21,904
Level 3	–	–	–	–	102	1,341	1,443
Total	**2,500,682**	**10,500,522**	**4,236,085**	**3,774,815**	**440,162**	**213,739**	**24,525,927**

1 Nominal.

In the previous year, the following financial assets subject to counterparty credit risk, as well as the assets resulting from primary insurance and reinsurance contracts that are subject to counterparty credit risk, were recognised in the consolidated balance sheet.

Assets subject to counterparty credit risks 2017

	Neither overdue nor individually impaired assets	Overdue but not individu-ally impaired assets	Individually impaired assets	Existing portfolio impairment provisions	Total	Reduction of the maxi-mum default risk through collateral
in € thousands	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39
Cash reserves	**153,923**	**—**	**—**	**—**	**153,923**	**—**
Financial assets at fair value through profit or loss	**898,115**	**—**	**—**	**—**	**898,115**	**—**
Designated as financial assets at fair value through profit or loss	624,895	—	—	—	624,895	—
Structured products	624,895	—	—	—	624,895	—
Financial assets held for trading	273,220	—	—	—	273,220	—
Derivative financial instruments	273,220	—	—	—	273,220	—
Financial assets available for sale	**20,713,044**	**—**	**17,026**	**—**	**20,730,070**	**—**
Senior fixed-income securities	19,447,946	—	—	—	19,447,946	—
Subordinated securities and receivables	1,265,098	—	17,026	—	1,282,124	—
Receivables	**39,161,749**	**573,343**	**271,428**	**-49,914**	**39,956,606**	**20,945,702**
Building loans	22,660,277	513,823	262,825	-32,919	23,404,006	20,598,387
Building loans to retail customers secured by mortgages	19,673,595	497,968	242,846	-26,090	20,388,319	20,328,154
Building loans to retail customers not secured by mortgages	2,847,781	15,855	19,979	-6,829	2,876,786	270,233
Portfolio hedge adjustment	138,901	—	—	—	138,901	—
First-rate receivables from institutional investors	14,076,295	—	—	-1,230	14,075,065	55,087
Subordinated securities and receivables	80,224	—	—	-17	80,207	—
Other loans and receivables	2,344,953	59,520	8,603	-15,748	2,397,328	292,228
Other loans and advances	2,060,250	6,854	8,098	-142	2,075,060	292,228
Other receivables	284,703	52,666	505	-15,606	322,268	—
Receivables from reinsurance business	72,388	—	—	-8,837	63,551	—
Receivables from policyholders	184,309	21,017	—	-5,832	199,494	—
Receivables from insurance agents	28,006	31,649	505	-937	59,223	—
Positive market values from hedges	**50,506**	**—**	**—**	**—**	**50,506**	**—**
Reinsurers' portion of technical provisions	**325,655**	**—**	**—**	**—**	**325,655**	**—**
Total	**61,302,992**	**573,343**	**288,454**	**-49,914**	**62,114,875**	**20,945,702**

Information about cash collateral received for derivative financial assets can be found in Note 40.

Recognised under “Overdue but not individually impaired assets” are not only overdue instalment payments but also the underlying receivable as a whole.

Wüstenrot Bausparkasse AG, Württembergische Versicherung AG, Württembergische Lebensversicherung AG and the Czech credit institutions conduct construction financing business.

Existing default risks are reduced by obtaining in-rem collateral, primarily in the property financing area. Loans made by Württembergische Lebensversicherung AG are fully secured by land charges (Grundpfandrechte).

Neither overdue nor individually impaired assets, by rating class

in € thousands	AAA 31.12.2017 IAS 39	AA 31.12.2017 IAS 39	A 31.12.2017 IAS 39	BBB 31.12.2017 IAS 39	BB 31.12.2017 IAS 39	B or worse 31.12.2017 IAS 39	No rating 31.12.2017 IAS 39	Total 31.12.2017 IAS 39
Cash reserves	**121,493**	**32,430**	**—**	**—**	**—**	**—**	**—**	**153,923**
Financial assets at fair value through profit or loss	**—**	**160,033**	**191,528**	**475,914**	**54,072**	**9,742**	**6,826**	**898,115**
Designated as financial assets at fair value through profit or loss	—	72,357	100,853	384,723	54,072	9,742	3,148	624,895
Structured products	—	72,357	100,853	384,723	54,072	9,742	3,148	624,895
Financial assets held for trading	—	87,676	90,675	91,191	—	—	3,678	273,220
Derivative financial instruments	—	87,676	90,675	91,191	—	—	3,678	273,220
Financial assets available for sale	**6,345,259**	**6,862,334**	**2,505,680**	**3,770,890**	**784,697**	**386,675**	**57,509**	**20,713,044**
Senior fixed-income securities	6,345,259	6,784,723	2,176,763	3,024,854	706,288	386,675	23,384	19,447,946
Subordinated securities and receivables	—	77,611	328,917	746,036	78,409	—	34,125	1,265,098
Receivables	**9,674,930**	**3,867,927**	**1,408,037**	**871,416**	**422**	**690**	**23,338,327**	**39,161,749**
Building loans	—	—	—	—	—	—	22,660,277	22,660,277
Building loans to retail customers secured by mortgages	—	—	—	—	—	—	19,673,595	19,673,595
Building loans to retail customers not secured by mortgages	—	—	—	—	—	—	2,847,781	2,847,781
Portfolio hedge adjustment	—	—	—	—	—	—	138,901	138,901
First-rate receivables from institutional investors	9,666,623	3,269,439	936,935	203,298	—	—	—	14,076,295
Subordinated securities and receivables	—	—	55,271	24,953	—	—	—	80,224
Other loans and receivables	8,307	598,488	415,831	643,165	422	690	678,050	2,344,953
Other loans and advances	8,307	543,325	401,190	643,165	—	690	463,573	2,060,250
Other receivables	—	55,163	14,641	—	422	—	214,477	284,703
Receivables from reinsurance business	—	55,163	14,641	—	422	—	2,162	72,388
Receivables from policyholders	—	—	—	—	—	—	184,309	184,309
Receivables from insurance agents	—	—	—	—	—	—	28,006	28,006
Positive market values from hedges	**—**	**—**	**—**	**50,506**	**—**	**—**	**—**	**50,506**
Reinsurers' portion of technical provisions	**—**	**287,119**	**37,096**	**—**	**768**	**—**	**672**	**325,655**
Total	**16,141,682**	**11,209,843**	**4,142,341**	**5,168,726**	**839,959**	**397,107**	**23,403,334**	**61,302,992**

The maturity structure of overdue but not individually impaired financial assets in the previous year is depicted in the following table:

Maturity structure of overdue but not individually impaired assets 2017

	Up to 1 month overdue	More than 1 month up to 2 months overdue	More than 2 months up to 3 months overdue	More than 3 months up to 1 year overdue	More than 1 year overdue	Total
in € thousands	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39
Receivables	**420,815**	**97,617**	**24,791**	**20,340**	**9,780**	**573,343**
Building loans	383,380	93,500	22,821	9,664	4,458	513,823
Building loans to retail customers secured by mortgages	371,518	90,233	22,214	9,549	4,454	497,968
Building loans to retail customers not secured by mortgages	11,862	3,267	607	115	4	15,855
Other loans and receivables	37,435	4,117	1,970	10,676	5,322	59,520
Other loans and advances	5,711	237	209	254	443	6,854
Other receivables	31,724	3,880	1,761	10,422	4,879	52,666
Receivables from policyholders	8,488	3,128	974	6,465	1,962	21,017
Receivables from insurance agents	23,236	752	787	3,957	2,917	31,649
Total	**420,815**	**97,617**	**24,791**	**20,340**	**9,780**	**573,343**

The majority of overdue but not individually impaired assets involve receivables from building loans, which are mostly secured by property liens.

The gross carrying amounts of individually impaired assets, the direct write-downs taken as at the reporting date and the individual impairment provisions created as at the reporting date are depicted in the table.

Individually impaired assets

	Gross carrying amount	Direct write downs	Individual impairment provision	Total
in € thousands	31.12.2017	31.12.2017	31.12.2017	31.12.2017
	IAS 39	IAS 39	IAS 39	IAS 39
Financial assets available for sale	**23,331**	**-6,305**	**—**	**17,026**
Subordinated securities and receivables	23,331	-6,305	—	17,026
Receivables	**377,830**	**-6,159**	**-100,243**	**271,428**
Building loans	357,100	-5,782	-88,493	262,825
Building loans to retail customers secured by mortgages	284,168	-4,877	-36,445	242,846
Building loans to retail customers not secured by mortgages	72,932	-905	-52,048	19,979
Other loans and receivables	20,730	-377	-11,750	8,603
Other loans and advances	16,543	-15	-8,430	8,098
Other receivables	4,187	-362	-3,320	505
Receivables from insurance agents	4,187	-362	-3,320	505
Total	**401,161**	**-12,464**	**-100,243**	**288,454**

For further information about the management of counterparty credit risk in the W&W Group, please see the risk reporting in the Management Report.

(47) Underwriting risk

Life and health insurance business

Description of the insurance portfolio
In the W&W Group, life and health insurance business consists of life insurance (endowment and term insurance), annuity insurance, occupational disability insurance and health insurance. Life insurance portfolios mainly contain long-term contracts with discretionary surplus participation. Unit-linked endowment life insurance policies and annuity insurance policies are covered congruently by fund units attributable to the policies.

Reinsurance acceptance business is conducted to only a negligible extent.

Risks of the insurance portfolio and the risk management system
Life insurance is characterised by the long duration of the commitments entered into, for which reason calculations are made using conservative assumptions.

Risks from life insurance business mainly consist of biometric risk, interest guarantee risk and cancellation and cost risk. The assessment of the interest guarantee risk is dealt with in detail in Note 45.

Biometric actuarial bases, such as mortality, life expectancy and invalidity probabilities, are subject both to short-term risks of fluctuation and error, as well as to longer-term change trends. We control these risks on an ongoing basis through actuarial analyses and tests. In terms of product development, we take potential changes into account through corresponding actuarial modelling.

With annuity insurance, the assessment of life expectancy (longevity risk) is of particular importance for the provision for future policy benefits. In addition to monitoring our own results, we also rely on the findings, notices and guidelines of the German Association of Actuaries (DAV) for the purposes of stabilising the information basis. In light of the fact that the trend in mortality improvement has not yet sufficiently attenuated, the life insurance companies, as in previous years, once again adjusted the safety margins for longevity risk in the provision for future policy benefits in the 2018 financial year. Prospective findings concerning mortality trends or a renewed adjustment of safety margins recommended by the DAV may in future lead to further additions to the provision for future policy benefits.

The responsible actuary has judged the actuarial bases to be reasonable. The findings and notices of the DAV and the supervisory authority did not result in any different appraisal in this regard. Internal reporting to the supervisory authority contains an annual comparison with actual events. Minor changes in assumptions with respect to the biometric factors, interest rates and costs on which calculations are based are absorbed by the safety margins built into the actuarial bases.

In the event that expectations as to risks, costs and/or interest rates should change, the effect on net income is substantially lessened by adjusting the future surplus participation of policyholders. Risks are limited by obtaining suitable reinsurance from reinsurance companies with pristine investment-grade ratings.

Sensitivity analysis
In life insurance, actuarial bases with high safety margins are used to calculate premiums in order to account for longevity. Safety margins that are no longer required are returned to customers in the form of surplus participation. Short-term fluctuations are offset by reducing or increasing the additions to the provision for premium refunds intended for future surplus participation. In the event of longer-term changes, surplus participation is adjusted accordingly, in addition.

Biometric risk
An increase in mortality has a negative effect on mortality insurance policies (endowment and term life insurance), whereas it has a positive effect on annuity insurance policies. Currently expected mortality rates lead to distinctly positive risk results on account of the existing safety margins. In accordance with the mechanism described above, deviations from the expected value have only negligible effects on gross income and can even be absorbed in their entirety. This effect is further reduced by obtaining reinsurance. The safety margin for annuity insurance policies has been adjusted at a high level through additional strengthening of the provisions for longevity risk.

In the area of occupational disability insurance, invalidity probabilities are subject to medical and legal changes, as well as to social and economic trends. As measured against current expectations, the safety margins built into the calculation remain sufficient, meaning that positive results can be expected. Deviations from expectations that have appreciable effects on either gross or net income are not considered to be realistic.

In the area of health insurance, the risk resulting from the increase in per capita claims is limited by the ability to adjust premiums that were contractually agreed with customers.

Cancellation risk

Changed cancellation behaviour by customers can result in greater liquidity outflows than expected.

In the past, cancellation rates were subject to very negligible fluctuations, meaning that only slight changes have to be classified as realistic. The effect on both gross and net income is insignificant.

Moreover, negative effects on net income arise only in the initial years following contract conclusion, provided that claims not yet due against the policyholder are recognised that are no longer collectable following cancellation. A suitable impairment is created to account for cancellations. The creation of impairments is based on conservative assumptions stemming from the experience of previous years.

In the case of a surrender in later years, the application of cancellation penalties results in a positive effect on net income, since the released provisions correspond at least to the paid surrender value.

Unit-linked insurance policies are covered congruently by the corresponding funds. If additional guarantee commitments are made, they are taken into account in the provision for future policy benefits. Increases or decreases in cancellations do not lead to any appreciable effects on net income.

Risk concentrations

Concentrations of underwriting risk in life and health insurance result from regional risk concentrations, as well as from high risks associated with individually insured persons.

The life and health insurers manage regional risk concentrations by selling their insurance products throughout the country. The risk concentration from individually insured persons (cluster risk) is reduced by obtaining reinsurance from first-rate reinsurers in the area of life insurance.

Remaining risk concentrations result from the respectively insured risks, i.e. mortality, longevity and disability risk. For the purposes of illustrating the existing risk concentration, the following table breaks down the provision for future policy benefits by insured risk.

Provision for future policy benefits, by type of insured risk

	Gross	Net	Gross	Net
in € thousands	31.12.2018	31.12.2018	31.12.2017	31.12.2017
Area of life insurance	**28,189,901**	**28,108,513**	**28,201,300**	**28,110,930**
Predominantly mortality risk	10,996,860	10,996,860	11,595,539	11,582,470
Predominantly longevity risk (annuities)	16,082,092	16,081,727	15,554,452	15,554,046
Predominantly disability risk	1,110,949	1,029,926	1,051,309	974,414
Area of health insurance	**781,745**	**781,745**	**692,428**	**692,428**
Total	**28,971,646**	**28,890,258**	**28,893,728**	**28,803,358**

The following overview shows the primary insurers' gross provision for future policy benefits for insurance contracts by insured amount (for annuity policies, 12 times the annual annuity).

Provision for future policy benefits for insurance contracts with an insured amount of

	Gross	Gross
in € thousands	31.12.2018	31.12.2017
Less than €0.5 million	27,533,738	27,545,335
€0.5 million to €1.0 million	259,122	252,614
€1 million to €5 million	230,545	205,837
€5 million to €15 million	166,496	197,514
Total	**28,189,901**	**28,201,300**

Risks from options and guarantees contained in insurance contracts

- **Unit-linked life and annuity insurance: guaranteed minimum benefit**
  With unit-linked life and annuity insurance, the investment risk is borne by policyholders. There is no market risk, since all contracts are congruently covered. Products are designed so as to ensure that a corresponding reserve is created for the parts of the premium needed to cover the guaranteed minimum benefit.

  For dynamic hybrid products with guaranteed minimum benefits, there is a risk of monetisation should the price of the capital protection fund ("Wertsicherungsfonds") fall, in which case the investment risk is transferred to the insurance company. If the capital protection fund does not achieve the required capital protection commitment, the guarantee commitment provided by the insurance company becomes effective, in addition. Where the price rises, a liquidity risk may result through the shifting from other assets into the capital protection fund.

- **Annuity insurance: lump-sum option**
  Exercise of the lump-sum option is influenced by factors specific to the policyholder. Where the guaranteed interest rate is high, rational financial behaviour by customers during times of low interest rates can lower the rate of exercise of the lump-sum option. As a result, the expected reduction of the interest rate guarantee exposure would no longer exist.

- **Life insurance: annuitisation option**
  The annuitisation option is carried out at the rates applicable to new contracts. This option has no effect on the balance sheet or the income statement.

- **Surrender and premium-waiver option**
  With all contracts with a surrender option, the provision for future policy benefits is at least as high as the surrender value. The same applies to the provision for future policy benefits to be created for premium-exempt benefits in the case of premium waivers.

- **Dynamic premium option**
  The option to increase insurance benefits by paying a greater premium without a reevaluation of risk is generally carried out at the original actuarial interest rate, but based on prior experience, the policyholder's decision is more strongly influenced by the insurance character of the contract or by the expectation of higher interest through surplus participation. Although rational financial behaviour by customers during times of low interest rates can increase the interest rate guarantee exposure, the terms and conditions for newer rate generations dealing with the increase of insurance provide for the ability to carry out the increase using the current actuarial bases.

Property/casualty insurance business and reinsurance business

Description of the insurance portfolio

In the Property/Casualty Insurance segment, Württembergische Versicherung AG conducts primary insurance business in Germany for private and commercial customers. In this regard, Württembergische Versicherung AG insures risks in the traditional business lines of general liability insurance, motor insurance, property insurance, legal expenses insurance, casualty insurance, transport and aviation insurance and credit and suretyship insurance.

Risks of the insurance portfolio and the risk management system

Underwriting risk arises from the uncertainty about future trends in claims and costs under concluded insurance contracts, as a consequence of which unexpected claim and benefit obligations can lead to a negative net income situation.

In the area of property insurance, underwriting risks are mainly of a short-term nature, since claim adjustment can usually happen quickly. In the case of serious personal injuries in the areas of general liability insurance, motor liability insurance and casualty insurance, the risks are also subject to exogenous developments, such as medical advances and the life expectancy associated with them. Moreover, they are influenced by developments involving statutory damage compensation and liability rules.

Sensitivity analysis

Risks are underwritten solely on the basis of actuarial and statistical analyses. This means that Württembergische Versicherung AG has built sufficient safety margins into its rates in order to cover risk fluctuations.

Expert actuarial opinions and regular simulation and stress calculations are used to review the adequacy of provisions. The results of this study led to the finding that Württembergische Versicherung AG has sufficient reserves in the area of property/casualty insurance.

If claims or costs trend contrary to expectations, this can have negative effects on the income statement.

Underwriting risks are measured using company-specific stochastic models or statistical and analytical factoring models that are customary in the industry. Claim scenario analyses are also carried out.

Risk concentrations

Risk concentrations result primarily from locally high market shares and the risks insured under the various business lines. For the purposes of illustrating the existing risk concentrations, the following table breaks down the provision for claims by business line. In this regard, it is evident that the portfolio, which is characterised by a broadly diversified mix of business lines, contributes to a reduction of risk exposures.

Provision for outstanding insurance claims

	Gross	Net	Gross	Net
in € thousands	31.12.2018	31.12.2018	31.12.2017	31.12.2017
General liability, corporate customers	387,150	374,204	404,267	392,605
Property insurance, corporate customers	270,815	224,252	289,253	231,734
General liability, retail customers	74,828	73,478	77,584	76,225
Other, retail customers	1,723	1,723	1,449	1,449
Motor liability	1,061,390	944,240	1,057,656	933,317
Other motor	846	846	855	855
Household	16,096	15,124	16,807	16,148
Legal protection	171,092	171,092	168,251	168,251
Partial cover	5,635	4,301	6,269	4,797
Casualty	205,862	204,994	193,077	191,994
Full cover	52,583	48,129	52,940	48,196
Residential building	88,222	74,759	74,374	65,744
Other	210,779	203,469	204,523	192,553
Total	**2,547,021**	**2,340,611**	**2,547,305**	**2,323,868**

For further information about the management of underwriting risk in the W&W Group, please see the risk reporting in the Management Report.

(48) Liquidity risk

Liquidity risk describes the risk that a company will be unable to procure the financial resources necessary to settle the commitments it has made. Liquidity risks may also result where a financial asset cannot be sold promptly and at short notice at its fair value or where liquid resources can be obtained only under terms less favourable than anticipated. Liquidity risk thus consists of insolvency risk, market liquidity risk and refinancing risk.

The following presents a breakdown of the residual term to maturity of select financial instruments:

Breakdown of remaining term to maturity in 2018: Assets

in € thousands	Within 3 months	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9
Financial assets at fair value through profit or loss	**141,708**	**158,516**	**476,141**	**1,161,160**	**95,902**	**2,033,427**
Financial assets at fair value through other comprehensive income	**547,597**	**510,100**	**3,225,317**	**27,761,688**	**—**	**32,044,702**
Subordinated securities and receivables	12,410	–	58,964	591,663	–	663,037
Senior debenture bonds and registered bonds	218,437	295,523	1,105,356	10,980,416	–	12,599,732
Senior fixed-income securities	316,750	214,577	2,060,997	16,189,609	–	18,781,933
Financial assets at amortised cost	**2,990,528**	**1,948,730**	**7,936,572**	**14,740,426**	**386,764**	**28,003,020**
Subordinated securities and receivables	3,303	10,982	–	83,230	35,865	133,380
Senior debenture bonds and registered bonds	16,012	13,842	60,893	994,094	–	1,084,841
Senior fixed-income securities	14,057	9,798	198,761	832,284	–	1,054,900
Construction loans	749,357	1,717,418	7,656,234	12,791,939	87,571	23,002,519
Other loans and receivables	2,207,799	196,690	20,684	38,879	263,328	2,727,380
Positive market values from hedges	**8,740**	**—**	**15,712**	**37,234**	**—**	**61,686**
Reinsurers' portion of technical provisions	**29,177**	**51,345**	**113,758**	**72,982**	**29,950**	**297,212**

Breakdown of remaining term to maturity in 2018: Liabilities

in € thousands	Within 3 months	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9
Financial liabilities at fair value through profit or loss	**56,051**	**8,689**	**123,733**	**266,845**	**—**	**455,318**
Liabilities	**4,158,030**	**18,955,403**	**1,605,697**	**1,466,792**	**741,671**	**26,927,593**
Liabilities evidenced by certificates	64,735	180,231	314,449	727,153	–	1,286,568
Liabilities to credit institutions	80,402	340,022	352,090	118,892	563,112	1,454,518
Liabilities to customers	3,782,159	18,274,456	916,335	595,393	12,317	23,580,660
Finance lease liabilities	858	2,578	11,554	5,143	–	20,133
Miscellaneous liabilities	229,876	158,116	11,269	20,211	166,242	585,714
Negative market values from hedges	**8,263**	**—**	**—**	**118,186**	**—**	**126,449**
Subordinated capital	**19,833**	**—**	**30,005**	**385,638**	**—**	**435,476**

Breakdown of remaining term to maturity in 2017: Assets

in € thousands	Within 3 months	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39
Financial assets at fair value through profit or loss	**181,044**	**77,007**	**398,914**	**241,150**	**–**	**898,115**
Designated as financial assets at fair value through profit or loss	79,658	59,897	289,397	195,942	–	624,894
Financial assets held for trading	101,386	17,110	109,517	45,208	–	273,221
Financial assets available for sale	**417,001**	**195,817**	**2,383,206**	**17,244,889**	**489,158**	**20,730,071**
Receivables	**3,007,844**	**2,394,733**	**8,514,196**	**23,898,919**	**2,153,928**	**39,969,620**
Building loans	777,403	1,993,653	7,155,446	11,567,300	1,892,715	23,386,517
First-rate receivables from institutional investors	298,566	260,891	1,298,260	12,214,959	–	14,072,676
Subordinated securities and receivables	2,027	–	–	66,197	12,000	80,224
Other loans and receivables	1,929,848	140,189	60,490	50,463	249,213	2,430,203
Risk provision	**-7,396**	**-20,697**	**-30,024**	**-44,489**	**-50,465**	**-153,071**
Positive market values from hedges	**4,005**	**–**	**6,648**	**39,853**	**–**	**50,506**

Breakdown of remaining term to maturity in 2017: Liabilities

in € thousands	Within 3 months	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39
Financial liabilities at fair value through profit or loss	**48,475**	**21,337**	**105,921**	**357,881**	**–**	**533,614**
Liabilities	**5,450,684**	**18,942,357**	**2,068,523**	**1,460,823**	**831,947**	**28,754,334**
Liabilities evidenced by certificates	23,570	98,019	413,921	383,428	–	918,938
Liabilities to credit institutions	1,064,961	405,497	540,203	142,868	581,604	2,735,133
Liabilities to customers	4,023,310	18,122,631	966,730	679,893	30,113	23,822,677
Finance lease liabilities	953	2,865	12,477	7,656	–	23,951
Miscellaneous liabilities	337,890	313,345	135,192	246,978	220,230	1,253,635
Negative market values from hedges	**4,594**	**–**	**18**	**65,699**	**–**	**70,311**
Subordinated capital	**10,342**	**10,000**	**45,000**	**382,634**	**3,000**	**450,976**

The following overview depicts the contractually agreed future gross distributions at the earliest possible date for the financial instruments in the portfolio as at the reporting date. For the liability items resulting from insurance contracts, the expected maturity structure is shown:

Contractually agreed cash flows in 2018

	Within 3 months	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Later than 20 years	Total
in € thousands	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9
Financial liabilities at fair value through profit or loss	**122,556**	**—**	**191,270**	**43,276**	**–39,388**	**–8,609**	**—**	**309,105**
Derivative financial instruments	122,556	–	191,270	43,276	–39,388	–8,609	–	309,105
Negative market values from hedges	**26,694**	**—**	**73,842**	**62,865**	**–304**	**—**	**—**	**163,097**
Liabilities	**5,310,900**	**18,188,505**	**1,752,374**	**1,202,495**	**275,350**	**55,652**	**2,738**	**26,788,014**
Liabilities evidenced by certificates	181,704	77,120	341,678	659,007	78,321	–	–	1,337,830
Liabilities to credit institutions	983,640	–	365,615	119,684	–	–	–	1,468,939
Liabilities to customers	3,885,181	18,059,723	1,014,920	417,104	179,540	51,496	4	23,607,968
Deposits from home loan savings business and savings deposits	540,470	18,036,326	515,098	102,203	8,846	111	4	19,203,058
Savings deposits with agreed termination period	123,032	–	–	–	–	–	–	123,032
Other deposits	3,218,081	23,397	499,822	314,901	170,694	51,385	–	4,278,280
Down payments received	3,598	–	–	–	–	–	–	3,598
Finance lease liabilities	934	2,800	12,270	5,262	–	–	–	21,266
Miscellaneous liabilities	259,441	48,862	17,891	1,438	17,489	4,156	2,734	352,011
Subordinated capital	**51,381**	**—**	**106,156**	**214,282**	**86,863**	**62,312**	**314,491**	**835,485**
Profit participation certificates	392	–	640	2,357	–	–	–	3,389
Subordinated liabilities	50,989	–	105,516	211,925	86,863	62,312	314,491	832,096
Irrevocable loan commitments	**1,089,374**	**185,746**	**119,995**	**—**	**—**	**—**	**—**	**1,395,115**
Total	**6,600,905**	**18,374,251**	**2,243,637**	**1,522,918**	**322,521**	**109,355**	**317,229**	**29,490,816**

Prospective maturity of amounts recognised in the balance sheet in 2018

	Within 3 months	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Later than 20 years	Total
in € thousands	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9	IFRS 9
Liabilities from reinsurance business	**8,716**	**9,391**	**—**	**—**	**—**	**—**	**—**	**18,107**
Liabilities to customers from direct insurance business	**115,796**	**160,178**	**126,877**	**90,804**	**58,233**	**35,396**	**52,093**	**639,377**
Technical provisions	**1,118,072**	**2,546,334**	**8,420,599**	**6,257,415**	**4,074,517**	**2,575,090**	**5,783,153**	**30,775,180**
Provision for future policy benefits in the area of life insurance	518,977	1,848,743	7,426,184	5,737,000	3,682,679	2,216,466	5,048,706	26,478,755
Provision for outstanding insurance claims	570,287	574,029	696,466	249,499	152,869	139,821	164,050	2,547,021
Provision for unit-linked life insurance contracts	28,668	85,444	297,949	270,916	238,969	218,803	570,397	1,711,146
Other technical provisions	140	38,118	—	—	—	—	—	38,258
Total	**1,242,584**	**2,715,903**	**8,547,476**	**6,348,219**	**4,132,750**	**2,610,486**	**5,835,246**	**31,432,664**

Contractually agreed cash flows in 2017

in € thousands	Within 3 months	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Later than 20 years	Total
	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39
Derivative financial instruments	**29,138**	**79,893**	**347,804**	**188,520**	**27,501**	**16,042**	**—**	**688,898**
Derivative financial liabilities at fair value through profit or loss	26,312	74,274	286,990	185,448	27,501	16,042	—	616,567
Negative market values from hedges	2,826	5,619	60,814	3,072	—	—	—	72,331
Liabilities	**6,170,990**	**18,717,890**	**2,029,482**	**900,343**	**54,965**	**53,145**	**4,699**	**27,931,514**
Liabilities evidenced by certificates	21,990	108,533	425,401	391,461	—	—	—	947,385
Liabilities to credit institutions	1,644,863	412,798	556,469	125,815	—	—	—	2,739,945
Liabilities to customers	4,219,940	18,145,037	1,030,206	355,033	54,649	52,712	—	23,857,577
Deposits from home loan savings business and other savings deposits	551,223	17,828,792	494,596	108,091	6,889	178	—	18,989,769
Other deposits	3,511,190	302,922	533,320	246,942	47,760	52,534	—	4,694,668
Savings deposits with agreed termination period	129,807	—	—	—	—	—	—	129,807
Down payments received	27,720	13,323	2,290	—	—	—	—	43,333
Finance lease liabilities	1,048	3,145	13,374	7,893	—	—	—	25,460
Miscellaneous liabilities	283,149	48,377	4,032	20,141	316	433	4,699	361,147
Subordinated capital	**1,811**	**30,092**	**124,450**	**203,149**	**89,418**	**53,379**	**313,272**	**815,571**
Profit participation certificates	431	—	6,557	2,505	—	—	—	9,493
Subordinated liabilities	1,380	30,092	117,893	200,644	89,418	53,379	313,272	806,078
Irrevocable loan commitments	**824,730**	**202,530**	**25,005**	**—**	**—**	**—**	**—**	**1,052,265**
Financial guarantees	**28,325**	**1,410**	**—**	**—**	**—**	**—**	**—**	**29,735**
Total	**7,054,994**	**19,031,815**	**2,526,741**	**1,292,012**	**171,884**	**122,566**	**317,971**	**30,517,983**

Prospective maturity of amounts recognised in the balance sheet in 2017

in € thousands	Within 3 months	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Later than 20 years	Total
	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39	IAS 39
Liabilities from reinsurance business	**15,397**	**366**	**—**	**—**	**—**	**—**	**—**	**15,763**
Liabilities to customers from direct insurance business	**105,587**	**161,568**	**128,110**	**96,167**	**59,827**	**34,994**	**49,813**	**636,066**
Technical provisions	**1,047,601**	**2,529,008**	**8,703,857**	**6,321,706**	**4,133,482**	**2,577,237**	**5,471,830**	**30,784,721**
Provision for future policy benefits in the area of life insurance	446,439	1,811,011	7,630,116	5,729,284	3,689,816	2,191,478	4,775,529	26,273,673
Provision for outstanding insurance claims	563,561	570,072	697,270	252,971	155,367	141,494	166,570	2,547,305
Provision for unit-linked life insurance contracts	37,481	111,930	376,471	339,451	288,299	244,265	529,731	1,927,628
Other technical provisions	120	35,995	—	—	—	—	—	36,115
Total	**1,168,585**	**2,690,942**	**8,831,967**	**6,417,873**	**4,193,309**	**2,612,231**	**5,521,643**	**31,436,550**

For further information about the management of liquidity risks in the W&W Group, please see the risk reporting in the Management Report.

Capital management

As the holding company, W&W AG manages the capital resources of the W&W Group. On the one hand, it collects dividends and transfers of profit or loss; on the other hand, it carries out capital measures, such as capital increases and decreases, and makes loans to Group companies.

The objectives of capital management are an efficient allocation of and an adequate return on IFRS equity. In order to ensure this, claims to income or loss are derived for the individual subsidiaries based on a minimum return on the respective IFRS equity.

As at 31 December 2018, the equity of the W&W Group according to IFRS amounted to €4,236.3 million (previous year: €3,964.9 million). The changes in the individual equity components are depicted in Note 25 "Equity".

Other objectives of capital management are, on the one hand, ensuring risk-bearing capacity on the basis of the internal risk-bearing capacity model of the W&W Group and, on the other hand, meeting the minimum regulatory capital requirements set forth in, among other things, the provisions of the EU Capital Requirements Regulation (CRR), the German Banking Act (KWG), the German Act on the Supervision of Insurance Undertakings (VAG) and the German Act on the Supervision of Financial Conglomerates (FKAG).

Another capital requirement is that the W&W Group as a whole, as well as the individual subsidiaries and W&W AG, maintain sufficient regulatory capital. In connection with efficient capital management, the W&W Group moreover deploys subordinated capital in order to satisfy supervisory requirements concerning solvency.

Internally, the W&W Group has set target solvency ratios for the large subsidiaries and W&W AG, as well as at the level of the groups and the financial conglomerate, that are considerably in excess of current statutory requirements in order to ensure the continued high stability of the groups and of the individual companies.

We provide further remarks about our capital management and its objectives in the risk report in the Group Management Report.

(49) Regulatory solvency

W&W AG and the W&W Group's insurance companies and credit and financial services institutions are subject at the company level to supervision by the German Federal Financial Supervisory Authority (BaFin) and the Deutsche Bundesbank pursuant to the German Act on the Supervision of Insurance Undertakings (VAG), the German Banking Act (KWG), the EU Capital Requirements Regulation (CRR) and the German Act on the Supervision of Financial Conglomerates (FKAG), as well as to the respective rules applicable in the country of registration of the W&W Group's supervised foreign companies. This supervision results in requirements concerning the capital resources of these companies.

W&W AG ensures that all supervised subsidiaries maintain, at a minimum, the capital resources that they require in order to satisfy regulatory requirements. In this respect, in accordance with supervisory laws, equity, subordinated capital and participation rights form the basis for such capital management.

In the case of Wüstenrot Bausparkasse AG, subordinated liabilities are allocated to regulatory capital pursuant to Regulation (EU) No 575/2013.

In the case of Württembergische Versicherung AG and Württembergische Lebensversicherung AG, subordinated liabilities are allocated to regulatory capital pursuant to Section 89 (3) no. 2 of the German Act on the Supervision of Insurance Undertakings (VAG).

As at the reporting date, Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank satisfied the regulatory capital requirements. As at 31 December 2018, the total capital ratio of Wüstenrot Bausparkasse AG was 18.9% (previous year: 18.4%). As at the reporting date, the regulatory coverage ratios of the insurance companies that belong to the Group were likely well above 100%. The final results will be published in the second quarter. The ratios calculated as at 31 December 2017 were reported to BaFin in the second quarter of 2018. They amounted to 370.2% for Wüstenrot & Württembergische AG, to 405.2% for Württembergische Lebensversicherung AG and to 195.7% for Württembergische Versicherung AG. Württembergische Lebensversicherung AG and Karlsruher Lebensversicherung AG received approval from BaFin to use transitional measures for technical provisions, and they are currently doing so.

In addition to supervision at the level of the individual company, W&W Group companies are also subject to banking and insurance supervision at the consolidated level. For instance, W&W AG and its subordinated companies constitute a financial holding group, and the insurance companies constitute a Solvency II group. In addition, BaFin has classified the W&W Group as a financial conglomerate.

As the superordinate enterprise of the financial holding group pursuant to Section 10a (2) sentence 4 of the German Banking Act (KWG), W&W AG is responsible for all Group-related duties, including for ensuring suitable capital resources. As at 31 December 2018, the total capital ratio of the financial holding group stood at 25.7% (previous year: 24.1%).

W&W AG and the W&W Group's insurance companies constitute a Solvency II group.As at the reporting date, the regulatory coverage ratio was likely well above 100%. The final results will be published in the second quarter. The ratio for the previous year, which stood at 200.9%, was reported to BaFin in the second quarter of 2018.

As the superordinate enterprise of the financial conglomerate, W&W AG must ensure that the regulatory requirements for financial conglomerates are satisfied. These requirements include, among other things, that the W&W Group financial conglomerate maintains sufficient capital resources to satisfy minimum regulatory requirements at all times. As at the reporting date, the coverage ratio was likely well above 100%. In the previous year, the coverage ratio stood at 247.2% as at 31 December 2017.

Internal calculations on the basis of the data for 2018 and on the basis of the planning for 2019 and 2020 show that the regulatory requirements concerning capital resources can be more than satisfied in the financial conglomerate, in the financial holding group and in the Solvency II group in the future as well.

(50) Risk-bearing-capacity model

Please see our depiction in the risk report in the Group Management Report.

(51) External rating

Please see the Group Management Report with respect to the current ratings of the W&W Group.

Other disclosures

(52) Revenue from contracts with customers

Breakdown of revenue

The following table presents a breakdown of revenues by type, as well as a reconciliation with the respective reporting segment.

2018

in € thousands	Home Loan and Savings Bank	Life and Health Insurance	Property/ Casualty Insurance	All other segments	Consolidation/ reconciliation	Total
	1.1.2018 to 31.12.2018	1.1.2018 to 31.12.2018	1.1.2018 to 31.12.2018	1.1.2018 to 31.12.2018	1.1.2018 to 31.12.2018	1.1.2018 to 31.12.2018
	IFRS 15	IFRS 15	IFRS 15	IFRS 15	IFRS 15	IFRS 15
Commission revenue	**119,718**	**13,628**	**16,478**	**50,225**	**–87,969**	**112,080**
from banking/home loan savings business	32,288	–	–	7,224	–64	39,448
from brokering activities	49,773	13,628	16,478	1,382	–47,248	34,013
from investment business	33,294	–	–	40,873	–36,681	37,486
from other business	4,363	–	–	746	–3,976	1,133
Net other operating income/expense	**8,175**	**514**	**5,159**	**73,742**	**–2,725**	**84,865**
Disposal revenue from inventories (property development business)	–	–	–	60,842	–	60,842
Disposal revenue from property, plant and equipment	–	–	–	40	–	40
Disposal revenue from intangible assets	–	–	–	3	–	3
Other revenue	8,175	514	5,159	12,857	–2,725	23,980
Net income/expense from disposals	**–**	**110,520**	**–**	**8**	**–2,708**	**107,820**
Disposal revenue from investment property	–	110,520	–	8	–2,708	107,820
Total	**127,893**	**124,662**	**21,637**	**123,975**	**–93,402**	**304,765**
Type of revenue recognition						
satisfied at a point in time	76,628	124,662	21,637	80,264	–72,295	230,896
satisfied over time	51,265	–	–	43,711	–21,107	73,869
Total	**127,893**	**124,662**	**21,637**	**123,975**	**–93,402**	**304,765**

2017

in € thousands	Home Loan and Savings Bank	Life and Health Insurance	Property/ Casualty Insurance	All other segments	Consolidation/ reconciliation	Total
	1.1.2017 to 31.12.2017	1.1.2017 to 31.12.2017	1.1.2017 to 31.12.2017	1.1.2017 to 31.12.2017	1.1.2017 to 31.12.2017	1.1.2017 bis 31.12.2017
	IAS 18	IAS 18	IAS 18	IAS 18	IAS 18	IAS 18
Commission revenue	**117,131**	**12,911**	**15,806**	**50,304**	**-86,255**	**109,897**
from banking/home loan savings business	31,712	–	–	7,540	-101	39,151
from brokering activities	48,001	12,900	15,806	1,490	-46,237	31,960
from investment business	32,792	–	–	39,872	-35,693	36,971
from other business	4,626	11	–	1,402	-4,224	1,815
Net other operating income/expense	**12,060**	**507**	**5,248**	**83,411**	**-2,080**	**99,146**
Disposal revenue from inventories (property development business)	–	–	–	70,623	26	70,649
Other revenue	12,060	507	5,248	12,788	-2,106	28,497
Net income/expense from disposals	**–**	**162,700**	**–**	**–**	**–**	**162,700**
Disposal revenue from investment property	–	162,700	–	–	–	162,700
Total	**129,191**	**176,118**	**21,054**	**133,715**	**-88,335**	**371,743**
Type of revenue recognition						,
satisfied at a point in time	78,605	176,118	21,054	96,298	-68,245	303,830
satisfied over time	50,586	–	–	37,417	-20,090	67,913
Total	**129,191**	**176,118**	**21,054**	**133,715**	**-88,335**	**371,743**

Performance obligations

Commission revenue from banking/home loan and savings business

In banking/home loan and savings business, commission revenue mainly consists of fees that are collected for the administration of home loan savings contracts, such as account maintenance fees, as well as for payment transactions. The fees received for account maintenance are recognised in the income statement over time in the course of continually providing the service. The other fees are recognised as commission revenue at the point in time at which the one-time service is completed.

Commission revenue from brokering activities

Commission revenue from brokering activities for our own banking/home loan savings products and those of other entities, as well as for the insurance products of other entities, is recognised in the income statement at the point in time at which the respective brokering service is completed.

Commission revenue from investment business

In investment business, commission revenue mainly consists of portfolio commissions. Portfolio commissions for brokering services relating to investment units are recognised in the income statement as commission revenue over time depending on the degree of service provision, since the customer draws a continual benefit from the service provision.

Disposal revenue from inventories (property development business)

In property development business, disposal revenue is mainly generated from the construction and sale of residential housing units. This revenue is recognised in the income statement at a point in time based on the progress of the construction of the sold residential housing unit, as well as on the contractually specified down payments received. Furthermore, pursuant to IAS 2, the associated residential units that are currently under construction or have not yet been turned over to customers are carried under inventories at the cost of purchase or manufacture and then recognised upon sale as an expense under "Other operating expenses".

Contract balances

Receivables from contracts with customers primarily consist of loans and advances to home loan and savings customers in the amount of €93.3 million (previous year: €60.1 million) and receivables from property development business in the amount of €5.6 million (previous year: €4.7 million), and they are included in the item "Financial assets at amortised cost" (sub-items "Loans and advances to customers" and "Other receivables"). Impairment expenses amounted to €24.5 million (€20.5 million) for loans and advances to home loan and savings customers and to €0.1 million (previous year: €0.1 million) for receivables from property development business.

In the area of property development business relating to the construction and sale of residential housing units, down payments received amounted to €23.3 million (previous year: €40.2 million). Revenue from property development business was recognised in the reporting period in the amount of €32.0 million (previous year: €51.2 million), which was included at the start of the period in the liability balance for down payments received. There have been no significant changes in the current financial year in the liability balance for down payments received from property development business.

In addition, business activities in the other divisions did not result in any contract assets or contract liabilities.

Transaction price allocated to the remaining performance obligations

At the end of the reporting period, there were unsatisfied or partially unsatisfied customer contracts in property development business, since the anticipated time required to construct residential housing units is normally somewhat longer than one year. This did not result in a material aggregate amount of the transaction price being allocated to unsatisfied or partially unsatisfied performance obligations.

Significant judgments

No significant judgments were made.

Contract costs

Contract costs are incurred solely in the area of property development business in the form of commissions paid for the sale of building plots and self-constructed residential housing units. Such contract costs are capitalised and then amortised over the period of the service provision. As at the reporting date, contract costs amounted to €2.0 million (previous year: €2.9 million). Amortisation amounts totalled €0.8 million (previous year: €1.8 million).

(53) Leasing

During the reporting year and during the previous year, lease relationships were in place in the area of finance leasing as lessee and in the area of operating leasing as lessee and lessor.

2018

	Within 1 year	1 to 5 years	Later than 5 years	Total
in € thousands	31.12.2018	31.12.2018	31.12.2018	31.12.2018
Finance leasing – lessee				
Minimum lease payments	3,734	12,270	5,262	21,266
Interest effects	298	716	119	1,133
Present value of minimum lease payments	3,436	11,554	5,143	20,133
Operating leasing – lessor				
Minimum lease payments	90,445	262,756	247,535	600,736
Operating leasing – lessee				
Minimum lease payments	33,757	64,963	7,064	105,784

2017

in € thousands	Within 1 year 31.12.2017	1 to 5 years 31.12.2017	Later than 5 years 31.12.2017	Total 31.12.2017
Finance leasing – lessee				
Minimum lease payments	4,193	13,374	7,893	25,460
Interest effects	374	897	238	1,509
Present value of minimum lease payments	3,819	12,477	7,655	23,951
Operating leasing – lessor				
Minimum lease payments	90,445	236,955	194,315	521,715
Operating leasing – lessee				
Minimum lease payments	33,087[1]	70,240[1]	7,228[1]	110,555[1]

1 Previous year's figure adjusted.

Finance leasing as lessee existed, in particular, for property for own use located at Friedrich-Scholl-Platz-1 in Karlsruhe, Germany, which was sold in the 2011 financial year and then leased back for continued own use (known as a sale and leaseback transaction). This transaction was classified as a finance lease based on the lease being at arm's length. The lease has a term of 15 years and cannot be terminated. Also agreed upon was a one-off lease renewal option for a fixed term of five years. If the lessee intends to exercise the option, it must give the lessor notice thereof 16 months prior to expiry of the lease term. Moreover, the lease contains a general prospective price adjustment clause, which is based on how the consumer price index changes. In addition, neither a repurchase option nor contingent lease payments or restrictions were agreed to.

Operating leasing as lessor is conducted for investment property. Many of the leases entered into have open-ended terms. Some, however, have fixed terms. With regard to commercial properties, price adjustment clauses are regularly agreed to, which are based on the consumer price index. With regard to residential properties, such agreements have been entered into for properties that have been acquired since 2012 and for those that have undergone high-quality renovations. The contingent lease payments recognised as income amounted to €1.1 million (previous year: €1.1 million).

Operating leasing as lessee is conducted for properties for own use, mainframe computers, mainframe hardware and software, printers and vehicles. The leases normally have terms of up to 10 years. Renewal options exist with some properties for own use. Price adjustment clauses are likewise agreed to, which are based on the consumer price index. There are often no purchase options.

During the financial year, minimum lease payments of €22.7 million (previous year: €22.5 million) were recognised as an expense under operating leasing as lessee.

In the area of finance leasing, there are subleasing relationships for which future minimum payments are expected in the amount of €7.3 million (previous year: €8.1 million). No restrictions are imposed under the leasing agreements either in finance leasing or in operating leasing.

(54) Contingent receivables, contingent liabilities and other obligations

in € thousands	31.12.2018	31.12.2017
Contingent liabilities	**1,493,894**	**1,317,802**
from deposit protection funds	360,446	370,397
from sureties and warranties	10,154	10,162
from capital contribution calls not yet made	873,050	647,950
from contractual liabilities to buy or build investive real estate property	248,415	287,469
Other contingent liabilities	1,829	1,824
Other obligations	**1,395,115**	**1,082,000**
Irrevocable loan commitments	1,395,115	1,052,265
Financial guarantees	–	29,735
Total	**2,889,009**	**2,399,802**

Pursuant to Sections 221 et seq. of the German Act on the Supervision of Insurance Undertakings (VAG), German life insurers are required to be members of a protection fund. Pursuant to Section 221 (2) VAG, ARA Pensionskasse AG joined the protection fund for life insurers as a voluntary member. Based on the German Protection Fund Financing Regulation (Life), the protection fund for life insurers levies annual contributions of not more than 0.02% of total net technical provisions until a protection fund of 0.1% of total net technical provisions has been built up. The Group is not subject to any future obligations from this.

In addition, the protection fund can levy special contributions equal to an additional 0.1% of total net technical provisions. This corresponds to an obligation of €35.9 million (previous year: €36.9 million).

Following the underwriting of insurance contracts, the protection fund for health insurers can levy special contributions of not more than 0.2% of total net technical provisions in order to fulfil its duties. This resulted in a payment obligation of €1.8 million (previous year: €1.7 million).

In addition, the W&W Group's life insurers and pension funds have undertaken to provide the protection fund or, alternatively, Protektor Lebensversicherungs AG with financial resources in the event that the resources of the protection fund are insufficient in the case of a reorganisation. The obligation amounts to 1% of total net technical provisions, with offsetting of the contributions that have previously been made to the protection fund to date. Including the above-mentioned payment obligation of 1%, the total obligation as at the reporting date amounted to €322.8 million (previous year: €331.9 million).

As at 31 December 2018, obligations for capital contribution calls not yet made as relate to investments in the W&W Group amounted to €873.1 million (previous year: €648.0 million).

Irrevocable loan commitments consist of remaining obligations under loans and credit lines that have been granted but not yet drawn down or fully drawn down. The risk of a change in interest rates is low for irrevocable loan commitments due to their short terms.

Wüstenrot Bank AG Pfandbriefbank and Wüstenrot Bausparkasse AG are members of Entschädigungseinrichtung deutscher Banken GmbH, which is a company that operates the compensation scheme established by the Association of German Banks. In addition, Wüstenrot Bank AG Pfandbriefbank is a member of Einlagensicherungsfonds des Bundesverbandes Deutscher Banken e.V., which is an association that operates the deposit protection fund established by the Association of German Banks. Furthermore, Wüstenrot Bausparkasse AG is a member of Bausparkassen-Einlagensicherungsfonds e.V., which is an association that operates the deposit protection fund established by the Association of Private Home Loan and Savings Banks. As a result of participation in the compensation scheme and the deposit protection funds, member institutions are obligated to provide additional funding when necessary.

W&W AG has submitted a declaration to the Association of German Banks, pursuant to which it undertakes to indemnify the latter against all losses incurred through measures taken by the deposit protection fund for the benefit of Wüstenrot Bank AG Pfandbriefbank.

As at 31 December 2018, no placement or underwriting obligations had been drawn down, as was the case in the previous year.

As a result of membership in Verkehrsopferhilfe e.V., which is an association that assists road accident victims through a guarantee fund established by German motor liability insurers, the W&W Group is obligated to provide this association with the resources necessary for carrying out its purpose. The amount that it is required to pay in each year is determined by its share of the premium revenue that member companies earned from direct insurance in the calendar year before last.

Employees who joined one of the two sponsoring undertakings, Württembergische Versicherung AG and Württembergische Lebensversicherung AG, prior to 1 January 2002 could be accepted as members in the pension fund Pensionskasse der Württembergischen VVaG (WürttPK). Being a legally independent, regulated pension fund, WürttPK is subject to supervision by the German Federal Financial Supervisory Authority (BaFin). WürttPK benefits are financed through contributions by members and subsidies by the sponsoring undertakings. Pursuant to their articles of association, Württembergische Versicherung AG and Württembergische Lebensversicherung are obligated to pay subsidies. In accordance with the business plan, the sponsoring undertakings handle administration at no cost. In addition, there is secondary liability in some cases under the German Occupational Pensions Act (BetrAVG).

With regard to the calculation of tax refund claims and tax debts made as at the reporting date, it cannot be ruled out that the fiscal authorities will take a different position. In addition, the outcome of pending tax proceedings, both in and out of court, cannot be determined or predicted. Additional liabilities and receivables may need to be recognised in this area.

Württembergische Lebensversicherung AG indemnified the pension institutions Versorgungseinrichtung Karlsruhe e.V. (VeK) and AVM – Arbeitnehmer Vorsorge Management – überbetriebliche Unterstützungskasse e.V. against claims for compensation of damages resulting from a mistake in the processing of the insurance contracts of the sponsoring undertakings.

Waiver of recourse and indemnity declaration

Pursuant to an existing waiver of recourse and indemnification agreement, in the event that the company is sued as a result of an agent having provided faulty advice in connection with the brokering of an insurance product that the company sells, the company has agreed to waive potential recourse claims against the agent, unless the agent acted wilfully and the damage is covered by liability insurance. With respect to the agent's own liability in connection with the brokering of insurance or financial services products offered by an insurance company of the W&W Group, by a collaboration partner of one of these insurance companies or in the course of further advice for one of these companies or collaboration partners, the company has also agreed to provide an indemnity in the event faulty advice was provided. The minimum insurance cover is limited to €200 thousand per claim and a total of €300 thousand per year and, for damages in connection with faulty advice provided in insurance brokering, to €1,000 thousand per claim and €1,500 thousand per year.

(55) Related party disclosures

Transactions with related persons

Natural persons considered to be related parties pursuant to IAS 24 are members of the key management personnel (the Management Board and Supervisory Board of W&W AG) and their close family members.

Transactions with related persons of W&W AG were carried out in connection with the normal business activity of Group companies. This mainly had to do with business relationships in the areas of home loan and savings business, banking business, and life, health and property insurance.

All transactions were at arm's length and/or took place at preferential terms customary in the industry.

As at 31 December 2018, receivables from related persons amounted to €521 thousand (previous year: €567 thousand), and liabilities to related persons amounted to €1,247 thousand (previous year: €1,174 thousand). In 2018 interest income from loans made to related persons amounted to €18 thousand (previous year: €18 thousand), and interest expenses for savings deposits of related persons amounted to €6 thousand (previous year: €7 thousand). In 2018 premiums in the amount of €53 thousand (previous year: €86 thousand) were paid by related persons for insurance policies in the areas of life, health and property insurance.

Transactions with related companies

Unconsolidated subsidiaries of W&W AG and other related companies

The W&W Group is a party to various services agreements with unconsolidated W&W AG subsidiaries and other related W&W AG companies. In addition, unconsolidated W&W AG subsidiaries and other related W&W AG companies made use of banking services. Wüstenrot Holding AG and W&W AG are parties to a brand name transfer and use agreement. As at 31 December 2018, a financial liability was owed to Wüstenrot Holding AG under this agreement in the amount of €17.0 million (previous year: €18.9 million). W&W AG makes fixed annual amortisation payments (principal and interest) to Wüstenrot Holding AG in the amount of € 2.5 million, plus value-added tax.

In the reporting year, Württembergische Lebensversicherung AG had a contingent liability to “The W&W Global Income Fund ICAV – The W&W Infrastructure Fund” for a capital contribution call of €229.0 million that had not yet been made.

Wüstenrot Stiftung Gemeinschaft der Freunde Deutscher Eigenheimverein e.V., which is a charitable foundation, as well as Wüstenrot Holding AG, WS Holding AG and Pensionskasse der Württembergischen VVaG are recognised under “Other related companies” as the post-employment benefit plan for the benefit of employees.

The transactions were at arm's length.

As at the reporting date, the open balances from transactions with related companies were as follows:

in € thousands	31.12.2018	31.12.2017
	IFRS 9	IAS 39
Financial assets with respect to related companies	**117,100**	**96,241**
Unconsolidated subsidiaries	90,282	69,128[1]
Associated companies	101	1
Other related companies	26,717	27,112
Financial liabilities with respect to related companies	**166,595**	**173,075**
Affiliated undertakings	4	–
Unconsolidated subsidiaries	54,668	56,473
Associated companies	80,463	81,475
Other related companies	31,460	35,127

1 Previous year's figure adjusted.

Income and expenses from transactions with related companies were as follows:

in € thousands	1.1.2018 bis 31.12.2018	1.1.2017 bis 31.12.2017
Income from transactions with related companies	**43,776**	**40,245**
Affiliated undertakings	1	–
Unconsolidated subsidiaries	41,670	38,127
Associated companies	7	118
Other related companies	2,098	2,000
Expenses from transactions with related companies	**–66,988**	**–122,137**
Unconsolidated subsidiaries	–54,410	–39,040
Associated companies	–211	–223
Other related companies	–12,367	–82,874

(56) Remuneration report

Remuneration of the individual members of the Executive Board

The outlines of the remuneration system are depicted in detail in the remuneration report contained in the Management Report. The following remarks contain the disclosures required under Section 314 (1) no. 6 of the German Commercial Code (HGB).

Total remuneration was examined by the Supervisory Board, and it bears a reasonable relationship to the duties and performance of Executive Board members, as well as to the company's condition.

Total remuneration paid to Executive Board members during the reporting year for performing their duties at Wüstenrot & Württembergische AG amounted to €2,754.5 thousand (previous year: €2,562.9 thousand) and is composed of the following elements:

Remuneration of the individual members of the Executive Board in 2018

						Performance-related remuneration (sustained)						
	Term of office ends	Non-performance-related remuneration		Performance-related remuneration (short term)		from 2017	from 2015	from 2014	Ancillary benefits		Total	
in € thousands		2018	2017	2018	2017	2018	2018	2017	2018	2017	2018	2017
Active members of the Executive Board												
Jürgen A. Junker	03/2021	1,040.0	1,010.0	123.3	68.6	–	–	–	159.4	162.5	1,322.7	1,241.1
Dr Michael Gutjahr	08/2020	565.8	544.0	56.4	34.8	5.0	64.7	58.3	15.4	15.4	707.3	652.5
Jens Wieland	06/2020	565.8	544.0	82.5	52.7	–	53.6	50.0	22.6	22.6	724.5	669.3
Total		**2,171.6**	**2,098.0**	**262.2**	**156.1**	**5.0**	**118.3**	**108.3**	**197.4**	**200.5**	**2,754.5**	**2,562.9**

Of the ancillary benefits, remuneration for work as members of the Supervisory Board in the Group companies amounted to €136.0 thousand (previous year: €128.5 thousand).

Sustained performance-related remuneration for a prior financial year was earned with the close of the year 2018. This consisted, on the one hand, of remuneration from employment relationships with the insurance companies for the 2015 financial year, since in the years 2016 to 2018 the W&W Group posted average IFRS after-tax earnings of at least €100 million p.a. and did not post a loss in any of the three years. On the other, for his work at Wüstenrot Bausparkasse AG, Dr Gutjahr earned remuneration for the 2017 financial year in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV). This performance-related remuneration will be disbursed in 2019.

In addition to the earned performance-related remuneration shown in the above table, contingent claims to disbursement of performance-related remuneration for the financial years 2016-2018 were acquired (in each case, the amount of performance-related remuneration not yet disbursed):

Multi-year variable remuneration (sustainability component)

	Financial year 2016, payable in 2020	Financial year 2017, payable in 2021	Financial year 2018, payable in 2022	Financial year 2017, payable in 2020-2024	Financial year 2018, payable in 2020-2025	Total
in € thousands						
Jürgen A. Junker	81.2	134.1	185.0	–	–	400.3
Dr. Michael Gutjahr (W&W/WV/WL)	72.0	67.0	78.9	–	–	217.9
Dr. Michael Gutjahr (BSW)	–	–	–	10.3	18.1	28.4
Jens Wieland	55.6	58.1	71.6	–	–	185.3
Total	**208.8**	**259.2**	**335.5**	**10.3**	**18.1**	**831.9**

Disbursement of variable remuneration from employment relationships with the insurance companies is made only if the aforementioned conditions occur or do not occur in the years 2019 to 2021. Moreover, in the case of Dr Michael Gutjahr, the variable remuneration for Wüstenrot Bausparkasse AG is disbursed in instalments until 2024, in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions. For 2018 the final amount will not be calculated until the Supervisory Board has ascertained whether targets were achieved.

Performance-related remuneration for the 2017 financial year, which was disbursed in 2018 after ascertaining the degree to which targets were achieved, resulted in an expense of €43.9 thousand (previous year: release of €16.9 thousand). The amount consists of expenses for Jürgen A. Junker in the amount of €20.7 thousand (previous year: release of €5.9 thousand), for Dr Michael Gutjahr in the amount of €13.7 thousand (previous year: release of €4.7 thousand) and for Jens Wieland in the amount of €9.5 thousand (previous year: release of €6.3 thousand).

In the 2017 financial year, provisions in the amount of €156.1 thousand (previous year: €256.6 thousand) were created for acquired contingent claims to disbursement in 2024 of performance-related remuneration for the 2017 to 2021 financial years earned at the insurance companies, as well as for the acquired contingent claims of Dr Michael Gutjahr against Wüstenrot Bausparkasse AG. Since Jens Wieland is paid his performance-related remuneration in full by W&W Informatik GmbH and W&W Service GmbH after ascertainment in the following year of the degree to which targets were achieved, meaning that there are no contingent claims with these companies, the amount of the provisions for contingent claims is lower than for short-term performance-related remuneration. After achievement of targets was ascertained, an expense was incurred in the amount of €43.6 thousand (previous year: release of €14.5 thousand).

Aside from that, Group companies did not grant or pay any other remuneration that was not disbursed, remuneration converted into claims of another nature, remuneration used to increase other claims, or other remuneration that to date has not been indicated in any annual financial statements.

The present value of pensions attributable to the Group amounted to €4,756.3 thousand (previous year: €4,789.3 thousand), in each case based on a retirement age of 61. Of this amount, attributable to Dr Michael Gutjahr is the amount of €3,815.6 thousand (previous year: €4,016.7 thousand), as well as, based on a retirement age of 65, to Jürgen A. Junker the amount of €385.5 thousand (previous year: €268.1) and to Jens Wieland the amount of €555.2 thousand (previous year: €504.6 thousand). These benefits have to do with long-term post-employment benefits. Releases during the financial year attributable to the Group amounted to €33.0 thousand (previous year: addition of €424.7 thousand). Of this amount, releases attributable to Dr Michael Gutjahr amounted to –€201.1 thousand (previous year: addition of €166.6 thousand), additions attributable to Jürgen A. amounted to €117.4 thousand (previous year: €163.2) and additions attributable to Jens Wieland amounted to €50.7 thousand (previous year: €94.9 thousand).

The pension of Dr Michael Gutjahr amounted to €133.0 thousand (previous year: €130.8 thousand), whereby the pension is offset by occupational pension benefits against third parties. Because Dr Gutjahr may claim his pension when his term of office expires, he has no claim to a transitional allowance.

Jürgen A. Junker will be granted a transitional allowance in the amount of €200.0 thousand (previous year: €200.0 thousand) p.a. if his employment contract ends when his first term of office expires, unless Mr Junker refuses to accept a contract extension at the same terms or at terms more favourable to him or non-extension is based on a material reason within the meaning of Section 626 of the German Civil Code (BGB) for which he is responsible. The transitional allowance is payable from the end of the first term of office until Mr Junker reaches the age of 65, but not longer than until the end of the month in which he first begins to draw statutory pension insurance benefits or the company's occupational pension benefits. Mr Junker’s claim to payment of the transitional allowance is to be offset by the amount he earns from new employment. Offsetting takes place only to the extent that his other earnings exceed €300.0 thousand p.a.

Past service cost was not incurred. No benefits were promised or granted in the financial year or in the previous year by a third party to a member of the Executive Board for his work.

The company did not grant any loans to members of the Executive Board. No liabilities were entered into in favour of Executive Board members.

Total remuneration paid to former Executive Board members in the financial year amounted to €2,068.4 thousand (previous year: €2,994.9 thousand). Of this amount, €318.0 thousand (previous year: €309.2 thousand) was attributable to survivor benefits.

A reserve in the amount of €23,710.9 thousand (previous year: €25,280.5 thousand) was created for pension commitments to former members of the Executive Board and their survivors.

There were no other encumbrances on the W&W Group during the financial year for benefits to former members of the Executive Board or Supervisory Board or their survivors through severance payments, pensions, survivor benefits or other benefits of a related nature.

The following table “Benefits granted” depicts the contractually granted benefits, ancillary benefits and the minimum and maximum remuneration that can be achieved for variable remuneration components for the 2018 reporting year in accordance with the requirements of Section 4.2.5 of the German Corporate Governance Code of May 2013. The table “Inflow in/for the reporting year” shows the amounts earned in the financial year from fixed remuneration and short-term and long-term variable remuneration.

Benefits granted

in € thousands	Jürgen A. Junker Chairman of the Executive Board Legal and Compliance, Audit, Communication, Strategy 2017	2018	Minimum 2018	Maximum 2018	Dr. Michael Gutjahr HR, Finance, Risk Management 2017	2018	Minimum 2018	Maximum 2018	Jens Wieland IT, Operations 2017	2018	Minimum 2017	Maximum 2018
Fixed remuneration	1,010.0	1,040.0	1,040.0	1,040.0	544.0	565.8	565.8	565.8	544.0	565.8	565.8	565.8
Ancillary benefits[1]	162.5	159.4	159.4	159.4	15.4	15.4	15.4	15.4	22.6	22.6	22.6	22.6
Total	**1,172.5**	**1,199.4**	**1,199.4**	**1,199.4**	**559.4**	**581.2**	**581.2**	**581.2**	**566.6**	**588.4**	**588.4**	**588.4**
One-year variable remuneration	96.0	104.0	–	145.6	45.7	47.5	–	66.5	74.1	77.0	–	107.8
	–	–	–	–	4.4	4.5	–	6.3	–	–	–	–
Multi-year variable remuneration	144.0	156.0	–	218.4	68.5	71.3	–	99.8	62.0	64.5	–	90.3
Financial year 2017: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2018–2020)	144.0	–	–	–	68.5	–	–	–	62.0	–	–	–
Financial year 2018: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2019–2021)	–	156.0	–	–	–	71.3	–	–	–	64.5	–	–
Financial year 2017: Payment of the variable remuneration for Wüstenrot Bausparkasse AG; in conformity with the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems rateably until 2024	–	–	–	–	17.4	–	–	–	–	–	–	–
Financial year 2018: Payment of the variable remuneration for Wüstenrot Bausparkasse AG; in conformity with the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems rateably until 2025	–	–	–	–	–	18.1	–	25.3	–	–	–	–
Total	**1,412.5**	**1,459.4**	**1,199.4**	**1,563.4**	**695.4**	**722.6**	**581.2**	**779.2**	**702.7**	**729.9**	**588.4**	**786.5**
Pension expenses (= service cost pursuant to IAS 19)	145.7	89.0	–	–	–	–	–	–	88.7	57.3	–	–
Total remuneration (GCGC)	**1,558.2**	**1,548.4**	**1,199.4**	**1,563.4**	**695.4**	**722.6**	**581.2**	**779.2**	**791.4**	**787.2**	**588.4**	**786.5**

1 Ancillary benefits also contain the remuneration for work as Supervisory Board members in the Group companies.

Inflow in/for the reporting year

	Jürgen A. Junker		Dr Michael Gutjahr		Jens Wieland	
	Chairman of the Executive Board Legal and Compliance, Audit, Communication, Strategy		HR, Finance, Risk Management		IT, Operations	
in € thousands	2018	2017	2018	2017	2018	2017
Fixed remuneration	1,040.0	1,010.0	565.8	544.0	565.8	544.0
Ancillary benefits[1]	159.4	162.5	15.4	15.4	22.6	22.6
Total	**1,199.4**	**1,172.5**	**581.2**	**559.4**	**588.4**	**566.6**
One-year variable remuneration	123.3	68.6	56.4	34.8	82.5	52.7
Multi-year variable remuneration	–	–	69.7	58.3	53.6	50.0
Financial year 2014: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2015–2017)	–	–	–	58.3	–	50.0
Financial year 2015: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2016–2018)	–	–	64.7	–	53.6	–
Financial year 2017: Payment of the variable remuneration for Wüstenrot Bausparkasse AG; in conformity with the German Ordinance on the Supervisory Requirements for Institutions' Remunera-tion Systems (Financial year 2018)	–	–	5.0	–	–	–
Total remuneration (Section 314 (1) no. 6 of the German Commercial Code (HGB))	**1,322.7**	**1,241.1**	**707.3**	**652.5**	**724.5**	**669.3**
Pension expenses (= service cost pursuant to IAS 19)	89.0	145.7	–	–	57.3	88.7
Total remuneration (GCGC)	**1,411.7**	**1,386.8**	**707.3**	**652.5**	**781.8**	**758.0**

1 Ancillary benefits also contain the remuneration for work as Supervisory Board members in the Group companies.

Remuneration of the Supervisory Board

The Supervisory Board remuneration is paid in the form of a fixed remuneration whose amount is determined by the Annual General Meeting. If the Annual General Meeting does not specify an amount, the amount of the prior year applies. Supplementary amounts are stipulated for the Chairman and the Deputy Chairman, as well as for committee activities. In addition, fees are paid for attending Supervisory Board meetings.

The annual base remuneration payable after the close of the financial year amounted to €25.0 thousand (previous year: €25.0 thousand). Committee remuneration amounted to €8.0 thousand (previous year: €8.0 thousand) per year for the Risk and Audit Committee and for the Remuneration and Personnel Committee. Committee remuneration amounted to €4.0 thousand (previous year: €4.0 thousand) per year for the Conciliation Committee and the Nomination Committee. An attendance fee of €500 (previous year: €500) is paid per Supervisory Board meeting. No fees are paid for attending committee meetings.

Base remuneration and committee remuneration are increased by 150% for the Chairman and by 75% for his deputies.

In the 2018 financial year, the company paid the members of the Supervisory Board of Wüstenrot & Württembergische AG total remuneration of €756.3 thousand (previous year: €752.9 thousand). Of this amount, further Supervisory Board mandates in the Group accounted for €97.5 thousand (previous year: €86.1 thousand). In the 2018 financial year, the company paid members of the Supervisory Board of Wüstenrot & Württembergische AG who had retired during the financial year pro rata temporis remuneration of €21.5 (previous year: €0.0 thousand).

Members of the Supervisory Board are also reimbursed upon request for expenses and the value-added tax due on Supervisory Board remuneration. However, this is not included in the designated expenses.

Advances and loans to members of the Supervisory Board of Wüstenrot & Württembergische AG amounted to €512.0 thousand (previous year: €566.6 thousand). The loans were granted by Group companies. The interest rates range from 1.53% to 7.9%. Loans amounting to €78.8 thousand (previous year: €12.9 thousand) were repaid by the members of the Supervisory Board. No liabilities were entered into in favour of these persons.

Subscription rights or other share-based remuneration for members of the Supervisory Board do not exist in the W&W Group. No provisions for current pensions or entitlements had to be created for members of the Supervisory Board or their survivors.

The company did not pay any remuneration or grant any benefits to members of the Supervisory Board for personally performed services, such as consulting or brokering services.

Remuneration of the individual members of the Supervisory Board

	Base remuneration	Attendance fees	Committee remuneration	Group	Total	Total
in € thousands	2018	2018	2018	2018	2018	2017
Hans Dietmar Sauer (Vorsitzender)	62.5	2.0	48.0	–	112.5	113.0
Frank Weber (Stv. Vorsitzender)	43.8	2.0	16.0	16.0	77.8	78.3
Peter Buschbeck	25.0	2.0	8.0	–	35.0	35.0
Prof. Dr. Nadine Gatzert	13.8	0.5	–	–	14.3	–
Dr. Reiner Hagemann	25.0	2.0	12.0	–	39.0	39.5
Ute Hobinka	25.0	2.0	8.0	–	35.0	35.5
Jochen Höpken	25.0	1.0	4.0	–	30.0	31.5
Gudrun Lacher	25.0	2.0	4.0	–	31.0	31.5
Corinna Linner	25.0	2.0	20.0	–	47.0	47.0
Marika Lulay	25.0	2.0	2.2	–	29.2	27.0
Bernd Mader	25.0	2.0	8.0	–	35.0	35.5
Andreas Rothbauer	25.0	2.0	8.0	24.0	59.0	59.5
Hans-Ulrich Schulz	25.0	2.0	8.0	–	35.0	35.5
Christoph Seeger	25.0	2.0	8.0	30.0	65.0	65.5
Jutta Stöcker	25.0	2.0	4.0	–	31.0	31.5
Gerold Zimmermann	25.0	2.0	12.0	20.0	59.0	55.6
Subtotal	**445.1**	**29.5**	**170.2**	**90.0**	**734.8**	**721.4**
Ruth Martin (ehemalig)	11.2	1.0	1.8	7.5	21.5	31.5
Total	**456.3**	**30.5**	**172.0**	**97.5**	**756.3**	**752.9**

Total remuneration for persons in key positions

The total remuneration for persons of Group management in key positions (Management Board and Supervisory Board of Wüstenrot & Württembergische AG) amounted to €6,977.4 thousand (previous year: €6,316.7 thousand). Of this amount, short-term employee benefits accounted for €5,912.4 thousand (previous year: €5,382.4 thousand), post-employment benefits accounted for €430.4 thousand (previous year: €551.1 thousand), other long-term benefits accounted for €634.6 thousand (previous year: €383.2 thousand) and termination benefits accounted for €0 thousand (previous year: €0 thousand).

(57) Number of employees

In terms of full-time equivalents, the number of employees of the W&W Group as at 31 December 2017 was 6,842 (previous year: 6,885). As at the reporting date, the number of employees was 8,129 (previous year: 8,166).

The average headcount in the last 12 months was 8,092 (previous year: 8,253). This average is calculated as the arithmetic mean of the end-of-quarter headcounts as of the reporting date between 31 March 2018 and 31 December 2018 and during the corresponding prior-year period and is distributed over the individual segments as follows:

Number of employees by segment on annual average

	31.12.2018	31.12.2017
Home Loan and Savings Bank	2,207	2,280
Life and Health Insurance	931	917
Property/Casualty Insurance	3,475	3,550
All other segments	1,479	1,506
Total	**8,092**	**8,253**

(58) Auditor

The Supervisory Board of Wüstenrot & Württembergische AG engaged KPMG AG Wirtschaftsprüfungsgesellschaft to audit the consolidated financial statements. The cost of the audit firm's services for the W&W Group amounted to €6,233 thousand (previous year: €5,906 thousand) for the financial year. Of this amount, audit services accounted for €4,932 thousand (previous year: €4,489 thousand), other assurance services accounted for €322 thousand (previous year: €251 thousand), tax advisory services accounted for €0 thousand (previous year: €11 thousand) and other services accounted for €979 thousand (previous year: €1,155 thousand).

The fee for the auditing services of KPMG AG Wirtschaftsprüfungsgesellschaft relates to the audit of the consolidated financial statements and the annual financial statements.

In addition, KPMG AG Wirtschaftsprüfungsgesellschaft conducted audits of the annual financial statements and group reporting of various subsidiaries, as well as statutory audits in accordance with the German Securities Trading Act (WpHG), the German Act on the Supervision of Insurance Undertakings (VAG), the German Stock Corporation Act (AktG) and other legal provisions.

Other assurance services for affiliated companies include audits of special Bauspar simulation models in accordance with the terms and conditions of the Deutsche Bundesbank, as well as further audits required under the German Securities Trading Act.

In addition it rendered expert advisory services as well as project related audits for the implementation of new accounting standards and indicative valuations. For affiliated companies it conducted expert opinions and audits of IT migration projects.

(59) Events after the reporting date

No material events that require reporting occurred after the reporting date.

(60) Corporate Governance Code

The Executive Board and Supervisory Board of the publicly traded Wüstenrot & Württembergische AG, Stuttgart, Germany, submitted the statement of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) and have made it permanently available to shareholders on the website of the W&W Group at www.ww-ag.com (in German only) → Investor Relations → Publications → Further Publications.

(61) Group affiliation

Wüstenrot & Württembergische AG, Stuttgart, Germany, is the parent company of the W&W Group. The consolidated financial statements of the W&W Group are published in the German Federal Gazette (Bundesanzeiger).

(62) List of ownership interests pursuant to Section 315e (1) of the German Commercial Code (HGB) in conjunction with Section 313 (2) HGB

The list of ownership interests of the W&W Group as at 31 December 2018 is presented below.2018 The overview lists all companies in which at least 5% is held within the W&W Group. In addition, use was made of the exemption provided for in Section 313 (3) sentence 4 HGB in conjunction with Section 313 (2) no. 4 HGB.

List of ownership interests

Name and registered office of the company	Interest in capital, in %	Type of consolidation[1]
Wüstenrot & Württembergische AG, Stuttgart		F
Affiliates		
Germany		
3B Boden-Bauten-Beteiligungs-GmbH, Ludwigsburg	100.00	F
Adam Riese GmbH, Stuttgart	100.00	F
Allgemeine Rentenanstalt Pensionskasse AG, Stuttgart	100.00	F
Altmark Versicherungsmakler GmbH, Stuttgart	100.00	M
Altmark Versicherungsvermittlung GmbH, Stuttgart	100.00	M
Asendorfer Kippe ASK GmbH & Co. KG, Stuttgart	100.00	M
Berlin Leipziger Platz Grundbesitz GmbH, Stuttgart	100.00	M
Beteiligungs-GmbH der Württembergischen, Stuttgart	100.00	M
City Immobilien GmbH & Co. KG der Württembergischen, Stuttgart	100.00	F
City Immobilien II GmbH & Co. KG der Württembergischen, Stuttgart	100.00	F
Ganzer GmbH & Co. KG, Harrislee	100.00	M
Gerber GmbH & Co. KG, Stuttgart	100.00	F
Gestorf GmbH & Co. KG, Stuttgart	100.00	M
GMA Gesellschaft für Markt- und Absatzforschung mbH, Ludwigsburg	100.00	M
Hinterbliebenenfürsorge der Deutschen Beamtenbanken GmbH, Karlsruhe	100.00	M
IVB - Institut für Vorsorgeberatung Risiko- und Finanzierungsanalyse GmbH, Karlsruhe	100.00	M
Karlsruher Lebensversicherung AG, Karlsruhe	100.00	F
KLV BAKO Dienstleistungs-GmbH, Karlsruhe	93.10	M
KLV BAKO Vermittlungs-GmbH, Karlsruhe	76.80	M
LP 1 Beteiligungs-GmbH & Co. KG, Stuttgart	100.00	M
Miethaus und Wohnheim GmbH i.L., Ludwigsburg	100.00	M
NIST GmbH, Berlin	100.00	M
Nord-Deutsche AG Versicherungs-Beteiligungsgesellschaft, Stuttgart	100.00	M
Schulenburg GmbH & Co. KG, Stuttgart	100.00	M
Stuttgarter Baugesellschaft von 1872 AG, Stuttgart	100.00	M
treefin GmbH, München	100.00	M
W&W Asset Management GmbH, Ludwigsburg	100.00	F
W&W brandpool GmbH, Stuttgart	100.00	F
W&W Gesellschaft für Finanzbeteiligungen mbH, Stuttgart	100.00	F
W&W Informatik GmbH, Ludwigsburg[2]	100.00	F
W&W Produktion GmbH, Berlin (ab 1.1.2019: W&W Produktion GmbH i.L.)	100.00	F
W&W Service GmbH, Stuttgart[2]	100.00	F
Windpark Golzow GmbH & Co. KG, Rheine	100.00	M
WL Erneuerbare Energien Verwaltungs GmbH, Stuttgart	100.00	M
WL Renewable Energy GmbH & Co. KG, Stuttgart	100.00	F
WL Sustainable Energy GmbH & Co. KG, Stuttgart	100.00	F

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Type of consolidation[1]
Wohnimmobilien GmbH & Co. KG der Württembergischen, Stuttgart[2]	100.00	F
Württembergische Immobilien AG, Stuttgart	100.00	F
Württembergische Kö 43 GmbH, Stuttgart	89.90	M
Württembergische Krankenversicherung AG, Stuttgart	100.00	F
Württembergische Lebensversicherung AG, Stuttgart	94.89	F
Württembergische Logistik I GmbH & Co. KG, Stuttgart	100.00	M
Württembergische Logistik II GmbH & Co. KG, Stuttgart	100.00	M
Württembergische Rechtsschutz Schaden-Service-GmbH, Stuttgart	100.00	M
Württembergische Versicherung AG, Stuttgart	100.00	F
Württembergische Vertriebspartner GmbH, Stuttgart	100.00	M
Württembergische Verwaltungsgesellschaft mbH, Stuttgart	100.00	M
Württfeuer Beteiligungs-GmbH, Stuttgart	100.00	M
WürttLeben Alternative Investments GmbH, Stuttgart	100.00	F
WürttVers Alternative Investments GmbH, Stuttgart	100.00	F
Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg	100.00	F
Wüstenrot Bausparkasse AG, Ludwigsburg	100.00	F
Wüstenrot Grundstücksverwertungs-GmbH, Ludwigsburg	100.00	M
Wüstenrot Haus- und Städtebau GmbH, Ludwigsburg	100.00	F
Wüstenrot Immobilien GmbH, Ludwigsburg	100.00	M
Austria		
G6 Zeta Errichtungs- und VerwertungsGmbH & Co OG, Wien	99.90	M
SAMARIUM drei GmbH & Co OG, Wien[3]	100.00	M
Czech Republic		
WIT Services s.r.o., Prague	100.00	M
Wüstenrot hypoteční banka a.s., Prague	100.00	F
Wüstenrot stavební spořitelna a.s., Prague	100.00	F
France		
Württembergische France Immobiliere SARL, Strasbourg	100.00	M
Württembergische France Strasbourg SARL, Strasbourg	100.00	M
Ireland		
W&W Advisory Dublin DAC, Dublin	100.00	F
W&W Asset Management Dublin DAC, Dublin	100.00	F
W&W Europe Life Limited i.L., Dublin	100.00	M

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Type of consolidation[1]
Consolidation through special structuring		
Germany		
LBBW-AM 203, Stuttgart	100.00	F
LBBW-AM 69, Stuttgart	100.00	F
LBBW-AM 76, Stuttgart	100.00	F
LBBW-AM 93, Stuttgart	100.00	F
LBBW-AM 94, Stuttgart	100.00	F
LBBW-AM AROS, Stuttgart	100.00	F
LBBW-AM Emerging Markets Bonds-Fonds 1, Stuttgart	100.00	F
LBBW-AM Emerging Markets Bonds-Fonds 2, Stuttgart	100.00	F
LBBW-AM Südinvest 160, Stuttgart	100.00	F
LBBW-AM US Municipals 1, Stuttgart	100.00	F
LBBW-AM USD Corporate Bond Fonds 1, Stuttgart	100.00	F
LBBW-AM USD Corporate Bond Fonds 2, Stuttgart	100.00	F
LBBW-AM WSV, Stuttgart	100.00	F
LBBW-AM WV Corp Bonds Fonds, Stuttgart	100.00	F
LBBW-AM WV P&F, Stuttgart	100.00	F
W&W Real Estate International 1, Frankfurt am Main	100.00	F
Ireland		
The W&W Global Income Fund ICAV – The W&W Private Debt Fund, Dublin	100.00	F
W&W Flexible Premium, Dublin	100.00	F
W&W Flexible Premium II, Dublin	100.00	F
W&W Global Strategies South East Asian Equity Fund, Dublin	99.87	F
W&W International Global Convertibles Fonds, Dublin	93.12	F

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Type of consolidation[1]
Joint ventures		
Germany		
ver.di Service GmbH, Berlin	33.33	M
Associates		
Germany		
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	35.00	E
BWK Holding GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	35.00	M
Eschborn Grundstücksgesellschaft mbH & Co. KG, Stuttgart	51.00	M
Keleya Digital-Health Solutions UG, Hamburg	30.00	M
V-Bank AG, München	15.00	E
Hungary		
Fundamenta-Lakáskassza-Lakástakarékpénztár Zrt., Budapest	11.47	M

1 Explanation of types of entities and consolidation:
F = Companies included in the consolidated financial statements by way of full consolidation
E = Companies included in the consolidated financial statements using the equity method
M = Not included in the consolidated financial statements due to minor significance.

2 Pursuant to Section 264 (3) of the German Commercial Code (HGB), W&W Service GmbH, Stuttgart, Germany, and W&W Informatik GmbH, Ludwigsburg, Germany, are exempt from the obligation to prepare, have audited and publish a management report in accordance with the rules applicable to corporations and limited liability companies. Pursuant to Section 264 b HGB, Wohnimmobilien GmbH & Co. KG der Württembergischen, Stuttgart, Germany, is exempt from the obligation to prepare, have audited and publish a management report in accordance with the rules applicable to corporations and limited liability companies.

3 SAMARIUM drei GmbH & Co OG, Vienna, is a structured entity.

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %
Other investments of more than 5% and less than 20%	
Germany	
Adveq Europe II GmbH, Frankfurt am Main	16.77
Adveq Technology III GmbH, Frankfurt am Main	18.84
Adveq Technology V GmbH, Frankfurt am Main	16.50
Auda Ventures GmbH & Co. Beteiligungs-KG, München	5.79
BPE2 Private Equity GmbH & Co. KG, Hamburg	10.00
Coller German Investors GmbH & Co. KG i.L., München	10.00
CROWN Premium Private Equity III GmbH & Co. KG, Grünwald	6.60
Deutsche Makler Akademie (DMA) gemeinnützige Gesellschaft mbH, Wiesbaden	7.14
Deutscher Solarfonds “Stabilität 2010” GmbH & Co. KG, Frankfurt am Main	17.77
Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin	19.82
Earlybird DWES Fund VI Affiliates GmbH & Co. KG, München	7.74
EquiVest II GmbH & Co. Zweite Beteiligungs KG Nr. 1 für Vermögensanlagen, München	9.97
European Sustainable Power Fund Nr. 2 GmbH & Co. KG, Grünwald	12.10
GLL GmbH & Co. Messeturm Holding KG, München	5.97
IVZ Immobilien Verwaltungs GmbH & Co. Finanzanlagen KG, München	10.00
IVZ Immobilien Verwaltungs GmbH & Co. Südeuropa KG, München	10.00
NORD KB Micro-Cap V GmbH & Co. KG, Hannover	13.19
VV Immobilien GmbH & Co. United States KG i.L., München	9.98
Wellington Partners Life Sciences V Investment GmbH & Co. KG, München	5.75
YIELCO Special Situations GmbH & Co. KG, München	13.25

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %
Other investments of more than 5% and less than 20%	
Ireland	
Crown Global Secondaries II plc, Dublin	7.22
White Oak Summit Fund ILP, Dublin	15.66
White Oak Yield Spectrum Feeder ICAV, Dublin	17.46
Luxembourg	
DB Secondary Opportunities SICAV-SIF - Sub Fund DB SOF II Feeder USD, Luxembourg	16.79
First State European Diversified Infrastructure Feeder Fund II SCA, SICAV-SIF, Luxembourg	13.30
InfraVia European Fund III SCSp, Senningerberg	18.81
United Kingdom and Northern Ireland	
ASF VI Infrastructure L.P., Edinburgh	5.45
Brookfield Capital Partners Fund III (NR A) L.P., George Town	12.20
Carlyle Cardinal Ireland Fund L.P., George Town	5.83
CBPE Capital Fund IX L.P., London	15.41
Glennmont Clean Energy Fund Europe 1 'A' L.P., London	11.52
Global Infrastructure Partners III-C2 L.P., London	9.60
Kennet III A L.P., St. Peter Port	6.73
Kennet IV L.P., St. Peter Port	18.83
Partners Group Emerging Markets 2007 L.P., Edinburgh	12.01
United States	
H.I.G. Whitehorse Offshore Loan Feeder Fund L.P., Miami	11.06
ISQ Global Infrastructure Fund (EU) L.P., Delaware	5.19

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Currency	Reporting date	Equity[1]	After-tax earnings[1]
Other investments[3] of 20% or more					
Germany					
Adveq Opportunity II Zweite GmbH, Frankfurt am Main	29.31	€	31.12.2017	26,949,801	3,725,705
DBAG Fund VI Feeder GmbH & Co. KG, Frankfurt am Main	30.71	€	31.12.2017	50,991,571	13,588,650
Elvaston Capital Fund III GmbH & Co. KG, Berlin	20.00	€	31.12.2017	45,943,000	283,000
Onshore Wind Portfolio 2012 GmbH & Co. KG, Frankfurt am Main	20.72	€	31.8.2018	110,666,106	5,064,190
VC Fonds Baden-Württemberg GmbH & Co. KG, Stuttgart	25.00	€	31.12.2017	1,384,000	612,000
VV Immobilien GmbH & Co. US City KG i.L., München	23.10	€	31.12.2017	9,489	12,147
Ireland					
BlackRock NTR Renewable Power Fund plc, Dublin	89.55	US$[2]	31.12.2017	60,583,000	1,158,000
Luxembourg					
AMP Capital Infrastructure Debt Fund (EUR) III L.P., Luxemburg	45.35	€	31.12.2017	97,734,166	3,230,415
CI III Lux Feeder Fund FCP-RAIF, Luxemburg	35.88		New investment 25.6.2018		
Idinvest Lux Fund, SICAV-SIF SCA – Idinvest Private Debt III, Luxemburg	25.68	€	31.12.2017	383,833,914	7,593,843
IKAV SICAV-FIS SCA – ecoprime TK I, Luxemburg	41.28	€	30.9.2018	43,283,088	2,537,728
IKAV SICAV-FIS SCA – Global Energy (Ecoprime III), Luxemburg	45.36	€	30.9.2018	51,445,469	1,883,252
IKAV SICAV-FIS SCA – Global PV Investments, Luxemburg	46.25	€	30.9.2018	44,421,874	2,593,305
Secondary Oppurtunities SICAV-SIF – Sub-fund SOF III Feeder USD, Luxemburg	35.48	US$[2]	31.12.2017	56,582,390	458,556
StepStone European Fund SCS, SICAV-FIS – StepStone Capital Partners III, Luxemburg	27.56	US$[2]	31.12.2017	122,248,863	2,946,767
United Kingdom					
Asper Renewable Power Partners 2 LP, London (ehemals: HgCapital Renewable Power Partners 2 L.P.)	29.53	€	31.12.2017	55,773,854	4,537,769
Capital Dynamics Clean Energy and Infrastructure Feeder L.P., Edinburgh	28.24	US$[2]	31.12.2017	149,258,903	1,000
Capital Dynamics Clean Energy and Infrastructure III L.P., Birmingham	21.28	£[2]	31.12.2017	75,730,464	2,206,698
EIG Global Private Debt (Europe UL) L.P., London	29.67	US$[2]	31.12.2017	38,459,000	1,088,000
Project Glow Co-Investment Fund L.P., George Town	51.72	CA$[2]	31.12.2017	19,770,034	1,770
United States					
ARDIAN North America Fund II L.P., Wilmington	35.58	US$[2]	31.12.2017	109,930,294	8,178,080
Project Finale Co-Investment Fund Holding LLC, Wilmington	30.00	US$[2]	31.12.2017	44,980,027	2,106,198

1 The figures relate to the most recent annual financial statements available on the reporting date.
2 US$/€-rate on 31 December 2017: 1.1993/1.0000. CA$/€-rate on 31 December 2017: 1.5039/1.0000 £/€-rate on 31 December 2017: 0.8872/1.0000.
3 The investments listed below involve structured entities.

Appendix to the notes to the consolidated financial statements

Country-by-country reporting (Section 26a of the German Banking Act (KWG))

The requirements concerning country-by-country reporting are found in section 26a of the German Banking Act (KWG).

The basis is the regulatory scope of consolidation pursuant to the provisions of Regulation (EU) No 575/2013 (Capital Requirements Regulation, CRR). The disclosures are made country by country, after accounting for intra-Group reconciliation. The allocation of the type of business is made according to the definitions in Section 1 KWG, and the allocation of the geographic location is made on the basis of the registered office. The legally independent branch in Luxembourg is presented separately.

Included companies

	Type of business	Registered office/city	Country
W&W Asset Management GmbH	Financial services institution	Ludwigsburg	Germany
W&W Gesellschaft für Finanzbeteiligungen mbH	Financial company	Stuttgart	Germany
W&W Informatik GmbH	Provider of ancillary services	Ludwigsburg	Germany
W&W Service GmbH	Provider of ancillary services	Stuttgart	Germany
Wüstenrot & Württembergische AG	Financial company	Stuttgart	Germany
Wüstenrot Bank AG Pfandbriefbank	Credit institution	Ludwigsburg	Germany
Wüstenrot Bausparkasse AG	Credit institution	Ludwigsburg	Germany
Wüstenrot hypoteční banka a.s.	Credit institution	Prague	Czech Republic
Wüstenrot stavební spořitelna a.s.	Credit institution	Prague	Czech Republic
W&W Advisory Dublin DAC	Financial services institution	Dublin	Ireland
W&W Asset Management Dublin DAC	Financial services institution	Dublin	Ireland
Wüstenrot Bausparkasse AG, Luxembourg branch establishment	Credit institution	Munsbach	Luxembourg

Presented as revenue are the earnings before income taxes from continued operations, excluding impairments, administrative expenses and other operating expenses. The number of recipients of wages and salaries in full-time equivalents was determined in accordance with Section 267 (5) of the German Commercial Code (HGB). Apart from actual taxes under national tax rules, taxes on profit or loss also contain deferred taxes.

Country-specific disclosures for 2018

		Germany	Czech Republic	Luxembourg	Ireland
Revenue	in € thousands	577,504	51,351	4,985	13,417
Recipients of wages and salaries in full-time equivalents	Number	3,797	327	7	8
Profit/loss before taxes	in € thousands	167,720	16,556	3,765	10,903
Taxes on profit/loss	in € thousands	–52,194	–3,287	–1,112	–1,269
Public subsidies received	in € thousands	–	–	–	–

Country-specific disclosures for 2017

		Germany	Czech Republic	Luxembourg	Ireland
Revenue	in € thousands	830,450	59,413	5,031	–
Recipients of wages and salaries in full-time equivalents	Number	3,964	289	7	–
Profit/loss before taxes	in € thousands	126,181	26,339	2,850	–
Taxes on profit/loss	in € thousands	–79,009	–4,905	–853	–
Public subsidies received	in € thousands	–	–	–	–

Wüstenrot & Württembergische AG
Responsibility statement

To the best of our knowledge, and in accordance with applicable accounting principles, the consolidated annual financial statements present a true and accurate view of the Group’s net assets, financial position and financial performance, and the Group Management Report provides a true and accurate presentation of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stuttgart, 28 February 2019

Jürgen A. Junker

Dr. Michael Gutjahr

Jens Wieland

Report of the independent statutory auditor

To Wüstenrot & Württembergische AG, Stuttgart, Germany

Report on the audit of the consolidated financial statements and of the combined management report

Audit opinions

We have audited the consolidated financial statements of Wüstenrot & Württembergische AG, Stuttgart, consisting of the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2018, as well as the notes to the consolidated financial statements, together with the a summary of significant accounting policies. In addition, we have audited the combined management report of Wüstenrot & Württembergische AG, Stuttgart, for the financial year 1 January to 31 December 2018. In conformity with German statutory requirements, we have not audited the content of the Group corporate governance statement, which is contained in the section “Corporate governance statement” in the combined management report.

In our opinion, based on the knowledge acquired in connection with the audit,

- the attached consolidated financial statements comply in all material respects with the IFRSs applicable in the EU and with the additional German statutory requirements that are applicable pursuant to Section 315e (1) of the German Commercial Code (HGB), and in compliance with those provisions, they present a true and accurate view of the Group’s net assets and financial position as at 31 December 2018 and its financial performance for the financial year 1 January to 31 December 2018, and
- the attached combined management report as a whole presents a true and accurate view of the Group’s position. The combined management report is consistent with the consolidated financial statements in all material respects, complies with German statutory requirements and accurately depicts the opportunities and risks of future development. Our audit opinion concerning the combined management report does not cover the content of the aforementioned Group corporate governance statement.

Pursuant to Section 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any reservations concerning the regularity of the consolidated financial statements or the combined management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and the combined management report in conformity with Section 317 of the German Commercial Code (HGB) and with Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities (hereinafter, the “EU Audit Regulation”), as well as in accordance with the German standards for the proper auditing of financial statements promulgated by the IDW (Institute of Public Auditors in Germany). Our responsibility in accordance with those provisions and standards is described extensively in the section of our audit report entitled “Responsibility of the statutory auditor for the audit of the consolidated financial statements and the combined management report”. We are independent of the Group companies in accordance with the requirements of European and German commercial law, as well as professional rules, and we have fulfilled our other German professional duties in accordance with these requirements and rules. In addition, pursuant to Article 10(2)(f) of the EU Audit Regulation, we declare that we did not provide any prohibited non-audit services referred to in Article 5(1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions concerning the consolidated financial statements and the combined management report.

Key audit matters in connection with the audit of the consolidated financial statements

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

Compliance with the cash flow criterion with respect to securities, receivables and construction loans measured at amortised cost or at fair value through other comprehensive income

With respect to accounting standards, we refer to the explanations provided in the notes in the chapter "Accounting policies", section "Financial instruments and receivables and liabilities from insurance business", as well as in the chapter "Accounting policies", section "Changes in accounting and measurement methods: International Financial Reporting Standards (IFRSs) to be applied for the first time in the reporting period – IFRS 9 'Financial Statements'". Risk disclosures can be found in the opportunity and risk report, which is part of the combined management report, in the sections "Market price risk" and "Counterparty credit risk".

Risk for the financial statements
As result of IFRS 9, the Group made several important changes, including the introduction of a new classification model. The model contains, in particular, revised requirements for categorising debt instruments on the assets side as measured at amortised cost or at fair value through other comprehensive income. One of the requirements for determining whether a debt instrument can be measured at amortised cost or at fair value through other comprehensive income is whether it complies with the cash flow criterion (also called the SPPI criterion), i.e. the contract terms for the debt instrument must provide exclusively for cash flows that constitute solely payments of principal and interest (SPPI) at the specified times. If the SPPI criterion is not met, the debt instrument is to be measured at fair value through profit or loss.

Material portfolios that must meet the SPPI criterion relate to securities, receivables (primarily registered bonds and debenture bonds) and construction loans. These are recognised in the items "Financial assets at amortised cost", "Financial assets at fair value through other comprehensive income" and "Non-current assets held for sale and discontinued operations".

Determining whether the contract for a security, receivable or construction loan provides exclusively for SPPI-compliant cash flows may be complex in a given case and moreover require the exercise of discretion.

At the same time, IFRS 9 requires that each individual instrument must comply with the SPPI criterion, which normally leads to time-consuming instrument-by-instrument analyses or to complex standardised approaches.

Both methods are associated with risks of error, which may result in a wrong classification decision being made, and this may have a significant impact on the consolidated statement of comprehensive income and individual balance sheet items. Therefore, it was important for our audit that the evaluation of the SPPI criterion was based on the development and application of evaluation methods that take the standard's requirements fully and accurately into consideration.

Our audit approach
Our audit of securities, receivables and construction loans consisted, in particular, of the following significant audit procedures:

- We first gained an understanding of the portfolios of securities, receivables and construction loans with SPPI classification. Then, we analysed the technical concepts underlying the SPPI classification with respect to their completeness and their conformity with IFRS 9.
- We also reviewed the documentation that the Group created in connection with initial application for the purpose of assigning these financial instruments to one of two groups: those that were evaluated using a standardised approach, and those that were analysed on an instrument-by-instrument basis.
- As part of our control-based audit procedures, we evaluated the appropriateness, implementation and effectiveness of controls that the Group put in place in order to ensure proper SPPI classification on the basis of individually agreed cash flows for securities and receivables that were newly acquired in the financial year.

- With regard to the IT systems that are employed, our IT specialists reviewed the effectiveness of the arrangements and procedures that relate to a variety of IT applications and that bolster the effectiveness of application controls.
- As part of our audit of individual balance sheet items, we reviewed a sub-portfolio of securities, receivables and construction loans on the basis of contract documents for whether the SPPI evaluation was made properly.

Our conclusions
The methods used to evaluate the SPPI criterion with respect to securities, receivables and construction loans were proper and in conformity with the accounting standards that are required to be applied.

Measurement of unlisted securities, receivables and derivatives

For the purposes of capital investment, the Group holds receivables (primarily registered bonds and debenture bonds), unlisted securities and derivative financial instruments. They are recognised in the consolidated financial statements under the items "Financial assets/liabilities measured at fair value through profit or loss", "Financial assets at fair value through other comprehensive income", "Financial assets at amortised cost" and "Positive/negative market values from hedges".

With respect to accounting and measurement methods, we refer to the explanations provided in the notes in the section "Fair value measurement" and to Note 38 "Disclosures concerning the measurement of fair value". Risk disclosures can be found in the opportunity and risk report, which is part of the combined management report, in the sections "Market price risk" and "Counterparty credit risk".

Risk for the financial statements
If quoted prices for identical financial instruments (Level 1 of the measurement hierarchy) are unavailable on active markets, measurement methods are used to determine fair value. In determining value, derived market data are used as input factors to the greatest possible extent (Level 2 of the measurement hierarchy). If these are not sufficiently current, parameters are also used that are not based on market data (Level 3 of the measurement hierarchy).

The amount of receivables, securities and derivatives that are measured using the model (Levels 2 and 3 of the measurement hierarchy) is considerable.

With financial instruments, there is a fundamental risk that fair value will not be determined in the correct amount. With financial instruments that are measured at fair value, there is a risk that they will not be recognised in the correct amount and that income and expenses based on the measurement will not be accurately captured in the income statement or in other comprehensive income. With financial assets that are recognised at amortised cost or at fair value through other comprehensive income, there is a risk that where an impairment loss needs to be taken, it will not be determined in the correct amount, such that a write-up or write-down does not occur.

With unlisted financial instruments that are measured using the model (Levels 2 and 3 of the measurement hierarchy), there is an increased risk that fair values will be unable to be ascertained on active markets on the reporting date. For these financial instruments, complex measurement methods are necessary. Moreover, these measurement methods use parameters that are subject to discretion.

Our audit approach
Our audit of unlisted securities, receivables and derivative financial instruments consisted, in particular, of the following significant audit procedures:

- We audited the process for recording the portfolio data and select parameters (in particular, exchange rates and termination rights) in the portfolio management system, including the controls put in place for this purpose. Using functional audits, we assured ourselves of the effectiveness of the installed controls.
- For a selection of these financial instruments, we compared the parameters that were applied with those that are observable on active markets. If parameters could not be observed, then among other things, we gained an understanding of the yield curves, volatilities and spreads that were applied for select securities, receivables and derivative financial instruments and then evaluated those yield curves, volatilities and spreads. We audited the appropriateness of the measurement methods that were applied.

- In addition, for a selection of securities, receivables and derivative financial instruments, we likewise calculated fair value with our own EDP programs and compared the results with the figures shown by the Group.
- For financial instruments measured at amortised cost or at fair value through other comprehensive income, we audited a portion of the portfolio for whether credit rating-related write-downs or write-ups were undertaken correctly.

Our conclusions
The methods used to determine the fair value of unlisted securities, receivables and derivative financial instruments were proper and in conformity with the accounting standards that are required to be applied. The underlying assumptions and parameters were appropriately derived.

Measurement of the provision for future policy benefits in life insurance – gross

With respect to accounting and measurement methods, we refer to the explanations provided in the notes in the chapter “Accounting policies”, section “Technical provisions”. Risk disclosures can be found in the opportunity and risk report, which is part of the combined management report, in the section “Underwriting risk”.

Risk for the financial statements
In its consolidated financial statements, the Group shows a provision for future policy benefits for life insurance policies in the amount of EUR 26,478.8 million (about 36.8% of the balance sheet total). This does not include the provision for future policy benefits for unit-linked insurance contracts.

The provision for future policy benefits is generally calculated by totalling the provisions for future policy benefits calculated for each individual contract. It is measured prospectively and is derived from the present values of future benefits, less future premiums. In doing so, a variety of machine-based and manual calculation steps are used to ascertain the provision in a manner that is independent of rates.

In this regard, IFRS accounting standards and regulatory requirements must be complied with. This includes, in particular, rules concerning biometric parameters, cost assumptions and interest rate assumptions, as well as rules concerning the additional interest reserve for the new portfolio and the assumptions to be made there concerning biometrics, probabilities of cancellations and capital payouts and interest rate reinforcement for the old portfolio. The arrangements concerning the additional interest reserve were changed in 2018, and the so-called “Corridor method” was introduced (amendment of the German Regulation on Calculation of the Provision for Future Policy Benefits (DeckRV) of 10 October 2018). The changed arrangements were correspondingly taken into account by the Group when measuring interest rate reinforcement. In some cases, the making and use of these assumptions is subject to discretion.

There is a risk that a provision for future policy benefits for individual contracts may be over- or under-valued if the calculation parameters are defined or used inconsistently or incorrectly.

Our audit approach
In connection with the audit of the provision for future policy benefits, part of our audit team included actuaries, and we performed the following significant audit procedures:

- We audited whether the insurance contracts recorded in the portfolio management system were fully included in the provision for future policy benefits. In doing so, we relied on controls put in place by the consolidated companies, and we audited whether they were appropriate in terms of how they function and whether they were carried out. In this regard, in connection with reconciling the portfolio management systems, the statistics systems and the general ledger, we audited whether the method for transferring values worked flawlessly.
- In order to verify that the provisions for future policy benefits under each individual contract were measured correctly, we calculated the provisions for future policy benefits, including the additional interest reserve and the interest rate reinforcement, for an extensive sub-portfolio, likewise using our own EDP programs, and compared the results with the values ascertained by the respective consolidated company.
- With respect to the additional interest reserve for the new portfolio that is to be created within the provision for future policy benefits, we audited the appropriateness of the assumptions made by the respective consolidated company concerning probabilities of cancellations and capital payouts, as well as concerning biometrics. We also reviewed whether the Group converted to the so-called “Corridor method” in order to determine the reference interest rate for calculating the additional interest reserve.

- We audited whether the Group applied the business plans for the old portfolio that have been approved by the German Federal Financial Supervisory Authority (BaFin). These also include arrangements concerning interest rate reinforcement.
- We audited whether the Group properly applied the tables or, as the case may be, the individually adjusted tables that have been issued by the German Association of Actuaries (DAV) as being generally applicable. In doing so, using internal profit sourcing, we assured ourselves that there have been no permanently negative risk results.
- Furthermore, we compared the corresponding changes in the provision for future policy benefits during the reporting year with the forward projection provided by each consolidated company for its provision for future policy benefits in connection with internal profit sourcing. In doing so, we assured ourselves in particular that the individual components of the change and the corresponding parameters in the income statement were consistent.
- Moreover, we reviewed the report by each responsible actuary. In particular, we assured ourselves that none of the reports contained assumptions that conflict with our audit results.

Our conclusions
The methods used to determine the carrying amount of the provision for future policy benefits were proper and in conformity with the accounting standards that are required to be applied. The underlying assumptions and parameters were appropriately derived.

Measurement of the gross provision for outstanding insurance claims in direct property/casualty insurance business

With respect to accounting and measurement methods, we refer to the explanations provided in the notes in the chapter “Accounting policies”, section “Technical provisions”. Risk disclosures can be found in the opportunity and risk report, which is part of the combined management report, in the section “Underwriting risk”.

Risk for the financial statements
The gross provisions for outstanding insurance claims, including business underwritten as reinsurer, amounted to €2,338.5 million, or 3.2% of the balance sheet total. The vast majority of gross provisions relate to direct property/casualty insurance business.

The gross provision for outstanding insurance claims in direct business is divided into various sub-provisions. The provisions for reported and unreported insurance claims make up the largest portion of the gross provision for outstanding insurance claims.

The provision for reported and unreported insurance claims is subject to uncertainties with respect to the amount of the losses and is therefore highly subject to discretion. In this regard, IFRS accounting standards and commercial law requirements must be complied with.

The provisions for reported insurance claims are estimated in accordance with the expected expense for each individual claim. For claims that are still unreported, provisions for late outstanding claims are created, which are calculated based on past experience. Recognised actuarial methods are used for this purpose.

With regard to insurance claims that have been reported as at the reporting date, there is a risk that an insufficient amount will have been set aside for claim payments that are still outstanding. With regard to insurance claims that have occurred but not yet been reported (unreported late outstanding claims), there is also a risk that they will not have been taken into account, or not to a sufficient extent.

Our audit approach
In connection with the audit of the provision for reported and unreported insurance claims, part of our audit team included claims actuaries, and we performed the following significant audit procedures:

- We examined the process for calculating the provisions, identified the key controls and tested them for their appropriateness and effectiveness. We assured ourselves that the controls, which are designed to ensure the timely processing of insurance claims and thus their correct valuation, were appropriately set up and effectively carried out.
- For a sub-group of insurance claims, we used the records for various insurance branches and types to gain an understanding of the amount of the individual provisions for reported insurance claims.

- We audited the calculations made to ascertain unreported late outstanding claims. In doing so, we reviewed, in particular, the derivation of the estimated number of claims and their amount based on historical experience and current developments.
- We performed our own actuarial reserve calculations for certain segments, which we selected on the basis of risk considerations. In doing so, we used statistical probabilities to define a point estimate and an appropriate range and then compared these with the calculations made by the Group.
- Using settlement results, we analysed the actual change in the provision for outstanding insurance claims that had been created in the previous year.
- We analysed the change in the provision for claims on the basis of a time-series comparison of, in particular, the number and average amount of claims and the ratio of claims reported in the financial year to premiums received in the financial year, as well as ratio of claims reported in the financial year to premiums received in the financial year, less income attributable to the previous financial year.

Our conclusions
The methods used to determine the carrying amount of the sub-provision for reported and unreported insurance claims in direct property/casualty insurance business were proper and in conformity with the accounting standards that are required to be applied. The underlying assumptions and parameters were derived in an appropriate manner.

Measurement of provisions for interest bonus options and refunds of closing fees (provisions for home loan savings business)

With respect to accounting and measurement methods, we refer to the explanations in the notes in the chapter “Accounting policies”, section “Other provisions”. Risk disclosures can be found in the opportunity and risk report, which is part of the combined management report, in the section “Collective risks”.

Risk for the financial statements
In the item “Other provisions”, the consolidated financial statements show provisions for home loan savings business in the amount of €1,047.0 million (1.5% of the balance sheet total). These consist of provisions for refunds of closing fees in the event of loan waiver (EUR 32.2 million) and for interest bonus options (EUR 1,014.8 million).

Provisions for home loan savings business depict the risk that where the requirements defined in the rate-specific General Terms and Conditions for Home Loan Savings Contracts (ABB) are met (e.g. loan waiver by the home loan savings customer), Wüstenrot Bausparkasse AG will have to grant the customer retroactive interest bonuses or refund closing fees.

The measurement methods used to calculate the provisions for home loan savings business are complex, and the relevant parameters and assumptions concerning the estimation of future customer behaviour are subject to substantial uncertainties and discretion. Even minor changes in those parameters and assumptions may result in substantial changes in the amount of the provisions. Significant discretionary decisions are associated, in particular, with estimating the probability of utilisation (bonus ratio) by using historical data from the home loan savings pool (empirical forward projection) or – in the absence of sufficient historical data – by deriving the bonus ratio from expert estimates.

There is a risk for the financial statements that based on the measurement models applied, as well as the assumptions and discretionary decisions taken into account in this respect, future customer behaviour will not be estimated correctly, such that the provisions for home loan savings business will not be calculated accurately.

Our audit approach
Our audit of the provisions for home loan savings business consisted of the following audit procedures:

- In order to gain an understanding of the measurement process, the measurement methods (including the assumptions and parameters) and the relevant internal control, we met with management and with representatives from the relevant company departments and reviewed the written rules of procedure.
- We first evaluated the appropriateness of the controls put in place to ensure the accuracy and completeness of the data included in the calculation. Then, we audited their viability.
- In particular, we reviewed whether the applied measurement models were appropriate for calculating the provisions for home loan savings business.
- For the audit of the bonus ratios and the key underlying assumptions that were applied in connection with the empirical forward projection, we reviewed, in particular, the comparison that was performed of the estimates that had been made for the previous financing year with the subsequent actual results and then analysed the results for whether they confirm the estimation method that was applied as well as the key underlying assumptions.

- With regard to the rates in connection with which the bonus ratios were calculated using expert estimates, we reviewed, in particular, the validations that were performed of the bonus ratios (e.g. on the basis of not yet sufficient historical data or comparable rates) and likewise analysed them for whether they confirm the estimation method that was applied.
- By comparing them with the General Terms and Conditions for Home Loan Savings Contracts, we audited whether all relevant rates were taken into consideration in the measurement models.
- Moreover, on the basis of a selection, we audited the database underlying the calculation for whether it was accurate and complete by comparing it with the portfolio management systems or by means of relevant documentation (e.g. General Terms and Conditions for Home Loan Savings Contracts).
- In addition, we gained an understanding of the key steps taken to calculate the provisions.

Our conclusions
The methods used to determine the carrying amounts of the provisions for home loan savings business were proper and in conformity with the accounting standards that are required to be applied. The underlying assumptions and parameters were appropriately derived.

Other information

The Executive Board is responsible for the other information. The other information comprises:

- the Group corporate governance statement and
- the other parts of the annual report, with the exception of the audited consolidated financial statements and the combined management report, as well as our audit report.

Our audit opinions concerning the consolidated financial statements and the combined management report do not cover the other information, and as a result, we do not provide an audit opinion or any other form of audit conclusion concerning it.

In connection with our audit, our responsibility is to read the other information and, in doing so, assess whether the other information

- is materially inconsistent with the consolidated financial statements, the combined management report or our knowledge obtained in the audit or
- otherwise appears to be materially misstated.

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

The Executive Board is responsible for preparing the consolidated financial statements in a manner that complies in all material respects with the IFRSs applicable in the EU and with the additional German statutory requirements that are applicable pursuant to Section 315e (1) of the German Commercial Code (HGB), as well as for ensuring that in compliance with those provisions, the consolidated financial statements present a true and accurate view of the Group’s net assets, financial position and financial performance. Furthermore, the Executive Board is responsible for the internal controls that it has specified as necessary in order to facilitate the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Executive Board is responsible for assessing the Group’s ability to continue as a going concern. In addition, it is responsible for disclosing, as applicable, matters related to the going concern. Moreover, it is responsible for using the going concern basis of accounting unless intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Furthermore, the Executive Board is responsible for preparing the combined management report that as a whole presents a true and accurate view of the Group’s position and that in all material respects is consistent with the consolidated financial statements, complies with German statutory requirements and accurately depicts the opportunities and risks of future development. In addition, the Executive Board is responsible for the arrangements and measures (systems) that it considers necessary in order to facilitate the preparation of a combined management report in conformity with German statutory requirements and to enable sufficient and appropriate evidence to be provided for the statements in the combined management report.

The Supervisory Board is responsible for monitoring the Group's accounting process with respect to the preparation of the consolidated financial statements and the combined management report.

Responsibility of the statutory auditor for the audit of the consolidated financial statements and the combined management report

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether the combined management report as a whole presents a true and accurate view of the Group’s position and in all material respects is consistent with the consolidated financial statements and the knowledge gained in the audit, complies with German statutory requirements and accurately depicts the opportunities and risks of future development, as well as to issue an audit report containing our audit opinions concerning the consolidated financial statements and the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in conformity with Section 317 of the German Commercial Code (HGB) and with the EU Audit Regulation, as well as in accordance with the German standards for the proper auditing of financial statements promulgated by the IDW (Institute of Public Auditors in Germany), will always detect a material misstatement. Misstatements may be the result of non-compliance or inaccuracies and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users that are taken on the basis of these consolidated financial statements and the combined management report.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement is higher in the case of fraud than in the case of error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of the arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

- Evaluate the appropriateness of the accounting policies used by the Executive Board and the reasonableness of the estimates and related disclosures made by the Executive Board.

- Draw conclusions on the appropriateness of the Executive Board’s use of the going concern basis of accounting and, based on the audit evidence obtained, about whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements depict the underlying business transactions and events in such a way as to present a true and accurate view of the Group’s net assets, financial position and financial performance in accordance with the IFRSs applicable in the EU and with the additional German statutory requirements that are applicable pursuant to Section 315e (1) of the German Commercial Code (HGB).

- Obtain sufficient and appropriate audit evidence for the accounting information of the companies or business activities in the Group in order to submit audit opinions concerning the consolidated financial statements and the combined management report. We are responsible for guiding, monitoring and conducting the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with the law and its depiction of the view of the Group's position.

- Perform audit procedures concerning the forward-looking statements made by the Executive Board in the combined management report. In doing so, on the basis of sufficient and appropriate audit evidence, we gain an understanding, in particular, of the key assumptions underlying the Executive Board's forward-looking statements and evaluate whether the statements were properly derived from those assumptions. We do not provide a separate audit opinion concerning the forward-looking statements or the underlying assumptions. There is a substantial, unavoidable risk that future events may significantly deviate from the forward-looking statements.

We meet with the individuals responsible for monitoring in order to discuss, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in internal control that we identify during our audit.

We provide the individuals responsible for monitoring with a statement that we complied with the relevant independence requirements, and we discuss with them all relationships and other matters that may reasonably be presumed to influence our independence and the steps we have taken to guard against this.

From the matters that we discussed with the individuals responsible for monitoring, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current reporting period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

Other statutory and legal requirements

Other disclosures pursuant to Article 10 of the EU Audit Regulation

We were selected as the Group statutory auditor at the meeting of the Supervisory Board on 21 March 2018. We were given a mandate by the chairman of the Supervisory Board's Risk and Audit Committee on 18 June 2018. We have served as the Group statutory auditor of Wüstenrot & Württembergische AG without interruption since the 2011 financial year.

We declare that the audit opinions contained in this audit report are consistent with the additional report to the Supervisory Board's Risk and Audit Committee in accordance with Article 11 of the EU Audit Regulation.

Responsible auditor

The auditor responsible for the audit is Dr Christof Hasenburg.

Stuttgart, 8 March 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

signed Dr Hasenburg
Wirtschaftsprüfer
(German public auditor)

signed Eisele
Wirtschaftsprüfer
(German public auditor)

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Balance sheet as at 31 December 2018

Assets

in € thousands	cf. Note no.[1]	31.12.2018	31.12.2018	31.12.2018	31.12.2017
A. Intangible assets	1				
I. Licenses acquired against payment, industrial property rights and similar rights and assets, as well as licenses for such rights and assets				1	6
B. Capital investments					
I. Land, land-type rights and buildings, including buildings on third-party land	2		186,788		170,634
II. Capital investments in affiliated companies and participations	3				
1. Interests in affiliated companies		1,489,749			1,696,937
2. Loans to affiliated companies		411,700			345,511
3. Participations		44,186			60,818
			1,945,635		2,103,266
III. Other capital investments					
1. Shares, interests or shares in investment assets and other variable-yield securities	4	528,370			524,260
2. Bearer bonds and other fixed-income securities		186,542			134,744
3. Other loans	5	249,226			284,416
4. Deposits with credit institutions	6	132,047			52,128
thereof with affiliated companies: €107,100 thousand (previous year: €20,300 thousand)					
5. Other capital investments		87			87
			1,096,272		995,635
IV. Receivables from deposits with ceding companies			31,120		31,671
				3,259,815	3,301,206
C. Receivables					
I. Amounts receivable on reinsurance business			45,610		36,598
II. Other receivables	7		178,381		208,683
thereof from affiliated companies: €165,787 thousand (previous year: €208,467 thousand)				223,991	245,281
Carryover				**3,483,807**	**3,546,493**

1 See numbered explanations in the notes to the consolidated financial statements.

Assets

in € thousands	cf. Note no.	31.12.2018	31.12.2018	31.12.2018	31.12.2017
Carryover				**3,483,807**	**3,546,493**
D. Other assets					
I. Property, plant and equipment and inventories			1,180		1,375
II. Current accounts with banks, cheques and cash			204,188		48,634
				205,368	50,009
E. Deferred assets					
I. Deferred interest and rental income			7,285		7,459
II. Other deferred assets	8		65		117
				7,350	7,576
F. Excess of plan assets over pension liabilities	9			787	482
Total Assets				**3,697,312**	**3,604,560**

Liabilities

in € thousands	cf. Note no.	31.12.2018	31.12.2018	31.12.2018	31.12.2017
A. Equity					
I. Share capital[1]	10	490,311			490,311
thereof less: mathematical value of own shares		663			1,040
			489,648		489,271
II. Capital reserve	11		994,657		994,084
III. Retained earnings	12				
Other retained earnings		406,577			387,577
			406,577		387,577
IV. Balance sheet profit	13		65,338		65,174
				1,956,220	1,936,106
B. Technical provisions					
I. Provision for unearned premiums					
1. Gross amount		20,820			20,167
2. Thereof to: the portion for ceded reinsurance business		2,993			2,556
			17,827		17,611
II. Provision for future policy benefits					
1. Gross amount		30,303			30,800
			30,303		30,800
III. Provision for outstanding insurance claims					
1. Gross amount		479,502			499,980
2. Thereof to: the portion for ceded reinsurance business		128,610			132,413
			350,892		367,567
IV. Claims equalisation provision and similar provisions			94,553		80,954
V. Other technical provisions					
1. Gross amount		4,838			5,373
2. Thereof to: the portion for ceded reinsurance business		-1,002			–
			5,840		5,373
				499,415	502,305
Carryover				**2,455,635**	**2,438,411**

1 Information about authorised and contingent capital is contained in the notes.

Liabilities

in € thousands	cf. Note no.	31.12.2018	31.12.2018	31.12.2018	31.12.2017
Carryover				**2,455,635**	**2,438,411**
C. Other provisions					
I. Provisions for pensions and similar obligations	14		954,132		882,388
II. Tax provisions			86,333		77,925
III. Other provisions	15		26,655		30,443
				1,067,120	990,756
D. Deposits retained from ceded reinsurance business	16			16,804	18,587
E. Other liabilities					
I. Accounts payable on reinsurance business			55,483		31,271
thereof to affiliated companies: €46,807 thousand (previous year: €26,274 thousand)					
II. Liabilities to credit institutions			102,185		125,493
thereof for taxes: €5,616 thousand (previous year: €454 thousand) thereof to affiliated companies: €95,352 thousand (previous year: €121,850 thousand)				157,668	156,764
F. Deferred liabilities	18			**85**	**42**
Total Liabilities				**3,697,312**	**3,604,560**

Income statement W&W AG HGB
for the period 1 January to 31 December 2018

in € thousands	cf. Note no.	1.1.2018 bis 31.12.2018	1.1.2018 bis 31.12.2018	1.1.2018 bis 31.12.2018	1.1.2017 bis 31.12.2017
I. Technical account					
1. Premiums earned for own account					
a) Gross premiums written		361,094			340,407
b) Paid einsurance premiums		91,244			83,644
			269,850		256,763
c) Change in the gross provision for unearned premiums		-653			91
d) Change in the reinsurers' portion of the gross provision for unearned premiums		437			340
			-216		431
				269,634	257,194
2. Income from technical interest for own account	19			1,069	1,058
3. Other technical incomes for own account				394	429
4. Expenses for insurance claims for own account					
a) Payments for insurance claims					
aa) Gross amount		239,879			205,822
bb) Reinsurers' portion		60,598			43,683
			179,281		162,139
b) Change in the provision for outstanding insurance claims	20				
aa) Gross amount		-21,250			17,796
bb) Reinsurers' portion		-3,621			21,842
			-17,629		-4,046
				161,652	158,093
5. Change in other net technical provisions					
a) Net provision for future policy benefits			497		1,102
b) Sundry net technical provisions			-467		-481
				30	621
6. Expenses for insurance business for own account	21				
a) Gross expenses for insurance business			117,851		112,236
b) Thereof less: received commissions and profit participations from ceded reinsurance business			19,819		19,660
				98,032	92,576
7. Other technical expenses for own account				1,420	1,241
8. Subtotal				**10,023**	**7,392**
9. Change in the claims equalisation provision and similar provisions				-13,599	-11,200
10. Net technical loss for own account				-3,576	-3,808
Carryover				**-3,576**	**-3,808**

in € thousands	cf. Note no.	1.1.2018 bis 31.12.2018	1.1.2018 bis 31.12.2018	1.1.2018 bis 31.12.2018	1.1.2017 bis 31.12.2017
Carryover				**-3,576**	**-3,808**
II. Non-technical account					
1. Income from capital investments					
a) Income from participations		35,860			14,603
thereof from affiliated companies: €32,576 thousand (previous year: €11,670 thousand)					
b) Income from other capital investments	22	35,788			32,921
thereof from affiliated companies: €22,210 thousand (previous year: €18,111 thousand)					
c) Income from write-ups	23	16,210			89,189
d) Gains from the disposal of capital investments	24	2,464			2,161
e) Income from profit pools, profit transfer agreements and partial profit transfer agreements		180,998			107,678
			271,320		246,552
2. Expenses for capital investments					
a) Capital investment management expenses, interest expenses and other expenses for capital investments		13,849			6,057
b) Depreciations on capital investments	25	33,665			30,163
c) Losses from the disposal of capital investments	26	2,458			550
d) Expenses from loss assumption		15,054			4,286
			65,026		41,056
			206,294		205,496
3. Income from technical interest			-1,035		-1,100
				205,259	204,396
4. Other income	27		97,399		102,090
5. Other expenses	28		179,275		179,621
				-81,876	-77,531
6. Net income from normal business activities				119,807	123,057
7. Income taxes	29		39,948		43,006
8. Other taxes			-160		99
				39,788	43,105
9. Annual Profit				**80,019**	**79,952**
10. Retained earnings carried forward from the previous year				319	222
11. Allocation to retained earnings					
Other retained earnings				15,000	15,000
12. Balance sheet profit				**65,338**	**65,174**

Notes

Notes concerning the annual financial statements

Wüstenrot & Württembergische AG draws up its annual financial statements and prepares its Management Report in accordance with the statutory requirements of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Act on the Supervision of Insurance Undertakings (VAG) and the German Regulation on the Accounting of Insurance Undertakings (RechVersV).

Measurement methods for assets

Intangible assets

Purchased intangible assets, primarily standard software, are measured at cost less scheduled straight-line amortisation.

Land, land-type rights and buildings, including buildings on third-party land

Assets recognised under the item "Land, land-type rights and buildings" are measured at cost less scheduled straight-line depreciation or at fair value, whichever is lower. Unscheduled write-downs take place only in the event of expected permanent impairment, and the lower fair value is recognised. If the reasons for a lower carrying amount no longer exist, the asset is written up to a maximum of its historical depreciated cost.

Shares in affiliated companies

Interests in affiliated companies are measured at cost. Pursuant to Section 341b (1) in conjunction with Section 253 (3) sentence 3 of the German Commercial Code (HGB), unscheduled write-downs to the lower fair value take place only in the event of expected permanent impairment (moderate lower-value principle). If the reasons for a lower carrying amount no longer exist, the asset is written up to a maximum of its historical cost.

Loans to affiliated companies

Recognised under the item "Loans to affiliated companies" are bearer bonds, promissory notes and loans receivable. For recognition and measurement, please see the comments on the items below.

Participations

Participations are measured at cost. Pursuant to Section 341b (1) in conjunction with Section 253 (3) sentence 3 of the German Commercial Code (HGB), unscheduled write-downs to the lower fair value take place only in the event of expected permanent impairment (moderate lower-value principle). If the reasons for a lower carrying amount no longer exist, the asset is written up to a maximum of its historical cost.

Shares, interests or shares in investment assets and other variable-yield securities

Pursuant to Section 341b (2) in conjunction with Section 253 (4) of the German Commercial Code (HGB), interests or shares in investment assets are recognised at average cost less unscheduled write-downs in accordance with the strict lower-value principle. If the reasons for a lower carrying amount no longer exist, the asset is written up to a maximum of its historical cost.

Bearer bonds and other fixed-income securities

Pursuant to Section 341b (2) in conjunction with Section 253 (4) of the German Commercial Code (HGB), bearer bonds and other fixed-income securities are recognised at average cost less unscheduled write-downs in accordance with the strict lower-value principle and are measured taking into account the requirement to reverse impairment losses.

Other loans

The item “Other loans” contains registered bonds, promissory notes and loans receivable. These receivables are measured according to the rules applicable to fixed assets.

In departure from this, pursuant to Section 341c (1) of the German Commercial Code (HGB), registered bonds are recognised at their nominal value less repayments made. Premiums and discounts are spread on a straight-line basis over the term to maturity.

Pursuant to Section 341c (3) of the German Commercial Code (HGB), promissory notes, loans receivable and miscellaneous loans are measured at amortised cost by spreading the difference between cost and the repayment amount over the residual maturity using the effective interest method.

In order to determine whether registered bonds, promissory notes or loans receivable are permanently impaired, ratings analyses are performed for issuers whose rating has deteriorated by two or more notches or whose securities are over-valued by at least 10%. If on the basis of the ratings analyses it can no longer be expected that the securities will be repaid in conformity with the contract, they are written down to the lower fair value. In addition, collective impairments are taken on registered bonds on a portfolio basis in accordance with experience in recent years.

Deposits with credit institutions

Deposits with credit institutions are generally recognised in their nominal amounts.

Other investments

Other investments are measured at cost.

Receivables from deposits with ceding companies and from reinsurance business

Receivables from deposits with ceding companies and amounts receivable from reinsurance business are generally recognised at nominal value. In addition, amounts receivable from reinsurance business include receivables that were measured using the default probability of the S&P rating model and for which collective impairments were taken.

We recognise the default risk of reinsurers by taking a collective impairment for amounts receivable on reinsurance business and by deducting on the liabilities side the part that relates to the reinsurers’ portions of technical provisions for insurance claims.

Other assets

Property, plant and equipment are measured at cost less scheduled straight-line depreciation over their normal useful life. Assets with a net cost of up to €250 are depreciated in full in the year of acquisition. In accordance with tax rules, assets with a net cost of more than €250 and up to €1,000 are recognised in full in the year of acquisition and depreciated on a straight-line basis over a period of five years.

Other receivables are recognized at acquisition costs or nominal value.

The excess of plan assets over pension liabilities relates to a surplus that results from the offsetting of reinsurance claims measured at fair value against liabilities under phased-in early retirement agreements. Insolvency-proof reinsurance claims are measured at fair value consisting of coverage capital an the participation in surplus , which, under compliance with the strict lower-value principle, corresponds to amortised cost in accordance with Section 253 (4) of the German Commercial Code (HGB).

No use was made of the option to recognise deferred tax assets on the basis of the tax relief resulting under Section 274 (1) sentence 2 of the German Commercial Code (HGB).

Reversals

For assets that were written down in previous years to a lower fair value, the impairment loss must be reversed if the reasons for taking the impairment no longer exist. In conformity with the principles in Section 253 (5) of the German Commercial Code (HGB), impairment losses are reversed to a maximum of amortised cost.

Derivatives

Currency forwards are concluded in order to economically hedge German covered mortgage bonds and bearer bonds. They are measured on a transaction-specific basis. Provisions are created for contingent losses from these transactions.

Acquired option rights are measured at cost in the amount of the option premium less write-downs in accordance with the strict lower-value principle, taking into account the requirement to reverse impairment losses. Option premiums for sold options are recognised under “Miscellaneous liabilities” for as long as there is a duty to perform under the option. A risk of excess liability surplus under written options is accounted for by creating provisions for impending losses.

Determination of fair value

As a rule, we obtain outside appraisals for the purpose of measuring properties used by the Group. New appraisals are requested at regular intervals.

We base the fair value of affiliated companies and participations on their capitalised earnings value or on the fair value determined using the net asset value method, in some cases also on cost, the realisation value or the proportional share of equity.

Recognised as the fair value of other investments is the most recently available exchange price or a market value determined on the basis of recognised mathematical models that are customary on the market.

Interests or shares in investment assets are recognised at their most recently available redemption price.

Measurement methods for liabilities

Technical provisions

The provision for unearned premiums in assumed business is recognised in accordance with the information provided by the prior insurers and in compliance with supervisory rules.

The provision for future policy benefits for casualty insurance policies that provide for premium refunds and for life insurance business is created in accordance with the information provided by the prior insurers.

Provisions for outstanding insurance claims for assumed business are calculated in accordance with the information provided by the prior insurers, in some cases as augmented by our own findings.

The claims equalisation provision contained in item B. IV was created in accordance with the annex to Section 29 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV).

The provisions for nuclear installation risks and for major pharmaceutical risks arising under product liability insurance are created in accordance with Section 30 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV).

Other technical provisions are created in accordance with the information provided by the prior insurers, in some cases as augmented by our own findings.

The reinsurers' portion of technical provisions is calculated in accordance with the contractual agreements.

Provisions for pensions and similar obligations

The provisions for pensions and similar obligations are calculated in accordance with actuarial principles. Pursuant to the German Accounting Law Modernisation Act (BilMoG), the amount needed to satisfy the obligation is determined using the projected unit credit method and recognised at the present value of the acquired pension entitlement. In determining these provisions, the following actuarial assumptions apply:

In %	31.12.2018	31.12.2017
Actuarial interest rate	3.21	3.69
Pension trend	2.00	2.00
Fluctuation	3.00	3.00
Rate area	3.50	3.50
Contract area	1.00	1.00
Biometrics	Heubeck mortality tables 2018G	Heubeck mortality tables 2005G

Pursuant to Section 253 (2) sentence 1 of the German Commercial Code (HGB), the actual interest rate applied is the average market interest rate over the past 10 years. The discount rates published by the German Bundesbank on 31 October 2018 with a 10-year average interest rate were modified by taking the average monthly decline in interest rates from 1 January to 31 October 2018 and extrapolating it for the months of November and December 2018. The difference between measurement of the provision for pensions and similar obligations using the 10-year average interest rate and that using the 7-year average interest rate pursuant to Section 253 (6) of the German Commercial Code (HGB) amounted to €124.0 million. We elected to use the simplification rule in Section 253 (2) sentence 2 HGB.

The updating of the Heubeck mortality tables to version 2018 G resulted in an increase in allocation expenses of €6.5 million for Wüstenrot & Württembergische AG and the nine companies for which it has assumed joint liability for pension commitments.

The conversion expense from the first-time application of the German Accounting Law Modernisation Act (BilMoG) in 2010 amounted to €117.3 million and may be allocated over a period of up to 15 years. On the reporting date, under-coverage totalling €2.4 million still existed for two of the companies for which Wüstenrot & Württembergischen AG has assumed joint liability for pension commitments. In connection with required netting, pledged reinsurance policies (€4.7 million; previous year: €4.5 million) were taken into account at fair value. This is composed of the coverage capital plus irrevocably committed surplus participation.

Tax provisions and miscellaneous provisions

Miscellaneous provisions and tax provisions are recognised in the amount needed to satisfy the obligation. In accordance with Section 253 (1) sentence 2 of the German Commercial Code (HGB), provisions with a maturity of longer than one year are generally determined in the amount needed to satisfy the obligation, taking into account future price and cost increases. Price and cost increases are in line with the inflation rate and are taken into account over the respective maturity of the provision at 1.75%. The rate used to discount miscellaneous provisions corresponds to the average rate of the past seven years published by the German Bundesbank pursuant to the German Regulation on the Discounting of Provisions (RückAbzinsV) for the respective assumed residual maturity. Results from discounting and compounding, from changes in the discounting rate and from the interest rate effects of a changed estimate of the residual maturity are recognised as interest income or interest expenses under "Other income" or "Other expenses", as the case may be. Tax interest accrued as at the reporting date is recognised under "Miscellaneous provisions".

Provisions for phased-in early retirement, social affairs and long-term service emoluments

A provision is created for the legal obligations under phased-in early retirement contracts existing on the reporting date, taking into account employer expenses for social insurance, in the amount of the present value of future top-up benefits (salary and supplemental contributions towards pension insurance) and compensation payments due to reduced pension insurance claims and the satisfaction arrears from advance work performed by the employee. The provision is discounted in accordance with the specific maturities using the corresponding interest rates published by the German Bundesbank in accordance with the German Regulation on the Discounting of Provisions (RückAbzinsV). In addition, a salary trend of 2.50% p.a. is taken into account during measurement. Biometric factors are taken into account when calculating the provision via a flat-rate discount of 2.0%. In addition, pledged reinsurance policies are taken into account at fair value, which is composed of coverage capital plus irrevocably committed surplus participation, and netted against phased-in early retirement obligations as coverage assets.

The provisions for social affairs and for long-term service emoluments are determined in the amount needed to satisfy the obligation, as required by Section 253 (1) sentence 2 of the German Commercial Code (HGB), by applying the Heubeck mortality tables 2018 G and an interest rate of 1.4% under the projected benefit obligation method. Fluctuation and future salary increases are taken into account.

Deposits retained from ceded reinsurance business and other liabilities

Deposits retained from ceded reinsurance business and other liabilities are recognised in the amount needed to satisfy them.

Currency translation

All business transactions are recognised in their original currency and translated into euros at the ECB's average spot exchange rate in effect on the relevant date. We comply in economic terms with the principle of congruent coverage per currency.

We translate items associated with foreign insurance business at the ECB's average spot exchange rate in effect on the reporting date. The corresponding income and expenses are recognised in the income statement at the relevant ECB average spot exchange rate in effect on the settlement date.

We generally measure capital investments denominated in foreign currency in accordance with the rules of individual measurement in conformity with with the lower-value principle. They are subsequently measured at the ECB's average spot exchange rate.

Bank balances denominated in foreign currencies are measured at the ECB's average spot exchange rate in effect on the reporting date.

Pursuant to Section 256a of the German Commercial Code (HGB), translation gains and losses are recognised in the income statement where the remaining term to maturity is one year or less.

Currency translation gains and losses from underwriting are recognised in the general section of the income statement under "Other income" or "Other expenses", as the case may be.

Exchange rate gains and losses from capital investments denominated in foreign currency are recognised under "Income from write-ups" and "Gains from the disposal of capital investments", while the corresponding losses are recognised under "Write-downs on capital investments" and "Losses from the disposal of capital investments".

Currency exchange rate gains and losses from current bank account balances denominated in foreign currency are recognised under "Other income" or "Other expenses", as the case may be.

Recording of income and expenses on an accrual basis

Active, non-Group reinsurance business is recorded in the following year, since the necessary accounting information from cedants for the current accounting year is not available at the time the financial statements are drawn up. Business assumed by affiliated companies is recognised in the reporting year. As a result of later recording, premium income for 2017 in the amount of €6.5 million (previous year: €6.8 million) was recognised in the 2018 reporting year.

Notes concerning assets

A. Investments (1)

The acquisition costs of data processing software are recognised under this item.

The change in intangible assets is depicted in the notes under “Individual disclosures concerning assets”.

B. Capital investments

The change in investments is depicted in the notes under “Individual disclosures concerning assets”.

I. Land, land-type rights and buildings, including buildings on third-party land (2)

As at the reporting date, our land used exclusively in the Group consisted of four (previous year: four) properties with a carrying amount of €186.8 million (previous year: €170.6 million), of which a significant portion is attributable to the first phase of the campus project, which has now been completed.

Assets under construction have been in the portfolio since 2016 for the second phase of the campus project.

No properties were sold during the reporting year.

II. Investments in affiliated companies and participations (3)

Pursuant to Section 285, no. 11 in conjunction with Section 271 (1) of the German Commercial Code (HGB), the disclosures concerning participations are set forth in the table “List of ownership interests”. The list sets forth all companies in which W&W AG owns at least 5% of the interests. Furthermore, we made use of the exemptions granted by Section 286 (3), no. 1 of the German Commercial Code HGB.

III. Other capital investments

1. Shares, interests or shares in investment assets and other variable-yield securities (4)

in € thousands	31.12.2018	31.12.2017
Interests or shares in investment assets	528,370	524,260
Total	**528,370**	**524,260**

3. Other loans (5)

in € thousands	31.12.2018	31.12.2017
Registered bonds	134,454	144,435
Promissory notes and loans receivable	114,772	139,981
Total	**249,226**	**284,416**

4. Deposits with credit institutions (6)

As at the end of the reporting year, we had overnight and term deposits invested in the amount of €132.0 million (previous year: €52.1 million), thereof €107.1 million (previous year: €20.3 million) in affiliated companies.

Fair value of capital investments

Valuation reserves

in € thousands	Carrying amount 31.12.2018	Fair value 31.12.2018	Valuation reserves[1] 31.12.2018	Carrying amount 31.12.2017	Fair value 31.12.2017	Valuation reserves[1] 31.12.2017
Land, land-type rights and buildings, including buildings on third-party land	186,788	190,368	3,580	170,634	174,060	3,426
Interests in affiliated companies	1,489,749	2,734,317	1,244,568	1,696,937	2,921,854	1,224,917
Loans to affiliated companies	411,700	433,627	21,927	345,511	381,188	35,677
Participations	44,186	58,793	14,607	60,818	81,627	20,809
Shares, interests or shares in investment assets and other variable-yield securities	528,370	568,620	40,250	524,260	573,817	49,557
Bearer bonds and other fixed-income securities	186,542	191,042	4,500	134,744	139,616	4,872
Registered bonds	134,454	147,195	12,741	144,435	160,523	16,088
Promissory notes and loans receivable	114,772	121,818	7,046	139,981	150,616	10,635
Deposits with credit institutions	132,047	132,072	25	52,128	52,145	17
Other capital investments	87	87	–	87	87	–
Deposits from reinsurance accepted	31,120	31,120	–	31,671	31,671	–
Total	**3,259,815**	**4,609,059**	**1,349,244**	**3,301,206**	**4,667,204**	**1,365,998**
Carrying amount of all investments, in %			**41.39**			**41.38**

1 Net perspective, balance of valuation reserves and hidden liabilities.

Disclosures pursuant to Section 285, no. 18 of the German Commercial Code (HGB) concerning capital investments recognised at greater than fair value

With regard to registered bonds, one item had a market value that is €238,049 below its carrying amount of €10,000,000 and with regard to loans there is an affiliated company with a market value of €135,200,000 which is by € 60,942 below its carrying amount. It was not written down because this circumstance was unrelated to creditworthiness. We expect to receive interest and redemption payments as scheduled.

Disclosures pursuant to Section 285, no. 19 of the German Commercial Code (HGB) concerning derivative instruments not recognised at fair value

Derivative instrument/grouping	Type	Nominal value	Fair value	Measurement method applied	Carrying amount and item[1]
		in € thousands	in € thousands		in € thousands
Share-/Index-related transactions	Option OTC	38	291	Option-price model	252
Currency-related transactions	Currency forwards	88,951	105	Discounted cash flow method	–

1 Derivatives have to do with pending transactions that are not accounted for.

This table focuses on derivatives whose carrying amount does not correspond to fair value on the reporting date.

Derivatives have to do with transactions to be settled in the future, whose value is based on the change in the value of an underlying asset pursuant to the agreed contractual terms. Normally, there are no or only minor acquisition costs for these.

If on the reporting date the carrying amount of a derivative corresponds to fair value, it is nevertheless taken into account in the table if the recognised value is based on the imparity principle or results from the creation of a loss provision.

Disclosures pursuant to Section 285, no. 26 of the German Commercial Code (HGB) concerning shares or interests in capital investments

Fund name	Investment objective	Certificate value under Section 36 of the German Investment Act (InvG)	Carrying amount	Discrepancy from the carrying amount	Distributions during the financial year
		in € thousands	in € thousands	in € thousands	in € thousands
LBBW AM-76	Mixed fund (up to 70%)	316,740	290,034	26,706	–
LBBW AM-EMB3	Pension fund	82,591	75,504	7,087	–
LBBW AM-W&W AG Corporate Bonds Fonds	Pension fund	61,095	56,500	4,595	–
W&W Flexible Point & Figure	Mixed fund (up to 70%)	35,894	35,894	–	–
W&W Flexible Premium II Fund B	Mixed fund (up to 70%)	25,765	25,765	–	–
LBBW AM-USD Corp. Bonds Fonds 3	Pension fund	21,280	21,280	–	810
LBBW AM Cove.Call USA Fund	Equity fund	14,301	12,559	1,742	245
W&W South East Asian Equity	Equity fund	10,307	10,226	81	13

We are unaware of any restrictions of the funds on the daily sell option. Only where all fund units are sold is there a termination notice period of three months.

C. Receivables

II. Other receivables (7)

in € thousands	31.12.2018	31.12.2017
Receivables from settlement transactions with affiliated companies and companies in which a participation interest is held	14,460	100,790
Receivables from profit and loss transfer agreements	151,328	107,678
Receivables from the tax office	10,330	6
Assets that have been pledged, deposited or assigned for the purposes of security[1]	–	70
Miscellaneous other receivables	2,263	139
Total	**178,381**	**208,683**

1 These are pledged cash securities from margin exposures relating to OTC derivatives.

E. Deferred assets

II. Other deferred assets (8)

This essentially includes premiums from the acquisition of registered bonds and prepayment of user fees in the amount of €0.0 million (previous year: €0.1 million).

F. Excess of plan assets over pension liabilities (9)

Assets that serve to cover liabilities under pension obligations or similar long-term obligations and that are inaccessible to all other creditors are required to be netted against the provisions for such obligations. If, in the process, the fair value of such assets exceeds the carrying amount of the provisions, the item "Excess of plan assets over pension liabilities" is to be created on the assets side of the balance sheet. The offsetting pursuant to Section 246 (2) sentence 3 of the German Commercial Code (HGB) of claims under reinsurance policies in the amount of €1.9 million (previous year: €1.7 million) with partial amounts of the phased-in early retirement provisions for satisfaction arrears in the amount of €1.1 million (previous year: €1.2 million) resulted in an excess of €787.1 thousand (previous year: €481.8 thousand).

Notes concerning liabilities

A. Equity

Another employee share ownership programme was conducted in the first half-year of 2018. It enabled all employees of companies in the W&W Group to acquire up to 40 shares of W&W AG at a price of €13.18 per share, which represented a discount of €5.00 per share. Employees are required to hold these shares for at least three years. In connection with this employee share ownership programme, W&W AG issued a total of 72,039 treasury shares within the Group in 2018 in exchange for payment of an acquisition price. That corresponds to an amount of €0.4 million (0.08%) of the relevant share capital. W&W AG has collected a total of €1.0 million from the issuance of treasury shares. The remaining balance of 126,726 treasury shares, representing an amount of €662,776.98 (0.14%) of share capital, is to be used for further employee share ownership programmes.

I. Share capital (10)

Share capital of €489.6 million (previous year: €489.3 million) is divided into 93,749,720 (previous year: 93,749,720) registered no-par-value shares and is fully paid up, with each share mathematically representing €5.23 of share capital. In 2018 employees purchased a total of 72,039 treasury shares, resulting in an increase €0.4 million. The remaining balance of 126,726 treasury shares reduces the amount of share capital by €0.7 million.

Share capital

in € thousands	
As at 31 December 2017	489,271
Sale of treasury shares	377
As at 31 December 2018	**489,648**

II. Capital reserve (11)

As at the reporting date, the capital reserve amounted to €994.7 million (previous year: €994.1 million). It relates to the premium from the capital contribution of €271.9 million (previous year: €271.9 million) and other additional payments of €725.9 million (previous year: €725.9 million), less the difference of €3.1 million between the mathematical value of treasury shares and the acquisition costs or sales proceeds for them, which was allocated to the capital reserve.

Capital reserve

in € thousands	
As at 31 December 2017	994,084
Sale of treasury shares	573
As at 31 December 2018	**994,657**

III. Retained earnings (12)

Retained earnings increased from €387.6 million to €406.6 million as a result of the resolution adopted by the Annual General Meeting to allocate €4.0 million from the unappropriated surplus of 2017 and €15.0 million from the 2018 net profit.

Retained earnings

in € thousands	
As at 31 December 2017	387,577
Retained earnings from 2017 as allocated by the Annual General Meeting	4,000
Allocation from net profit	15,000
As at 31 December 2018	**406,577**

IV. Unappropriated surplus (13)

The unappropriated surplus amounted to €65.3 million (previous year: €65.2 million). This includes retained earnings in the amount of €0.3 million (previous year: €0.2 million) carried forward from the previous year.

Proposal for the appropriation of unappropriated surplus

The unappropriated surplus amounts to €65,338,543.17. We propose that it be appropriated as follows:

in €	31.12.2018
Dividend of €0.65 per share	60,937,318,00
Allocation to retained earnings	4,000,000,00
Carry forward to new account	401,225,17
Total	**65,338,543,17**

The proposal assumes that at the time when the resolution on the appropriation of profit is adopted by the Annual General Meeting, the company does not hold any treasury shares, which pursuant to Section 71b of the German Stock Corporation Act (AktG) are not entitled to receive dividends. However, if at the time when the resolution on the appropriation of profit is adopted by the Annual General Meeting, the company holds treasury shares, which pursuant to Section 71b of the German Stock Corporation Act (AktG) are not entitled to receive dividends, an unchanged dividend of €0.65 per share entitled to receive dividends will be proposed to the Annual General Meeting in the form of a correspondingly modified resolution on the appropriation of profit. The modification will be carried out in such a way that the total amount of the dividend will be reduced by the amount corresponding to the number of treasury shares held by the company multiplied by €0.65 (dividend per share entitled to receive dividends), with such amount then being carried forward to new account.

C. Other provisions

I. Provisions for pensions and similar obligations (14)

In addition to pension provisions for Wüstenrot & Württembergische AG and employees of the former Württembergische Feuerversicherung AG and Gemeinschaft der Freunde Wüstenrot GmbH, also recognised here are the pension provisions for nine (previous year: nine) subsidiaries. Wüstenrot & Württembergische AG assumed joint liability for the pension commitments of these subsidiaries in exchange for a one-time compensation payment in the amount of the former partial value, and it made an internal agreement with the subsidiaries to meet these pension obligations. The income and expenses from the change in these pension obligations are settled annually in cash with the subsidiaries. As at the reporting date, the pension provisions amounted to €954.1 million (previous year: €882.4 million). This amount includes the netting of the asset value from reinsurance policies in the amount of €4.7 million (previous year: €4.5 million).

III. Other provisions (15)

in € thousands	31.12.2018	31.12.2017
Phased-in early retirement	633	845
Expenses for the annual financial statements	2,808	2,715
Holiday obligations and flex-time credits	2,857	3,016
Bonuses and performance incentives	4,440	4,199
Outstanding receivables in real estate	832	3,749
Expenses for omitted land maintenance	130	234
Employee long-service obligations	225	232
Legal risks	1,500	1,500
Interest expense under Section 233 a of the German Fiscal Code (AO)	7,358	8,022
Provision for sureties	1,297	2,194
Contributions to the employers' liability insurance scheme, compensatory levy for disabled persons, etc.	4,575	3,737
Total	**26,655**	**30,443**

“Other provisions” also include benefits for phased-in early retirement. This item contains the portion of the provision that is not “out-financed” in an insolvency-proof manner through reinsurance. Pledged reinsurance policies for the credit balance under phased-in early retirement agreements, which are inaccessible to all other creditors and serve solely to satisfy these phased-in early retirement obligations, are netted with these. Income and expenses from discounting and from the assets to be offset are handled in an analogous manner. Pledged reinsurance policies are taken into account at their fair value. This is composed of the coverage capital plus irrevocably committed surplus participation.

As at 31 December, the item “Benefits for phased-in early retirement” was as follows:

in € thousands	31.12.2018	31.12.2017
Amount needed to satisfy vested claims	1,752	2,073
thereof capable of being netted with reinsurance	1,119	1,228
Carrying amount	**633**	**845**

D. Deposits retained from ceded reinsurance business (16)

Retained deposits have an indefinite term. Depending on individual trends in claims and the conditions on the capital market, the term may be longer than five years.

E. Other liabilities

III. Miscellaneous liabilities (17)

There are liabilities to affiliated companies in the amount of €95.4 million (previous year: €121.9 million), trade payables in the amount of €0.2 million (previous year: €2.6 million), liabilities for value-added taxes in the amount of €5.6 million (previous year: €0.5 million) and liabilities for severance payments in the amount of €0.1 million (previous year: €0.0 million).

All liabilities have a residual maturity of less than 12 months.

F. Deferred liabilities (18)

These consist of discounts for registered bonds and deferred interest items in the amount of €0.1 million (previous year: €0.0 million).

Notes concerning the income statement

I. Technical account

2. Technical interest income for own account (19)

Recognised here pursuant to Section 38 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV) is interest on pension provisions and the premium reserve after deduction of the reinsurers' portion. It also includes interest on the provision for future policy benefits for assumed reinsurance in life insurance business.

4. Expenses for insurance claims for own account

b) Change in the provision for outstanding insurance claims (20)
Gains in the amount of €23.0 million (previous year: €21.0 million) resulted from the settlement of the provision for outstanding insurance claims that was assumed from the previous financial year. These mainly come from the business lines general liability (€7.4 million), motor (€4.8 million), fire (€4.6 million) and other property insurance (€4.5 million).

6. Expenses for insurance business for own account (21)

Gross expenses for insurance business amounted to €117.9 million (previous year: €112.2 million), of which €117.3 million (previous year: €111.7 million) was attributable to acquisition costs and €0.6 million (previous year: €0.6 million) to general administrative expenses.

II. Non-technical account

1. Income from capital investments

b) Income from other capital investments (22)

in € thousands	2018	2017
Land, land-type rights and buildings, including buildings on third-party land	8,688	7,920
Other capital investments	27,100	25,001
Total	**35,788**	**32,921**

c) Income from write-ups (23)
Write-ups caused by the adjustment of the carrying amount from an affiliated company, which totalled €13.6 million, form a significant proportion of this item. In addition, income includes exchange rate gains in the amount of €0.2 million (previous year: €0.0 million) for participations, €0.4 million (previous year: €0.0 million) for bearer bonds and other fixed-income securities and €1.6 million (previous year: €0.0 million) for deposits with credit institutions. The breakdown of this item is depicted in the notes under "Individual disclosures concerning assets".

d) Gains from the disposal of capital investments (24)

in € thousands	2018	2017
Participations[1]	1,247	985
Shares, interests or shares in investment assets and other variable-yield securities	–	871
Bearer bonds and other fixed-income securities[2]	942	305
Deposits with credit institutions[3]	85	–
Other investments	190	–
Total	**2,464**	**2,161**

1 Thereof exchange rate gains of €21 thousand (previous year: €13 thousand)
2 Thereof exchange rate gains of €5 thousand (previous year: €13 thousand)
3 Thereof exchange rate gains of €85 thousand (previous year: €–)

2. Expenses for capital investments

b) Write-downs on capital investments (25)

The item includes unscheduled write-downs of €29.4 million that were taken in accordance with Section 253 (3) sentences 5 and 6 in conjunction with Section 277 (3) sentence 1 of the German Commercial Code (HGB). Of this amount, €22.2 million was attributable to affiliated companies and participations and €7.0 million to securities and interests or shares in investment assets.

The write-downs on affiliated companies and participations involve balance-sheet items that are measured like fixed assets, while the write-downs on securities and interests or shares in investment assets concern balance-sheet items classified as current assets. Currency write-downs amounted to €5.0 million.

c) Losses from the disposal of capital investments (26)

in € thousands	2018	2017
Participations[1]	1,408	353
Shares and variable-yield securities	127	–
Bearer bonds and fixed-income securities[2]	17	197
Deposits with credit institutions[3]	906	–
Total	**2,458**	**550**

1 Thereof exchange rate losses of €288 thousand (previous year: €66 thousand)
2 Thereof exchange rate losses of €9 thousand (previous year: €189 thousand)
3 Thereof exchange rate losses €906 thousand (previous year: €0 thousand)

4. Other income (27)

Material items are:

This item includes service income in the amount of €88.3 million (previous year: €86.1 million), income from the release of provisions created in previous years in the amount of €0.6 million (previous year: €3.1 million) and exchange rate gains in the amount of €0.5 million (previous year: €4.5 million), as well as interest income on corporate tax pursuant to Section 233a of the Fiscal Code in the amount of €1.8 million (previous year: €3.3 million) and interest income on trade tax pursuant to Section 233a of the Fiscal Code in the amount of €1.7 million (previous year: €3.3 million).

5. Other expenses (28)

General administrative expenses constituted the largest item, coming in at €140.6 million (previous year: €138.6 million). It includes expenses for performed services in the amount of €88.3 million (previous year: €86.1 million). Other material items are interest expenses in the amount of €35.9 million (previous year: €34.6 million) and exchange rate losses in the amount of €0.8 million (previous year: €4.6 million). Interest expenses relate to the interest due on credit accounts resulting from the assumption of joint liability for pension commitments in the amount of €15.9 million (previous year: €17.4 million) and interest expenses for pension provisions in the amount of €15.0 million (previous year: €12.8 million). Whereas other expenses in the previous year included currency expenses of €3.7 million from the translation of deposits with credit institutions, currency expenses in the 2018 financial year were recognised under "Net income/expense from investments".

With respect to phased-in early retirement agreements, expenses from compounding and income from discounting and from the assets to be offset in the amount of €17 thousand (previous year: €21 thousand) and expenses from compounding the pension provision and income from discounting the assets in reinsurance policies in the amount of €111 thousand (previous year: €105 thousand) were offset against each other pursuant to Section 246 (2) sentence 2 of the German Commercial Code (HGB).

7. Income taxes (29)

Tax expenses of €39.9 million (previous year: €43.0 million) were mainly the result of current taxes for the financial year. In the previous year, the settlement of taxes from preceding years had a salutary effect on tax expenses (previous year: income of €20.1 million).

The carrying amounts for land, land-type rights and buildings, which differ from one another under commercial law and tax law accounting rules, resulted in deferred tax liabilities, which were offset, i.e. netted, in particular against deferred tax assets from shares, interests or shares in investment assets and other variable-yield securities, the provision for outstanding insurance claims and provisions for pensions. Deferred taxes were calculated using a tax rate of 30.6%. Since, after netting, deferred tax assets exceeded deferred tax liabilities, the option in Section 274 (1) sentence 2 of the German Commercial Code (HGB) was exercised, and the deferred tax assets were not capitalised.

Other mandatory disclosures

Mandates

Memberships on supervisory boards required to be created by statute, as well as on comparable domestic and foreign control bodies (disclosures pursuant to Section 285, no. 10 of the German Commercial Code (HGB)):

a) Group mandates on domestic supervisory boards required to be created by statute
b) Third-party mandates on domestic supervisory boards required to be created by statute
c) Mandates on comparable control bodies

Members of the Supervisory Board of W&W AG

Hans Dietmar Sauer, Chairman
Former Chairman of the Executive Board
Landesbank Baden-Württemberg and Landeskreditbank Baden-Württemberg

Frank Weber, Deputy Chairman[1]
Chairman of the Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG, Karlsruhe site
Chairman of the Group Works Council
a) Württembergische Lebensversicherung AG, Stuttgart

Peter Buschbeck
Co-Owner and Member of the Board of Directors of Gsponer Management Consulting AG
b) WealthCap Kapitalverwaltungsgesellschaft mbH, Munich (until 31 March 2018)
c) Wealth Management Capital Holding GmbH, Munich (until 31 March 2018)

Prof Dr Nadine Gatzert
(as of 13 June 2018)
Professor of the academic department of insurance and risk management at the Erlangen-Nürnberg university
b) Nürnberger Beteiligungs-AG, Nürnberg
Nürnberger Lebensversicherung AG, Nürnberg,
ERGO Group AG, Düsseldorf

Dr Reiner Hagemann
Former Chairman of the Executive Board
Allianz Versicherungs-AG
Former Member of the Executive Board
Allianz AG

Ute Hobinka[1]
Chairwoman of the Works Council
W&W Informatik GmbH
a) W&W Informatik GmbH, Ludwigsburg, Deputy Chairwoman

Jochen Höpken[1]
Task Group Chairman
ver.di (multi-service trade union)
b) FIDUCIA & GAD IT AG, Karlsruhe

Gudrun Lacher[1]
Insurance employee
Württembergische Versicherung AG

1 Employee representatives.

Corinna Linner
Linner Wirtschaftsprüfung
b) Donner & Reuschel AG, Munich/Hamburg
CEWE Stiftung & Co. KGaA, Oldenburg (until 6 June 2018)

Marika Lulay
Managing Director & CEO
GFT Technologies SE
b) EnBW Energie Baden-Württemberg AG, Karlsruhe (as of 14 February 2019)

Bernd Mader[1]
Head of Life Insurance/Retail Customers
Württembergische Lebensversicherung AG

Ruth Martin
(until 13 June 2018)
Former Member of the Executive Boards of
Württembergische Lebensversicherung AG
Württembergische Versicherung AG
Württembergische Krankenversicherung AG
c) Salus BKK, Munich

Andreas Rothbauer[1]
Chairman of the Works Council
Wüstenrot Bausparkasse AG, Ludwigsburg site
a) Wüstenrot Bausparkasse AG, Ludwigsburg

Hans-Ulrich Schulz
Former Member of the Executive Board
Wüstenrot Bausparkasse AG

Christoph Seeger[1]
Chairman of the Group Works Council
Wüstenrot Bausparkasse AG
a) Wüstenrot Bausparkasse AG, Ludwigsburg, Deputy Chairman

Jutta Stöcker
Former Member of the Executive Board
RheinLand-Versicherungsgruppe
b) RheinLand Versicherung AG, Neuss
RheinLand Lebensversicherung AG, Neuss
RheinLand Holding AG, Neuss
ERGO Group AG, Düsseldorf

Gerold Zimmermann[1]
Chairman of the Group Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG
Chairman of the Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG,
Stuttgart head office
a) Württembergische Versicherung AG, Stuttgart

1 Employee representatives.

Members of the Executive Board of W&W AG

Jürgen A. Junker, Chairman
Group Legal, Group Auditing, Communications, Group Development (Strategy, M&A, Customer Data and Brands)
a) Württembergische Lebensversicherung AG, Stuttgart, Chairman
Württembergische Versicherung AG, Stuttgart, Chairman
Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg, Chairman
Wüstenrot Bausparkasse AG, Ludwigsburg, Chairman

Dr Michael Gutjahr
Group HR, Group Accounting, Group Risk Management, Compliance and Data Processing (Fraud/Securities Compliance), Group Controlling, Cost Controlling, Retained Organisation
a) W&W Informatik GmbH, Ludwigsburg, Chairman

Jens Wieland
IT, Operations, Financial Management, Capital Investments, Enterprise Architecture Management, Customer Data Protection and Operational Security

Supplementary disclosures

Contingent liabilities and other financial obligations

Outstanding payment obligations for participation commitments entered into amounted to €45.6 million.

W&W AG has submitted a declaration to the Association of German Banks, pursuant to which it undertakes to indemnify the latter against all losses incurred through measures taken by the deposit protection fund for the benefit of Wüstenrot Bank AG Pfandbriefbank.

As a member of the German Reinsurance Pharma Pool (Pharma-Rückversicherungs-Gemeinschaft), we assumed pro rata liability in the amount of 1.41%. The pool currently has a total volume of €106.4 million.

By way of a release and hold harmless agreement dated 20 October 1993, Württembergische Versicherung AG assumed the risk under the contract executed by W&W AG via a London broker. Accordingly, Württembergische Versicherung AG recognised provisions for outstanding insurance claims in the amount of €45.2 million. Vis-à-vis third parties, W&W AG is liable for these obligations. From today's perspective, Württembergische Versicherung AG has sufficient reserves. As a result, liability on the part of W&W AG currently appears unlikely.

Wüstenrot Bausparkasse AG intends to collateralise loans of W&W AG that are not secured in rem. The loans were granted for residential housing purposes. W&W AG provided a guaranty on behalf of Wüstenrot Bausparkasse AG for the loan claim under the loans that existed at the time of contract conclusion. The guaranty will be reduced in step with loan repayments. As at the reporting date, the guaranty amounted to €34.2 million, taking into account the provision in the amount of €1.3 million that was created for loan guaranties.

In connection with an agreement concerning the takeover of staff that was concluded between W&W Service GmbH and WISAG Facility Management Süd-West GmbH & Co. KG, W&W AG provided WISAG Facility Management Süd-West GmbH & Co. KG with an unconditional, open-ended, directly enforceable guaranty, up to a total amount of €10.0 million. This guaranty constitutes surety for the fulfilment of all current and future financial liabilities of W&W Service GmbH under that agreement.

The Stuttgart Regional Council approved subsidies in connection with the formation of the "Feuerseepiraten" day care centre at the Stuttgart site. In return, the Regional Council received a bank guaranty in the amount of €0.2 million.

To the best of our current knowledge, we also believe going forward that the risk of a claim under the aforementioned contingent liabilities, as in the past, will not lead to any additional expense for the company.

Expenses for internal Group services are expected to amount to €68.2 million in 2019.

W&W AG has financial obligations in the amount of approximately €4.8 million under contracts concluded for the first and second phases of construction for the new W&W campus.

In addition there are further financial obligations concerning an underwriting committment for a financial instrument amounting to €5.8 million.

According to the calculation of tax refunds or tax liabilities as at 31 December 2018, it cannot be excluded, that financial authorities might come to a different valuation. Also, the result of pending judicail and extrajudicial tax proceedings are predictable. Here, additional financial liabilities might result.

As a result of existing control and profit-and-loss transfer agreements, we expect compensatory payments in the amount of €12.8 million over the next three years for losses incurred by start-ups. Profits are expected in the intermediate term.

Authorised capital

Pursuant to Article 5 (5) of the Articles of Association of W&W AG, the Executive Board is authorised for a period of five years ending on 12 June 2023 to increase, on one or more occasions, the company's share capital by up to €100,000,000.00 via issuance of new registered no-par-value shares in exchange for cash or contributions in kind, subject to the approval of the Supervisory Board (Authorised Capital 2018). Shareholders are entitled to a statutory subscription right. Shareholders may also be accorded the statutory subscription right by having one or more credit institutions or companies equivalent thereto pursuant to Section 186 (5) of the German Stock Corporation Act (AktG) subscribe to the new shares under an obligation to offer them to shareholders for subscription (indirect subscription right). Subject to approval by the Supervisory Board, the Executive Board is authorised to preclude shareholders from exercising the statutory subscription right in the following cases:

- for fractional amounts; or
- with capital increases in exchange for contributions in kind for the purpose of acquiring (including indirectly) companies, parts of companies or participations in companies or for the purpose of acquiring other assets; or
- if, pursuant to Section 186 (3) sentence 4 of the German Stock Corporation Act (AktG), new shares are issued in exchange for cash at a price that is not significantly below the stock exchange price of the shares that are already listed and the pro rata amount of the new shares does not exceed 10% of the share capital at the time this authorisation is recorded in the commercial register or, if less, at the relevant time the authorisation was exercised. Counting towards the 10% limit are other shares that had been newly issued or, following buyback, resold by the company during the term of this authorisation under preclusion of the subscription right or, in accordance with Section 186 (3) sentence 4 AktG, in connection with a cash capital increase. Also counting towards the 10% limit are shares with respect to which a warrant or conversion right, a warrant or conversion obligation, or a right in favour of the company to delivery of shares exists on account of warrant bonds, convertible bonds or profit participation certificates with warrant or conversion rights or obligations, or rights in favour of the company to delivery of shares that had been issued by the company or its subordinate Group companies during the term of this authorisation under preclusion of the subscription right pursuant to Section 221 (4) sentence 2 in conjunction with Section 186 (3) sentence 4 AktG; or
- insofar as it is necessary in order to grant holders of warrant rights or creditors of convertible bonds or profit participation rights with conversion rights that are issued by the company or its subordinate Group companies a right to subscribe to new shares to the extent to which they would be entitled after exercising warrant rights, conversion rights or rights to delivery of shares or after satisfying warrant or conversion obligations.

Subject to approval by the Supervisory Board, the Executive Board is authorised to stipulate the further details of the capital increase, its implementation, including the issue price, and the contribution to be paid for the new no-par value registered shares. The Supervisory Board is authorised to modify the wording of the Articles of Association after implementation of an increase of the share capital out of Authorised Capital 2018 to conform to the respective increase of the share capital, as well as after expiry of the term of the authorisation.

Contingent capital

By resolution adopted at the Annual General Meeting on 13 June 2018, the Executive Board was authorised to issue warrant bonds, convertible bonds, participation rights, profit participation bonds or a combination of these instruments on or before 12 June 2023. Article 5 (6) of the Articles of Association accordingly provides that the share capital of W&W AG is contingently increased by the nominal amount of at most €240,000,003.46, divided into at most 45,889,102 no-par value registered shares (Contingent Capital 2018). The contingent capital increase is to be implemented only if

- holders or creditors of warrant rights or conversion rights or those obligated to exercise the warrant or to convert under warrant bonds, convertible bonds or profit participation rights that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 13 June 2018, are issued by the company or a subordinate Group company or guaranteed by the company on or before 12 June 2023 make use of their warrant rights or conversion rights, or
- holders or creditors of warrant bonds, convertible bonds or profit participation rights that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 13 June 2018, are issued by the company or a subordinate Group company or guaranteed by the Company on or before 12 June 2023 are obligated to exercise the warrant or to convert and satisfy such obligation, or

- the company exercises a right to deliver to holders or creditors of warrant bonds, convertible bonds or profit participation rights that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 13 June 2018, are issued by the company or a subordinate Group company or guaranteed by the company on or before 12 June 2023 shares of the company in lieu of cash payment, either in whole or in part,

and provided that neither cash settlement is granted nor treasury shares or those of some other publicly traded company are used to service it. New shares are to be issued at the warrant or conversion price to be stipulated in accordance with the aforementioned authorisation resolution of 13 June 2018 or at the lower issue amount stipulated in accordance with the aforementioned authorisation resolution of 13 June 2018. The new shares participate in profit from the start of the financial year in which they come about. To the extent permitted by law, and subject to approval by the Supervisory Board, the Executive Board is authorised to stipulate that, in the event that a resolution on appropriation of profit has not been adopted for the financial year immediately preceding the year of issue at the time of issue, the new shares are to participate in profit from the start of the financial year immediately preceding the year of issue. Subject to approval by the Supervisory Board, the Executive Board is further authorised to stipulate the further details of the implementation of the contingent capital increase. Use may be made of the authorisation granted by resolution of the Annual General Meeting on 13 June 2018 to issue warrant bonds, convertible bonds and profit participation rights only if the warrant bonds, convertible bonds or profit participation rights are structured in such a way that the capital that is paid in for them satisfies the supervisory requirements in effect at the time the authorisation is used for eligibility as own funds at the level of the company and/or the Group and/or the financial conglomerate and does not exceed any intake limits. Furthermore, use may be made of the authorisation granted by resolution of the Annual General Meeting on 13 June 2018 to permit subordinate Group companies to issue warrant bonds, convertible bonds and profit participation rights and have them guaranteed by the company if this is permissible under the supervisory provisions applying in each case.

Corporate Governance Code

Pursuant to Section 161 of the German Stock Corporation Act (AktG), the Executive Board and Supervisory Board of our company have submitted the statement of compliance with the German Corporate Governance Code and have made it permanently available to shareholders on the company's website. It can also be found in the corporate governance statement in the Management Report.

Related party disclosures

Transactions with related parties are concluded at arm's-length terms and conditions. Where employees are involved, preferential terms customary in the industry are used.

The control and profit-and-loss transfer agreements concluded with Württembergische Versicherung AG, W&W Informatik GmbH, W&W Asset Management GmbH, W&W Produktion GmbH, W&W Service GmbH and W&W Digital GmbH remain in place. The control and profit-and-loss transfer agreement with Wüstenrot Bank AG Pfandbriefbank was terminated on 30 September 2018. As of 1 January 2019, the liquidation of W&W Produktion GmbH was decided and the control and profit-and-loss transfer agreement was dissolved.

Group affiliation

Wüstenrot & Württembergische AG, Stuttgart, Germany, is the parent company of the W&W Group. The consolidated financial statements of the W&W Group are published in the German Federal Gazette (Bundesanzeiger).

The company has received the following notifications pursuant to Section 33 (1) of the German Securities Trading Act (WpHG):

Company name	Registered office	Exceeds/falls below	Reporting threshold	Date	Share-holding	Number of votes	Attribution pursuant to Section 22 WpHG
Wüstenrot Stiftung Gemeinschaft der Freunde Deutscher Eigenheimverein e.V. (attribution via Wüstenrot Holding AG, Ludwigsburg)	Ludwigsburg, Stuttgart	Falls below	50%	17/08/2016	39.91%	37,417,638	Section 22 (1) sentence 1, no. 1 WpHG
Wüstenrot Stiftung Gemeinschaft der Freunde Deutscher Eigenheimverein e.V. (attribution via WS Holding AG, Stuttgart)	Ludwigsburg, Stuttgart	Exceeds	25%	17/08/2016	26.40%	24,750,000	Section 22 (1) sentence 1, no. 1 WpHG
Dr Lutz Helmig (attribution via HORUS Finanzholding GmbH)	Hallbergmoos, Germany	Exceeds	10%	11/12/2013	10.03%	9,228,134	Section 22 (1) sentence 1, no. 1 WpHG

Legal bases

Wüstenrot & Württembergische Aktiengesellschaft maintains its registered office in Stuttgart and is recorded in the Commercial Register of the Local Court of Stuttgart under Number HRB 20203.

Events after the reporting date

No events of special significance to the net assets, financial position and financial performance of Wüstenrot & Württembergische AG occurred between the end of the financial year and the preparation of the annual financial statements.

Expenses for the auditor

In addition to auditing the consolidated financial statements and the annual financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft also conducted the audit of the annual financial statements and Group reporting of various subsidiaries as well as the statutory audits required under the German Act on the Supervision of Insurance Undertakings (VAG).

In addition, it conducted audits for its affiliated companies in accordance with the terms and conditions of the Deutsche Bundesbank, as well as audits of special Bauspar simulation models and audits of migration projects.

It provided advisory services relating to the implementation of the German Minimum Requirements for Risk Management (MaRisk) and professional advice on issues relating to the auditing of accounting by the German Financial Reporting Enforcement Panel (DPR).

Information about auditor fees is contained in the consolidated financial statements of W&W AG. Based on the exemption for groups set forth in Section 285, no. 17 of the HGB (German Commercial Code), we have elected to dispense with publication here.

Employees

In the 2018 financial year, Wüstenrot & Württembergische AG had an average of 526 (previous year: 536) employees, of whom 276 (previous year: 273) were women and 250 (previous year: 263) were men. The number of full-time employees was 402 (previous year: 408), and the number of part-time employees was 124 (previous year: 118).

Remuneration of the individual members of the Executive Board

The outlines of the remuneration system are depicted in detail in the remuneration report contained in the Management Report. The following remarks contain the disclosures required under Section 285, no. 9 of the German Commercial Code (HGB).

Total remuneration was examined by the Supervisory Board, and it bears a reasonable relationship to the duties and performance of Executive Board members, as well as to the company's condition. In addition to their work for the company, Dr Michael Gutjahr and Jens Wieland serve as board members or managing directors for other W&W Group companies.

Total remuneration paid to Executive Board members during the reporting year for performing their duties at Wüstenrot & Württembergische AG amounted to €1,862.6 thousand (previous year: €1,740.2 thousand) and is composed of the following elements:

Remuneration of the individual members of the Executive Board in 2018

	Term of office ends	Non-performance-related remuneration		Performance-related remuneration (short term)		Performance-related remuneration (sustained)		Ancillary benefits		Total	
						from 2015	from 2014				
in € thousands		2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Active members of the Executive Board											
Jürgen A. Junker	03/2021	1,040.0	1,010.0	123.3	68.6	–	–	23.4	34.0	1,186.7	1,112.6
Dr Michael Gutjahr	08/2020	271.6	261.1	32.2	18.7	31.2	30.0	7.4	7.4	342.4	317.2
Jens Wieland	06/2020	260.1	250.1	30.8	17.9	32.2	32.0	10.4	10.4	333.5	310.4
Total		**1,571.7**	**1,521.2**	**186.3**	**105.2**	**63.4**	**62.0**	**41.2**	**51.8**	**1,862.6**	**1,740.2**

Sustained performance-related remuneration for a prior financial year, i.e. the 2015 financial year, was earned with the close of the year 2018, since in the years 2016 to 2018 the W&W Group posted average IFRS after-tax earnings of at least €100 million p.a. and did not post a loss in any of the three years. This performance-related remuneration will be disbursed in 2019.

In addition to the earned performance-related remuneration shown in the above table, contingent claims to disbursement of performance-related remuneration for the years 2016-2018 were acquired (in each case, the amount of performance-related remuneration not yet disbursed):

Multi-year variable remuneration (sustainability component)

in € thousands	Financial year 2016, payable in 2020	Financial year 2017, payable in 2021	Financial year 2018, payable in 2022	Total
Jürgen A. Junker	81.2	134.1	185.0	400.3
Dr Michael Gutjahr	34.8	36.9	48.3	120.0
Jens Wieland	33.8	34.3	46.3	114.4
Total	**149.8**	**205.3**	**279.6**	**634.7**

Disbursement is made only if the aforementioned conditions occur or do not occur in the years 2019 to 2021. For 2018 the final amount will not be calculated until the Supervisory Board has ascertained whether targets were achieved.

Performance-related remuneration for the 2017 financial year, which was disbursed in 2018 after ascertaining the degree to which targets were achieved, resulted in a release of €31.7 thousand (previous year: €10.2 thousand). The amount consists of expenses for Jürgen A. Junker in the amount of €20.7 thousand (previous year: release of €5.9 thousand), for Dr Michael Gutjahr in the amount of €6.0 thousand (previous year: release of €2.1 thousand) and for Jens Wieland in the amount of €5.0 thousand (previous year: release of €2.2 thousand).

In the 2017 financial year, provisions in the amount of €105.2 thousand (previous year: €159.9 thousand) were created for acquired contingent claims to disbursement in 2021 of performance-related remuneration for the 2017 financial year. After achievement of targets was ascertained, a release took place in the amount of €31.7 thousand (previous year: €10.2 thousand).

In addition, the company did not grant or pay remuneration that was not disbursed, remuneration converted into claims of another nature, remuneration used to increase other claims, or other remuneration that to date has not been indicated in any annual financial statements.

The present value of pensions attributable to the company amounts to €1,893.4 thousand (previous year: €1,668.2 thousand), in each case based on the final age of 61. Attributable to Dr Michael Gutjahr is the amount of €1,459.9 thousand (previous year: €1,384.1 thousand), as well as, based on a retirement age of 65, to Jürgen A. Junker the amount of €256.0 thousand (previous year: €147.9 thousand) and to Jens Wieland the amount of €177.5 thousand (previous year: €136.2 thousand). These benefits have to do with long-term post-employment benefits. Additions during the financial year that are attributable to the company amounted to €225.2 thousand (previous year: €274.7 thousand). Of these additions, attributable to Jürgen A. Junker is the amount of €108.1 thousand (previous year: €94.6 thousand), to Dr Michael Gutjahr the amount of €75.8 thousand (previous year: €144.7 thousand) and to Jens Wieland the amount of €41.3 thousand (previous year: €35.3 thousand).

The pension of Dr Michael Gutjahr amounted to €63.8 thousand (previous year: €62.8 thousand), whereby the pension is offset by occupational pension benefits against third parties. Because Dr Gutjahr may claim his pension when his term of office expires, he has no claim to a transitional allowance.

Jürgen A. Junker will be granted a transitional allowance in the amount of €200.0 thousand (previous year: €200.0 thousand) p.a. if his employment contract ends when his first term of office expires, unless Mr Junker refuses to accept a contract extension at the same terms or at terms more favourable to him or non-extension is based on a material reason within the meaning of Section 626 of the German Civil Code (BGB) for which he is responsible. The transitional allowance is payable from the end of the first term of office until Mr Junker reaches the age of 65, but not longer than until the end of the month in which he first begins to draw statutory pension insurance benefits or the company's occupational pension benefits. Mr Junker's claim to payment of the transitional allowance is to be offset by the amount he earns from new employment. Offsetting takes place only to the extent that his other earnings exceed €300.0 thousand p.a.

The company did not grant any loans to members of the Executive Board. No liabilities were entered into in favour of Executive Board members.

Total remuneration paid to former Executive Board members in the financial year amounted to €2,068.4 thousand (previous year: €2,994.9 thousand). Of this amount, €318.0 thousand (previous year: €309.2 thousand) was attributable to survivor benefits.

A reserve in the amount of €20,124.0 thousand (previous year: €19,934.1 thousand) was created for pension commitments to former members of the Executive Board and their survivors.

There were no other encumbrances on the company during the financial year for benefits to former members of the Executive Board or Supervisory Board or their survivors through severance payments, pensions, survivor benefits or other benefits of a related nature.

Remuneration of the Supervisory Board

The Supervisory Board remuneration is paid in the form of a fixed remuneration whose amount is determined by the Annual General Meeting. If the Annual General Meeting does not specify an amount, the amount of the prior year applies. Supplementary amounts are stipulated for the Chairman and the Deputy Chairman, as well as for committee activities. In addition, fees are paid for attending Supervisory Board meetings.

Annual base remuneration payable after the close of the financial year amounted to €25.0 thousand (previous year: €25.0 thousand). Committee remuneration amounted to €8.0 thousand (previous year: €8.0 thousand) per year for the Risk and Audit Committee and for the Remuneration and Personnel Committee. Committee remuneration amounted to €4.0 thousand (previous year: €4.0 thousand) per year for the Nomination Committee and the Conciliation Committee. An attendance fee of €500 (previous year: €500) is paid per Supervisory Board meeting. No fees are paid for attending committee meetings.

Base remuneration and committee remuneration are increased by 150% for the Chairman and by 75% for his deputies.

In the 2018 financial year, the company paid the members of the Supervisory Board of Wüstenrot & Württembergische AG total remuneration of €658.8 thousand (previous year: €668.8 thousand). In the 2018 financial year, the company paid members of the Supervisory Board of Wüstenrot & Württembergische AG who had retired during the financial year pro rata temporis remuneration of €14.0 (previous year: €0.0 thousand).

Members of the Supervisory Board are reimbursed for expenses and the value-added tax due on Supervisory Board remuneration. However, this is not included in the designated expenses.

Wüstenrot & Württembergische AG has no receivables from members of the Supervisory Board as a result of granted advances or loans.

Subscription rights or other share-based remuneration for members of the Supervisory Board do not exist in the W&W Group. No provisions for current pensions or entitlements had to be created for members of the Supervisory Board or their survivors.

The company did not pay any remuneration or grant any benefits to members of the Supervisory Board for personally performed services, such as consulting or brokering services.

Remuneration of the individual members of the Supervisory Board in 2018

	Base Remuneration	Attendance fee	Committee Remuneration	Total	Total
in € thousands	2018	2018	2018	2018	2017
Hans Dietmar Sauer (Chairman)	62.5	2.0	48.0	112.5	113.0
Frank Weber (Deputy Chairman)	43.8	2.0	16.0	61.8	62.3
Peter Buschbeck	25.0	2.0	8.0	35.0	35.0
Prof. Dr. Nadine Gatzert	13.8	0.5	–	14.3	–
Dr. Reiner Hagemann	25.0	2.0	12.0	39.0	39.5
Ute Hobinka	25.0	2.0	8.0	35.0	35.5
Jochen Höpken	25.0	1.0	4.0	30.0	31.5
Gudrun Lacher	25.0	2.0	4.0	31.0	31.5
Corinna Linner	25.0	2.0	20.0	47.0	47.0
Marika Lulay	25.0	2.0	2.2	29.2	27.0
Bernd Mader	25.0	2.0	8.0	35.0	35.5
Andreas Rothbauer	25.0	2.0	8.0	35.0	35.5
Hans-Ulrich Schulz	25.0	2.0	8.0	35.0	35.5
Christoph Seeger	25.0	2.0	8.0	35.0	35.5
Jutta Stöcker	25.0	2.0	4.0	31.0	31.5
Gerold Zimmermann	25.0	2.0	12.0	39.0	39.5
Subtotal	**445.1**	**29.5**	**170.2**	**644.8**	**635.3**
Ruth Martin (former)	11.2	1.0	1.8	14.0	31.5
Total	**456.3**	**30.5**	**172.0**	**658.8**	**666.8**

Annex to the notes

Individual disclosures concerning assets

Notes concerning assets

in € thousands	Carrying amounts 2017	Additions	Disposals	Reclassifications	Write-ups	Write-downs	Carrying amounts 2018
A. Intangible assets							
1. Licenses acquired against payment, industrial property rights and similar rights and assets, as well as licenses for such rights and assets	6	–				5	1
B. I. Land, land-type rights and buildings, including buildings on third-party land	**170,634**	**20,380**	**–**	**–**	**–**	**4,226**	**186,788**
B. II. Capital investments in affiliated companies and participations							
1. Interests in affiliated companies	1,696,937	71,646	–	273,195	13,647	19,286	1,489,749
2. Loans to affiliated companies	345,511	220,889	–	154,700	–	–	411,700
3. Participations	60,818	12,893	–	26,914	340	2,951	44,186
4. Loans to companies in which an investment is maintained	–	–	–	–	–	–	–
Total B. II.	**2,103,266**	**305,428**	**–**	**454,809**	**13,987**	**22,237**	**1,945,635**
B. Other capital investments							
1. Shares, interests or shares in investment assets and other variable-yield securities	524,260	10,783	–	127	–	6,546	528,370
2. Bearer bonds and other fixed-income securities	134,744	85,757	–	34,029	543	473	186,542
3. Other loans							
a) Registered bonds	144,435	–	–	10,000	84	65	134,454
b) Promissory notes and loans receivable	139,981	2	–	25,211	–	–	114,772
4. Deposits with credit institutions	52,128	110,268	–	31,828	1,597	118	132,047
5. Other investments	87	-	–	–	–	–	87
Total B. III.	**995,635**	**206,810**	**–**	**101,195**	**2,224**	**7,202**	**1,096,272**
Total	**3,269,541**	**532,618**	**–**	**556,004**	**16,211**	**33,670**	**3,228,696**

List of ownership interests

Name and registered office of the company	Direct interest in capital, in %	Indirect interest in capital, in %[3]	Currency	Reporting date	Equity[1]	Net income/ loss after taxes[1]
Germany						
3B Boden-Bauten-Beteiligungs-GmbH, Ludwigsburg	100.00		€	31.12.2017	100,774,040	–7,955,164
Adam Riese GmbH, Stuttgart[2]		100.00	€	31.12.2018	25,000	–
Adveq Europe II GmbH, Frankfurt am Main		16.77	€	31.12.2017	6,263,911	–1,337,893
Adveq Opportunity II Zweite GmbH, Frankfurt am Main		29.31	€	31.12.2017	26,949,801	3,725,705
Adveq Technology III GmbH, Frankfurt am Main		18.84	€	31.12.2017	3,136,181	–914,872
Adveq Technology V GmbH, Frankfurt am Main		16.50	€	31.12.2017	54,499,000	10,645,059
Allgemeine Rentenanstalt Pensionskasse AG, Stuttgart		100.00	€	31.12.2018	41,755,703	450,000
Altmark Versicherungsmakler GmbH, Stuttgart		100.00	€	31.12.2018	2,417,911	534,529
Altmark Versicherungsvermittlung GmbH, Stuttgart		100.00	€	31.12.2018	316,621	87,661
Asendorfer Kippe ASK GmbH & Co. KG, Stuttgart		100.00	€	31.12.2017	3,294,821	–90,285
Auda Ventures GmbH & Co. Beteiligungs-KG, München		5.79	€	31.12.2017	12,839,074	873,532
Berlin Leipziger Platz Grundbesitz GmbH, Stuttgart		100.00	€	31.12.2018	2,115,165	36,241
Beteiligungs-GmbH der Württembergischen, Stuttgart		100.00	€	31.12.2018	3,171,355	174,147
BPE2 Private Equity GmbH & Co. KG, Hamburg		10.00	€	31.12.2017	903,350	–31,448
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart		35.00	€	31.12.2017	252,343,474	7,150,614
BWK Holding GmbH Unternehmensbeteiligungs-gesellschaft, Stuttgart		35.00	€	31.12.2017	9,713,786	845,306
City Immobilien GmbH & Co. KG der Württembergischen, Stuttgart		100.00	€	31.12.2018	104,316,172	3,916,143
City Immobilien II GmbH & Co. KG der Württembergischen, Stuttgart		100.00	€	31.12.2018	105,985,980	2,675,358
Coller German Investors GmbH & Co. KG i.L., München		10.00	US$	1.5.2018	–	–39,633
CROWN Premium Private Equity III GmbH & Co. KG, Grünwald		6.60	€	31.12.2017	39,235,033	16,290,821
DBAG Fund VI Feeder GmbH & Co. KG, Frankfurt am Main		30.71	€	31.12.2017	50,991,571	13,588,650
Deutsche Makler Akademie (DMA) gemeinnützige Gesellschaft mbH, Wiesbaden		7.14	€	31.12.2017	407,953	41,422
Deutscher Solarfonds „Stabilität 2010“ GmbH & Co. KG, Frankfurt am Main		17.77	€	31.10.2018	110,175,206	7,359,370
Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin		19.82	€	31.12.2017	12,560	–1,687
Earlybird DWES Fund VI Affiliates GmbH & Co. KG, München		7.74	€	31.12.2017	300	–
Elvaston Capital Fund III GmbH & Co. KG, Berlin	10.00	10.00	€	31.12.2017	45,943,000	–283,000
EquiVest II GmbH & Co. Zweite Beteiligungs KG Nr. 1 für Vermögensanlagen, München		9.97	€	31.12.2017	33,054,491	–7,897
Eschborn Grundstücksgesellschaft mbH & Co. KG, Stuttgart		51.00	€	31.12.2018	899,405	–24,401
European Sustainable Power Fund Nr. 2 GmbH & Co. KG, Grünwald	1.00	11.10	€	30.9.2017	454,833,813	25,773,372
Ganzer GmbH & Co. KG, Harrislee		100.00	€	31.12.2017	598,637	818,825
Gerber GmbH & Co. KG, Stuttgart		100.00	€	31.12.2018	264,576,936	–1,124,787
Gestorf GmbH & Co. KG, Stuttgart		100.00	€	31.12.2017	415,957	50,778
GLL GmbH & Co. Messeturm Holding KG, München		5.97	€	31.12.2017	35,248	18,570
GMA Gesellschaft für Markt- und Absatzforschung mbH, Ludwigsburg		100.00	€	31.12.2017	1,588,661	81,386

List of ownership interests (continued)

Name and registered office of the company	Direct interest in capital, in %	Indirect interest in capital, in %[3]	Currency	Reporting date	Equity[1]	Net income/loss after taxes[1]
Hinterbliebenenfürsorge der Deutschen Beamtenbanken GmbH, Karlsruhe		100.00	€	31.12.2017	97,624	–227
IVB – Institut für Vorsorgeberatung, Risiko- und Finanzierungsanalyse GmbH, Karlsruhe		100.00	€	31.10.2018	76,528	168,539
IVZ Immobilien Verwaltungs GmbH & Co. Finanzanlagen KG, München		10.00	€	31.12.2017	23,448	–24,030
IVZ Immobilien Verwaltungs GmbH & Co. Südeuropa KG, München		10.00	€	31.12.2017	65,865	–696,336
Karlsruher Lebensversicherung AG, Karlsruhe		100.00	€	31.12.2018	22,172,776	450,000
Keleya Digital-Health Solutions UG, Hamburg		30.00	€	31.12.2017	126,972	–186,597
KLV BAKO Dienstleistungs-GmbH, Karlsruhe		93.10	€	31.12.2017	214,380	8,513
KLV BAKO Vermittlungs-GmbH, Karlsruhe		76.80	€	31.12.2017	224,002	9,000
LP 1 Beteiligungs-GmbH & Co. KG, Stuttgart		100.00	€	31.12.2018	83,506	–33,461
Miethaus und Wohnheim GmbH i.L., Ludwigsburg		100.00	€	31.12.2018	1,767,182	–14,436
Nist GmbH, Berlin		100.00	€	New investment 22.1.2018		
NORD KB Micro-Cap V GmbH & Co. KG, Hannover		13.19		31.12.2017	21,065,000	–3,840,000
Nord-Deutsche AG Versicherungs-Beteiligungsgesellschaft, Stuttgart		100.00	€	31.12.2018	14,927,618	-27,653
Onshore Wind Portfolio 2012 GmbH & Co. KG, Frankfurt am Main	4.41	16.31	€	31.8.2018	110,666,106	5,064,190
Schulenburg GmbH & Co. KG, Stuttgart		100.00	€	31.12.2017	607,492	–177,204
Stuttgarter Baugesellschaft von 1872 AG, Stuttgart		100.00	€	31.12.2018	203,094	6,817
treefin AG, München		100.00	€	31.12.2018	3,382,560	–
V-Bank AG, München		15.00	€	31.12.2017	35,253,891	3,511,690
VC Fonds Baden-Württemberg GmbH & Co. KG, Stuttgart		25.00	€	31.12.2017	1,384,000	–612,000
ver.di Service GmbH, Berlin		33.33	€	31.12.2017	96,706	42,437
VV Immobilien GmbH & Co. United States KG i.L., München		9.98	€	31.12.2017	10,000	–40,838
VV Immobilien GmbH & Co. US City KG i.L., München		23.10	€	31.12.2017	9,489	–12,147
W&W Asset Management GmbH, Ludwigsburg[2]	100.00		€	31.12.2018	11,261,185	–
W&W brandpool GmbH, Stuttgart[2]	100.00		€	31.12.2018	3,275,000	–
W&W Gesellschaft für Finanzbeteiligungen mbH, Stuttgart	100.00		€	31.12.2018	59,435,707	106,965
W&W Informatik GmbH, Ludwigsburg[2]	100.00		€	31.12.2018	473,025	–
W&W Produktion GmbH, Berlin[2] (ab 1.1.2019: W&W Produktion GmbH i.L.)	100.00		€	31.12.2018	25,000	–
W&W Service GmbH, Stuttgart[2]	100.00		€	31.12.2018	100,153	–
Wellington Partners Life Sciences V Investment GmbH & Co. KG, München		5.75		New investment 19.11.2018		
Windpark Golzow GmbH & Co. KG, Rheine		100.00	€	31.12.2017	–6,712,907	–787,939
WL Erneuerbare Energien Verwaltungs GmbH, Stuttgart		100.00	€	31.12.2018	73,575	5,043
WL Renewable Energy GmbH & Co. KG, Stuttgart		100.00	€	31.12.2018	83,788,841	3,861,576
WL Sustainable Energy GmbH & Co. KG, Stuttgart		100.00	€	31.12.2018	83,732,710	3,881,606
Wohnimmobilien GmbH & Co. KG der Württembergischen, Stuttgart		100.00	€	31.12.2018	134,140,257	4,880,323
Württembergische Immobilien AG, Stuttgart		100.00	€	31.12.2018	120,851,216	3,549,839
Württembergische Kö 43 GmbH, Stuttgart		94.00	€	31.12.2018	23,048,127	751,663

List of ownership interests (continued)

Name and registered office of the company	Direct interest in capital, in %	Indirect interest in capital, in %[3]	Currency	Reporting date	Equity[1]	Net income/ loss after taxes[1]
Württembergische Krankenversicherung AG, Stuttgart	100.00		€	31.12.2018	48,748,122	5,300,000
Württembergische Lebensversicherung AG, Stuttgart	94.89		€	31.12.2018	438,511,724	32,000,000
Württembergische Logistik I GmbH & Co. KG, Stuttgart		100.00	€	31.12.2017	11,354,735	1,602,722
Württembergische Logistik II GmbH & Co. KG, Stuttgart		100.00	€	31.12.2017	105	6,392,455
Württembergische Rechtsschutz Schaden-Service-GmbH, Stuttgart		100.00	€	31.12.2018	100,728	24,034
Württembergische Versicherung AG, Stuttgart[2]		100.00	€	31.12.2018	350,563,107	–
Württembergische Vertriebspartner GmbH, Stuttgart[2]		100.00	€	31.12.2018	74,481	–
Württembergische Verwaltungsgesellschaft mbH, Stuttgart		100.00	€	31.12.2018	35,454	560
Württfeuer Beteiligungs-GmbH, Stuttgart		100.00	€	31.12.2018	1,036,660	–25,467
WürttLeben Alternative Investments GmbH, Stuttgart[2]		100.00	€	31.12.2018	52,525,000	2,500
WürttVers Alternative Investments GmbH, Stuttgart[2]		100.00	€	31.12.2018	34,025,000	–
Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg[2]	100.00		€	31.12.2018	52,894,192	57,767
Wüstenrot Bausparkasse AG, Ludwigsburg	100.00		€	31.12.2018	800,324,711	34,302,204
Wüstenrot Grundstücksverwertungs-GmbH, Ludwigsburg	100.00		€	31.12.2018	2,071,942	24,469
Wüstenrot Haus- und Städtebau GmbH, Ludwigsburg	100.00		€	31.12.2017	44,325,201	4,123,518
Wüstenrot Immobilien GmbH, Ludwigsburg	100.00		€	31.12.2017	3,478,382	793,117
YIELCO Special Situations GmbH & Co. KG, Munich		13.25	€	31.12.2017	26,820,568	313,734
France						
Württembergische France Immobiliere SARL, Strasbourg		100.00	€	30.9.2018	15,204,577	1,205,078
Württembergische France Strasbourg SARL, Strasbourg		100.00	€	30.9.2018	50,510,307	2,376,154
Ireland						
BlackRock NTR Renewable Power Fund plc, Dublin		89.55	US$	31.12.2017	60,583,000	1,158,000
Crown Global Secondaries II plc, Dublin		7.22	US$	31.12.2017	208,996,200	–11,372,267
W&W Advisory Dublin Ltd., Dublin (ab 16.1.2019: W&W Investment Managers DAC)		100.00	€	31.12.2017	9,879,950	3,899,507
W&W Asset Management Dublin Ltd., Dublin		100.00	€	31.12.2017	9,405,462	5,161,731
W&W Europe Life Limited i. L., Dublin	100.00		€	31.12.2014	18,834,772	–733,611
White Oak Summit Fund ILP, Dublin	6.02	9.64	US$	31.12.2017	178,408,956	9,576,971
White Oak Yield Spectrum Feeder ICAV, Dublin	6.35	11.11	US$	31.12.2017	55,463,530	–692,197
Luxembourg						
AMP Capital Infrastructure Debt Fund (EUR) III L.P., Luxemburg		45.35	€	31.12.2017	97,734,166	3,230,415
CI III Lux Feeder Fund FCP-RAIF, Luxemburg		35.88		New investment 25.6.2018		
DB Secondary Opportunities SICAV-SIF – Sub Fund DB SOF II Feeder USD, Luxembourg		16.79	US$	31.12.2017	36,569,401	28,823,354
First State European Diversified Infrastructure Feeder Fund II SCA, SICAV-SIF, Luxembourg		13.30	€	31.12.2017	326,879,037	15,066,385
Idinvest Lux Fund, SICAV-SIF SCA – Idinvest Private Debt III, Luxembourg	3.06	22.62	€	31.12.2017	383,833,914	7,593,843

List of ownership interests (continued)

Name and registered office of the company	Direct interest in capital, in %	Indirect interest in capital, in %[3]	Currency	Reporting date	Equity[1]	Net income/ loss after taxes[1]
IKAV SICAV-FIS SCA – Ecoprime Energy, Luxemburg		18.81	€	30.9.2018	94,282,516	4,217,164
IKAV SICAV-FIS SCA – ecoprime TK I, Luxemburg		41.28	€	30.9.2018	43,283,088	2,537,728
IKAV SICAV-FIS SCA – Global Energy (Ecoprime III), Luxemburg	15.12	30.24	€	30.9.2018	51,445,469	1,883,252
IKAV SICAV-FIS SCA – Global PV Investments, Luxemburg		46.25	€	30.9.2018	44,421,874	2,593,305
Secondary Opportunities SICAV-SIF – Sub-fund SOF III Feeder USD, Luxemburg		35.48	US$	31.12.2017	56,582,390	458,556
StepStone European Fund SCS, SICAV-FIS – StepStone Capital Partners III, Luxemburg	7.15	20.41	US$	31.12.2017	122,248,863	−2,946,767
Austria						
G6 Zeta Errichtungs- und VerwertungsGmbH & Co OG, Vienna		99.90	€	31.12.2017	23,371,117	1,627,191
SAMARIUM drei GmbH & Co OG, Wien		100.00		New investment 28.3.2018		
Czech Republic						
WIT Services s.r.o., Prague		100.00	CZK	31.12.2017	3,411,519	−245,949
Wüstenrot hypoteční banka a.s., Prague	100.00		CZK	31.12.2017	2,323,000,000	200,000,000
Wüstenrot stavební spořitelna a.s., Prague	100.00		CZK	31.12.2017	3,289,000,000	215,000,000
Hungary						
Fundamenta-Lakáskassza-Lakástakarékpénztár Zrt., Budapest	11.47		HUF	31.12.2017	34,473,000,000	6,220,000,000
United Kingdom and Northern Ireland						
ASF VI Infrastructure L.P., Edinburgh		5.45	US$	31.12.2017	299,972,755	1,401,985
Asper Renewable Power Partners 2 LP, London (ehemals: HgCapital Renewable Power Partners 2 L.P.)		29.53	€	31.12.2017	55,773,854	4,537,769
Brookfield Capital Partners Fund III (NR A) L.P., George Town		12.20	US$	31.12.2017	940,718,000	29,572,000
Capital Dynamics Clean Energy and Infrastructure III L.P., Birmingham		21.28	£	31.12.2017	75,730,464	2,206,698
Capital Dynamics Clean Energy and Infrastructure Feeder L.P., Edinburgh		28.24	US$	31.12.2017	149,258,903	−1,000
Carlyle Cardinal Ireland Fund L.P., George Town		5.83	€	31.12.2017	178,342,000	1,548,000
CBPE Capital Fund IX A L.P., London		15.41	£	30.6.2018	105,126,339	−7,019,313
EIG Global Private Debt (Europe UL) L.P., London		29.67	US$	31.12.2017	38,459,000	1,088,000
Glennmont Clean Energy Fund Europe 1 'A' L.P., London		11.52	€	31.12.2017	253,962,596	13,047,489
Global infrastructure Partners III-C2 L.P., London		9.6	US$	31.12.2017	128,705,545	−3,602,923
Kennet III A L.P., St. Peter Port		6.73	€	31.12.2017	108,604,512	7,186,981
Kennet IV L.P., St. Peter Port		18.83	€	31.12.2017	126,528,198	−2,705,553
Partners Group Emerging Markets 2007 L.P., Edinburgh		12.01	US$	31.12.2017	103,484,000	9,344,000
Project Glow Co-Investment Fund L.P., George Town		51.72	CA$	31.12.2017	19,770,034	−1,770

List of ownership interests (continued)

Name and registered office of the company	Direct interest in capital, in %	Indirect interest in capital, in %[3]	Cur-rency	Reporting date	Equity[1]	Net income/loss after taxes[1]
United States						
ARDIAN North America Fund II L.P., Wilmington	8.47	27.11	US$	31.12.2017	109,930,294	–8,178,080
H.I.G. Whitehorse Offshore Loan Feeder, Miami		11.06	US$	31.12.2017	59,921,920	1,972,884
ISQ Global Infrastructure Fund (EU) L.P., Delaware		5.19	US$	31.12.2017	2,738,199,959	208,348,789
Project Finale Co-Investment Fund Holding LLC, Wilmington		30.00	US$	31.12.2017	44,980,027	2,106,198

1 The figures relate to the most recent annual financial statements available on the reporting date.
2 Profit and loss transfer agreement in place.
3 Pursuant to Section 16 (4) of the German Stock Corporation Act (AktG), the indirect interest (or: ownership interest; or: ownership share) consists of interests that belong to a dependent company or to another company for the account of the company or a company dependent on it.

Individual disclosures concerning the income statement

in € thousands	Gross premiums written		Net technical income/loss for own account (prior to claim equalisation provisions)		Net technical income/loss for own account (after claim equalisation provisions)	
	2018	2017	2018	2017	2018	2017
Fire insurance	57,514	52,986	3,797	2,538	–324	–1,287
Other property insurance	89,666	81,350	–1,441	1,001	–1,556	–1,131
Total fire and other property insurance	**147,180**	**134,336**	**2,356**	**3,539**	**–1,880**	**–2,418**
Motor insurance	125,056	120,614	–7,364	–8,267	–12,568	–12,634
General liability insurance	33,365	31,753	10,051	10,007	7,802	8,565
Casualty insurance	21,017	20,588	2,338	1,677	2,338	1,677
Transport and aviation hull insurance	3,604	3,174	548	–803	294	228
Other insurance	25,147	23,961	247	–745	–1,409	–1,210
Total property/casualty insurance business	**355,369**	**334,426**	**8,176**	**5,408**	**–5,423**	**–5,792**
Life insurance	5,725	5,981	1,847	1,984	1,847	1,984
Total	**361,094**	**340,407**	**10,023**	**7,392**	**–3,576**	**–3,808**

Commissions and other remuneration paid to insurance agents, personnel expenses

in € thousands	2018	2017
Wages and salaries	37,637	38,699
Social remittances and expenses for support	5,732	5,807
Expenses for pension scheme	4,408	3,305
Total	**47,777**	**47,811**

W&W AG does not have its own mobile sales force. As a result, the table required by the German Regulation on the Accounting of Insurance Undertakings (RechVersV) contains only personnel expenses and no commissions or other remuneration paid to insurance agents.

Wüstenrot & Württembergische AG
Responsibility statement

To the best of our knowledge, and in accordance with applicable accounting principles, the annual financial statements present a true and accurate view of the net assets, financial position and financial performance of the company, and the Combined Management Report presents a true and accurate view of the performance, results and position of the W&W AG, together with a description of the material opportunities and risks associated with the expected development of the company.

Stuttgart, 27 February 2019

Jürgen A. Junker

Dr. Michael Gutjahr

Jens Wieland

Report of the independent statutory auditor

To Wüstenrot & Württembergische AG, Stuttgart

Report on the audit of the consolidated financial statements and of the combined management report

Audit opinions

We have audited the annual financial statements of Wüstenrot & Württembergische AG, Stuttgart, comprising the balance sheet as at 31 December 2018, the income statement for the financial year from 1 January to 31 December 2018 and the notes, including the depiction of the accounting and measurement methods. In addition, we have audited the combined management report of Wüstenrot & Württembergische AG for the financial year 1 January to 31 December 2018. In conformity with German statutory requirements, we have not audited the content of the corporate governance statement, which is contained in the section “Corporate governance statement” in the combined management report.

In our opinion, based on the knowledge acquired in connection with the audit,

- the attached annual financial statements comply in all material respects with the requirements of the German Commercial Code (HGB) applicable to insurance undertakings and present a true and accurate view of the company’s net assets and financial position as at 31 December 2018 and its financial performance for the financial year 1 January to 31 December 2018 in accordance with the German standards of proper accounting, and
- the attached combined management report as a whole presents a true and accurate view of the company’s position. The combined management report is consistent with the annual financial statements in all material respects, complies with German statutory requirements and accurately depicts the opportunities and risks of future development. Our audit opinion concerning the combined management report does not cover the content of the aforementioned corporate governance statement.

Pursuant to Section 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any reservations concerning the regularity of the annual financial statements or the combined management report.

Basis for the audit opinions

We conducted our audit of the annual financial statements and the combined management report in conformity with Section 317 of the German Commercial Code (HGB) and with Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities (hereinafter, the “EU Audit Regulation”), as well as in accordance with the German standards for the proper auditing of financial statements promulgated by the IDW (Institute of Public Auditors in Germany). Our responsibility in accordance with those provisions and standards is described extensively in the section of our audit report entitled “Responsibility of the statutory auditor for the audit of the annual financial statements and the combined management report”. We are independent of the company in accordance with the requirements of European and German commercial law, as well as professional rules, and we have fulfilled our other German professional duties in accordance with these requirements and rules. In addition, pursuant to Article 10(2)(f) of the EU Audit Regulation, we declare that we did not provide any prohibited non-audit services referred to in Article 5(1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions concerning the annual financial statements and the combined management report.

Key audit matters in connection with the audit of the annual financial statements

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

Measurement of interests in affiliated companies and participations

With respect to accounting standards, we refer to the explanations provided in the notes in the section “Measurement methods for assets”, subsections “Interests in affiliated companies”, “Participations” and “Determination of fair value”. Risk disclosures can be found in the opportunity and risk report, which is part of the combined management report, in the section “Market price risk”.

Risk for the financial statements
Interests in affiliated companies and participations are not traded on an active market and amount to €1,533.9 million, or 41.5% of the balance sheet total.

With respect to carrying amounts, investments are associated with the fundamental risk that the fair value as at the reporting date will be lower than the carrying amount and that a necessary write-down to the lower fair value will possibly be omitted.

Interests in affiliated companies and participations are associated with an increased risk particularly because their fair value on the reporting date cannot be derived from active markets. The determination of the fair values of these interests is complex and is based on the application of various measurement methods, including a number of factors that are subject to discretion and estimates. The most significant assumptions are the planning assumptions about expected earnings (e.g. premiums and interest surpluses) and expenses (e.g. loss expenses and general administrative expenses), as well as those about the capitalisation interest rates used for discounting.

Our audit approach
In connection with the audit of the interests in affiliated companies and participations, part of our audit team included enterprise valuation experts, and we performed the following significant audit procedures:

- We selected a sample of the interests in affiliated companies and participations and audited the suitability of the measurement methods utilised in each case.
- Where fair value was determined using the capitalised earnings method or, in individual cases, a disposal value, we reviewed, in particular, the most significant planning assumptions for a sample of the interests in affiliated companies and participations, all of which were operating subsidiaries, in connection with verifying the plausibility of planning. In doing so, we drew on the knowledge we gained from the current audit of the financial statements and from past audits, as well as on publicly available information and on information provided by the client. We reviewed explanations and documentation that we received.
- In addition, for this sample, we compared the planning submitted to us with that approved by the responsible supervisory boards. Also, by means of a retrospective comparison, we compared the planning from the previous year with the business performance actually achieved and reviewed the deviations.
- We audited the capitalisation interest rates used for discounting and how they were determined pursuant to the capital asset pricing model. This related to the base interest rate and the market risk premium, as well as the individually specified beta factors, country risk premiums and growth discounts.
- For interests in affiliated companies and participations whose fair value was determined by outside parties (e.g. fund managers) using the net asset value method, we reconciled the fair values for a sample with the information available at the company, taking into account capital changes as at the reporting date. Where the net asset value was determined by the company itself, we audited the determinations of value for a sample, including the material assumptions and parameters (e.g. discounting rate).
- In addition, we audited whether write-downs and write-ups were performed accurately.

Our conclusions
The methods used to determine the fair value of interests in affiliated companies and participations were proper and in conformity with the accounting standards that are required to be applied. The underlying assumptions and parameters were appropriately derived.

Measurement of provisions for pensions and similar obligations (pension provisions)

With respect to the accounting standards, we refer to the explanations provided in the notes in the section "Measurement methods for liabilities", subsection "Provisions for pensions and similar obligations". Other disclosures about pension provisions can be found in the notes concerning liabilities (section C.1). Risk disclosures can be found in the opportunity and risk report, which is part of the combined management report, in the section "Market price risk".

Risk for the financial statements
In its annual statements, the company recognised a pension provision in the amount of €954.1 million (about 25.8% of the balance sheet total). This includes the pension commitments taken on by Group companies in connection with the assumption of joint liability.

The pension provisions are generally calculated by totalling the provisions for all persons eligible for a pension under an individual contract.

The provisions are measured in accordance with reasonable commercial judgment in the amount needed to satisfy the obligations using the projected unit credit method.

In the process, the requirements of commercial law must be observed, such as those concerning the actuarial interest rate. In addition, appropriate assumptions must be made concerning biometric variables (including mortality tables) and trends (including pension increases, salary trends and fluctuations).

There is a risk that a pension provision for individual contracts may be over- or under-valued if the parameters are defined or used inconsistently or incorrectly.

Our audit approach
In connection with the audit of the pension provision, part of our audit team included actuaries, and we performed the following significant audit procedures:

- We audited whether the personnel data recorded in the personnel management system were fully included in the pension provisions. In doing so, we relied on controls put in place by the company, and we audited whether they were suitably structured and carried out in terms of how they function. In addition, in connection with reconciling the calculation program with the general ledger, we audited whether the values were transferred in a way that was free of errors.
- For the purpose of auditing whether the pension provisions for individual contracts were calculated in accordance with the pension schemes, we likewise calculated the pension provision for a subgroup of current and prospective pensioners with our own EDP programs and compared the results with the figures calculated by the company. In this regard, we also audited whether the parameters employed to determine the pension provision (actuarial interest rate, mortality tables and trend assumptions) are permissible and appropriate. In doing so, we in particular audited whether conversion took place to the "Mortality tables 2018 G" of Heubeck-Richttafeln GmbH.
- In addition, we audited whether the recognised pension provision contains all partial provisions from the agreements concerning the assumption of joint liability for pension commitments.
- Moreover, we analysed how the pension provisions are developing with respect to the provision amount, the number of persons per pension scheme and the average provision amount.

Our conclusions
The methods used to determine the carrying amount of the pension provisions were proper and in conformity with the accounting standards that are required to be applied. The underlying assumptions and parameters were appropriately derived.

Other information

The Executive Board is responsible for the other information. The other information comprises:

- the corporate governance statement and
- the other parts of the annual report, with the exception of the audited financial statements and the combined management report, as well as our audit report.

Our audit opinions concerning the annual financial statements and the combined management report do not cover the other information, and as a result, we do not provide an audit opinion or any other form of audit conclusion concerning it.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information

- is materially inconsistent with the annual financial statements, the combined management report or our knowledge obtained in the audit or
- otherwise appears to be materially misstated.

Responsibility of the Executive Board and the Supervisory Board for the annual financial statements and the combined management report

The Executive Board is responsible for preparing the annual financial statements in a manner that conforms in all material respects with the provisions of the German Commercial Code (HGB) applicable to insurance undertakings and for ensuring that they present a true and accurate view of the company's net assets, financial position and financial performance in accordance with the German standards of proper accounting. Furthermore, the Executive Board is responsible for the internal controls that it has specified as necessary in accordance with the German standards of proper accounting in order to facilitate the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the Executive Board is responsible for assessing the company's ability to continue as a going concern. In addition, it is responsible for disclosing, as applicable, matters related to the going concern. Moreover, it is responsible for using the going concern basis of accounting, unless factual or legal circumstances prevent this.

Furthermore, the Executive Board is responsible for preparing the combined management report that as a whole presents a true and accurate view of the company's position and that in all material respects is consistent with the annual financial statements, complies with German statutory requirements and accurately depicts the opportunities and risks of future development. In addition, the Executive Board is responsible for the arrangements and measures (systems) that it considers necessary in order to facilitate the preparation of a combined management report in conformity with applicable German statutory requirements and to enable sufficient and appropriate evidence to be provided for the statements in the combined management report.

The Supervisory Board is responsible for monitoring the company's accounting process with respect to the preparation of the annual financial statements and the combined management report.

Responsibility of the statutory auditor for the audit of the annual financial statements and the combined management report

Our objective is to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether the combined management report as a whole presents a true and accurate view of the company's position and in all material respects is consistent with the annual financial statements and the knowledge gained in the audit, complies with German statutory requirements and accurately depicts the opportunities and risks of future development, as well as to issue an audit report containing our audit opinions concerning the annual financial statements and the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in conformity with Section 317 of the German Commercial Code (HGB) and with the EU Audit Regulation, as well as in accordance with the German standards for the proper auditing of financial statements promulgated by the IDW (Institute of Public Auditors in Germany), will always detect a material misstatement. Misstatements may be the result of non-compliance or inaccuracies and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users that are taken on the basis of these annual financial statements and the combined management report.

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

- Identify and assess the risks of material misstatement of the annual financial statements and the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement is higher in the case of fraud than in the case of error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of the arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of the accounting policies used by the Executive Board and the reasonableness of the estimates and related disclosures made by the Executive Board.
- Draw conclusions on the appropriateness of the Executive Board's use of the going-concern basis of accounting and, based on the audit evidence obtained, about whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements depict the underlying business transactions and events in such a way as to present a true and accurate view of the company's net assets, financial position and financial performance in accordance with the German standards of proper accounting.
- Evaluate the consistency of the combined management report with the annual financial statements, its conformity with the law and its depiction of the view of the company's position.
- Perform audit procedures concerning the forward-looking statements made by the Executive Board in the combined management report. In doing so, on the basis of sufficient and appropriate audit evidence, we gain an understanding, in particular, of the key assumptions underlying the Executive Board's forward-looking statements and evaluate whether the statements were properly derived from those assumptions. We do not provide a separate audit opinion concerning the forward-looking statements or the underlying assumptions. There is a substantial, unavoidable risk that future events may significantly deviate from the forward-looking statements.

We meet with the individuals responsible for monitoring in order to discuss, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in internal control that we identify during our audit.

We provide the individuals responsible for monitoring with a statement that we complied with the relevant independence requirements, and we discuss with them all relationships and other matters that may reasonably be presumed to influence our independence and the steps we have taken to guard against this.

From the matters that we discussed with the individuals responsible for monitoring, we determine those matters that were of most significance in the audit of the annual financial statements for the current reporting period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

Other statutory and legal requirements

Other disclosures pursuant to Article 10 of the EU Audit Regulation

We were selected as the statutory auditor at the meeting of the Supervisory Board on 21 March 2018. We were given a mandate by the chairman of the Supervisory Board's Risk and Audit Committee on 18 June 2018. We have served as the statutory auditor of Wüstenrot & Württembergische AG without interruption since the 2011 financial year.

We declare that the audit opinions contained in this audit report are consistent with the additional report to the Risk and Audit Committee in accordance with Article 11 of the EU Audit Regulation.

Responsible auditor

The auditor responsible for the audit is Dr Christof Hasenburg.

Stuttgart, 8 March 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

signed Dr Hasenburg Wirtschaftsprüfer (German public auditor)	signed Dr Hübner Wirtschaftsprüfer (German public auditor)

Wüstenrot & Württembergische AG
Report of the Supervisory Board

The Supervisory Board fulfilled its duties in the 2018 financial year in accordance with statutory requirements, the Articles of Association and the bylaws. It monitored the management of business and was directly involved in all matters of fundamental importance for the company.

Composition

In accordance with the Articles of Association, the Supervisory Board of Wüstenrot & Württembergische AG is composed of 16 members. The company is required by law to have women make up at least 30% of the Supervisory Board. Following the election by the Annual General Meeting on 9 June 2016, the Supervisory Board consists of 10 men and six women. As a result, women make up 38% of the Supervisory Board. The shareholder representatives consist of four women and four men, meaning that full gender parity is achieved in this case. Further details about the composition of the Supervisory Board can be found in the corporate governance statement.

The Supervisory Board experienced one change in its membership during the 2018 financial year. Ruth Martin resigned from the Supervisory Board, effective at the end of the Annual General Meeting on 13 June 2018, and in her place, the Annual General Meeting elected Professor Dr Nadine Gatzert to serve as shareholder representative for the period until the conclusion of the Annual General Meeting at which the actions of the Supervisory Board are approved for the financial year ending on 31 December 2018. Ms Martin's resignation also created a vacancy on the Conciliation Committee. Following the Annual General Meeting, Marika Lulay was appointed as her replacement by way of a resolution adopted by the shareholder representatives by written circulation.

Full Supervisory Board

In the year under review, the Supervisory Board had four ordinary meetings and one extraordinary meeting at which it considered at length the development of the company and the Group. The reports of the Executive Board, written presentations and meeting documentation were submitted to it in a timely fashion for the purpose of preparing for the meetings. The Executive Board reported regularly to the Supervisory Board in writing and verbally and in a timely and comprehensive manner about all issues of relevance to the company and the Group concerning strategy, planning, business performance and risk position. In addition, the issue of risk management was addressed at length by the Supervisory Board and by the Risk and Audit Committee. To this end, detailed risk reports were prepared and then presented to the Supervisory Board for discussion. The business and risk strategy was submitted to and discussed with the Supervisory Board. The Executive Board submitted the report of the Internal Audit department and the report of the Group Compliance Officer to the Risk and Audit Committee and to the Supervisory Board. The head of Internal Audit department and the Group Compliance Officer took part in the meeting of the Risk and Audit Committee. In addition, the Chairman of the Executive Board and the Chairman of the Supervisory Board exchanged information on an ongoing and, where necessary, prompt basis about all key developments and decisions.

At the forefront of the meetings of the Supervisory Board of Wüstenrot & Württembergische AG was the new "W&W Besser!" programme. The discussions focused on digitalisation measures, digital business models and the consequences that these have for the Group structure, staff development and the IT structure within the Group. In particular, the environment of low interest rates, increasing regulation and changed customer behaviour in the "new digital reality" were addressed. A further priority was the Group's strategic orientation, which was discussed in detail by the Supervisory Board. The Executive Board reported regularly about the W&W campus project, particularly concerning the planning process, construction progress and cost developments.

Business performance and trends in results in the individual segments were addressed at length, as were the current situation on the capital markets, current regulatory developments and the expected impact on the Group. In connection with the discussion of investment management, special attention was given to the development of W&W brandpool GmbH, as well as to the future options for Wüstenrot Bank AG Pfandbriefbank and ultimately the process to be taken now that it has been decided to sell the company. The Supervisory Board received a comprehensive report on W&W AG’s capital investments. It had detailed discussions about operational planning for 2019 and further medium-term planning.

All measures requiring approval by statute or under the company’s rules were submitted to the Supervisory Board.

In addition, the Supervisory Board concerned itself with central issues of corporate governance. It discussed the impact that digitalisation is having on the company’s business purpose, and the Articles of Association were amended to conform to the digital reality. The Supervisory Board examined in depth the expertise profile for the full Supervisory Board and the development plan derived from it, as well as the parameters for the composition of the Supervisory Board. In the development plan adopted at the end of 2017, measures were defined for broadening the expertise of Supervisory Board members, and these were implemented during the 2018 financial year. Following the new appointment to the Supervisory Board, its members once again evaluated their strengths in the fields of investment, actuarial practice and accounting by means of a self-assessment. This in turn forms the basis for the development plan that the Supervisory Board prepares each year. The plan identifies areas where the Supervisory Board as a whole or its individual members wish to acquire greater expertise. At its December meeting, the Supervisory Board adopted the development plan for 2019. The self-assessment and the development plan were forwarded to the supervisory authority.

The Supervisory Board concerned itself in detail with the German Corporate Governance Code. In accordance with the requirements of the German Corporate Governance Code, the Supervisory Board reviewed the efficiency of its work by means of a self-assessment, and at its March 2018 meeting, it discussed the results, which on whole may be considered positive. Together with the Executive Board, it approved an updated statement of compliance in December 2018. By way of resolution on the agenda for the 2019 Annual General Meeting and the nominations for shareholder representative included therein, the Supervisory Board updated the statement of compliance at its March 2019 meeting. Both statements of compliance were published on the company’s website. In the course of the audit, the auditor found no evidence that the statements of compliance were inaccurate.

At its March 2019 meeting, the Supervisory Board dealt in detail with the EBA’s guidelines on internal governance, and it resolved on this basis to update the bylaws for both the Supervisory Board and the Executive Board.

All members of the Supervisory Board attended the majority of the meetings of the Supervisory Board and the committees. If members of the Supervisory Board were unable to attend meetings of the Supervisory Board or its committees, they were excused, and they cast their votes in writing.

There were no conflicts of interests requiring disclosure in 2018.

Efficient work of committees

In order to enable it to efficiently perform its duties, the Supervisory Board created four committees, which are able to prepare resolutions for deliberation and adoption by the full Supervisory Board, as well as adopt resolutions themselves. These are the Risk and Audit Committee, the Nomination Committee, the Remuneration and Personnel Committee and the Conciliation Committee. Further details about the composition and working methods of the Supervisory Board committees can be found in the corporate governance statement.

In 2018 the **Risk and Audit Committee** had two ordinary meetings and met once by teleconference. The committee also adopted by way of written circulation four resolutions concerning the approval of so-called “non-audit services” by the auditor, as well as concerning the tendering process for the auditor. The **Remuneration and Personnel Committee** had two ordinary meetings. The **Nomination Committee** had two meetings. The **Conciliation Committee** did not meet. The issues falling within the purview of the respective committees were thoroughly discussed at committee meetings. The committee chairs reported to the Supervisory Board about the work of the committees at its next meeting.

In addition to topics by virtue of law and by virtue of the bylaws of the Supervisory Board, the **Risk and Audit Committee** principally concerned itself with the tendering of the audit for the 2020 and 2021 financial years and the years thereafter. In organisational terms, the selection process was supported by a coordination unit established for this purpose. The selection procedure was carried out by the Risk and Audit Committee. The resolutions necessary for this were adopted by written circulation following extensive discussion. In December 2018, the Risk and Audit Committee made two recommendations to the Supervisory Board for the audit mandate, and it gave its preference for one of the two recommendations, providing the reasons for same, on the basis of which the Supervisory Board adopted a resolution selecting the auditor for the 2020 financial year.

In addition, the Risk and Audit Committee monitored the auditor with respect to so-called “non-audit services” and its independence. The committee reviewed the non-financial Group report at its meeting on 21 March 2019, which included verbal and written input from the auditor about the methodology and key results of its audit. The audit report was sent to each member of the committee.

Following initial treatment of the subject by the **Remuneration and Personnel Committee,** the Supervisory Board also discussed remuneration matters, particularly the remuneration system for the Executive Board, and it took note of the report of the Executive Board on the structuring of the remuneration system for employees. The Supervisory Board and the **Nomination Committee** reviewed and evaluated the professional qualifications and aptitude of each member of the Executive Board and the Supervisory Board in accordance with the Supervisory Board’s guideline on “Fit and proper requirements for managers and members of the Supervisory Board”. In addition, the Supervisory Board and the Nomination Committee reviewed and evaluated the structure, size, composition and performance of the Executive Board and the Supervisory Board. The reporting by the Executive Board continued to cover current personnel issues.

Audit of the annual financial statements and the consolidates financal statements

The Supervisory Board examined at length the annual financial statements and the consolidated financial statements for the 2018 financial year, the combined Management Report for Wüstenrot & Württembergische AG and the W&W Group as at 31 December 2018, as well as the proposal of the Executive Board concerning the appropriation of unappropriated surplus. The annual financial statements, the consolidated financial statements and the combined Management Report are complete and in conformity with the estimates made by the Executive Board in the reports to be issued to the Supervisory Board in accordance with Section 90 of the German Stock Corporation Act (AktG). The proposal of the Executive Board concerning the appropriation of net income corresponds to consistent accounting policies that take into consideration the company’s liquidity position and planned investments. Therefore the Supervisory Board agrees with the proposal of the Executive Board.

KPMG AG Wirtschaftsprüfungsgesellschaft, Stuttgart, which was appointed auditor by the Supervisory Board, duly audited the annual financial statements and the consolidated financial statements for the 2018 financial year prepared by the Executive Board, as well as the combined Management Report for Wüstenrot & Württembergische AG and the W&W Group for the 2018 financial year, and it issued an unqualified audit report.

The auditor reported the material results of its audit to the Supervisory Board orally and in writing. The audit report was sent to each member of the Supervisory Board. In addition, the auditor reported both at the meeting of the Risk and Audit Committee on 21 March 2019 and at the accounting meeting of the Supervisory Board on 22 March 2019. The submitted audit report meets the statutory requirements of Section 321 of the German Commercial Code (HGB) and was taken into account by the Supervisory Board in connection with its own audit. There were no circumstances that could call into question the auditor’s independence.

Following initial treatment of the matter by the Risk and Audit Committee, the Supervisory Board reviewed the separate non-financial Group report (CSR report) at its meeting on 22 March 2019, which included oral and written input from the auditor about the methodology and key results of its audit. The audit report was sent to each member of the Supervisory Board. The result of the auditor’s audit of the CSR report is consistent with the result of the review by the Supervisory Board. The Supervisory Board raised no objections to the CSR report.

Following the definitive result of the audit of the annual financial statements, the consolidated financial statements and the combined Management Report, as well as the proposal of the Executive Board concerning the appropriation of unappropriated surplus, the Supervisory Board raised no objections, and at its meeting on 22 March 2019, it approved the annual financial statements prepared by the Executive Board as well as the consolidated financial statements. Accordingly, the annual financial statements are deemed approved pursuant to Section 172 sentence 1 of the German Stock Corporation Act (AktG).

The Supervisory Board also discussed the solvency overview for W&W AG and the W&W Group as at 31 December 2017, as well as the auditor’s report on it.

Composition of the Executive Board

The Executive Board experienced no changes in its membership in the 2018 financial year.

In connection with the expansion of the responsibilities of the Group department Group Development, the creation of the new Group department Risk, Compliance and Data Management and other changes within the organisation, the Supervisory Board gave its approval to a modification of the Executive Board's business allocation plan, effective 1 October 2018.

The Supervisory Board expresses its gratitude and appreciation to the Executive Board and to the employees at all Group companies for their work and their tireless commitment.

Stuttgart, 22 March 2019

The Supervisory Board

Hans Dietmar Sauer

Hans Dietmar Sauer
Chairman

Wüstenrot & Württembergische AG
Glossary

Actuarial interest rate
Interest rate that is used by a life insurance company to calculate the provision for future policy benefits as well as, customarily, premiums, and that is guaranteed for the entire maturity. If a higher amount of interest is earned, customers receive most of this as profit participation.

Additional interest reserve
An additional provision for future policy benefits mandated by statute for life insurance contracts in the new portfolio (see also interest reinforcement for the old portfolio) in order to cover interest obligations in an environment of low interest rates. The legal basis is Section 341f (2) of the German Commercial Code (HGB) in conjunction with Section 5 of the German Policy Benefit Provision Regulation (DeckRV).

Affiliated companies
This term refers to the parent company (Group parent company) and all subsidiaries. Subsidiaries are companies over which the parent company can exercise a controlling influence on business policy. This is the case, for example, where the Group parent company directly or indirectly holds the majority of voting rights or has the right to appoint or remove the majority of the members of the Supervisory Board, or where there are contractual rights of control.

Asset liability management
Asset liability management describes the coordination of the maturity structure of assets and liabilities, as well as control of the associated market and liquidity risks.

Associated company
An associated company is a company over which the Group as owner has a decisive influence. It is neither a subsidiary nor a joint venture. Decisive influence typically exists where the Group maintains an ownership of 20-50%.

Black-Scholes Model
Measurement model for ascertaining the fair value of options, which takes into consideration the strike price, the maturity of the option, the current price of the underlying, the risk-free interest rate and the volatility of the underlying.

Building savings contract volume
This is defined when the contract is concluded and normally determines the volume of the home loan savings resources available for allocation.

Cancellation (lapse rate)
Contracts that are terminated or made non-contributory by the policyholder before an insured event occurs. The lapse rate is the proportion of cancellations based on the average insurance portfolio.

Cap
A cap is an agreement between the seller of the cap and the buyer that, when a fixed market interest rate rises above an agreed interest rate limit, the seller will refund to the buyer the amount of the difference as relates to an agreed nominal amount.

Capital investments
Premium income from the operations of insurance companies is typically allocated to provisions and reserves. Pursuant to statutory provisions, the assigned amounts must be invested in such a way as to achieve the greatest possible security and profitability while maintaining the insurance company‘s liquidity at all times. This is done by ensuring an appropriate mix and spread with respect to investment types.

Capital investments for the account and risk of life insurance policyholders
These mainly include capital investments in unit-linked life insurance and additional capital investments designed to cover liabilities under contracts where the benefit is index-linked. Policyholders are entitled to the income earned from these capital investments, but they also have to bear any losses themselves.

Cash reserve
The cash reserve consists of cash in hand, deposits with the German Bundesbank and central bank that are payable on demand, balances with foreign postal giro offices, and debt instruments issued by public sector entities.

Combined ratio
Actuarial profitability indicator used by property/casualty insurance companies, total of the loss ratio and the operating expense ratio.

Compliance
Compliance refers to all measures that are taken to ensure the legally and ethically correct behaviour of companies, governing bodies and employees. Compliance is designed to protect the company against misconduct, which can lead to pecuniary losses, damage to image and the failure to meet corporate objectives. It is also designed to protect the interests of employees, customers and business partners.

Contingent liabilities
Unrecognised liabilities that are unlikely to occur, for example contingent liabilities arising from guaranty obligations.

Corporate Governance Code
The German Corporate Governance Code contains nationally and internationally recognised standards of good and responsible corporate governance. Apart from conditions that have to be observed by companies as applicable statutory law, the Code also contains recommendations and suggestions. Companies can deviate from recommendations, but they are obligated to disclose this annually. Suggestions can be deviated from without disclosure.

Credit provision ratio
The credit provision ratio means the ratio of the individual and portfolio impairment provisions to the associated credit volume.

D&O insurance
Directors & officers insurance is a type of liability insurance for managers. It covers executive board members, supervisory board members and senior executives against claims that may be brought against them as a result of a professional error.

Deferred taxes
Deferred taxes must be created for temporary differences resulting from the different valuation methods applied to assets and liabilities in the tax and IFRS balance sheets, where the tax effects arise in future periods.

Derivative financial instruments
Derivative financial instruments are forward transactions structured as a fixed or option transaction whose value depends on one or more underlying variables. Important examples of derivative financial instruments are options, futures, forwards and swaps.

Direct credit
The part of the surplus earned by the insurance company that is credited directly to customers during the financial year.

Earnings per share
Earnings per share are calculated by dividing the consolidated net profit attributable to the common shareholders of the parent company by the weighted average number of common shares outstanding during the reporting period.

Effective interest rate method
Pursuant to IAS 39, the effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability. It is also used to allocate interest receivable or interest payable over the relevant period. Using the effective interest rate, for example, a discount is spread over the maturity of the financial instrument and reduced to zero.

Equalisation reserve
Reserve to be created in accordance with officially established, actuarial-based methods in order to compensate for fluctuations in claims development in various years. In years with a relatively low/relatively high number of claims, additions/withdrawals are made.

Equity method
Units or shares in associated companies and joint ventures are recognised in accordance with this method. In doing so, the valuation corresponds to the Group‘s share of equity of these companies.

Expenditure for insurance Business (administrative costs)
Commissions, salaries, materials costs and other expenditure for the sale and ongoing management of insurance contracts.

Fair value
The amount at which an asset is exchanged between knowledgeable, willing and unrelated business partners. The fair value is the current market value, insofar as there is an active market. If an active market does not exist, fair value is determined using recognised valuation methods.

Financial assets/liabilities at fair value through profit or loss
One of the categories into which financial instruments have to be classified for the purpose of recognition pursuant to IAS 39.9. Financial assets that are measured at market value are allocated to this category. On the assets side, these are financial assets held for trading and designated financial instruments, and on the liabilities side, these are financial liabilities held for trading. Changes in the measurement of market value are recognised in profit or loss through the consolidated income statement.

Financial assets available for sale
According to IFRS, the category "Financial assets available for sale" represents the most important category into which financial instruments are to be classified. It includes financial assets that cannot be allocated to financial investments held to maturity, to financial assets at fair value through profit and loss, or to receivables. The financial instruments in this category are recognised at fair value on the reporting date.

Financial assets held for trading
Allocated to this category are fixed-income and variable-yield securities and derivative financial instruments that were acquired solely for trading purposes. They are recognised at fair value and are reported in the balance sheet under financial assets at fair value through profit or loss.

Financial conglomerate
A financial conglomerate offers financial services (banking and insurance services). A financial conglomerate is defined as a group of companies consisting of a parent company, its subsidiaries and those companies in which the parent company or one of its subsidiaries maintains a long-term equity investment. The group must include at least one company in the banking or investment services sector and one company in the insurance sector, and one of these companies must be subject to supervision by the German Federal Financial Supervisory Authority (BaFin).

Financial liabilities held for trading
This position contains negative market values from derivatives and the short selling of securities. Short selling is undertaken in order to generate profits from short-term price fluctuations. Liabilities held for trading are measured and recognised analogously to financial assets held for trading.

For own account
In insurance terminology, "for own account" (f.o.a.) means after deduction of the reinsurance component.

Futures
Standardised forward transactions under which a commodity available on a cash, capital, precious-metal or foreign exchange market is to be delivered or purchased at the exchange price at a particular time in the future.

Genuine securities repurchase transaction (repo)
A genuine securities repurchase transaction (repo) is a contract in which the buyer assumes the obligation to retransfer the securities acquired under a repurchase agreement at a predetermined time or at a time determined by the seller.

German covered bonds
German covered bonds are:
- covered bonds based on acquired mortgages (German covered mortgage bonds)
- covered bonds based on acquired loans and advances due from governmental agencies (public German covered bonds)
- covered bonds based on acquired ship mortgages (German covered ship mortgage bonds)

Gross/net
In underwriting, gross/net means the respective position or ratio before or after deducting reinsurance.

Gross new business
For home loan and savings banks, gross new business describes new business as the sum of all building savings contracts applied for and accepted during a certain period of time.

Guarantee assets
Separate assets to be set aside by insurance companies in order to guarantee the claims of policyholders.

Guarantee needs
Guarantee needs have to do with the interest rate obligation under insurance contracts measured by taking into account a current market interest rate, less the provision for future policy benefits. Valuation reserves for fixed-income securities are to be taken into account with regard to the participation of policyholders in valuation reserves only to the extent that they exceed guarantee needs. Net profit may be distributed only to the extent that it exceeds the guarantee needs. The legal basis is Section 56a (2) et seq. of the Insurance Supervision Act (VAG) in conjunction with Section 8 of the German Regulation on the Minimum Premium Refund in Life Insurance (MindZV).

Hedge accounting
Hedge accounting is an accounting procedure for depicting how the value of a hedge (e.g. an interest rate swap) and the value of an underlying (e.g. a loan) trend in opposite directions. The object of hedging is to minimise the impact on the income statement that results from the measurement of derivatives and recognition of the results in profit or loss.

Hedging
Coverage against price risks through an adequate counter-position, particularly through derivative financial instruments. There are two basic models, depending on the risk to be secured: fair value hedges are used to secure assets or liabilities against risks of changes in value, and cash flow hedges mitigate the risk of fluctuations in future cash flows.

IFRS/IAS
The abbreviation IFRS stands for International Financial Reporting Standards and describes the international principles of financial reporting. Since 2002, the designation IFRS applies to the overall concept of the standards enacted by the International Accounting Standards Board (IASB). Standards already enacted continue to be called International Accounting Standards (IAS).

Interest book management
Interest book management means the active management of risks of interest rate changes, particularly with regard to credit institutions. In so doing, regulatory requirements need to be taken into account that aim at limiting potential risks of interest rate changes.

Interest rate swap
An interest rate swap is a contractual agreement between two parties to exchange interest payments in a currency.

Interest reinforcement
An additional provision for future policy benefits required by BaFin for life insurance contracts in the old portfolio (see also additional interest reserve for the new portfolio) in order to cover interest obligations in an environment of low interest rates. The calculation rule is dealt with in connection with the business plan for the old portfolio.

Interim loan
Loan granted against a building savings contract that has reached the minimum savings balance but has not yet been allocated. It is subsequently replaced with the allocated building savings contract volume.

IRBA (Internal Ratings Based Approach)
Banks, banking groups and financial holding groups may rely on their own internal estimates of risk components when determining minimum capital requirements and in providing backing for risk-weighted assets for counterparty risks. The approval of BaFin is required in order to use IRBA.

ISDA (International Swaps and Derivatives Association)
The ISDA is an international trading organisation of participants on the derivatives market. The main purpose of the association is to research and mitigate risks in derivatives trading and in risk management in general. The association has published an ISDA Master Agreement, which is used for the standardised settlement of derivative transactions.

Issuer rating
An issuer rating (for banks and insurance companies) represents the current opinion of a rating agency about a debtor‘s general financial ability to meet its financial obligations. This opinion relates in particular to a debtor‘s ability and willingness to settle its financial liabilities in full and on time.

Loan under a building savings contract
After allocation of a building savings contract, there is a claim to a loan under a building savings contract, which is granted for housing financing activities. The amount of the loan under a building savings contract is typically determined by the difference between the building savings contract volume and the building savings contract balance. Special features of this loan are a fixed low interest rate for the entire term, the ability to subordinate collateral and the right to make unscheduled payments at any time.

Loss ratio
Percentage ratio of loss expenses to premiums attributable to the financial year, i.e. those that are “earned“.

Mixed funds
Investment funds that invest both in equities and in fixed-income securities.

Monte Carlo simulation
Simulation of random numbers.

Net interest
When calculating the net interest on capital investments, all realised income and expenses associated with the capital investments are taken into account and compared with the average value of the capital investment portfolio (according to carrying amounts). This also includes profits and losses from the disposal of capital investments, as well as depreciations. Net interest can therefore fluctuate considerably from year to year.

Net new business
For home loan and savings banks, net new business describes the sum of all contracts paid in during a certain period of time.

New business (annual portfolio contributions)
Annual portfolio contributions in property/casualty business that are added to the total portfolio over the course of the year on account of new contracts or contract amendments with a new business character (new contract or contract change to a different contract group).

New premium
This contains annual premiums from new life insurance business, including one-off premiums.

Non-controlling interests in equity
Interests in own funds of consolidated subsidiaries that, in the Group‘s view, are held by outside third parties.

Non-technical account
The result from those types of income and expenses that are not allocated to direct insurance business.

Options
Forward contracts where the buyer is entitled but not obligated to purchase (call option) or sell (put option) the subject of the option within a certain period at a price agreed to in advance. The seller of the option (writer) is obligated to provide or accept the subject of the option and receives a fee for granting the option.

OTC (over the counter) derivatives
Derivative financial instruments that are not standardised and not traded on a stock exchange but instead are individually negotiated between two contractual partners.

Paid in
A newly concluded building savings contract is deemed paid in after payment in full of the conclusion fee.

Portfolio value from acquired insurance contracts
The value recognised upon acquisition of an insurance company as the countervalue for the acquired insurance contracts.

Premiums, written/earned
The premium is the price for the benefit to be provided by the insurer. It can be paid either continually or as a one-off premium. Written premiums are premium revenues received for the respective financial year. Earned premiums are the amounts attributable to the financial year.

Primary insurance
Primary insurance is established through a direct contractual relationship between the insurance company and the policyholder and is described as direct insurance business.

Provision for future policy benefits
The insurance company creates a provision for future policy benefits in order to be able to guarantee the promised insurance cover at any time.

Provision for outstanding insurance claims
This is a provision for expenses arising from claims that occurred in the respective financial year but have not yet been able to be settled. It also includes provisions for claims that occurred before the reporting date but have not yet been reported.

Provision for premium refunds
The provision for premium refunds comes from that part of gross profit that is not credited directly to policyholders. It therefore includes those shares of the profit that are directly credited to customers in subsequent financial years. Consistent profit participation can thus be granted to policyholders from this provision, irrespective of fluctuating annual results. In addition, a deferred provision for premium funds must be created in IFRS financial statements for valuation differences between HGB and IFRS.

Provision for unearned premiums
These premium revenues are allocated to income from future financial years. They are calculated individually and to the day for each insurance contract.

Public funds
Investment funds whose units can be purchased by anyone. Purchase and sale are possible when stock exchanges are open.

Public German covered bonds
Bonds issued by a mortgage bank to public authorities for the purposes of refinancing loans.

Quoted prices
Quoted prices are characterised by the fact that they are readily and regularly available. Quotes are made via a stock exchange, a broker, an industry group, a pricing service or a supervisory authority. Prices must be accessible to the public. Prices quoted on a stock exchange, as well as pricing on OTC markets, are publicly available if the prices are available to the public, for example via Reuters or Bloomberg.

Reinsurance
An insurance company insures part of its risk with another insurance company (the reinsurer).

Reserve buffer
Includes the valuation reserves and free provisions for premium refunds, plus the amounts attributable to non-tied final profit participation funds.

Reserve for financial assets available for sale
Market value changes to assets belonging to the category "Financial assets available for sale" are recognised directly in equity in the reserve for financial assets available for sale. It is a component of equity.

Result attributable to non-controlling interests
Shares in consolidated net profit that, in the Group's view, are attributable to outside third parties.

Retained earnings
Recognised as retained earnings in individual HGB financial statements are only those amounts that were accrued from net income in the financial year or in previous financial years. They strengthen the company's financial matter.

Retrocession
Assumption of the risks of reinsurance companies by other reinsurers.

Risk provision
This is where impairments to gross recognised receivables are depicted. Under IFRS, the risk provision for recognised receivables is openly deducted from receivables and shown on the assets side. For off-balance-sheet transactions (e.g. loan commitments), other risk provisions are created on the liabilities side, where necessary.

RORAC (return on risk-adjusted capital)
Return on risk-adjusted capital is a key performance indicator for measuring income, taking into account the risk capital used.

Solvency ratio
Term from the insurance industry. The solvency ratio indicates the relationship between an insurance company's own funds and the value of its capital investments as weighted according to investment risk. The higher the ratio, the more risks the insurance company may assume pursuant to European investment regulations.

Special funds
Investment funds that are open only to a limited group of investors. These are usually institutional investors, such as insurance companies, pension funds, foundations, etc.

Stress test
The stress test simulates the effects that future negative developments on the capital markets – such as a drop in share prices accompanied by a rise in interest rates – can have on the coverage of guaranteed benefits and the solvency of the company.

Structured entity
With a structured entity, voting and comparable rights are not the definitive factors in determining who controls the company. Voting rights merely cover administrative duties, whereas material activities are performed pursuant to contractual arrangements.

Underwriting result
The result from income and expenses from insurance business primarily comprises premiums, claims expenses, premium refunds and expenses for insurance operations. In addition, in life insurance business, the corresponding capital investment result and the change in the provision for future policy benefits form part of it.

Valuation reserves
Difference between the fair value and the carrying amount of certain asset classes. In HGB financial statements, this includes capital investments. In IFRS financial statements, this includes financial instruments that are not recognised at fair value and property held as a financial investment.

Value at risk (VaR)
The VaR is a measure of risk that indicates what value the loss of a certain risk position will not exceed with a stipulated probability of default (confidence level) during a stipulated time interval.

Value-oriented net sales
New and replacement business less portfolio cancellations (in each case, according to annual contributions to the portfolio) of each insurance line in property/casualty insurance, weighted with factors. The factors are determined according to the respective profitability. As a rule, the more profitable the line, the higher the weighting factors. Positive value-oriented net sales means strong income growth.

Value-oriented net valuation amount
Total premium from new business by product group, weighted with value-oriented factors. The factors are determined according to the profitability of each product group. As a rule, the more profitable a product group, the higher the weighting factor.

Volatility
The standard deviation, translated to one year, of the logarithmic growth of a risk factor.

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