2019

Annual Report
Wüstenrot & Württembergische AG

w&w gruppe

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

Wüstenrot & Württembergische AG
Key figures

W&W Group (according to IFRS)

Consolidated balance sheet		FY 2019	FY 2018
Total assets	€ bn	75.7	72.0
Capital investments	€ bn	49.0	45.9
Senior fixed income securities	€ bn	13.0	21.3
Senior debenture bonds	€ bn	24.0	13.8
Building loans	€ bn	21.5	23.0
Liabilities to customers	€ bn	21.6	23.6
Technical provisions	€ bn	37.4	34.7
Equity	€ bn	4.8	4.2
Equity per share	€	51.23	45.51

Consolidated profit and loss statement		FY 2019	FY 2018
Net financial result (after credit risk adjustments)	€ mn	2,353.5	1,333.4
Premiums/contributions earned (net)	€ mn	4,249.2	4,000.1
Insurance benefits (net)	€ mn	–4,650.5	–3,553.7
Earnings before income taxes from continued operations	€ mn	353.0	320.5
Consolidated net profit	€ mn	249.1	215.2
Total comprehensive income	€ mn	658.4	–47.2
Earnings per share	€	2.65	2.29

Other information		FY 2019	FY 2018
Employees (Germany)[1]		6,456	6,540
Employees (Group)[2]		7,991	8,129

Key sales figures		FY 2019	FY 2018
Group			
Gross premiums written	€ mn	4,319.7	4,065.4
New construction financing business (including brokering for third parties)	€ mn	6,964.2	6,280.2
Sales of own and third-party investment funds	€ mn	481.7	426.2
Housing			
New home loan savings business (gross)	€ mn	13,795.1[3]	13,765.9
New home loan savings business (net)	€ mn	11,501.3[3]	11,412.3
Life and Health Insurance			
Gross premiums written	€ mn	2,372.7	2,224.5
New premiums	€ mn	731.5	572.1
Property/Casualty Insurance			
Gross premiums written	€ mn	1,954.4	1,847.8
New premiums (measured in terms of annual contributions to the portfolio)	€ mn	266.6	249.0

1 Full-time equivalent head count.
2 Number of employment contracts.
3 Includiing Aachener Bausparkasse AG (ABAG).

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

		FY 2019	FY 2018
Net income	€ mn	90.0	80.0
Dividend per share[1]	€	0.65	0.65
Share price at year-end	€	19.36	16.00
Market capitalisation at year-end	€ mn	1,814.0	1,498.0

1 Subject to approval by the Annual General Meeting.

Financial calendar

Annual General Meeting

Annual General Meeting	To be announced

Financial reports

2019 Annual Report	Monday, 30 March 2020
Interim management statement as at 31 March	Friday, 15 May 2020
Half-yearly financial report as at 30 June	Friday, 14 August 2020
Interim management statement as at 30 September	Friday, 13 November 2020

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Letter to shareholders
Wüstenrot & Württembergische AG

“We think in terms of chances,
but we keep our eyes on the risks.”

Ladies and gentlemen,

Three years ago, our company began its venture into the future. It was a new beginning aimed at becoming a strong Group that beats the competition, is agile and uses new ideas and stable momentum, not only to manage digital change but also to push forward with it to increase value. In the process, the Group always aligns itself with the desires and requirements of its customers. Today, after three years, the evidence is clear: The path that we have charted is the right one, and it is ensuring our success. We have made substantial investments: in new products, in digitalisation, in our sales, in our employees, in efficient processes and, above all, in the satisfaction of our customers. After three years of change, the W&W Group is a different entity today. It is more agile, more modern, more digital, closer to its customers and more weatherproof.

The success of our transformation is most readily apparent in the key figures of the W&W Group: Our net income target for 2019 was to exceed the previous year’s net income after taxes of €215 million and to post a value in the long-term target corridor of €220 to 250 million. At roughly €249 million, profit came in at the upper end of our forecast corridor. This was aided by sustained operational growth, continued good net underwriting income, cost discipline, as well as an improved net measurement gain from securities and financial instruments under IFRS. In 2019 the net income of W&W AG pursuant to the German Commercial Code (HGB) rose to €90 million, after posting a figure of €80 million for the previous year. This, too, underscores the rising profitability of our company. The results are gratifying, but they are not an end in and of themselves: They put us in a position to continue to prepare for the future and at the same time to ensure our independence.

That we are also on the right path in strategic terms is underscored by new business, which was once again very positive in the year just ended. In the “Housing” division, we were able to further boost new home loan savings business and cement our second-place position in the industry in Germany. In terms of construction financing, Wüstenrot posted an increase in new business of approximately 14% compared with the previous year. In the “Insurance” division, Württembergische once again recorded impressive growth rates. For instance, new premiums in life insurance rose by 28%, and in property and casualty insurance, annual portfolio contributions went up by 7%.

Our youngest pillar, the “brandpool” division, which has grouped together the new digital initiatives and products of the W&W Group, is making an increasingly strong contribution to business success. For instance, “Adam Riese”, our young digital insurer, had acquired 90,000 customers by the end of 2019, less than two years after starting.

“Adam Riese”, as well as the trends for our other digital offerings, show that we are succeeding in meeting changed customer needs and tapping into new customer groups with innovative products. Digitalisation was without doubt the starting point, driver and catalyst for the transformation of our Group. However, digitalisation alone would not have gotten us to where we are today. Our restructuring went far beyond that and continues to do so. Our actual strength is the result of an interlocking of digitalisation with the other elements of our change:

- We have worked on our processes, which have become faster and, above all, more customer-friendly.
- We are making significant investments in basic and advanced training, as well as in a good work environment for our employees.
- With our “W&W Besser!” initiative, we have also worked on our culture and have become more agile, open and creative.

All these changes, which we adressed at an early stage, now show their positive effects, which we can see in new business, net profit, customer satisfaction, emloyee satisfaction, and in the way our Group is perceived by the public. It gives pleasure to see that we gain in agility and speed and leave the well-worn paths. We know however, that there is still some work to do. More work remains to be done.

The solid business performance and the success that we’ve experienced with our restructuring are also reflected in the W&W stock price in the year 2019. It closed the year at €19.36, only slightly below the high for the year, and posted a price rise of 21.0% for 2019. Taking into account the dividend in the amount of €0.65 that was paid for 2018, overall performance was 25.1% for the previous year.

We of course want to let you, dear shareholders, appropriately share in the business success of the past year. Therefore, the Executive Board and Supervisory Board will propose the Annual General Meeting a solid dividend of €0.65 per share. This demonstrates the solidity of W&W Group even in turbulent times. Thus, W&W stock would achieve a dividend yield of 3.6% and once again outperform the prospective average dividend yields of MDAX (2.15%) and SDAX (2.29%).

Dear shareholders,

Zero and negative interest rates, economic skid marks – including in important industries for us, such as residential housing construction – trends to more governmental intervention and greater regulation are conditions that will not make our business any easier in 2020.

Despite our new beginning, we have always paid attention to making the Group weatherproof. Particularly now where the economic environment in Germany is once again deteriorating after years of strong growth, this cannot be overemphasised. The willingness to take new paths and to invest in the future must be accompanied by cost discipline and tight risk management, because these are two sides of the same coin. We think in terms of chances, but we keep our eyes on the risks. This applies in particular to the developments which came up the last few weeks relating to the Corona crisis. Today it is already clear that the financial industry will have to cope with significant revenue losses. In principal, the W&W Group adheres to its medium and long-term target range of €220 to €250 million. Facing the present distortions on the capital markets and the consequences of the Corona crisis, which are yet not foreseeable, a sound forecast, at the moment, is not possible. Should the Corona crisis persist for a longer period, a decline in net income 2020 is to be expected.

I extend my heartfelt thanks to all employees, regardless of where they work in our Group. They have driven change with courage, creativity and passion, thus ensuring that W&W becomes at little bit “better” each and every day. I thank you, dear shareholders, for your trust and the support that you have shown, some of you for many years. We will also continue to do everything we can in order to advance the W&W Group for you, our customers and our employees.

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, Württembergische Lebensversicherung AG and Württembergische Krankenversicherungs AG

Dr Michael Gutjahr
CFO of the W&W Executive Board
Human Resources
Capital Investments
Accounting

Bernd Hertweck
Head of Housing Division
Chairman of the Executive Board of Wüstenrot Bausparkasse AG

Jürgen Steffan
CRO of the W&W Executive Board
Controlling
Risk management
Compliance

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

Jens Wieland
CIO of the W&W Executive Board
IT

Divisions of the W&W Group:

The W&W Group has separated its activities into three divisions: Housing, Insurance and brandpool.

The Excecutive Board of W&W AG and the heads of the divisions 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

Petra Aichholz[1]
Insurance employee
Württembergische Versicherung AG

Peter Buschbeck
Member of the Executive Board
Investors Marketing AG

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

Corinna Linner
Linner Wirtschaftsprüfung

Marika Lulay
Managing Director & CEO and Member of the
Supervisory Board of GFT Technologies SE

Bernd Mader[1]
Head of Customerservice and Operations
Württembergische Versicherung 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

Susanne Ulshöfer[1]
Member of the Works Council
Wüstenrot Bausparkasse AG, Ludwigsburg site

1 Employee representatives.

Combined Management Report
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Wüstenrot & Württembergische AG
Combined Management Report

Group Fundamentals

Business model

Overview of the Group and W&W AG

The W&W Group came into existence in 1999 as a result of the merger of the two long-standing companies Wüstenrot and Württembergische. Today, it combines the Housing, Insurance and brandpool divisions and offers approximately six million customers financial planning solutions that meet their needs. In doing so, the W&W Group focuses on omni-channel sales, ranging from its own mobile sales force to cooperation partners and sales agents, broker activities and digital initiatives.

In the **Housing** division, the focus is on the home loan savings business of Wüstenrot Bausparkasse AG, along with the construction financing that it offers. Other areas include the property development business of Wüstenrot Haus- und Städtebau GmbH and real estate brokerage by Wüstenrot Immobilien GmbH.

The planned sale of Wüstenrot Bank AG Pfandbriefbank to the Oldenburgische Landesbank (OLB) closed on 1 June 2019. Collaboration agreements between OLB and companies in the W&W Group also entered into effect at that time.

The acquisition of Aachener Bausparkasse AG (ABAG) by Wüstenrot Bausparkasse AG was approved by the authorities in November 2019 following conclusion of the ownership control procedures, and ownership changed hands as at 1 January 2020. The purchase will strengthen Wüstenrot Bausparkasse, Germany's most venerable home loan and savings bank, on its path to increased growth, since long-term sales partnerships were agreed upon with the majority of the insurance companies that previously owned ABAG.

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 AG, Württembergische Lebensversicherung AG and Württembergische Krankenversicherung AG. Karlsruher Lebensversicherung, which had formerly been a part of the WürttLeben Group, was merged into Württembergische Lebensversicherung AG in 2019. The "Karlsruher" brand will remain unchanged for our customers, as we will continue to use it for marketing purposes.

The **brandpool** division oversees the digital brand Adam Riese and, since 2018, the new digital activities of the W&W Group. It is also dedicated to financial planning and invests in digital business models in the areas of housing, finance, health, family, education and mobility. The aim is to develop an ecosystem of independent, decentralised brands.

The **W&W Group** operates almost exclusively in Germany and is represented there by two key offices in Stuttgart and Ludwigsburg/Kornwestheim. Outside of Germany, W&W currently still offers home loan savings and construction financing products in the Czech Republic. Wüstenrot stavební spořitelna a.s. and Wüstenrot hypoteční banka a.s. are scheduled to be sold to Moneta Money Bank AG in 2020.

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. W&W AG is a public company and is listed on the SDAX exchange.

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, the Management Board is composed of the division heads Bernd Hertweck (Wüstenrot), Thomas Bischof (Württembergische Versicherungen) and Daniel Welzer (W&W brandpool). Operational and company-specific issues of the individual companies are handled at the divisional level.

The **Executive Board** of W&W AG experienced changes during the reporting year:

Effective 1 July 2019, Jürgen Steffan, who until that time had been General Representative as well as a member of the Executive Board of Wüstenrot Bausparkasse AG, assumed responsibility for the newly created remit Controlling, Compliance and Group Risk Management. The previous three-member Executive Board was expanded to four members due in part to the significant expansion of business in recent years. At the same time, W&W AG is in this way also highlighting the importance of addressing changed compliance requirements.

By building the new **W&W campus** at the Ludwigsburg/Kornwestheim location, W&W AG, as builder-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 campus will then have seven interconnected office buildings with some 4,000 modern work stations for W&W employees.

"W&W Besser!"

The vision of the W&W Group is "Creating value, securing value". In this way, we are positioning ourselves as a company that makes it possible to obtain financial planning from a single source.

The W&W Group is continuously refining its strategy with an eye to the future. For instance, our venture into the new digital world is also now becoming visually discernible though our new brand identity. The W&W Group offers home to many different people, brands and companies. Each of our brands aims to assist our customers in individually fulfilling their wishes in a secure manner.

We have set ourselves the objective of becoming better every day. This is reflected in our strategic map "W&W Besser!" It unites the strategic initiatives of the W&W Group under one roof. Our overriding principle is that the customer is the focus of our activities.

In its second full year, "W&W Besser!" resulted in further considerable achievements in the course of the roll-out. The following are a few select examples:

Wüstenrot has rigorously evolved from a home loan and savings bank to become a point of contact for topics relating to the home. This is also made clear by the new brand identity: Housing means Wüstenrot.

- The residential platform Wüstenrot Wohnwelt continues to be successively expanded. In addition, in July 2019, it was integrated into the current website www.wuestenrot.de. It has far more than three million visitors each year, providing them not only with access to

W&W Better!

W&W 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	Growth in housing 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 Career development of employees	Ensure future viability through IT strategy Set up our IT in a lean manner	To comply with legal provisions

more than 350,000 properties throughout Germany but also with exclusive offers by partners on all topics relating to the home.
With regard to construction financing business, our growth is considerably outpacing that of the market. Numerous product improvements and new customer service concepts for high-volume construction loans are having a positive effect.

- With the takeover of Aachener Bausparkasse, Wüstenrot has secured eight new collaboration partners, thus further strengthening our growth path.
-

In 2019 **Württembergische** posted positive developments in retail customer business, as well as progress on the path to becoming the partner for SMEs.

- In order to gain more time for customer service, a comprehensive project was launched to optimise agency processes. Nearly 700 agencies with approximately 1,300 agents successfully took part in 2019.

- In addition to our own strong mobile sales force organisation, broker business was also further expanded.

As we chart our course into the digital future, our digital business models in the **W&W brandpool** division are tapping into new customer groups and market segments.

- Adam Riese has already gained more than 90,000 customers for its digital insurance policies.

- The W&W FinanzGuide app is being continuously expanded so that W&W customers have digital access to their products at all times. Customers give the app a rating of 4.3 out of 5 stars.

- In September 2019 Treefin was selected by the Deutsches Institut für Service-Qualität (DISQ) as Germany's best insurance manager app.

- New participations in the health start-up "Kinderheldin" and the family start-up "familynet" are expanding the ecosystem of W&W brandpool, which covers the areas of housing, finance, health, family, education and mobility.

The "W&W Besser!" initiative will be continued in 2020. We continue to rigorously ensure that products, services and processes are aligned with customer benefits throughout the entire W&W Group.

Product mix

Roughly six million W&W customers value the excellent service, skills, expertise and close personal service provided by our employees, both on the in-house staff and in the mobile sales force. Our range of products is directed towards retail and well as commercial customers. Customers receive financial planning for all stages of life from a single source.

Wüstenrot Bausparkasse AG continued to rigorously fine-tune its range of products to match market developments and trends in the 2019 financial year, such as the persistently low level of interest rates and increasing digitalisation. It provides a broad spectrum of financing and home loan savings products for every need: from short-term construction, acquisition and renovation projects to long-range plans.

In March 2019, the home loan and savings bank once again made its offer for children up to the age of 16 more favourable. With the home loan savings product for children, called "Kinder-Wohnsparen", the account maintenance fee is waived until the end of the calendar year in which the saver reaches the age of 16. Together with the youth bonus, Wüstenrot Wohnsparen now also offers children good options for laying the foundation for future financial independence.

In 2019 another focus of activities was on construction financing business. The financing options at the home loan and savings bank were expanded and improved, and the lending process was accelerated and made more customer-friendly.

Moreover, in July 2019, Wüstenrot consolidated its presence on the internet: The company website wüstenrot.de and the target-group portal "Wüstenrot Wohnwelt" were combined. The combined Wohnwelt portal can still be found at www.wüstenrot.de, offering the content and the key features of both previous web presences. In 2019 the website recorded more than three million visitors. Now, with only a few clicks, visitors can get access to Wüstenrot products, conduct property searches and look for an advisor, as well as browse property listings, magazine articles and partner offers and benefits and use online calculators.

In 2019 Wüstenrot received numerous awards, serving once again to confirm the outstanding quality of its products and services.

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 casualty insurance.

As in previous years, the portfolio share of premium car policies remained at a very high level in the motor business segment. The range of products was expanded to include motor flexi-policies that are specific to the person. Especially worthy of emphasis here is the family driver policy, which has seen a very high rate of acceptance among customers and sales outlets.

The corporate customers business segment again continued to grow above market in 2019, following on the successful previous year. The commercial core product “company policy” continues to form the basis for growth.

The insurance policies for household contents, residential buildings and glass were redesigned. Particularly worth mentioning are the new policies PremiumPlus, FahrradPlus and CyberPlus. In the product rating of Franke & Bornberg, the “PremiumSchutz” option available for household contents and private residential buildings was rated as “outstanding” (FFF).

In addition, FOCUS-MONEY awarded Württembergische Versicherung AG the title of “fairest insurer” for its residential housing insurance for the fourth year in a row. As part of the KUBUS study conducted by MSR Consulting, Württembergische Versicherung AG was rated “very good” in 2019 as a full-service insurance provider in the categories “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 2019, the annuity insurance policy KlassikClever was augmented by a supplemental whole life insurance policy. Thus, with KlassikClever, IndexClever and the unit-linked annuity insurance policy Genius, our customers have access to a wide range of savings products.

At the same time, Württembergische Lebensversicherung AG introduced KombiRente, a new direct insurance product for occupational pensions. KombiRente combines available tax incentives in a single policy.

On 1 July 2019, our range of products was enhanced with a revision of occupational disability insurance. It offers a number of ways to flexibly tailor the product to meet the customer’s specific needs. The rating agency Morgen & Morgen confirmed the excellent quality of our occupational disability insurance by awarding the policy its highest rating of five stars.

In October 2019 we augmented our offer of occupational pension insurance by introducing the pension commitment (for outsourced pension schemes) and the guaranteed pension increase (for both outsourced and non-outsourced pension schemes). Moreover, mixed financing in direct insurance became possible at the start of 2020.

In addition, on 1 January 2020, we began offering our price-optimised term insurance policies Premium-Schutz, Kompakt-Schutz and Kombi-Schutz.

Over the course of 2020, 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, through collaborations, we further expanded the services for our customers in the area of healthcare. For instance, our collaboration with a provider of telemedical services makes it possible for holders of comprehensive insurance policies to get free, 24-hour access to a medical point of contact by phone, video or chat, including the ability to have prescriptions written digitally.

The quality of our products is evident from numerous awards by specialty 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 mark of “very good”. In addition, the Institut für Vorsorge und Finanzplanung (IVFP) rated the range of products of Württembergische Krankenversicherung AG in occupational health insurance as “very good”.

In 2020 Württembergische Krankenversicherung AG 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 our own mobile sales force, gives us access to a market of millions of 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 numerous partners from the banking and insurance sector, and they have made a significant contribution to our business success. Partners for home loan savings products include three large private banking groups – Commerzbank, HypoVereinsbank (Member of UniCredit) and Santander. In addition, exclusive sales agreements are in place with Allianz, Oldenburgische Landesbank and the ERGO Group, and as a result of the purchase of ABAG, they are now joined by HUK COBURG, LVM and Gothaer. We supplement our sales concept with collaborations with other banks and brokers, various mobile sales forces, ver.di-Service GmbH and dbb vorsorgewerk GmbH.

We augment traditional sales channels by rigorously exploiting the different opportunities afforded by digitalisation. They include the digital residential platform "Wüstenrot-Wohnwelt" and the online brand Adam Riese.

Commitment to sustainability

As a result of the German Act Transposing the CSR Directive (CSR-Richtlinie-Umsetzungsgesetz), the W&W Group is obligated to publish a non-financial statement or a non-financial report.

The combined non-financial report of the W&W Group is prepared separately pursuant to Section 315b (3) of the German Commercial Code (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).

Sustainability and corporate social responsibility have for years been integral elements of the Group's principles. The sustainability policy of the W&W Group summarises its understanding of sustainability and is regularly updated, most recently in 2018.

Regulatory requirements

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

In 2019 the financial services industry was again faced with strict regulatory requirements. The Capital Requirements Regulation (CRR II) and the Capital Requirements Directive (CRD V) were published in the Official Journal of the European Union in June 2019 and entered into force in the second quarter of 2019. CRR II then became directly binding from a legal standpoint, whereas CRD V requires transposition into national law. The arrangements in both pieces of legislation essentially must be applied from June 2021.

In 2019 the European Insurance and Occupational Pensions Authority (EIOPA) published the consultation paper "Solvency II Review 2020", thereby launching a comprehensive review of the reporting requirements under Solvency II. The changes being discussed relate to far-reaching modifications to both the qualitative and the quantitative requirements for insurance companies. The arrangements are not expected to be finalised until 2021 at the earliest.
The financial conglomerate, the Solvency II group and the financial holding group transmitted all required notifications and reports to BaFin (Germany's Federal Financial Supervisory Authority) on time. The coverage ratios were more than satisfied for all three subgroups of companies. For detailed remarks, please see the chapter "Regulatory solvency" in the notes.

Since 2019 the EU Directive on the activities and supervision of institutions for occupational retirement provision (IORP II) has placed additional requirements on pension funds and on the occupational pension business of life insurance companies. Within the W&W Group, the IORP II requirements were implemented in full and on time.

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 Housing, 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, 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 ensure the retention of 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 management parameters in the form of quantitative targets. The key 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. Counter-measures are taken where necessary if actual performance deviates from the target.

To properly guide the W&W Group, key performance indicators have been defined.

For the 2019 and 2020 financial years, consolidated net profit (IFRS) and general administrative expenses in the Group are used as the key performance indicators. For segments, the management parameters are segment net income after taxes and general administrative expenses. 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 a cross-segment key performance indicator.

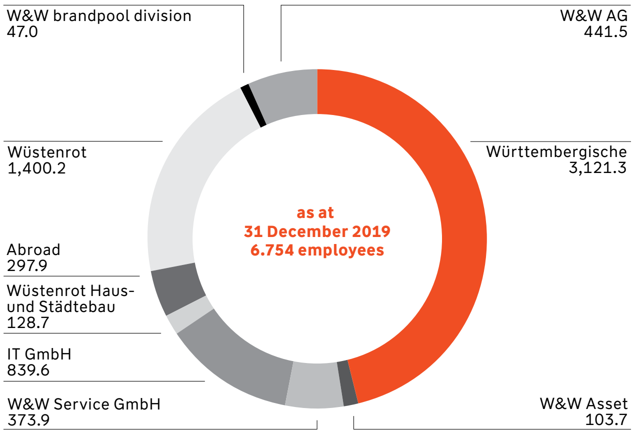
In addition, we report net new business by home loan savings volume and new construction financing business (approvals) in the Housing segment, total premium in the Life and Health Insurance segment as well as new business (according to annual portfolio contributions) in the Property/Casualty Insurance segment under business development and in the outlook.

W&W AG manages the W&W Group as a strategic management holding company. The key performance indicator that is used as the basis for calculating dividend payments to our shareholders is annual net profit (as defined by the German Commercial Code (HGB)). A portion of net profit is allocated to retained earnings, which serves to strengthen the equity of the W&W Group.

Employees

As at 31 December 2019, the W&W Group had 6,754 employees (previous year: 6,842) in Germany and abroad, calculated based on full-time equivalents, excluding trainees and working students. As at the end of the year, a total of 316 trainees and working students were employed.

Employees in W&W Group including abroad



In light of the current lack of qualified professionals, the acquisition and retention of employees was an important concern for the W&W Group in the 2019 financial year. In order to attract qualified employees, we made extensive use of existing collaborations with the University of Ulm, the University of Hohenheim, the Stuttgart Technology University of Applied Sciences (HFT Stuttgart), the Nürtingen-Geislingen University (Hochschule für Wirtschaft und Umwelt Nürtingen-Geislingen) and Reutlingen University, for instance by participating in university career fairs or awarding scholarships. In order to specifically appeal to the various target groups, the W&W website was relaunched, and it now features a career page with photos and videos of employees. In terms of recruitment, the W&W Group broke new ground in 2019 with active sourcing and a pilot project entitled "Employees recruit employees".

In the 2019 financial year, the aim was not only to recruit committed new employees but also to continue to retain current employees over the long term. To help ensure this outcome, the W&W Group offers its employees a wide variety of employer benefits:

With its health management, the W&W Group was again named a "Corporate Health Company" in 2019, achieving the highest category of "excellent". Garnering positive assessments were, in particular, the targeted procedure for evaluating psychological risks, the extensive occupational medical care and the Group-wide offer of an "active break" during working time. The W&W Group thus was ranked in the top 15% of all participants. It was confirmed that with its extensive programme, the W&W Group shows an above-average commitment to the health of its employees and creates incentives for health-conscious behaviour.

In terms of advanced training, the W&W Group attaches great importance to further increasing the digitalisation skills of its employees. To that end, the qualification course on “digital fitness” that was created in the previous year was continued, and among other things, a digital online coaching course for managers was launched as part of the manager development programme. Specialist and cross-specialist qualification, as well as the exchange of knowledge and information throughout the company, are an important part of the advanced training strategy. For example, in the qualification course “From employees for employees”, internal employees pass their specialised knowledge on to interested colleagues throughout the Group.

The W&W campus features modern work stations, innovative media technology and multi-functional workspaces, as well as offering room for “new work”, i.e. agile, networked, flexible working. For instance, 85% of employees there use the working forms “occasional mobile working” or “teleworking”.

The W&W Group offers a variety of means specifically for retaining and networking trainees and working students. These include a social collaboration tool, which can be used even before training begins, and an after-work event with the CEO. Nearly all members of the 2019 graduating class were offered a job following training.

Thanks to the dedication, expertise and extraordinary commitment of our in-house and mobile sales force staffs, we can look back on a successful 2019 financial year. We would like to express our special thanks to all of our employees for this effort. 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.

Ratings

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

The short-term rating of Wüstenrot Bausparkasse AG is unchanged at A-1.

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

The exchange-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

Stock

Stock price performance

After closing at €16 at the end of 2018, the W&W stock price continued its upward trend virtually uninterrupted in the first half-year of 2019, posting prices of over €19.60 in early July for an interim high. In keeping with trends on the market as a whole, the price consolidated in the following weeks against the backdrop of increasingly negative economic reports. However, in October the stock market sentiment improved noticeably, and W&W stock also renewed its upward trend. It closed the year at €19.36, only slightly lower than its high for the year, and posted a price rise of 21.0% for the 2019 calendar year. Taking into account the dividend distribution in the amount of €0.65, overall performance was 25.1% for the reporting period.

In addition to the fact that equity markets generally performed very well, the W&W stock price benefited in particular from strong company reports and positive comments by analysts. The capital market thus also appears to be increasingly acknowledging the forward-looking digitalisation strategy of the W&W Group.

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 39.9% of the shares and WS Holding AG 26.4%, based on the total number of shares issued. The other principal shareholder of W&W AG is Horus Finanzholding GmbH, with more than 10.0% of the shares. The free float amounts to about 23.6%. Approximately 11.0% (previous year: 10.0%) of the shares are held by foreign shareholders.

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.

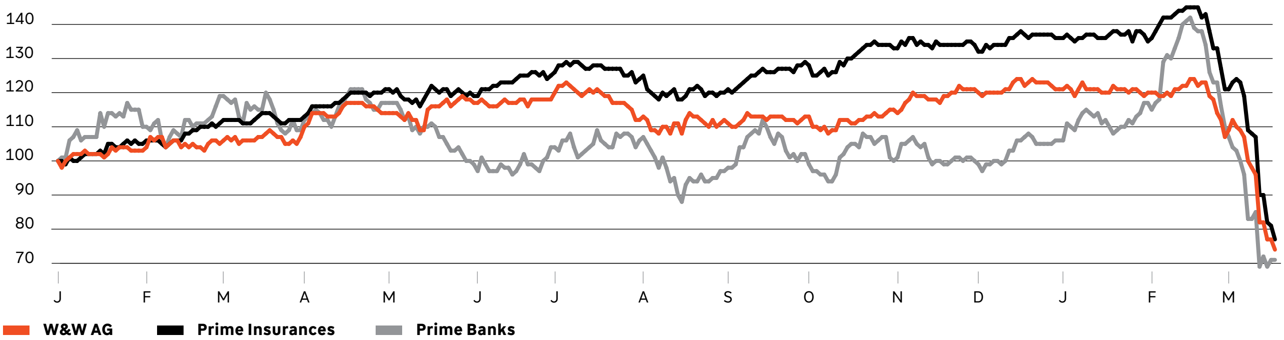
As a result of the company's good financial performance, the Executive Board will propose to the Annual General Meeting a stable dividend of €0.65 (previous year €0.65). Thus, W&W stock achieves a dividend yield of 3.36% related to the year-end price of 2019 and, as in the previous year, outperforms the prospective average dividend yields of MDAX (2.15%) and SDAX (2.29%). Due to the Corona crisis, the date of the Annual General Meeting will be published at a later time.

Trading volume

An average of 33,433 shares were traded per trading day in 2019 (previous year: 58,953).

W&W share price compared to Prime Insurance and Prime Banks

2019 indexed



Employee shares

In April 2019 W&W AG once again issued employee shares across the whole Group. Eligible employees received a €5.00 discount on the XETRA closing price on 1 April 2019 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, nearly one-quarter of eligible employees took advantage of the offer. The company is planning to issue employee shares again in 2020.

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.

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 53,886 treasury shares	
Share capital	in €	490,311,036	
		2019	2018
Year-end price[1]	in €	19.36	16.00
Annual high[1]	in €	19.78	25.05
Annual low[1]	in €	15.74	15.42

1 Xetra.

Business report

Business environment

Macroeconomic environment

The German economy continued to slow in 2019. After posting growth rates of 2.5% in 2017 and 1.5% in 2018, preliminary calculations expect GDP growth to come in at just 0.6% for 2019. The main cause of this downturn was a persistent decline in manufacturing output. The negative effects of the trade dispute, particularly with China, and the serious problems in key German industries led to a recession in the industrial sector. By contrast, the service and construction sectors trended much more positively. Sustained increases in private household income, which resulted from rises in wages and employment levels, and a very low level of interest rates drove demand upward in the consumer and real estate sectors. This ultimately prevented a downturn in the overall economy.

Capital markets

Bond markets

Yields on German government bonds have been declining for several years, and this pattern continued in 2019. The deteriorating economic outlook, which culminated in pronounced worries about a recession and new, expansionary measures by the ECB, and an inflation rate that continued to fall over the course of the year caused the yield on leading 10-year German government bonds to fall to a new record low of −0.74% in September. In addition, short-term interest rates continued their downward trend until the start of September. Two-year German government bonds hit a new record low of −0.94%.

Then in September, prices began to rise on the bond markets. The announcement by the U.S. government that it was about to conclude the first part of a trade agreement with China to resolve the trade dispute, as well as rising confidence in an orderly exit by the UK from the EU (Brexit), along with the fact that economic data were stabilising, led to a considerably more optimistic assessment of the economy by market participants, and thus to rising interest rates. By the end of the year, the yield on 10-year German government bonds stood at −0.19%. It thus posted a year-on-year decline of 43 basis points. The yield on two-year German government bonds remained virtually unchanged compared with the previous year, coming in at −0.60%.

Equity markets

The large international equity markets had a very good year in 2019. For instance, the DAX posted a rise of 25.5%, EURO STOXX 50, 24.8%, and the U.S. S&P 500, 28.9%. These very positive price trends over the course of 2019 were somewhat surprising. On the one hand, the economy had weakened unexpectedly during the year, as did the associated corporate profit forecasts. On the other, political problems had become more intense, particularly the global trade dispute and the threat of a disorderly Brexit. While these factors should have put a strain on equity markets,

several reasons led to positive trends on them. The sharp market correction in the fourth quarter of 2018 and the associated collapse in prices apparently made it attractive for many investors to invest in equities again. Prices began to rise with the start of the year. Another reason was that the leading central banks changed their thinking over the course of the year. At the start of the year, investors expected that the Fed and the ECB would adopt a more restrictive monetary policy. But the increasingly disappointing trends in growth and inflation caused them to lower benchmark interest rates and expand their balance sheets once again. This additional liquidity and the lower level of benchmark rates gave a boost to trends on the equity markets. Moreover, as the year came to a close, tensions associated with the trade dispute and Brexit were easing considerably. The equities markets acknowledged this with significant price rises in the fourth quarter.

Trends on the SDAX were similar to those on the DAX. Following a very positive start to the year, prices fell somewhat during the summer months before experiencing an impressive rally in mid-August. Ultimately, the SDAX rose by 31.6%, which was somewhat stronger than the DAX.

Industry trends

Low interest rates and regulatory requirements were once again the driving factors in the financial services industry in 2019. The implementation of changes made by the Basel Committee on Banking Supervision, as well as those resulting from EU legislation, continues to pose a challenge for the European banking sector. The European Insurance and Occupational Pensions Authority (EIOPA) was tasked by the European Commission with reviewing the Solvency II regulations. Studying and implementing these regulatory requirements constituted a key challenge in both the banking and insurance areas in 2019. This trend will continue in 2020 as well.

According to industry estimates, home loan savings volume in terms of net new business rose by about 2.5% to approximately €90 billion in the sector. Wüstenrot Bausparkasse AG ranks second among home loan and savings banks, as measured by new business.

New business in private residential financing improved in 2019. According to the German Bundesbank, households took out approximately €263 billion (previous year: approximately €241 billion) in residential construction loans. This equates to growth of 9%. Thus, market volume was high, and Wüstenrot Bausparkasse AG 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 on a long-term comparative basis. But although more homes were completed, the demand for owner-occupied housing, primarily in large cities and conurbations, far exceeds 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 many sought-after regions.

Württembergische Lebensversicherung AG recently came in 12th 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 came in at 2.1%, unchanged from the previous year. Thus, despite a difficult market environment, Württembergische Lebensversicherung AG enjoyed continued success.

The life insurance industry posted a rise in new business in 2019. New regular premiums rose by 10.1% to €5.8 billion, while single-premium business increased significantly by 35.6% year on year. New premiums collected by life insurers rose by 31.4% in 2019 to €42.1 billion (previous year: €32.1 billion). Total premiums increased by 13.6% to €173.2 billion (previous year: €152.5 billion).

Gross premiums written by life insurers rose in the reporting period to €98.7 billion (previous year: €88.8 billion), mainly due to higher single-premium business.

Württembergische Versicherung AG is currently ranked ninth among property and casualty insurers, based on gross premiums written in domestic direct business, as reported by the German Insurance Association (GDV). According to provisional calculations by the GDV, premium income was up approximately 3.2% as at the end of the year, reaching €72.9 billion (previous year: €70.7 billion). Claims expenses for the 2019 financial year rose by an expected 1.7%, a rate that on whole was not as strong as that for premium income. Therefore, net underwriting income rose to €4.7 billion (previous year: €4.1 billion). At approximately 74%, the loss ratio for the 2019 financial year was lower than the previous year's level. The industry's combined ratio (combined ratio of claims and expenses) improved to approximately 93%.

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

Development of business

In 2019 consolidated net profit after taxes stood at €249.1 million (previous year: €215.2 million), and thus within the upper range of our expectations.

Particularly noteworthy is net underwriting income, which was once again very good. In addition, our net financial income benefited significantly from measurement gains as a result of trends in interests rates and equities during the 2019 financial year.

Owing to our cost discipline, the approximately 0.7% rise in our general administrative expenses was considerably lower than the inflation rate in Germany (1.4%).

Composition of consolidated net profit

in € million	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Housing segment[1]	38.3	59.1
Life and Health Insurance segment	26.4	24.7
Property/Casualty Insurance segment	143.6	131.4
Other segments/consolidation	40.8	0.0
Consolidated net profit	**249.1**	**215.2**

1 We have modified the names of our business aktivities. As of 2019, the segment is named „Housing“ (formerly „Home Loan and Savings Bank“).

Group-wide construction financing business rose to nearly €7.0 billion and is significantly above the previous year's figure. New home loan savings business came in at a level similar to that of the previous year. With the takeover of Aachener Bausparkasse AG, we expect additional new home loan savings business with an annual volume in the nine-figure range.

New business in property and casualty insurance and in life and health insurance also performed well. This had a positive impact on gross premiums written, which grew by more than 5% in each of the two insurance segments.

Key figures (Group)

	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018	Change
	in € million	in € million	in %
New construction financing business (including brockering für third parties)	6,964.2	6,280.2	10.9
Gross new business	14,162.8	14,224.3	-0.4
Gross new business (including ABAG)	14,412.3	14,224.3	1.3
Gross premium p/c	1,954.4	1,847.8	5.8
Gross premium life and health	2,372.7	2,224.5	6.7

Wüstenrot & Württembergische AG sold 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 Oldenburgische Landesbank AG to establish a broad sales collaboration to further increase sales strength. Following the granting of official approvals in May 2019, the new owner took control of the bank with effect on 1 June 2019. The collaboration agreement also entered into effect at that time. On 30 November 2019, Wüstenrot Bank AG Pfandbriefbank was merged into Oldenburgische Landesbank AG, retroactive to 1 July 2019.

The sale of Wüstenrot Bank AG Pfandbriefbank resulted in a deconsolidation gain of €9.8 million.

Wüstenrot stavební spořitelna a.s. and Wüstenrot hypoteční banka a.s. are scheduled to be sold to Moneta Money Bank AG in 2020. Therefore, these two Czech companies of Wüstenrot were assigned to the “held for sale” category as of 31 December 2019.

The transfer of control of Aachener Bausparkasse AG (ABAG) to Wüstenrot Bausparkasse AG took place on 1 January 2020 following successful conclusion of the ownership control procedures by the authorities in November 2019. Thus, ABAG will be included in the consolidated financial statements of W&W AG for the first time in the financial statements for the first quarter of 2020. ABAG is scheduled to be legally merged into Wüstenrot Bausparkasse AG during the first half of 2020.

Changes in accounting policies

The W&W Group began applying the new version of IFRS 16 “Leases” on 1 January 2019. The figures for the previous year continued to be accounted for in accordance with IAS 17. Therefore, the figures for the previous year are not comparable to those for the financial year with respect to leases. 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. The application of IFRS 16 led to an increase in assets and liabilities in the balance sheet, but this did not have any impact on consolidated equity.

Other effects can be found in the section “IFRS 16 ‘Leases’” in the general part of the notes.

Financial performance

Total comprehensive income

Consolidated income statement

Consolidated net profit after taxes for the financial year amounted to €249.1 million (previous year: €215.2 million). This was attributable both to increased net financial income and, once again, to very good net underwriting income. Earnings per share stood at €2.65 (previous year: €2.29).

Net financial income increased considerably to €2,353.5 million (previous year: €1,333.4 million). It was marked by various developments and consists of the following components:

- Current net income fell to €1,153.3 million (previous year: €1,251.7 million). As a consequence of extremely low interest rates, the interest surplus declined considerably. By contrast, dividend income rose.

- The net expense from risk provision amounted to –€4.0 million (previous year: –€2.7 million). Contributing to this stable result was also the continued good economic situation and the overall good credit rating of our investments.

- The net measurement gain increased very significantly by €1,165.8 million, coming in at €612.5 million (previous year: net measurement loss of –€553.2 million). In particular, investments for unit-linked life insurance policies increased considerably in value. Net income from these alone amounted to €386.5 million (previous year: net expense of –€237.7 million). In the case of insurance benefits, this was credited to customers. The valuation of fixed-income securities and equity instruments also developed positively. This was due to the fact that interest rates fell in 2019, as well as to the recovery on the equity markets compared with the previous year. On whole, since the application of IFRS 9, a greater number of securities are measured at fair value through profit or loss.

This results in increased volatility in net financial income and, in particular, the net measurement gain/loss.

- Net income from disposals came in at €591.7 million (previous year: €637.5 million) and thus declined somewhat while remaining on a high level. Whereas less income was generated from registered securities, transactions involving bearer securities and investment properties made a stronger contribution to results than in the previous year. The deconsolidation gain from Wüstenrot Bank AG Pfandbriefbank totalling €9.8 million had an effect on net disposal income in the amount of +€48.4 million and on other operating expenses in the amount of –€38.6 million.

Net premiums earned rose by €249.1 million to €4,249.2 million (previous year: €4,000.1 million). Both Property/Casualty Insurance and Life and Health Insurance saw significant increases.

Net insurance benefits rose to €4,650.5 million (previous year: €3,553.7million). This increase mainly stemmed from Life and Health Insurance, where, in particular, the provision for unit-linked life insurance policies rose markedly. Owing to our profitable insurance portfolio, Property/Casualty Insurance once again posted very good claims development.

The net commission expense amounted to –€490.2 million (previous year: –€428.6 million). This was partly attributable to the larger portfolio and to greater new business in the Property/Casualty Insurance segment. Other reasons were the net commission expense for Wüstenrot Bank AG Pfandbriefbank, which has now been sold but was still included in the previous year, and higher expenses from home loan savings and construction financing business.

General administrative expenses rose by €7.4 million to €1,080.5 million (previous year: €1,073.1 million). However, this includes unscheduled write-downs of the assets of our Czech subsidiaries in the course of their sale in the amount of €10.3 million. Without this one-off effect, general administrative expenses would have fallen despite the rate increases. This shows that our efforts to increase efficiency are having an effect.

Other operating expense stood at –€28.5 million (previous year: other operating income of €42.5 million). On the one hand, the described deconsolidation of Wüstenrot Bank AG Pfandbriefbank had an effect here. On the other, it includes additions to restructuring provisions for further increasing efficiency at W&W.

Consolidated statement of comprehensive income
Total comprehensive income for the 2019 financial year stood at €658.4 million (previous year: –€47.2 million). It consists of consolidated net profit and other comprehensive income (OCI).

As at 31 December 2019, OCI stood at €409.4 million (previous year: –€262.4 million). The extent of this result was predominantly an expression of the sensitivity of our investments to changes in interest rates. Interest rates fell sharply in 2019. This resulted in substantial unrealised measurement gains. Therefore, after additions to the provision for deferred premium refunds and to deferred taxes, unrealised net income from these investments amounted to €580.6 million (previous year: net expense of –€277.3 million). At the same time, lower interest rates had the opposite effect, including actuarial losses from defined benefit plans for pension schemes. The interest rate used for measuring pension commitments fell from 1.7% to 0.8% in the financial year. As a result, –€174.2 million (previous year: €15.7 million) was recognised in other comprehensive income.

Because comprehensive income is highly dependent on changes in interest rates, it has only very limited suitability as a performance indicator for our Group. In an environment of rising interest rates, this currently positive unrealised effect would turn negative.

Housing segment

Net income in the Housing segment fell to €38.3 million (previous year: €59.1 million). Construction financing against posted growth. The segment's total assets amounted to €29.4 billion (previous year: €29.4 billion).

New business
Gross new business in home loan savings rose slightly by 0.2% to €13.8 billion (previous year: €13.8 billion), which takes into account the acquired Aachener Bausparkasse AG (ABAG). Otherwise, gross new business remained at nearly the previous year's level, coming in at €13.5 billion (previous year: €13.8 billion). The number of newly brokered home loan savings contracts rose by 1.9% to 222.5 thousand (previous year: 218.4 thousand). Net new business (paid-in new business) in terms of total home loan savings contracts amounted to €11.2 billion (previous year: €11.4 billion) or, including ABAG, to €11.5 billion (previous year: €11.4 billion).

New business key figures

	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018	Change
	in € million	in € million	in %
Gross new business	13,795.1	13.765.9	0.2
Gross new business including ABAG	11,501.3	11,412.3	0.8
Net new business (paid-in new business)	13,545.6	13,765.9	-1.6
Net new business (paid in) including ABAG	11,178.8	11.412.3	-2.0
New construction financing business (including brokering for third parties)	6,300.8	5.517.3	14.2

New construction financing business, taking into account brokering for third parties, rose considerably to €6,300.8 million (previous year: €5,517.3 million). The home loan and savings bank rigorously continued its growth course and considerably outperformed the market.

Financial performance

Net income for the Housing segment fell to €38.3 million (previous year: €59.1 million) as at 31 December 2019. Net financial income stood at €365.3 million (previous year: €382.1 million). This was mainly due to the following aspects:

- Current net income fell to €208.2 million (previous year: €284.7 million). This was primarily due to lower interest income as a result of the marked drop in interest rates in the year under review, which could not be fully offset by the fall in interest expenses.

- The net expense from risk provision stood at –€6.6 million (previous year: net income of €8.8 million). The change was attributable, inter alia, to a higher volume of customer loans and to a slightly higher loan risk provisioning ratio.

- The net measurement gain increased to €79.3 million (previous year: net measurement loss of –€40.3 million). Lower interest rates had a positive impact on the net measurement gain from securities, as well as on the interest rate swaps concluded to reduce the risks associated with changes in interest rates. In addition, net income from hedges contributed to the rise. By contrast, there was a drop in net income from the discounting of provisions for home loan savings business (bonus provisions).

- Net income from disposals amounted to €84.4 million (previous year: €128.8 million), declining primarily with respect to debenture bonds and registered bonds.

The net commission expense stood at –€11.3 million (previous year: net commission income of €17.3 million). This was mainly due to the net commission expense for Wüstenrot Bank AG Pfandbriefbank, which was sold in the reporting year but was still included in the previous year, and higher commission expenses from home loan savings business, as well as to increased new construction financing business.

General administrative expenses fell to €322.2 million (previous year: €337.9 million). This change is likewise marked by the sale of Wüstenrot Bank AG Pfandbriefbank. Personnel expenses remained at the previous year's level, despite collectively bargained pay increases, whereas expenses for materials fell sharply as a result of the sale.

Life and Health Insurance segment

Net segment income rose as of 31 December 2019 to €26.4 million (previous year: €24.7 million). New premiums in the Life and Health Insurance segment increased. The segment's total assets rose to €37.9 billion (previous year: €34.9 billion).

New business

Total premiums for new life insurance business increased to €3,711.1 million (previous year: €3,395.3 million).

In 2019 new premiums in the Life and Health Insurance segment increased markedly to €731.5 million (previous year: €572.1 million). Single-premium income rose to €616.9 million (previous year: €462.2 million). Regular premiums rose to €114.6 million (previous year: €109.9 million). We pay attention here to impairment and collectively acceptable impact. New business in health insurance came in at the level of the previous year.

Gross premiums written increased to €2,372.7 million (previous year: €2,224.5 million), mainly as a result of higher single-premium income. Health insurance posted an 3.7% increase in gross premiums written.

New business key figures

	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018	Change
	in € million	in € million	in %
New premiums (segment)	**731.5**	**572.1**	**27.9**
Single premiums, life	616.9	462.2	33.6
Regular premiums, life	114.6	109.9	4.3

Financial performance
Segment net income increased to €26.4 million (previous year: €24.7 million). Increased net financial income also resulted in higher benefits under insurance contracts. Net financial income in the Life and Health Insurance segment rose to €1,754.2 million (previous year: €853.0 million). The following income components were responsible for this:

- Current net income decreased to €801.5 million (previous year: €827.9 million). This was mainly attributable to lower interest income as a result of lower capital market interest rates for new investments and reinvestments.

- The net measurement gain stood at €500.8 million (previous year: net measurement loss of −€455.4 million). Interest rates fell further, and this had a positive impact on the measurement of interest-bearing securities, while trends on the equity markets also contributed to growth in the value of equities and investment fund units. Investments for unit-linked life insurance policies also benefited from this.

- Net income from disposals decreased to €449.2 million (previous year: €485.5 million). This was mainly due to lower net income from registered securities.

Net premiums earned rose to €2,415.1 million (previous year: €2,253.6 million) as a consequence of the higher volume of single-premium insurance policies in new business.

Net insurance benefits creased to €3,665.0 million (previous year: €2,649.1 million). This significant rise was related to improved net financial income, which resulted in high additions to the provision for premium refunds and to the provision for unit-linked life insurance. Benefits to our customers were secured further through the regular increase of the additional interest reserve (including interest rate reinforcement). Additions totalled €364.8 million (previous year: €155.2 million). The company-specific capital disbursement likelihoods were updated. This resulted in higher additions in the mid-eight-figure range. The additional interest reserve as a whole thus now totals €2,565.9 million.

The net commission expense decreased to −€151.2 million (previous year: −€140.2 million). This was due primarily to higher commission expenses as a result of greater new business.

General administrative expenses rose to €270.9 million (previous year: €263.3 million). The rise was mainly attributable to higher materials costs. The restructuring measures that have been taken in order to increase the efficiency of our sales caused an increase in the cost allocation from Württembergische Versicherung AG. By contrast, personnel expenses fell.

Net other operating expense amounted to −€29.5 million (previous year: −€14.4 million). This deterioration was mainly due to income from the disposal of a property partially in own use, which was sold in 2018, as well as to lower releases from other provisions.

Tax expenses rose to €26.4 million (previous year: €14.8 million), which was caused, in particular, by the settlement of prior-year taxes. In addition, tax expenses were negatively influenced by higher segment net income before taxes compared with the previous period.

Property/Casualty Insurance segment

Net segment income in the 2019 financial year rose to €143.6 million (previous year: €131.4 million). New business once again increased. The segment's total assets amounted to €4.9 billion (previous year: €4.7 billion).

New business/premium development
New business developed positively, coming in at €266.6 million (previous year: €249.0 million). In particular, the areas of corporate and retail customers grew very considerably. In this regard, with more than 90,000 contracts, our digital brand Adam Riese also posted sales figures that exceeded our expectations.

New business key figures

	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018	Change
	in € million	in € million	in %
Annual contributions to the portfolio (segment)	**266.6**	**249.0**	**7.1**
Motor	181.1	178.7	1.3
Corporate customers	42.5	35.0	21.4
Retail customers	43.0	35.3	21.8

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 €106.6 million to €1,954.4 million (previous year: €1,847.8 million). With a rise of 5.8%, we grew at a significantly stronger rate than the market.

Gross premiums written

	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018	Change
	in € million	in € million	in %
Segment total	**1,954.4**	**1,847.8**	**5.8**
Motor	838.6	807.4	3.9
Corporate customers	444.1	406.5	9.2
Private customers	671.7	633.9	6.0

Financial performance
Segment net income grew to €143.6 million (previous year: €131.4 million), meaning growth was again very encouraging. Net underwriting income (gross) came even higher than the very good previous year. Net financial income also increased.

Net financial income rose by €45.0 million to €105.9 million (previous year: €60.9 million). It consists of the following components:

- Current net income came in at €72.5 million (previous year: €77.2 million), which was slightly lower than the value for the previous year. Dividend income increased as a result, inter alia, of the strategic expansion of alternative investments. On the other hand, as a consequence of persistently low interest rates, a voluntary subsidy to Württembergische Pensionskasse (pension fund) increased interest expenses.

- The net measurement gain increased significantly to €27.0 million (previous year: net measurement loss of –€38.8 million). On the one hand, equity securities benefited from the positive trends on the international equity markets. On the other, interest rates fell again over the course of the year, which resulted in measurement gains for fixed-income securities. In the previous year, the effects were reversed.

- Net income from disposals decreased to €6.8 million (previous year: €23.4 million). In the previous year, valuation reserves were released, in particular, through the sale of debenture bonds and promissory notes.

Net premiums earned continued to perform very well. They rose significantly by €75.2 million to €1,565.3 million (previous year: €1,490.1). We posted growth in all business segments in Property/Casualty Insurance.

Net insurance benefits rose by €63.2 million to €823.2 million (previous year: €760.1 million). This was also due to the considerably larger insurance portfolio. On the other hand, losses from natural disasters (net) came in at the level of the previous year. Despite lower settlement results, the loss ratio (gross) stood at a very good 62.2% (previous year: 61.9%). The combined ratio (gross) fell slightly to 89.4% compared with the very good previous year (89.5%).

The net commission expense stood at –€262.9 million (previous year: –€246.5 million). This was mainly due to commissions paid in connection with the larger insurance portfolio and greater new business.

General administrative expenses rose to €378.5 million (previous year: €361.1 million), which roughly corresponds to the percentage increase in premiums. Personnel expenses increased, inter alia, as a consequence of concluded collective bargaining agreements, as well as the equal financing of health insurance, which was reinstituted in 2019. In addition, significant costs were incurred in connection with the further expansion of our digital brand Adam Riese.

The net other operating expense amounted to –€11.2 million (previous year: net other operating income of €15.0 million). This was mainly attributable to additions to restructuring provisions for planned measures to increase the efficiency of our sales, as well as portfolio and claims processing.

In contrast to the previous year, the reduction in tax expenses to €51.8 million (previous year: €67.0 million) was characterised by tax-free income. In addition, the slight decline in segment net income before taxes compared with the previous period had a positive effect on tax expenses.

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, Wüstenrot Haus- und Städtebau GmbH, W&W brandpool GmbH, the Czech subsidiaries and the Group’s internal service providers. The total assets of the other segments amounted to €7.7 billion (previous year: €7.4 billion).

All other segments posted net income after taxes of €36.9 million (previous year: €5.7 million).

Net financial income increased considerably to €100.6 million (previous year: €31.3 million). The following income components contributed to the development:

- Current net income increased to €74.4 million (previous year: €70.6 million). This was attributable, inter alia, to interest received on tax refunds.

- Net income from risk provision amounted to €0.1 million (previous year: net expense from risk provision of –€5.8 million). In particular, the quality of the loan portfolio at the Czech subsidiaries improved here.

- The net measurement gain was €23.1 million (previous year: net measurement loss of –€33.3 million). The increase was mainly attributable to a higher result from equities and fund units as a consequence of the positive trends on the equity markets.

Earned premiums rose by €12.6 million to €282.2 million (previous year: €269.6 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 €179.7 million (previous year: €161.6 million).

General administrative expenses rose to €115.1 million (previous year: €112.8 million). Personnel expenses increased as a result of collectively bargained pay increases. In addition, pursuant to IFRS 5, the assets of the Czech subsidiaries were required to be written down in the amount of €10.3 million in the course of the planned sale. On the other hand, materials costs were able to be reduced. Among other things, advisory costs were lower, and the charge in the previous year for the costs of demolishing existing structures on the new W&W campus was not incurred in the 2019 financial year.

Net other operating income fell to €13.4 million (previous year: €29.7 million). This was related, inter alia, to the creation of a higher provision for post-completion construction costs in property development business.

Tax expenses in the segment rose to €9.2 million (previous year: –€6.4 million), which was caused, in particular, by the rise in segment net income after taxes compared with the previous period and lower tax-free profit distributions.

Net assets

Asset structure

The W&W Group's total assets amounted to €75.7 billion (previous year: €72.0 billion). Assets mainly consist of building loans of €21.5 billion (previous year: €23.0 billion) and capital investments of €49.0 billion (previous year: €45.9 billion). The item "Construction loans" declined as a consequence of the reclassification of assets of the Czech banking subsidiaries to "Non-current assets held for sale and discontinued operations". By contrast, lower interest rates and the positive trends on the equity markets in 2019 had a very positive effect on the measurement of capital investments in the portfolio. Our 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).

The W&W Group maintains valuation reserves primarily for financial assets at amortised cost in the amount of €507.2 million (previous year: €674.4 million), which are mainly construction loans. In addition, it maintains appreciable reserves for investment property in the amount of of €533.2 million (previous year: €485.4 million).

Accounting reserves for senior fixed-income securities and for senior debenture bonds and registered bonds have decreased significantly as a result of the recategorisation of a large portion of the "at cost" portfolios to the category "at fair value through other comprehensive income". Detailed information about this can be found in Note 38 in the notes.

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 €2.2 billion (previous year: €1.7 billion) – totalled €37.4 billion (previous year: €34.7 billion). This includes €30.0 billion (previous year: €29.0 billion) for the provision for future policy benefits, €4.6 billion (previous year: €2.9 billion) for the provision for premium refunds, and €2.6 billion (previous year: €2.5 billion) for the provision for outstanding insurance claims.

The liabilities are primarily liabilities to customers amounting to €21.6 billion (previous year: €23.6 billion). They largely consist of deposits from home loan savings business amounting to €18.3 billion (previous year: €19.2 billion) and savings deposits of €3.3 billion (previous year: €4.4 billion). The decline is mainly related to the sale of the Czech subsidiaries and the reclassification of their liabilities to the balance sheet item "Liabilities under non-current assets classified as held for sale and discontinued operations".

Consolidated equity

As at 31 December 2019, the W&W Group's equity rose to €4,835.1 million, compared with €4,236.3 million as at 31 December 2018. This includes consolidated net profit, as well as net income totalling €658.4 million. The dividend distribution reduced equity by €60.9 million. In addition, other effects increased equity by €1.2 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. For more information on liquidity management, please see the risk report.

The cash flow statement shows cash inflows amounting to €1,060.5 million (previous year: cash outflows of €723.5 million) from operating activities and cash outflows amounting to €1,317.4 million (previous year: cash inflows of €860.8 million) for investing activities, including capital investments. Financing activities resulted in cash outflows of €109.9 million (previous year: €100.1 million). This resulted in a net change in cash of –€366.8 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 subsidiary Wüstenrot Haus- und Städtebau GmbH is 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. The W&W Group's new digital business models have been grouped together in the brandpool division. This division continues to 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, and "FinanzGuide", an app that enables customers to view their personal portfolio of insurance, home loan savings and banking products on a smartphone, as well minority participations in other companies.

Customer development in the Group

New customers increased to 389.7 thousand (previous year: 301.7 thousand). By contrast, at 6.0 million, the number of customers remained slightly below the previous year's level of 6.1 million. The planned decline was attributable to the Housing division. This was related to the elimination of saving deposits and home loan savings rates that bear high interest.

After the purchase of Aachener Bausparkasse AG closes in the first half of 2020, we will acquire approximately 370,000 new customers. The Insurance division saw an organic 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 over 150,000 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 the business performance in the year under review with the forecasts made in last year's annual report shows that the W&W Group has achieved positive performance despite persistently low interest rates. This was attributable to positive trends on the capital markets, favourable claims development and continued cost management.

Housing segment

In the Housing segment, general administrative expenses were slightly below the previous year's level in the 2019 financial year due to continued cost management. The forecast had expected general administrative expenses to come in at the level of the previous year.

Segment net income after taxes stood at €38.3 million in 2019. A clear year-on-year increase had been forecast. The discrepancy was attributable to the postponement of transfer of control of Aachener Bausparkasse AG until the 2020 financial year.

Life and Health Insurance segment

General administrative expenses in the Life and Health Insurance segment trended in line with the forecast, coming in slightly higher than the 2018 level.

With segment net income after taxes of €26.4 million, we were within our range of expectations.

Property/Casualty Insurance segment

In the Property/Casualty Insurance segment, general administrative expenses increased slightly year on year, which was contrary to the forecast. This was attributable, inter alia, to the promotion of our digital products.

At €143.6 million, segment net income after taxes was once again above average, principally due to lower insurance benefits and higher net financial income. Key reasons were favourable claims development and positive trends on the capital markets. Contrary to the forecast, segment net income thus came in moderately ahead of the previous year.

Group

As a result of the continued commitment to new business in the individual segments, as well as the establishment of digital business models, we were servicing some six million customers as at the end of 2019. Adjusting for the planned elimination of saving deposits and home loan savings rates that bear high interest, we would have exceeded our forecast of at least six million customers.

General administrative expenses in 2019 came in at the same level as in the previous year, which was in line with the forecast.

Despite the challenges posed by persistently low interest rates and the further weakening of the economy in Germany, we posted consolidated net profit of €249.1 million for 2019. As a result, and consistent with the forecast in the previous annual report, we are within the strategic target range. In particular, claims development, which was once again favourable, and trends on the capital markets had a positive effect.

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 €90.0 million (previous year: €80.0 million). Net income was characterised by dividends and profit transfers from subsidiaries.

Earnings performance

Net income

W&W AG's net income (HGB) for the 2019 financial year stood at €90.0 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) to retained earnings for the purpose of strengthening equity. After carrying forward €0.4 million in retained earnings from 2018, the unappropriated surplus amounted to €75.4 million (previous year: €65.3 million). Based on this result, we will propose to the Annual General Meeting that a dividend of €0.65 (previous year: €0.65) per share be paid for the 2019 financial year and that €9.0 million (previous year: €4.0 million) be allocated to retained earnings and €5.5 million to reserves.

Net investment income

In 2019 W&W AG's net investment income increased to €228.0 million (previous year: €206.3 million). In the year under review, we ended our participation in Wüstenrot Bank AG Pfandbriefbank for strategic reasons. This resulted in a disposal loss of –€4.1 million. 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.

Underwriting income before the claims equalisation provision, amounted to €6.5 million, which was €3.5 million less than the previous year's value.

Gross premiums written increased by 8.0% to €390.0 million (previous year: €361.1 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 4.7% to €282.2 million (previous year: €269.9 million).

Net expenses for insurance benefits stood at €181.1 million (previous year: €161.7 million). The net loss ratio improved to 64.2% (previous year: 60.0%). Expenses for insurance business for own account increased from €117.9 million in the previous year to €120.4 million. Per requirements, €7.5 million had to be added to the claims equalisation provision (previous year: €13.6 million). The claims equalisation provision now stands at a comfortable €102.1 million (previous year: €94.6 million). This corresponds to 36.2% (previous year: 35.1%) of net premiums earned. After additions to the claims equalisation provision, the underwriting income stood at €0.3 million (previous year's loss: –€1.9 million).

Lines

Gross premiums increased from €147.2 million to €166.3 million in the fire and other property insurance lines. After additions of €3.9 million (previous year: €4.2 million) to the claims equalisation provision, a net underwriting gain of €0.3 million (previous year: net underwriting loss of –€1.9 million) was recorded.

Gross premiums from the motor lines increased to €129.8 million (previous year: €125.1 million). After an allocation to the claims equalisation provision of €3.3 million (previous year: €5.2 million), the loss stood at €10.2 million (previous year: €12.6 million).

Gross premiums from the liability line increased to €35.8 million (previous year: €33.4 million). After additions of €0.8 million (previous year: €2.2 million) to the claims equalisation provision, a net gain of €5.2 million (previous year: €7.8 million) was recorded.

Gross premiums from the accident line grew slightly to €21.7 million (previous year: €21.0 million). After additions of the claims equalisation provision, a gain of €2.8 million (previous year: €2.3 million) was recorded.

Transport and aviation hull insurance premiums rose slightly to €3.8 million (previous year: €3.6 million). After additions to the claims equalisation provision, net underwriting income of €0.7 million was slightly better than in the previous year (€0.3 million).

Gross premiums from other insurance lines (mainly legal expenses insurance) increased to €27.3 million (previous year: €25.1 million). After additions to the claims equalisation provision, a net underwriting expense of –€0.4 million (previous year: –€1.4 million) was posted.

Gross premiums from life insurance decreased slightly to €5.3 million (previous year: €5.7 million). Income was again positive and amounted to €0.7 million (previous year: €1.8 million).

Taxes

Taxes on income showed expenses of €56.2 million (previous year: €39.9 million) as at 31 December 2019. Tax expenses rose by €16.3 million. The increase resulted both from higher net income as calculated in accordance with the German Commercial Code and from current-account tax effects, particularly due to discrepancies between the balance sheet prepared for commercial purposes and the balance sheet prepared for tax purposes.

Net assets

Asset structure

W&W AG's total assets increased by €80.9 million in the 2019 financial year to €3,778.3 million (previous year: €3,697.3 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

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

W&W AG's equity amounted to €1,986.2 million (previous year: €1,956.2 million) as at 31 December 2019. On the one hand, equity increased by €0.9 million as a result of net income of €90 million and the sale of treasury shares in connection with the employee share ownership programme in 2019. On the other, the dividend distribution of €60.9 million that was distributed for the 2018 financial year had the opposite effect and decreased equity. In total, the equity thus increased by €30.0 million.

The retained earnings included in equity also increased. In accordance with the resolution adopted by the Annual General Meeting, €4.0 million from the unappropriated surplus of 2018 and €15.0 million from net income 2019 were allocated to retained earnings.

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 increased by €141.6 million to €3,401.4 million (previous year: €3,259.8 million). This figure mainly includes interests in affiliated companies and participations in the amount of €1,501.7 million (previous year: €1,533.9 million) and fixed-income securities in the amount of €559.8 million (previous year: €435.8 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 investments stood at €1,394.7 million (previous year: €1,349.2 million). This includes €1,245.0 million (previous year: €1,244.6 million) for interests in affiliated companies, €61.6 million (previous year: €40.3 million) for funds and €22.4 million (previous year: €19.8 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 €1,026.7 million (previous year €954.1 million), together with technical provisions in the amount of €513.1 million (previous year €499.4 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 eight (previous year: 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)

Due the holding company structure, net income after taxes is determined primarily by dividends and profit transfers from subsidiaries. We achieved our forecast of generating net income after taxes in the range of approximately €90 million.

Opportunity and risk report

Opportunity report

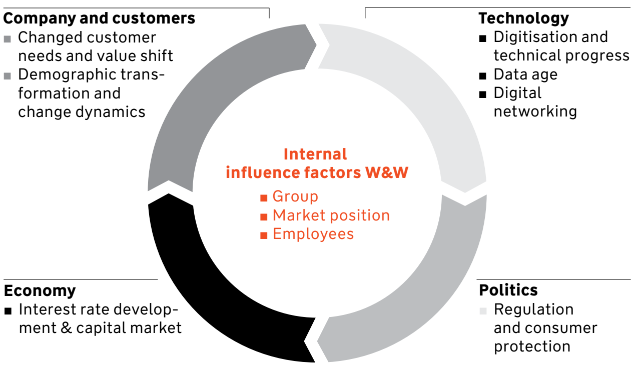
Recognising and exploiting opportunities is a fundamental requirement for the successful development of our Group. Consequently, we pursue the goal of systematically identifying, analysing and evaluating opportunities and initiating suitable measures to utilise them.

The starting point is our firmly established strategy, planning and control processes. For this purpose, we evaluate market and environment scenarios and examine the orientation of our product portfolio, cost drivers and other critical success factors. The opportunities derived from this evaluation are discussed in the management within the scope of strategy retreats and then incorporated into strategic planning.

We also have sound governance and control structures in place in order to evaluate and pursue opportunities on the basis of their potential, the required investment and the risk profile.

In the following, 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 medium-term 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. For us, this also includes offering our customers 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 our sustainable and comprehensive advisory approach – which includes the four pillars of financial security, residential property ownership, risk protection and savings and investment – as well as with our target group concepts and solutions.

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. In this regard, however, customers increasingly expect customised offers and approaches. The dissemination and use of digital media enables more intensive and targeted customer contact along with corresponding sales potential. In this regard, we combine our personalised advisory approach with new digital opportunities. In the age of the internet, social media and intensified use of smartphones, speed is vital to achieve 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.

Opportunities through demographic 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 remaining active in old age can be financed only with a private source of capital. In our view, society is demanding more flexibility with regard to products, advice and communication due to a change in lifestyle habits.

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

Economy

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 large investor with €49 billion in available capital, 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 flexibility in order to make use of opportunities at short notice. We can also acquire new customers through products which are adapted to take account of 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.

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. In particular, the residential construction premium is scheduled to increase from 1 January 2020 and be available to a considerably greater number of citizens as a result of adjusted income thresholds. This will bolster home ownership in Germany.

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 facilitate, among other things, the increasing automation of processes. The resultant productivity advances – and thus cost-cutting potential – can be used to boost income, but also to free up capital for investments in topics of relevance for the future.

Opportunities in the data age
The responsible, targeted use of customer data enables us to create personalised products. With additional information, we can better assess risks and avoid claims. Moreover, additional sales potential arises 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 also 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

Because of its diversification, our business model – with its Housing and Insurance divisions – provides us with good opportunities to operate successfully on the market on a long-term basis.

Our new brandpool division augments this basis. It focuses both on digital financial services and on additional digital business models in the areas of housing, finances, health, family, education and mobility 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, the comprehensive range of products that we offer as a financial planning specialist promises brisk customer demand in the future.

Through the combination of the two venerable brands Wüstenrot and Württembergische, we have substantial customer potential within our Group. This offers 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 they also require less capital. All stakeholder groups benefit from the diversification effect. The aim is to price our products so that 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.

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

Opportunities through market position

Through our sales channels with their different strengths, and owing to our good brand awareness, we are able to address a large, broad customer pool of millions of people in our core market of Germany.

Approaching customers via multiple sales channels enables us to place our financial planning products in a targeted manner. 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 opportunities through further optimisation of our sales channels. These consist, in particular, of the rigorous digitalisation of customer contact points and relieving employees of routine administrative tasks.

Opportunities through our employees

For the W&W Group as a service company, the employees are a key component for ensuring future viability and competitiveness. Because of the lack of qualified professionals today, as well as demographic change, it is therefore essential for us to attract and retain employees.

For that reason, the W&W Group offers a variety of programmes and services relating to health management, qualification, and agile, networked and flexible working, particularly at the new W&W campus. Similarly, W&W provides various opportunities for retention and networking specifically for its trainees and working students.

For further information, please see the chapter "Employees".

Risk report

Risk management system in the W&W Group

- As at the end of 2019, the W&W Group currently is well capitalised in accordance with both economic risk-bearing capacity calculations and regulatory standards.
- The liquidity needs of the W&W Group were secured as at the reporting date.
- Risk management is an important element of the corporate governance of the W&W Group.
- Contributing to the assurance of financial strength and the creation of value are important objectives of risk management.

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 undertaking of the financial conglomerate, the Solvency II group and the financial holding group. As the superordinate undertaking, W&W AG is responsible for defining and further developing uniform risk management standards throughout the Group and monitoring compliance with those 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 the disclosures concerning risks under financial instruments and insurance contracts in the notes to the consolidated financial statements.

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 business 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 2018 Annual Report were also applicable in 2019, and with the exception of the changes and enhancements described below, they continue to be applied.

For information on the enhancements planned for 2020, 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 **risk governance,**
- 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 Solvency II 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**

As part of this framework, definitions are established for risk appetite, which derived from the business strategy and the risk profile, for the overall risk objectives and for the application of consistent standards, methods, procedures and tools. The risk strategy is in line with the W&W business strategy and the principles 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 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 levels of the W&W Group. 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, and
- Appropriate incentive structures.

Through their management style and the way they handle risks, the Executive Board of W&W AG, the executive boards and managements 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:
- Württembergische Krankenversicherung 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.

The inclusion of companies in risk classes 3 to 5 in the management system of the W&W Group is undertaken pursuant to the proportionality principle and is ensured directly by the risk controlling of the respective parent company.

Please see the remarks in the chapter "Group fundamentals" concerning the merger of Karlsruher Lebensversicherung AG with Württembergische Lebensversicherung AG, the acquisition of Aachener Bausparkasse AG, the sale of Wüstenrot Bank AG Pfandbriefbank and the sale of Wüstenrot stavební spořitelna, a.s. and Wüstenrot hypoteční banka.

Risk governance/risk bodies

Our risk governance aims at managing our risks throughout the Group and at the individual company level. At the same time, it is intended to ensure 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 defined. Within the organisational and operational structure, the individual areas of responsibility for all of the following bodies, committees and functions are defined, 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. The Chief Risk Officer (CRO) is responsible for risk management on the Executive Board of W&W AG.

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** and the Nomination Committee of W&W AG and the corresponding committees of Wüstenrot Bausparkasse AG, Württembergische Versicherung AG and Württembergische Lebensversicherung AG are regularly presented with information required pursuant to the bylaws, including risk reports with a description of the current risk situation and the measures that have been initiated to manage it.

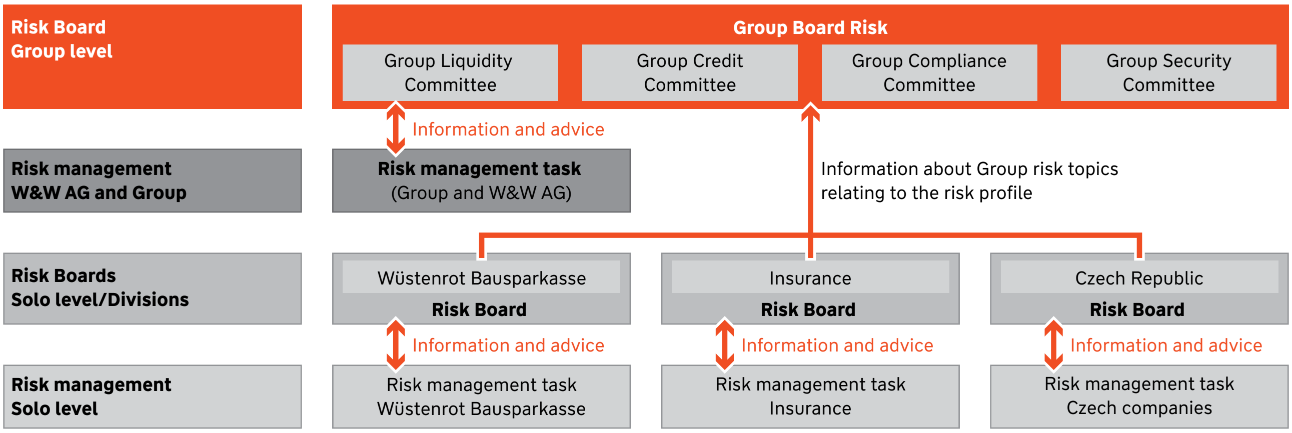
As the central body for the coordination of risk management, the **Group Board Risk** supports the Executive Board of W&W AG and the Management Board in risk issues. The permanent members of the Group Board Risk are the CRO of W&W AG and the CROs of the Housing and Insurance divisions. The risks in the brandpool division are covered by the Group-wide risk management in accordance with the processes specified in the Group risk policy. Other 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, the two (independent) risk controlling functions of the Housing (Wüstenrot) and Insurance (Württembergische) divisions and select observers. 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 (Württembergische). The **Risk Board BSW** handles this duty in the Housing division (Wüstenrot). The participation of the responsible Executive Board members and the departments concerned guarantees the integration of circumstances pertaining to individual companies as well as the speedy exchange of information and quick decision-making. 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 "Risk Board Structure" shows how the responsible bodies collaborate in risk-related decisions.

Risk Board Structure

Overview



The companies in the brandpool division are included in the risk management of W&W AG and the Group in accordance with the proportionality principle.

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 management. 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 security management is the responsibility of the **Group Security Committee.**

Key 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 operational 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 must 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 (“Risk” section) 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.

In addition, the Insurance (Württembergische) and Housing (Wüstenrot) 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 (“Compliance” section) at W&W AG.

The **actuarial function** is responsible, inter alia, for the correct calculation of the technical provisions, and it 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 CFO of W&W AG, who is supported operationally by the actuarial functions of the W&W insurance companies.

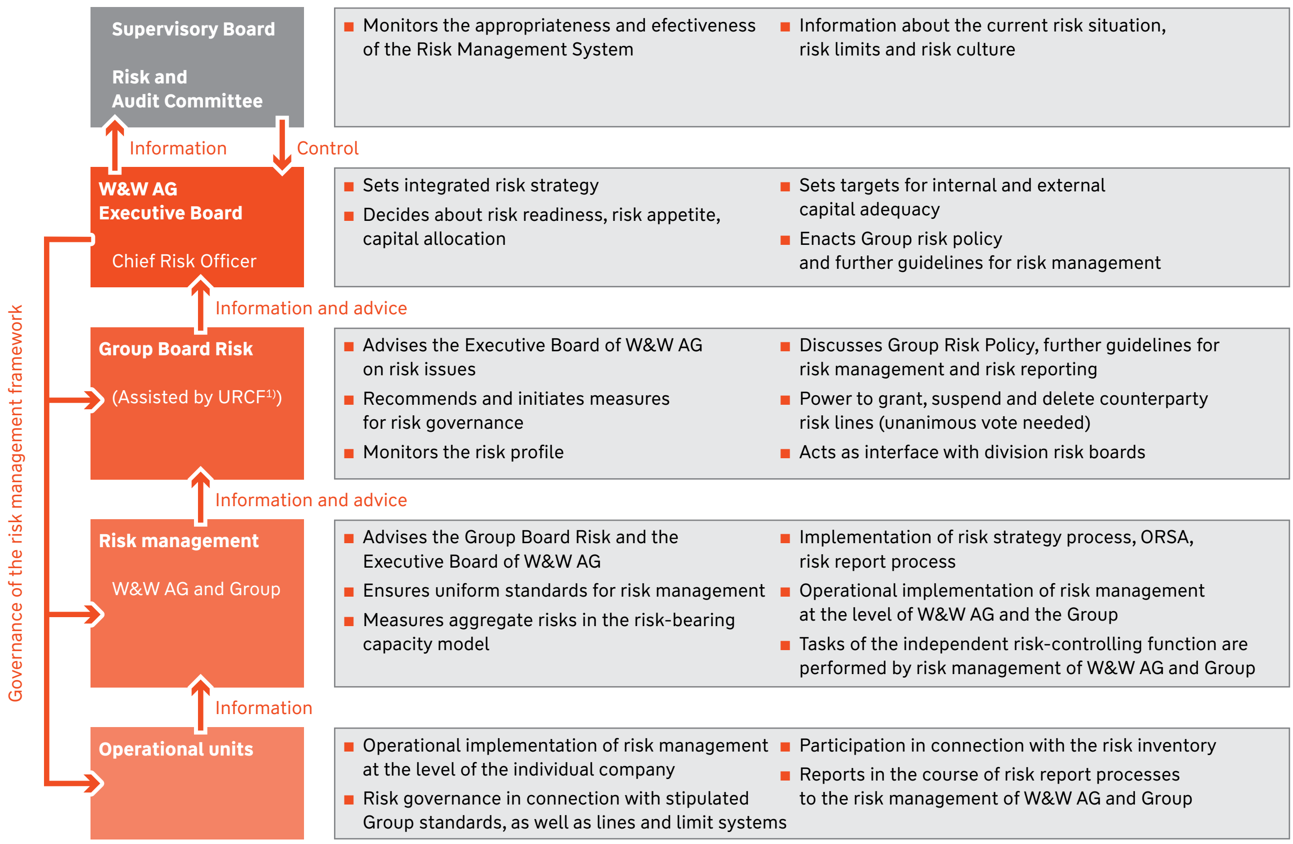
- The Internal Audit unit represents the **third line of defence.** It independently audits the appropriateness and effectiveness of the internal control system as well as the effectiveness of corporate processes, including the first two lines of defence. The duties of Internal Audit at the Group level 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 these functions 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 “Risk Management: Responsibilities and Function Holders” shows the responsibilities in risk management.

Risk management responsibilities and Executives

Overview



[1] German concept: Unabhängige Risiko-Controlling-Funktion

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:

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).

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, dual control 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).

We reduce such risks, especially operational risks and business risks, as part of risk management. Although our risk management system is inherently suitable, it is nevertheless 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. Risks are largely assessed by means of a stochastic procedure using the value-at-risk standard. If this procedure cannot be used for certain risk areas, analytical computational procedures or regulatory standard procedures are applied, as well as expert estimates.

At both the Group level as well as the level of the individual W&W companies, the relevant statutory and regulatory confidence levels are applied for measuring risks from an economic perspective:

- For individual W&W companies that are subject to insurance supervision law, including W&W AG, this corresponds to a confidence level of 99.5%, based on a risk horizon of one year.
- For individual W&W companies that are subject to banking supervision law, including W&W AG, this corresponds to a confidence level of 99.9%, based on a risk horizon of one year.

At the level of the W&W Group, risks are measured based on a confidence level of 99.5%. The target and minimum ratios for economic risk-bearing capacity at the Group level are derived from the capital requirements that result from compliance with the aforementioned confidence levels at the associated individual companies. Accordingly, an overall confidence level in excess of 99.5% is achieved.

At the level of the financial holding group, a confidence level of 99.9% is applied, with the exception of the risks arising from the reinsurance business of W&W AG, which are assessed with the confidence level relevant for insurance undertakings.

In addition, risks are assessed from a supervisory (normative) perspective using regulatory risk parameters. If risk models are employed that are oriented toward the balance sheet or income statement specific to the individual company, a confidence level of at least 95% is applied to them.

We include the results of these assessments in the evaluation of risk-bearing capacity or in additional risk controlling tools, taking into consideration 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.

As a rule, the entity that assumed the risks is 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.

Key management parameters at Group level are 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 as a rule are equally weighted but highlight different objectives and aspects:

- The economic perspective assesses risk coverage capacity, i.e. permanent assurance of the company's substance in order to protect preferential and secured creditors against losses from an economic standpoint.
- The normative perspective looks at compliance with the regulatory minimum requirements for risk capitalisation in order to be able to continue business operations as planned.

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

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 at most 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. 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
By means of the established reporting processes, 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 accomplished 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 and discussed with respect to risk assessment. On this basis, action recommendations and measures are established where necessary for the W&W Group, which are then implemented 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 internal ad-hoc risk reporting at the Group and individual company level. Quantitative criteria are used as thresholds, which as a rule are in line with internal and supervisory parameters. In addition, pertinent ad-hoc risk reporting takes place when qualitatively material events occur.

The operability, appropriateness and effectiveness of our risk management system is audited by Internal Audit. As part of the audits of 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, as well as that of the W&W Group and the 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 (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 monitored. 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 company. 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. In particular, 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 establish requirements for regulatory capitalisation at the level of the individual companies and at the consolidated level.

As at the reporting date, Wüstenrot Bausparkasse AG fulfilled the regulatory capital requirements. As at 31 December 2019, the total capital ratio of Wüstenrot Bausparkasse AG was 19.1% (previous year: 18.9%). As at the reporting date, the regulatory Solvency II coverage ratios of the insurance companies were likely well above 100%. The final results will be published in the second quarter. The ratios calculated as at 31 December 2018 were reported to BaFin in the second quarter of 2019. They amounted to 406.8% for Wüstenrot & Württembergische AG, to 540.7% for Württembergische Lebensversicherung AG and to 189.1% for Württembergische Versicherung AG. Württembergische Lebensversicherung AG received approval from BaFin to apply transitional measures for technical provisions and a volatility adjustment, both of which are also currently being applied by it.

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, together with the insurance companies, a Solvency II group. In addition, BaFin has classified the W&W Group as a financial conglomerate.

- As the superordinate undertaking 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 2019, the total capital ratio of the financial holding group stood at 26.8% (previous year: 25.7%).
- 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 255.1%, was reported to BaFin in the second quarter of 2019.
- As the superordinate undertaking 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 coverage ratio stood at 246.1% as at 31 December 2018.

In November 2019, the W&W Group set, in the risk strategy, internal 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 exceed the current statutory requirements. For the groups, these target solvency ratios amount to:

- For the financial holding group, a total capital ratio of 13.75% and a core capital ratio of 11.25% were set as a minimum target.
- The minimum target ratio for the Solvency II group and for the financial conglomerate is 130% (in application of the transitional measures for technical provisions and the volatility adjustment).

Internal calculations on the basis of the data for 2019 and on the basis of the planning horizon show that the regulatory requirements concerning capital resources will be 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 2019, the W&W Group's total risk capital requirements amounted to €3,022.5 million (previous year: €3,097.4 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.

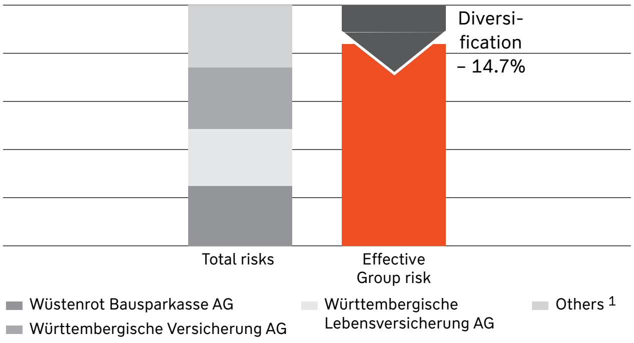
As part of the risk strategy, the W&W Group strives for an economic risk-bearing capacity ratio (ratio of risk coverage capital to risk capital requirements) of greater than 145%. For the financial holding group and W&W AG, the target ratio is greater than 125%. Our calculations show that risk-bearing capacity was above this target ratio as at 31 December 2019.

Diversification

The assumption and management of risks is a key aspect of the W&W Group's business model. The risk profiles for the home loan and savings bank, for the property and casualty insurance companies and for the life and health insurance companies 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 2019:

Diversification

schematic



1 W&W AG, Württembergische Krankenversicherung AG, Consolidation

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").

Risk landscape of W&W Group

Overview of risk areas

Overall risk profile

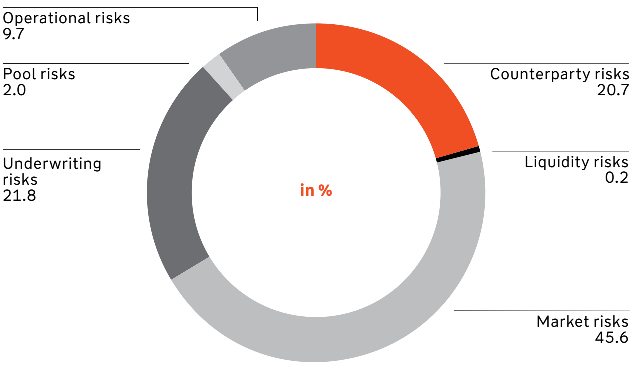
Market risks	Counterparty risks	Underwriting risks	Operational risks	Business risks	Liquidity risks
Interest rate risk	Counterparty credit risk – customer credit business	UR personnel/ employee life insurance	Legal risk	Strategic risk	Insolvency risk
Credit spread risk	Counterparty credit risk – capital 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		

All segments are exposed to the above-described risk areas. The sole exception is our home loan and savings bank, which does not show any underwriting risks specific to its business model. 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. Where figures are provided in millions of euros or thousands of euros, and in the case of percentage figures with a decimal point, totalled amounts may having rounding differences due to commercial rounding rules, since the calculations for the individual items are based on whole numbers.

The risk profile of the quantified risk areas was determined in accordance with our methods for economic risk-bearing capacity measurement (see the section "Economic capital adequacy"). As at 31 December 2019, 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 45.6% (previous year: 46.5%). These include, as the key types of risk, credit spread risks, stock price risks, and interest rate risks. **Underwriting risks** account for 21.8% (previous year: 20.2%). Due to the exposures in our capital investment portfolios and our customer lending activities, **counterparty credit risks** also constituted a significant risk area, accounting for 20.7% (previous year: 20.7%).

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

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 regard to the development of 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 2019.

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 environment

Interest rate trends. The decline in long-term interest rates on the German bond market continued in 2019. For instance, the yield on the benchmark 10-year German government bond fell from 0.24% at the end of 2018 to a record low of –0.74% in September 2019. At the end of 2019, the yield on 10-year German government bonds stood at –0.19%. It thus declined by 43 basis points.

By contrast, yields for bonds with short-term maturities showed little change in view of the ECB's policy concerning benchmark interest rates. In 2019, the yield on two-year German government bonds reached a new record low of –0.94%. At the end of 2019, the yield stood at –0.60%, or one basis point higher than at the end of 2018.

Trends in equities. The large international equity markets had one of their best years of late in 2019. For instance, the DAX posted a rise of 25.5%, EURO STOXX 50, 24.8%, and the U.S. S&P 500, 28.9%.

Trends on the SDAX were similar to those on the DAX. The SDAX rose by 31.6%, which was somewhat stronger than the DAX.

We present additional details concerning trends in interest rates and equities in the section "Business environment".

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. In addition, W&W AG and Württembergische Versicherung AG 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 interest-bearing capital investments due to the mismatch of maturities on the assets side and the liabilities side. The result is an interest rate change risk, which manifests itself in falling economic 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. This limits the leeway for satisfying the corresponding yield requirements on the liabilities side. In addition, customers might make increased use of their option rights.

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.

Low interest rates place 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. In 2019 the reference interest rate dropped to 1.92% (previous year: 2.09%).

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 interest rate reinforcement is determined by the measurement interest rate, which amounted to 1.92% (previous year: 2.09%) for Württembergische Lebensversicherung AG and to 2.30% (previous year: 2.54%) for ARA Pensionskasse AG. In the WürttLeben group, the additional interest reserve and interest rate reinforcement were strengthened by €364.8 million (previous year: €155.2 million). In order to depict the build-up of the additional interest rate reserve and interest rate reinforcement as realistically as possible, capital disbursement probabilities are applied in this regard that are specific to each company. These were updated in 2019, which led to a higher build-up of the additional interest rate reserve and interest rate reinforcement. For 2020 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.

Persistently low interest rates also pose great challenges for pension funds, including Allgemeine Rentenanstalt Pensionskasse AG, in terms of financing the build-up of the additional interest reserve/interest rate reinforcement under the ancillary condition of regulatory solvency. In the current environment of low interest rates, the financing of this build-up by the company is considered critical. If the current phase of low interest rates becomes exacerbated or more prolonged, this will significantly aggravate the situation. Allgemeine Rentenanstalt Pensionskasse AG, together with its sole shareholder Württembergische Lebensversicherung AG, has developed proposed solutions. To that end, Württembergische Lebensversicherung AG took an initial step in 2019 to increase the capital reserve by €15 million. The coming adjustment of the maximum interest rate, which is expected to take effect on 1 January 2021, will have no impact on the rates of Allgemeine Rentenanstalt Pensionskasse AG. The sale of occupational pension products will then be assured through Württembergische Lebensversicherung AG.

In the Housing 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 prohibitions 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 monitored 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 participations are held by W&W AG, Württembergische Lebensversicherung AG and Württembergische Versicherung AG as individual companies. As part of strategic asset allocation, the focus is increasingly on alternative investments, including private equity participations and participations in private debt funds. Alternative investments are accounted for in the economic risk-bearing capacity model mainly together with stock price risks.

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 equity 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 portfolios of our companies with substantial equity portfolios with a total market value of €789.2 million, the market value changes in the case of an index fluctuation of the EURO STOXX 50 were as follows as at 31 December 2019:

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]	444.4	34.1	68.9	-32.4	-62.0
WV[1]	248.8	21.2	42.4	-20.7	-40.4
W&W AG[1]	96.0	8.1	16.2	-7.9	-15.5
Total	**789.2**	**63.4**	**127.5**	**-61.0**	**-117.9**

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 2019.

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 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 capital 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 to be minimised through an appropriate selection of properties. Real estate risk plays a minor role compared with the 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 monitored and analysed. As at the reporting date, there were no material exposures in commodities.

Due to the Coronavirus pandemic and the resulting uncertainties about the further development, it is to be expected that the W&W Group in 2020 will be exposed to significantly higher market price risks (see explanations in chapter "Business risks").

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 capital 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 respective executive boards specify the strategic asset allocation at the level of 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" section is responsible for investments in the area of private equity, private debt, renewable energies and infrastructure.

Our strategic participation activities are supervised by Group Controlling. The decentralised and centralised risk controlling units operate as independent monitoring units for investment risks, include by means of operational limit monitoring.

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 the chart “Risk Management”).

Risk management

Method depiction

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

Market risks area	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

Economic risk-bearing capacity model. We quantify the risks from interest rate changes both on the assets side and on the liabilities side using economic models. The companies included in our economic risk-bearing capacity model at the Group level measure market price risk economically, i.e. they take future discounted cash flows and market values into consideration on the basis of a value-at-risk model. For this purpose, the assets and liabilities are measured in the risk-bearing capacity model of the respective individual companies on the basis of simulated capital market scenarios. Each individual company can draw on economic 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 participations. These scenarios are used to calculate the value at risk for each individual company with the 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 simulated scenarios. Württembergische Lebensversicherung AG and Württembergische Krankenversicherung AG are included in this regard on the basis of scenarios derived from the standard formula scenarios under Solvency II.

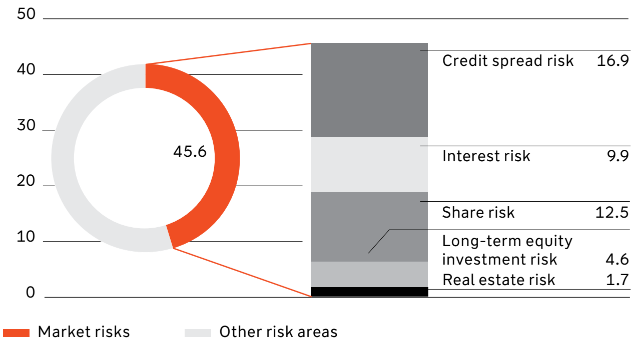
Foreign currency risks are taken into consideration in the asset classes in which they are incurred. In the case of bonds/cash flows, exchange rate fluctuations that are closely tied to trends in foreign currency interest rates are monitored simultaneously along with interest rate fluctuations and are 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 2019, the risk profile for the market price risk area was determined according to our methods for risk-bearing capacity measurement (see the section “Economic capital adequacy”). It was distributed as follows:

Risk profile for market risks

in %



Risk capital requirements. Credit spread risks, which accounted for 16.9% (previous year: 15.7%), are the most significant of the market price risks, followed by stock price risks at 12.5% (previous year: 9.5%) and interest rate risks at 9.9% (previous year: 15.0%).

In 2019 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 closely monitor their market price risks with comparable procedures.

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

In the Housing 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 terms of strategic and tactical asset allocation, the companies of the W&W Group made use of derivative financial instruments in 2019. 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.
- Capital investment environment will continue to require stringent credit management.
- Risk profile with respect to customer loan exposure constant at a very good level.

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 investments), from the default of business partners in customer lending business (counterparty credit risk associated with customer lending business) and from the default on receivables due from our counterparties in reinsurance (other counterparty credit risk).

Market environment

By and large, risk premiums for European corporate bonds in 2019 continue to hover at a relatively low level. The credit spreads for European financial securities fell somewhat compared with 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 situation

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

In line with our strategic orientation, the credit rating structure of our investment portfolio is conservative, with 96.9% (prior year: 97.3%) of the investments in the investment grade range.

Rating (Moody's scale)

	2019		2018	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
AAA	16,469.0	41.0	16,320.6	43.1
Aa1	6,399.0	15.9	6,143.0	16.2
Aa2	4,250.6	10.6	3,394.1	9.0
Aa3	2,152.7	5.4	2,180.1	5.8
A1	1,532.6	3.8	1,373.3	3.6
A2	934.5	2.3	667.4	1.8
A3	1,790.0	4.5	1,965.9	5.2
Baa1	2,337.1	5.8	2,191.8	5.8
Baa2	1,423.9	3.5	1,146.4	3.0
Baa3	1,683.2	4.2	1,416.5	3.7
Non-investment-grade/non-rated	1,230.3	3.1	1,056.7	2.8
Total	**40,202.9**	**100.0**	**37,855.8**	**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	
	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Housing	6,123.2	2,448.3	–	8,571.5	21.3
Life and Health Insurance	21,132.4	5,701.1	1,094.2	27,927.7	69.5
Property and Casualty Insurance	1,244.5	650.4	112.0	2,006.9	5.0
All other segments	771.1	901.6	24.1	1,696.8	4.2
Total	**29,271.3**	**9,701.4**	**1,230.3**	**40,202.9**	**100.0**
Rating cluster share in %	72.8	24.1	3.1	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

		2019		2018
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
Public	16,148.0	40.2	13.769.4	36.4
German covered bond	10,712.4	26.6	11.123.5	29.4
With guarantor's liability	–	–	–	–
Deposit guarantee or government liability	5,556.1	15.2	5.715.2	15.1
Uncovered	7,216.8	18.0	7,247.7	19.1
Total	**40,202.9**	**100.0**	**37,885.8**	**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	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Housing	2,498.3	2,320.4	1,455.2	2,297.6	8,571.5
Life and Health Insurance	12,541.2	7,180.1	4,420.3	3,786.1	27,927.7
Property and Casualty insurance	658.8	737.3	155.1	455.7	2,006.9
All other segments	449.8	474.4	95.1	677.5	1,696.8
Total	**16,148.1**	**10,712.2**	**6,125.7**	**7,216.9**	**40,202.9**
Collateralisation structure share in %	40.2	26.6	15.2	18.0	100.0

Country risks. As at 31 December 2019, we held bonds issued by peripheral EMU countries (Portugal, Italy, Ireland and Spain) totalling €1,790.8 million (previous year: €1,265.95 million). Of this amount, Spain accounted for €810.9 million (previous year: €543.3 million) and Italy for €440.7 million (previous year: €345.4 million).

In 2019 Italian sovereign debt continued to be an issue on the financial markets, and it created corresponding uncertainty, with spreads that fluctuated highly at times.

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 2019

								Portfolio carrying amount	Share in total exposure in %
in € million	Germany	Europe	Central/ South America	North America	Asia	Africa	Other	Total	
Housing	704.3	1,794.1	–	–	–	–	–	2,498.4	15.6
Life and Health Insurance	4,656.7	6,333.3	214.7	400.5	72.4	201.2	662.4	12,541.2	78.3
Property and Casualty Insurance	224.2	267.0	25.1	14.5	7.5	30.4	90.1	658.8	4.1
All other segments	131.7	173.2	–	–	–	–	6.0	310.9	1.9
Total	**5,716.9**	**8,567.6**	**239.8**	**415.0**	**79.9**	**231.6**	**758.5**	**16,009.3**	**100.0**
Share in %	35.7	53.5	1.5	2.6	0.5	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 in 2019, continued to result in significant volatility, particularly in the emerging markets segment. 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) increased to €1,679.9 million (previous year: €1,594.0 million), they still account for only a small proportion of the total volume of our 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 loss of interest and reductions of the nominal value (haircuts) still cannot be ruled out.

Counterparty credit risk in customer lending business. The most significant counterparty credit risks for the W&W Group in customer lending business exist at Wüstenrot Bausparkasse AG, followed by Wüstenrot hypoteční banka and Wüstenrot stavební spořitelna. Less important are the mortgage portfolios of Württembergische Lebensversicherung AG, which at the end of the year had a carrying amount pursuant to the German Commercial Code (HGB) of €1,571.4 million (previous year: €1,738.9 million).

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

	Portfolio	Share	Portfolio	Share
		2019		2018
	in € million	in %	in € million	in %
No default	17,558.6	99.1	16,968.1	98.9
of which dunned	349.1	2.0	419.9	2.4
Default	167.6	0.9	192.5	1.1
Total	**17,726.2**	**100.0**	**17,160.6**	**100.0**

At the end of the year, the credit risk provision rate of Wüstenrot Bausparkasse AG pursuant to the German Commercial Code (HGB) (net credit risk provision in relation to the credit portfolio) amounted to an expense of 0.04% (previous year: income of 0.04%), and the credit default rate pursuant to the HGB (credit default in relation to the credit portfolio) amounted to 0.02% (previous year: 0.01%). As at the reporting date, the expected probability of default in the loan portfolio was 1.82% (previous year: 1.77%). The average loss given default (LGD) amounted to 9.08% (previous year: 8.84%).

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 situation, as well as positive trends in the portfolio as a result of the economic situation in Germany, are reflected in the low loan risk provision ratios and loan default rates, even though a slight rise was recorded here in 2019. 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 may be exposed to bad-debt risks, inter alia, vis-à-vis other 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 economic risk-bearing capacity model, and they remain constant at a low level.

Due to the Coronavirus pandemic and the resulting uncertainties about the further development, it is to be expected that the W&W Group in 2020 will be exposed to significantly higher counterparty risks (see explanations in chapter “Business risks”).

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 system that automatically determines any impairments.

The front office in the treasury of the Housing division and the financial controlling section 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")

Risk management

Method depiction

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

Counterparty risk area	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

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.

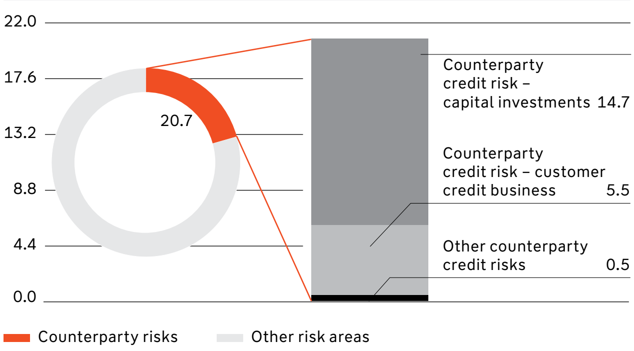
Risk capital requirements are calculated as value at risk applying one-year default/migration probabilities.

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 the section "Economic capital adequacy"), and as at 31 December 2019, it was distributed as follows:

Risk profile for counterparty risks



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 14.7% (previous year: 15.1%). In 2019 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 ("Risk" section).

Owing to its business model, the W&W Group's 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 they cannot of course 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 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, capital 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 2019, 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 directly 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, including premium and reserve risks, cancellation risks and disaster risks in property and casualty insurance, as well as biometric risks, cancellation risks, cost risks, revision risks and disaster 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).

Market environment
The loss ratio (net) for the 2019 financial year showed an improvement compared with the previous year. Year on year, 2019 saw slightly lower expenses of €65.3 million (previous year: €65.9 million) for natural disaster claims.

Risk situation
The underwriting risk in life insurance is closely related to the interest guarantee risk, which is described in the chapter "Market price risks". 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.

Biometric risk. Biometric risks result from the deviation of expected biometric trends from actual biometric trends. 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 primarily 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, flooding and, in rare cases, also earthquakes.

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. 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.

Due to the Coronavirus pandemic and the resulting uncertainties about the further development, it is to be expected that the W&W Group in 2020 will be exposed to significantly higher underwriting risks (see explanations in chapter "Business risks").

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. Despite the discontinuation of new underwriting by its UK subsidiary, Württembergische Versicherung AG is liable in this respect for business underwritten up to and including 2007.

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. Since industrial risks are underwritten only to a limited and clearly defined extent, risk concentrations are unlikely at the level of individual policyholders.

The planned expansion of corporate customer business and the development of foreign corporate customer business may result in increased risk relevance in this area.

Limited assumed reinsurance business. With the exception of German market pools, W&W AG still does not underwrite any reinsurance outside the Group. In addition, Württembergische Versicherung AG underwrites reinsurance outside the Group in connection with the development of foreign corporate customer business.

Organisational structure. The risk management of life and health insurance companies and property and casualty insurance companies, which is also responsible for measuring underwriting risks, is closely interwoven with risk management at the Group level 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.

Risk management methods and risk controlling
Economic risk-bearing capacity model. We use an economic model for measuring underwriting risks that is based on the value-at-risk approach. In property and casualty insurance, the calculation is performed with Monte Carlo simulations. In order to estimate disasters, the W&W Group makes use, inter alia, 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 business that is assumed by Württembergische Versicherung AG and retained by W&W 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 based on the stress scenarios provided for under Solvency II.

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 21.8% (previous year: 20.2%) of total risk capital requirements of the W&W Group. The rise was mainly attributable to portfolio growth in the area of property and casualty insurance and increased underwriting risk in life insurance occasioned by interest rates. The main risk bearer is Württembergische Versicherung AG, followed by Württembergische Lebensversicherung AG and W&W AG. In 2019 underwriting risks were in line with the risk strategy. The risk limit was consistently complied with at the Group level.

Limitation. The potential loss from underwriting 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 controlling 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 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.

Risk management

Method depiction

Underwriting risk area	Company	Risk controlling (specific)
	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	
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

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 definition

We define operational risk as losses that may be incurred as a result of the unsuitability or failure of internal processes, people and systems or externally driven events. This also includes legal and tax risks.

Risk situation

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 seeing a growing thicket of regulations, including in supervisory law, in terms of creditor and consumer rights and with respect to disclosure obligations. Moreover, legal proceedings that are pending in the financial sector may lead to subsequent financial recovery claims. In particular, where authorities and courts reinterpret laws, this may entail material risks and significantly impair future financial performance. Of particular relevance here is the discussion currently ongoing in the fiscal administration about the continued future existence of taxable entities with home loan and savings banks.

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, particularly those incurred in connection with specialised, technical and infrastructure projects with high investment budgets and complex project content.

Information risk. Information risks arise from the threat to the availability, confidentiality and/or integrity of data. They mainly result from processes, IT systems, physical information storage devices, technical equipment or buildings that are relevant to the storage and processing of data. 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 calculation 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.

Due to the Coronavirus pandemic and the resulting uncertainties about the further development, it is to be expected that the W&W Group in 2020 will be exposed to significantly higher operational risks (see explanations in chapter "Business risks").

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. As a rule, operational risks are 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 an IT security management system, data protection organisation, a business continuity management system (BCM) and an internal control system (ICS) 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 home loan and savings bank and W&W AG, the determination takes place on the basis of a mathematical-statistical model (value at risk), which is based 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 9.7% (previous year: 10.0%) of total risk capital requirements.

In 2019 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. The W&W Group has put measures in place to prevent the risk of fraud. These are designed, on the one hand, to ensure compliance with statutory and regulatory requirements concerning controls and technical security systems and, on the other, 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 section “Employees” 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 is designed to ensure 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. 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 reduce and monitor model risks.

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 risks, on the one hand, as potential losses that may be incurred from the strategic orientation and result in the insufficient or delayed achievement of targets. On the other, business risks may arise if the company’s reputation changes for the worse, as well if the external business environment experiences changes, such as legal, political or social changes and changed customer behaviour in the home loan and savings pool.

Risk situation

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 monitored:

Strategic risk. This risk results from the company's incorrect or insufficient strategic orientation, from the non-achievement of strategic goals or from the flawed implementation of strategic requirements. These risks particularly take the form of cost and income risks, including a delayed or limited impact from results or cost savings, as well as additional time and effort for achieving strategic measures.

In addition to cost risks due, e.g., to the required regulatory investments, our material earnings risks consist of potential negative deviations from projected (economic) earnings. Particularly exposed to this risk are, among others, life insurance companies in terms of their capital investment income as well as the home loan and savings bank in terms of its interest income. Failure to meet self-imposed targets with respect to sales, planned growth or the generation of earnings in the new digital business models also would have a negative effect. In light of this, achieving the established yield targets puts high demands on our strategic asset allocation and on the front-office units concerned.

We believe that significant volatility in business results remains possible due to the accounting rules in effect under IFRS 9, according to which financial instruments are now to be measured to a greater extent at fair value through profit or loss.

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 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, terrorism, social unrest, migration/refugee movements).

Coronavirus. If the coronavirus pandemic worsens in Germany, the W&W Group would potentially incur higher insurance expenses mainly in the area of life and health insurance. Moreover, employee absences could result in operational risks to business processes. For business-critical processes, these risks would be reduced through the business continuity management of W&W AG. However, negative effects cannot be completely excluded. W&W would, of course, also be unable to avoid the indirect effects of the Corona crisis. Thus capital markets already declined markedly by March 2020, which manifested mainly in falling share prices, interest drawbacks, increased spreads, declining market liquidity and on the whole a highly volatile environment. In the further course of the year, there will be a high degree of uncertainty as to the development of capital markets. The negative economic consequences of the Corona crisis give rise to the assumption that credit quality will deteriorate and credit defaults are to be expected. Also, a negative impact of the Corona crisis on new business cannot be excluded. Exepcted counteractive measures adopted by the Government and Central Banks might relieve the situation.

Depending on the future development, the Corona crisis might lead to a decline in net profit and a deterioration of the financial performance, especially if the Corona crisis will persist for a longer time.

Brexit. Following both sides' ratification of the withdrawal agreement and the subsequent withdrawal of the UK from the EU, a transition period until the end of 2020 commenced, during which comprehensive agreements are intended to be reached on future relations between the EU and the UK. This sharply decreased the likelihood of an ultimately disorderly Brexit, but it remains to be seen what the final agreements will contain.

Primarily relevant for the W&W Group in this context are the areas of investments, the settlement of derivatives through the London Clearing House (LCH) and the handling of insurance business in the UK.

- Investments in the UK make up only a small portion of the total exposure of the W&W Group. Nevertheless, depending on how the negotiations proceed, significant market fluctuations and negative economic effects cannot be ruled out, and this would also have a negative impact on the investments of W&W.
- For newly concluded derivatives, we have established a connection with Eurex Frankfurt AG (Eurex) as an alternative to settling derivatives through the LCH. This will successively reduce the risk in the (in our view) unlikely event that at the end of the transition period, the LCH will no longer be recognised by the European supervisory authority, which would make it necessary to close derivative positions prematurely.
- For the UK branch of Württembergische Versicherung, Brexit preparations, including any licence applications that may be necessary, were finalised on time in consultation with the British supervisory authority. However, until a final arrangement is reached, uncertainty remains with respect to the legal framework for the servicing of insurance policies with risks in the UK, which German insurance companies have on their books to a limited extent.

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:

- the regulations under the EBA's Supervisory Review and Evaluation Process (SREP),
- the German Supervisory Requirements for IT in Insurance Undertakings (VAIT),
- the regulations under the EU Capital Requirements Regulation (CRR II) and
- IFRS 17 "Insurance Contracts".

In this regard, changed accounting rules may also have a negative impact on results and create higher volatility in results.

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 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. 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 focused 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! For further information, please see the section "Group fundamentals/Business model".

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 the **business risks** of the home loan and savings banks, whose risk capital requirements accounted for 2.0% (previous year: 2.4%) of the Group's 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).

Market environment
The main refinancing operations rate, which was lowered in 2016, remained at 0.00% at year-end 2019 and the marginal lending facility rate stood unchanged at 0.25%. The monetary policy of negative interest rates was maintained. The deposit facility rate was lowered to –0.50% (previous year: –0.40%).

Risk situation
Insolvency risk. Being 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 2019, the financial holding group had a liquidity coverage ratio of 281.9% (previous year: 530.5%). 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 2019, the asset encumbrance of the financial holding group was 15.9% (previous year: 14.2%).

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

Because of its business model, Wüstenrot Bausparkasse AG, in particular, requires careful liquidity management. Refinancing on a rolling basis is required in order to satisfy the demand for loans and to make loans. Its refinancing volume 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. Applying a haircut of 25.5% on the funding potential, refinancing costs would be –€79.4 million (previous year: –€43.9 million applying a 15.0% haircut). 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. Applying a haircut of 25.5%, or 30% in the case of the Württembergische Lebensversicherung AG, due to increased foreign currency risks, there would still be a loss in value of –€134.3 million (previous year: –€127.5 million).

Looking forward, Wüstenrot Bausparkasse AG has 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 liquidity and the funding structure, please see “Business performance” (section “Financial position: funding/liquidity”) and the presentation of the valuation hierarchies of our financial instruments (note 38).

Due to the Coronavirus pandemic and the resulting uncertainties about the further development, it is to be expected that the W&W Group in 2020 will be exposed to significantly higher liquidity risks (see explanations in chapter “Business risks”).

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 home loan and savings bank retains 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 ("Risk" section) 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 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. Contingency plans and the monitoring of liquidity buffers are designed to 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

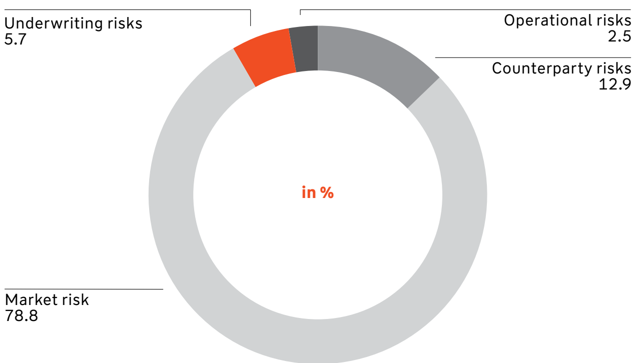
As the parent company of the financial conglomerate, the Solvency II group and the financial holding group, Wüstenrot & Württembergische AG (W&W AG) is responsible for defining and enhancing risk management standards, as well as for controlling compliance with these standards. Accordingly, the risk management 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 2019, the total risk capital requirements of W&W AG amounted to €1,415.1 million (previous year: €1,315.1 million).

The risk profile of the quantified risk areas as at 31 December 2019, which was determined according to our methods for calculating risk-bearing capacity (see the 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 investments, market price risks constituted the predominant risk area, accounting for 78.8% (previous year: 78.4%).

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 2019, 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 €1,643.5 million (previous year: €1,540.5 million) experienced the following changes in market value:

Interest rate change

	Market value change	
in € million	31.12.2019	31.12.2018
Increase by 100 basis points	-84.5	-59.4
Increase by 200 basis points	-161.8	-118.5
Decrease by 100 basis points	95.0	61.5
Decrease by 200 basis points	208.0	123.6

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 investment portfolio constitutes the key risk.

As at 31 December 2019, capital investments in affiliated companies and long-term equity investments as well as in shares, interests or shares in investment assets and other variable-yield securities totalled €2,487.8 million (previous year: €2,474.0 million). Of this, interests in affiliated companies accounted for €1,444.3 million (previous year: €1,489.8 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 which would be recognised as a loss.

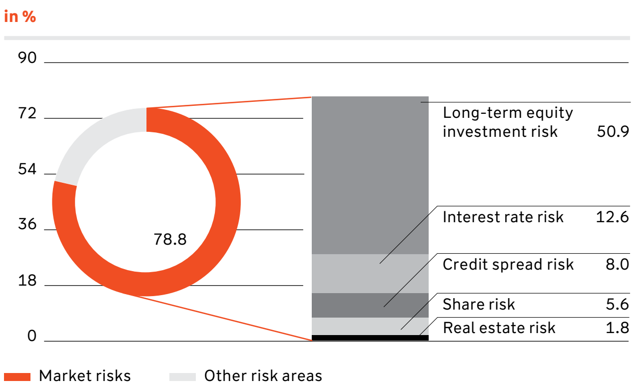
For our portfolios with a market value of €96.0 million (previous year: €50.8 million), the market value changes in the case of an index fluctuation in the EURO STOXX 50 were as follows as at 31 December 2019:

Index change

	Market value change	
in € million	31.12.2019	31.12.2018
Increase by 20%	16.2	7.3
Increase by 10%	8.1	3.5
Decrease by 10%	-7.9	-3.1
Decrease by 20%	-15.5	-5.7

Risk capital requirements. Since W&W AG's capital investments mainly consist of long-term equity investments, participation risks within market price risks were the most significant in terms of risk capital weighting. Measured against total economic risk capital, the proportion amounts to 50.9% (previous year: 51.0%).

Risk profile for market 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 investments (proprietary business), as well as to counterparty credit risks with respect to contract partners in reinsurance.

Investments. Pursuant to our strategic orientation, the credit rating structure of our bond portfolio is conservative, with over 97.2% (previous year: 97.1%) of investments being in the investment grade area.

Rating (Moody's scale)

	2019		2018	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
AAA	562.1	36.2	530.0	36.8
Aa1	88.9	5.7	54.7	3.8
Aa2	47.4	3.1	29.0	2.0
Aa3	63.1	4.1	56.1	3.9
A1	11.5	.7	15.9	1.1
A2	46.8	3.0	28.9	2.0
A3	131.7	8.5	170.4	11.8
Baa1	462.5	29.8	451.9	31.3
Baa2	28.2	1.8	39.3	2.7
Baa3	66.3	4.3	24.1	1.7
Non-investment-grade/non-rated	43.5	2.8	41.6	2.9
Total	**1,552.0**	**100.0**	**1,441.9**	**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

	2019		2018	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
Public	366.7	23.6	284.3	19.7
German covered bond	468.1	30.2	409.9	28.4
Deposit guarantee or government liability	87.6	5.6	151.0	10.5
Uncovered	629.6	40.6	596.7	41.4
Total	**1,552.0**	**100.0**	**1,441.9**	**100.0**

Subordinate exposure. Our subordinate exposures (participation rights, silent investments and other subordinate receivables) amounted to €255.0 million (previous year: €229.0 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, 94% (previous year: 98%) of the recognised receivables from reinsurance business in the amount of €178.4 million (previous year: €195.4 million) were due from companies with a rating of A or better.

Standard & Poor's

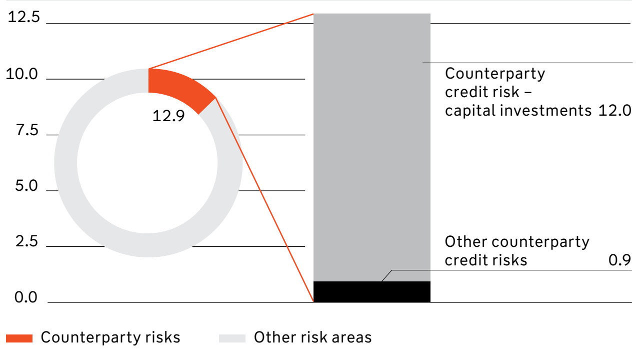
	2019		2018	
	Portfolio carrying amount[1]	Share	Portfolio carrying amount[1]	Share
	in € million	in %	in € million	in %
AAA	–	–	–	–
AA	121.4	68.0	148.9	76.2
A	46.7	26.2	43.4	22.2
BBB	–	–	–	–
BB	–	–	1.1	0.6
B	–	–	–	–
CCC and lower	–	–	–	–
Without rating	10.3	5.8	2.1	1.1
Total	**178.4**	**100.0**	**195.5**	**100.0**

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

As at the reporting date, €4.8 million (previous year: €5.7 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 2020.

Risk capital requirements. At 12.9% (previous year: 12.1%), counterparty credit risk accounts for the second-largest share of the total risk capital requirements of W&W AG.

Risk profile for counterparty risks



Among counterparty credit risks, the risks from our investments accounted for a significant share, at 12.0% (previous year: 11.2%).

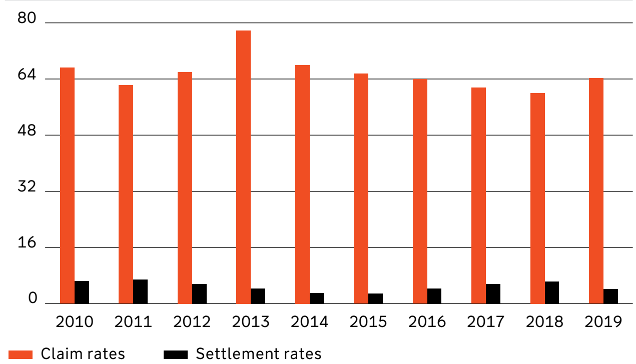
In 2019 counterparty credit risks were consistently in line with the risk strategy. The risk limit of W&W AG was consistently complied with.

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



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. Insurance risks accounted for a share of 5.7% (previous year: 6.2%) of the total risk capital requirements of W&W AG.

In 2019 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 the 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 2.5% (previous year: 3.3%) of total risk capital requirements.

In 2019 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 undertaking 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 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 the economic and regional structure of 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 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 manage concentrations.

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 risk 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.

Sustainability aspects

Sustainability risks materialise from internal and external risk drivers or triggering events in the areas of the climate, the environment, social affairs, politics, corporate governance and compliance, which, in the individual risk areas, may have a negative impact on the success of the W&W Group (net assets, financial position or financial performance).

Further information about W&W's commitment to sustainability is contained in its annual sustainability report, which is published on the website of the W&W Group at www.ww-ag.com/nachhaltigkeitsberichte (available in German only).

As part of Group policies and the sustainability model of the W&W Group, the Executive Board emphasises the importance to W&W of adopting sustainable practices and assuming social responsibility. As a rule, sustainability risks manifest themselves in the risk areas defined in the section "Risk landscape and risk profile of the W&W Group". Accordingly, sustainability risks are not considered to be a separate type of risk but rather are taken into consideration when managing the respective risk areas. Sustainability risks in the area of capital investments are limited, for example, by defining corresponding exclusion criteria. Natural hazards in the area of insurance risks are limited, inter alia, through underwriting policies and reinsurance agreements.

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

In 2019 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. The indicators are described in the section "Capital management in the W&W Group".

As a result of increasing economic uncertainties associated with geopolitical crises and economic developments (including as a result of global trade disputes, the threat of a further economic downturn or an economic slump, the risk of a resurgence of the sovereign debt crisis, volatility on the capital markets, 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.

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.

In addition, the interest rate risk remains very significant in the W&W Group. 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 period 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.

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 had a secure, diversified liquidity basis as at the reporting date.

Despite the prolonged period of 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. Expanding the robustness of the W&W Group remains the subject of our ongoing risk management activities.

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.

The rating agency Standard and Poor's (S&P) underscores the strong abilities of the W&W Group in the area of enterprise risk management (ERM), giving a positive rating to the Group's risk controls and, in particular, strategic risk management. Accordingly, ERM made a positive contribution to the rating "strong" for the business risk profile and to the rating "A-/stable" for financial strength. 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 2020 financial year, we intend to continually and rigorously 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: continued promotion of a Group-wide risk culture
- Process and data optimisation: ongoing optimisation of processes and data processing in risk management

On 1 January 2020, Wüstenrot Bausparkasse AG acquired Aachener Bausparkasse AG. This has effects, in particular, on counterparty credit risks, operational risks, interest rate risks and business risks. It did not result in any material changes to the overall risk profile of the W&W Group. Aachener Bausparkasse AG will be included in the risk management system of Wüstenrot Bausparkasse AG.

The scheduled sale of Wüstenrot stavební spořitelna a.s. and Wüstenrot hypoteční banka a.s. to Moneta Money Bank AG in 2020 will change the risk profile, in that we expect, inter alia, counterparty credit risks, business risks (pool risks) and liquidity risks to decrease somewhat.
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 (4) and 315 (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 the combined management report, the condensed interim financial statements and interim management report and the annual financial statements of W&W AG.

In particular, the Executive Board has delegated responsibility for the internal control and risk management system in the W&W Group to the Risk, Compliance & 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.

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 depiction 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, although external alternative investment fund managers 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

The economic outlook for 2020 for the EMU and for Germany has profoundly worsened in the course of the coronavirus pandemic. Companies and consumers are unsettled, and together with the far-reaching governmental measures that are being taken to stem the spread of the virus, public and commercial life has now become substantially restricted. Some industries, such as tourism and aviation, have essentially ground to a halt. As a result, it is already clear today that the German economy will enter a recession in the first half of 2020, meaning at least two quarters with negative growth rates. The further development of the coronavirus pandemic will be decisive for the overall outlook for the year. If efforts are successful in promptly stemming the spread of the virus, as currently seems to be the case in China, where the virus originated, there is a chance that the German economy can recover quickly in the second half of the year. In that case, catch-up effects, fiscal support measures and a renewed easing of monetary policy might even lead to above-average growth rates.

The profoundly dampened economic outlook initially caused interest rates to fall once again on the bond markets. Despite further expansionary steps taken by leading central banks (e.g. the lowering of the benchmark rate in the U.S. by 150 basis points, the expansion by the ECB of credit facilities for business banks), yields on 10-year German bonds briefly fell to a new all-time low of −0.91%. Then, after governments in EMU countries announced extensive, debt-financed fiscal programmes to support economic activity, as well as owing to an increased need for liquidity on the part of investors, sales of bonds began to increase, even for highly secure German government bonds, with interest rates rising once again. If efforts are successful in quickly stemming the pandemic, and if the economy recovers in the second half of the year, a moderate rise in interest rates can be expected, particularly in the case of longer maturities. However, the extent of the rise in interest rates will be very limited, since monetary policy will retain its extremely expansive orientation for the foreseeable future in order to fend off resurgent risks to the economy.

In response to the coronavirus pandemic and its economic consequences, international equity markets collapsed after having posted new all-time highs in early March, such as by the DAX and the S&P 500. The further outlook for the equity markets is extremely uncertain. At the moment, it is very difficult to gauge whether the current collapse in prices sufficiently reflects the expected declines in corporate profits and revenues. At a minimum, it has to be expected that prices on the equity markets will fluctuate highly in the coming weeks. The outlook for the further course of the year depends on the forecasts about how the coronavirus pandemic will develop. If the spread of the virus is quickly stemmed, resulting in a strong economic recovery, prices would most likely rise sharply on the equity markets. This trend would additionally be supported through an even more expansive environment in terms of monetary policy.

Industry outlook

At the start of 2020, experts judged the fundamental conditions for residential housing construction and construction financing business to be favourable. However, it can now be expected that potential buyers and renovators will adopt a more conservative stance as a consequence of the coronavirus crisis, and that the volume of construction financing will decline as a result of it.

In 2020 persistently 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 2020 in new regular premium business, as well as in new single-premium business. In all, premium income is expected to rise somewhat. But because of the coronavirus crisis, there is considerable uncertainty with respect to the estimation of customer behaviour and new business development, which can also have a corresponding impact on trends in premium revenues.

We expect that the anticipated substantial strain on the economy and continued high price competition will dampen premium growth in property and casualty insurance. By contrast, the demand for insurance by households could have a supportive effect. Prior to the outbreak of the coronavirus crisis, the GDV had expected that premium income would rise by a total of 2.5%.

Company forecasts

In view of the currently acute turmoil on the capital markets, as well as the further consequences of the coronavirus crisis, which cannot yet be estimated, it is not possible to make reliable forecasts at this time. Should the coronavirus crisis last considerably longer, a decline in both new business and results can be expected, rather than the following forecasts.

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 planned future performance of the Group in the overall outlook.

Housing segment

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 plan that net new home loan and savings business in 2020 will be moderately higher than the level in 2019. In terms of new construction financing business (approvals), we are likewise planning for a moderate increase in 2020.

The transfer of control of Aachener Bausparkasse AG took place at the start of 2020. Therefore, it will be reported in this segment with immediate effect. In this regard, we plan to merge Aachener Bausparkasse AG into Wüstenrot Bausparkasse AG in the first half of 2020. We anticipate that general administrative expenses for the 2020 financial year will remain at the level of the year under review.

We plan that segment net income after taxes will clearly exceed the level of the year under review. Developments will be decisively shaped by the transfer of control of Aachener Bausparkasse AG.

Life and Health Insurance segment

In light of persistently low interest rates, we will be focussing on the sale of products that are largely independent of interest rates. In this regard, we will be seeking to emphasise company pension schemes, in particular. In 2020 we intend to slightly increase total premium from new business in the Life and Health Insurance segment.

For 2020 we plan that general administrative expenses will remain at the level of the year under review and that segment net income after taxes will come in between €15 million and €45 million. In this regard, persistently low interest rates and the high volatility in results associated with IFRS accounting will constitute substantial challenges.

Property/Casualty Insurance segment

In Property and Casualty insurance, we will continue to strive for sales of insurance policies to retail and corporate customers. In 2020 we plan that new business (annual contributions to the portfolio) will come in at the level of the year under review.

We anticipate that on account of the growth course that we are continuing to plan, among other things, general administrative expenses will be slightly higher than the level of the year under review.

Segment net income after taxes in 2019 was again characterised by very positive claims development and trends on the capital markets. For 2020 we plan them to normalise, meaning that segment net income will be slightly lower than the high level of the year under review.

Overall outlook of the W&W Group

The "W&W Besser!" initiative will be continued in 2020. We will continue to rigorously ensure that products, services and processes are aligned with customer benefits throughout the entire W&W Group.

With that in mind, we are striving to service at least six million customers in the W&W Group going forward.

We will also continue the digital transformation in 2020. These investments will continue to have an impact on general administrative expenses. Nevertheless, as a result also of our rigorous cost management, we expect that general administrative expenses will come in at the level of the year under review. In addition, we expect that the sale of the two Czech subsidiaries (Wüstenrot stavební spořitelna a.s. and Wüstenrot hypoteční banka a.s.) will close in the first half of 2020.

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".

In principal, the W&W Groups adheres to its medium and long-term target range of €220 to €250 million. Facing the present distortions on the capital markets and the consequences of the Corona crisis, which are yet not foreseeable, a sound forecast, at the moment, is not possible. Should the Corona crisis persist for a longer period, a decline in net income 2020 is to be expected.

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 2020 we will have sufficient liquidity available at all times. For further information about the liquidity position, please see the section "Liquidity risks" in the opportunity and risk report.

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, increased regulatory or statutory requirements or the further development of the coronavirus pandemic. 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 net income of W&W AG after taxes is determined by the dividends and profit transfers from subsidiaries and investments.

For 2020 wie expect an net income on the level of 2019. Having a positive effect here is, in particular, the sale for the two Czech subsidiaries. Facing the present distortions on the capital markets and the consequences of the Corona crisis, which are yet not foreseeable, a sound forecast, at the moment, is not possible. Should the Corona crisis persist for a longer period, a decline in net income 2020 is to be expected.

Opportunities and risks for W&W AG will result in particular from the earnings performance of subsidiaries and participations, 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. Furthermore, risks may arise from the further development of the coronavirus pandemic.

Proviso concerning forward-looking statements

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

These forward-looking statements constitute estimates that were made on the basis of 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 2019, 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 532 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 53,886 treasury shares. Pursuant to Section 71b AktG, Wüstenrot & Württembergische AG is not entitled to any rights in connection with treasury shares. A total of 218,894 employee shares are subject to a restriction on sale. Of these, 74,015 employee shares may not be sold until April/May 2020, 72,039 employee shares until April/May 2021 and 72,840 employee shares until April/May 2022. 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 derogation 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 0.06% 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 have 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 of the German Stock Corporation Act (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 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 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.

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) in the version of 7 February 2017 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 2019 target agreements consisted of short-, medium- and long-term targets geared toward indicators like consolidated net income, general administrative expenses, Group customers, employee satisfaction 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 claimed 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.

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 pension for the other Executive Board members takes the form of a defined-contribution pension plan. 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 Jürgen A. 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. This applies on the condition that a member of the Executive Board does not leave the company at his or her 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 Chair and the Deputy Chair, 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 Chair 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 affiliates of Wüstenrot Holding AG constitute a financial conglomerate. In this regard, W&W AG was defined as the superordinate financial conglomerate undertaking. 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 (until 31 May 2019) 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 undertaking 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 July 2019, the Executive Board of W&W AG has been composed of four members.

Members of the Executive Board

Jürgen Albert Junker (Chairman)
Dr. Michael Gutjahr
Jürgen Steffan (since 1 July 2019)
Jens Wieland

In view of the special features of the Housing, Insurance and brandpool divisions, as well as the common Group perspective, it is necessary for members of the Executive Board of W&W AG to have demonstrated experience, professional knowledge and expertise in the areas of insurance, banking and home loan and savings banking, as well as extensive management experience. All Executive Board members satisfy these criteria. This ensures that Executive Board members will meet the comprehensive 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.

As part of the diversity concept that it has established for the Executive Board, the Supervisory Board strives to achieve sufficient diversity on the Executive Board in terms of gender, age, professional background, expertise and experience. In this regard, the Supervisory Board has resolved to have women make up at least 15% of the Executive Board and set a target deadline of 30 June 2022 for doing so. As a result, the Supervisory Board is seeking to place at least one woman on the Executive Board. 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. No current Executive Board member is older than age 65. The members of the Executive Board should complement one another in terms of their background and professional experience and expertise, such that proper company guidance is assured. This is reviewed and documented once a year by the Nomination Committee and the Supervisory Board.

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.

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 Housing, Insurance and brandpool divisions. 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 division boards – i.e. the Housing division board and the Insurance division board – 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
Dr Reiner Hagemann (financial expert)
Corinna Linner
Marika Lulay
Hans-Ulrich Schulz
Jutta Stöcker
Employee representatives
Frank Weber (Deputy Chair)
Petra Aichholz (as of the Annual General Meeting on 5 June 2019)
Ute Hobinka
Jochen Höpken
Gudrun Lacher (until end of the Annual General Meeting on 5 June 2019)
Bernd Mader
Andreas Rothbauer
Christoph Seeger
Susanne Ulshöfer (until end of the Annual General Meeting on 5 June 2019)
Gerold Zimmermann (until end of the Annual General Meeting on 5 June 2019)

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 2019 financial year, the Supervisory Board held four ordinary meetings (of which one meeting was held in expanded form as a strategy session) and one constitutive meeting. The filling of the positions on all committees was undertaken as part of a constitutive meeting of the Supervisory Board following the Annual General Meeting on 5 June 2019.

The Supervisory Board strives for a composition that ensures that the Executive Board will receive qualified supervision and advice. Therefore, special requirements are placed on Supervisory Board members with respect to their qualification, aptitude and independence. These aims take into account the statutory requirements concerning the composition of the Supervisory Board and the corresponding recommendations of the German Corporate Governance Code. In addition to these personal requirements for each individual Supervisory Board member, an expertise profile and a diversity concept are in place for the body as a whole.

In view of the Housing, Insurance and brandpool 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, particularly in the areas of insurance, banking and home loan and savings banking, as well as their individual abilities. Other criteria for Supervisory Board nominees who are proposed to the Annual General Meeting include whether the candidates are independent and have sufficient time to carry out their duties.

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 are the national insurance and home loan savings sectors. 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.

In accordance with the expertise profile for the Supervisory Board, it is necessary for the body as a whole to have an appropriate representation of knowledge and experience in the following areas: insurance industry, banking/home loan savings industry, supervisory law/regulatory requirements relating to banks and insurance companies, strategy, corporate planning/control, accounting, risk management, risk-bearing capacity, controlling and performance indicators, capital investment, IT/digitalisation and corporate governance/management.

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.

As part of the diversity concept, the Supervisory Board strives to achieve sufficient diversity in terms of gender, age, professional background, expertise and experience in the interest of achieving collaboration that is complementary. The company is required by law to have women make up at least 30% of the Supervisory Board. It currently is composed of nine men and seven women. Accordingly, women make up 44% of the Supervisory Board. The shareholder representatives consist of four women and four men, meaning that full gender parity is achieved in this case. Pursuant to Section 2 (2) of the bylaws for the Supervisory Board, members of the Supervisory should not be older than age 70 at the time of their election. The Annual General Meeting re-elected Dr Reiner Hagemann, 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 members of the Supervisory Board should complement one another in terms of their background and professional experience and expertise, such that the body can draw on a well of experience that is as deep as possible and on a wide variety of specialised expertise. This is reviewed and documented once a year by the Nomination Committee and the Supervisory Board.

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 2018, the Supervisory Board concerned itself in detail with the results of the review in early 2019. 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 2019 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 dealing 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 2019 financial year, as well as once by teleconference. The committee also adopted by way of written circulation one resolution concerning the approval of so-called “non-audit services” by the auditor.

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 (until 26 September 2019)
Prof. Dr. Nadine Gatzert (as of 5 June 2019)
Dr Reiner Hagemann (financial expert)
Ute Hobinka
Bernd Mader
Andreas Rothbauer
Hans Dietmar Sauer (until end of the Annual General Meeting on 5 June 2019)
Jutta Stöcker (as of 26 September 2019)
Susanne Ulshöfer (as of 5 June 2019)
Gerold Zimmermann (until end of the Annual General Meeting on 5 June 2019)

Nomination Committee

The Nomination Committee meets at least once each calendar year, as well as when necessary. The committee met one time during the 2019 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 assists 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 assistance 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 each of the bodies as a whole; 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)
Peter Buschbeck (as of 26 September 2019)
Dr. Reiner Hagemann
Jochen Höpken
Christoph Seeger (as of 5 June 2019)
Jutta Stöcker (as of 26 September 2019)
Frank Weber
Gerold Zimmermann (until end of the Annual General Meeting on 5 June 2019)

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 2019 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 assists 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; and

- assists 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 resources.

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 2019 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)
Ute Hobinka (as of 5 June 2019)
Gudrun Lacher (until end of the Annual General Meeting on 5 June 2019)
Marika Lulay
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 2019

Since the submission of the last statement of compliance on 5 December 2018, which was updated in March 2019, 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. 3 of the Code, 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 departs 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 personal 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 of the Code, 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. Section 25d (11) of the German Banking Act (KWG) assigns further responsibilities to the company's Nomination Committee. These are to be handled not solely by shareholder representatives on the Supervisory Board. Therefore, in departure from the recommendation in No. 5.3.3 of the Code, the Nomination Committee also includes employee representatives. However, it is assured that the candidates that the Nomination Committee proposes to the Supervisory Board for its nominations to the Annual General Meeting are determined only by the shareholder representatives on the committee.

- According to No. 5.4.1 para. 2 of the Code, the Supervisory Board is to specify a regular limit to the length of service of Supervisory Board members with regard to its composition. Wüstenrot & Württembergische AG departs 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. 5.4.1 para. 4 sentence 1 of the Code, the Supervisory Board is to take into account the targets it has set for its composition when proposing its nominations to the Annual General Meeting. One of the targets that the Supervisory Board has set for its composition is that its members should not have reached the age of 70 at the time of their election. In departure from this target, the Supervisory Board resolved on 22 March 2019 to propose to the Annual General Meeting held on 5 June 2019, inter alia, that Hans Dietmar Sauer, Hans-Ulrich Schulz and Dr Reiner Hagemann, all of whom are over the age of 70, be reelected to the Supervisory Board. The corresponding proposal was submitted to the shareholders in the notice of the Annual General Meeting. In this regard, the Supervisory Board was of the opinion that it is in the company’s interest that it retain the demonstrated expertise of Mr Sauer, Mr Schulz and Dr Hagemann as well as their extensive knowledge of the company. In the view of the Supervisory Board, this aspect was more important for the company than complying with the age limit it has set.

- Since, in departure from No. 5.4.1 para. 2 of the Code, the Supervisory Board has not specified a limit to the length of service of its members, the nominations that it submitted to the Annual General Meeting held on 5 June 2019 did not, in departure from No. 5.4.1 para. 4 of the Code, take into account such a regular limit.

- According to No. 7.1.2 sentence 2 of the Code, the Executive Board is to discuss interim financial information with the Supervisory Board or the Risk and Audit Committee before being published. Discussion of the consolidated financial statements and the Group Management Report (including the CSR report), as well as the annual financial statements and the half-year financial statements, are a fixed part of the agenda for meetings of the Supervisory Board or the Risk and Audit Committee. In addition, the Supervisory Board, particularly its Chair, 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 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. 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 and employees in the internal 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 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 2019.

Consolidated Financial Statements of W&W Group (IFRS)
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Assets

in € thousands	cf. Note no.[1]	31.12.2019	31.12.2018
Cash reserves	1	**35,758**	**83,898**
Non-current assets classified as held for sale and discontinued operations	2	**2,636,760**	**1,236,580**
Financial assets at fair value through profit or loss	3	**8,299,631**	**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	**36,808,770**	**32,044,702**
thereof sold under repurchase agreements or lent under securities lending transactions		1,029,181	–
Financial assets at amortised cost	5	**23,984,047**	**28,102,415**
Subordinated securities and receivables		163,978	133,380
Senior debenture bonds and registered bonds		30,898	1,084,841[2]
Senior fixed-income securities		–	1,054,900
Construction loans		21,493,189	23,002,519[2]
Other loans and receivables		2,220,544	2,727,380
Portfolio hedge adjustment	3	75,438	99,395
Positive market values from hedges	4	**88,994**	**61,686**
Financial assets accounted for using the equity method		**100,100**	**93,016**
Investment property[3]	5	**1,855,224**	**1,827,055**
Reinsurers' portion of technical provisions		**276,064**	**297,212**
Other assets		**1,658,161**	**1,513,938**
Intangible assets		99,939	99,701
Property, plant and equipment[3]		397,777	287,461
Inventories		152,828	190,254
Current tax assets	6	34,398	37,372
Deferred tax assets	7	931,591	825,619
Other assets	8	41,628	73,531
Total assets	9	**75,743,509**	**72,039,241**

1 See numbered notes to the consolidated financial statements starting on page 149.
2 Change in recognition compared with the previous year. See the chapter "Changes in the presentation of the financial statements" starting on page 102.
3 From the 2019 financial year, IFRS 16 is being applied to leases in this balance sheet item. In the 2018 financial year, IAS 17 was applied.

Liabilities

in € thousands	cf. Note no.	31.12.2019	31.12.2018
Liabilities under non-current assets classified as held for sale and discontinued operations	2	**2,427,916**	**952,652**
Financial liabilities at fair value through profit or loss	16	**80,287**	**455,318**
Liabilities	17	**26,320,204**	**27,585,077**
Liabilities evidenced by certificates		947,565	1,286,568
Liabilities to credit institutions		2,232,992	1,454,518
Liabilities to customers		21,641,444	23,580,660
Lease liabilities[1]		77,268	20,133
Miscellaneous liabilities		1,373,138	1,243,198
Portfolio hedge adjustment		47,797	–
Negative market values from hedges	18	**216,195**	**126,449**
Technical provisions	19	**37,429,141**	**34,728,212**
Other provisions	20	**2,955,370**	**2,653,801**
Other liabilities		**1,054,464**	**865,925**
Current tax liabilities	21	144,347	262,460
Deferred tax liabilities	22	904,323	570,313
Other liabilities	23	5,794	33,152
Subordinated capital	24	**424,850**	**435,476**
Equity	25	**4,835,082**	**4,236,331**
Interests of W&W shareholders in paid-in capital		1,486,514	1,485,595
Interests of W&W shareholders in earned capital		3,313,465	2,725,867
Retained earnings		3,026,543	2,855,048
Other reserves (other comprehensive income)		286,922	– 129,181
Non-controlling interests in equity		35,103	24,869
Total liabilities		**75,743,509**	**72,039,241**

1 Name has been changed (formerly “Finance lease liabilities”). From the 2019 financial year, IFRS 16 is being applied. In the 2018 financial year, IAS 17 was applied.

Further information that concerns several balance sheet items has been summarised under

- “Notes concerning financial instruments and fair value” (Notes 38 to 43),
- “Disclosures concerning risks under financial instruments and insurance contracts” (Notes 44 to 48) and
- “Other disclosures” (Notes 52 et seq.)

Consolidated income statement

in € thousands	cf. Note no.	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Current net income	26	**1,153,281**	**1,251,718**
Net interest income		868,638	1,001,930
Interest income		1,484,011	1,584,405
Thereof calculated using the effective interest method		1,350,688	1,453,680
Interest expenses		−615,373	−582,475
Dividend income		215,134	192,044
Other current net income		69,509	57,744
Net income/expense from risk provision	27	**−4,035**	**−2,672**
Income from risk provision		86,310	91,995
Expenses from risk provision		−90,345	−94,667
Net measurement gain/loss	28	**612,530**	**−553,225**
Measurement gains		2,337,276	915,388
Measurement losses		−1,724,746	−1,468,613
Net income from disposals	29	**591,708**	**637,535**
Income from disposals		630,945	737,631
Expenses from disposals		−39,237	−100,096
Thereof gains/losses from the disposal of financial assets at amortised cost	43	200	−11
Net financial result		**2,353,484**	**1,333,356**
Thereof net income/expense from financial assets accounted for using the equity method		11,335	3,269
Earned premiums (net)	30	**4,249,169**	**4,000,064**
Earned premiums (gross)		4,385,203	4,120,912
Premiums ceded to reinsurers		−136,034	−120,848
Insurance benefits (net)	31	**−4,650,478**	**−3,553,735**
Insurance benefits (gross)		−4,716,476	−3,625,179
Received reinsurance premiums		65,998	71,444
Net commission expense	32	**−490,195**	**−428,606**
Commission income		256,769	275,444
Commission expenses		−746,964	−704,050
Subtotal		**1,461,980**	**1,351,079**

in € thousands	cf. Note no.	1.1.2019 bis 31.12.2019	1.1.2018 bis 31.12.2018
Subtotal		**1,461,980**	**1,351,079**
General administrative expenses	33	**–1,080,451**	**–1,073,073**
Personnel expenses		–613,552	–588,962
Materials costs[1]		–381,550	–422,892
Depreciation/amortisation		–85,349	–61,219
Net other operating income	34	**–28,520**	**42,484**
Other operating income		204,471	178,390
Other operating expenses		–232,991	–135,906
Consolidated earnings before income taxes from continued operations		**353,009**	**320,490**
Thereof net income/expense[2]		6,481,478	6,302,737
Income taxes	35	–103,950	–105,301
Consolidated net profit		**249,059**	**215,189**
Result attributable to shareholders of W&W AG		248,076	214,208
Result attributable to non-controlling interests		983	981
Basic (= diluted) earnings per share, in €	36	**2.65**	**2.29**
Thereof from continued operations, in €		2.65	2.29

1 The elimination of Wüstenrot Bank AG Pfandbriefbank from the scope of consolidation in 2019 resulted in substantial changes to individual items compared with the previous year. See Note 2 “Non-current assets held for sale and discontinued operations”.
2 Interest, dividend, commission and rental income, as well as income from property development business and gross premiums written.

Consolidated statement of comprehensive income

in € thousands	cf. Note no.	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Consolidated net profit		**249,059**	**215,189**
Other comprehensive income			
Elements not reclassified to the consolidated income statement:			
Actuarial gains/losses (–) from defined-benefit plans (gross)	20	–265,918	28,110
Provision for deferred premium refunds		15,045	–5,469
Deferred taxes		76,711	–6,923
Actuarial gains/losses (–) from defined-benefit plans (net)		**–174,162**	**15,718**
Elements subsequently reclassified to the consolidated income statement:			
Unrealised gains/losses (–) from financial assets available for sale (gross)	37	2,502,025	–1,034,778
		304,918	—
Provision for deferred premium refunds		–1,665,736	648,120
Deferred taxes		–255,709	109,373
Unrealised gains/losses (–) from financial assets available for sale (net, IFRS 9)		**580,580**	**–277,285**
Unrealised gains/losses (–) from financial assets accounted for using the equity method (gross)	7, 37	42	–161
Provision for deferred premium refunds		—	—
Deferred taxes		–1	2
Unrealised gains/losses (–) from financial assets accounted for using the equity method (net)		**41**	**–159**

in € thousands	cf. Note no.	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Unrealised gains/losses (–) from cash flow hedges (gross)	37	153	1,402
Provision for deferred premium refunds		—	—
Deferred taxes		–47	–429
Unrealised gains/losses (–) from cash flow hedges (net)		**106**	**973**
Currency translation differences of economically independent foreign units		**2,819**	**–1,652**
Total other comprehensive income, gross		2,239,121	–1,007,079
Total provision for deferred premium refunds		–1,650,691	642,651
Total deferred taxes		–179,046	102,023
Total other comprehensive income, net		**409,384**	**–262,405**
Total comprehensive income for the period		**658,443**	**–47,216**
Attributable to shareholders of W&W AG		648,209	–44,966
Attributable to non-controlling interests		10,234	–2,250

Consolidated statement of changes in equity

		Interests of W&W shareholders in paid-in capital	
		Share capital	Capital reserve
in € thousands	cf. Note no.		
Equity as at 1 January 2017		**489,271**	**995,374**
Effect from the initial application of IFRS 9		–	–
Effect from the initial application of IFRS 15		–	–
Equity as at 1.1.2018		**489,271**	**995,374**
Total comprehensive income for the period			
Consolidated net profit		–	–
Other comprehensive income		–	–
Total comprehensive income for the period		–	–
Dividends to shareholders	25	–	–
Treasury shares		377	573
Changes in ownership interests without loss of control		–	–
Equity as at 31 December 2018		**489,648**	**995,947**
Equity as at 31 December 2019		**489,648**	**995,947**
Changes to the scope of consolidation		–	–
Total comprehensive income for the period			
Consolidated net profit		–	–
Other comprehensive income		–	–
Total comprehensive income for the period		**–**	**–**
Dividends to shareholders	25	–	–
Treasury shares		381	538
Other		–	–
Equity as at 31 December 2019		**490,029**	**996,485**

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			
2,544,484	**–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**
2,855,048	**–558,568**	**413,314**	**41**	**–153**	**16,185**	**4,211,462**	**24,869**	**4,236,331**
–15,970	15,970	–	–	–	–	–	–	–
248,076	–	–	–	–	–	248,076	983	249,059
–	–174,077	571,245	41	106	2,818	400,133	9,251	409,384
248,076	–174,077	571,245	41	106	2,818	648,209	10,234	658,443
–60,902	–	–	–	–	–	–60,902	–	–60,902
364	–	–	–	–	–	1,283	–	1,283
–73	–	–	–	–	–	–73	–	–73
3,026,543	**–716,675**	**984,559**	**82**	**–47**	**19,003**	**4,799,979**	**35,103**	**4,835,082**

Consolidated cash flow statement

in € thousands	cf. Note no.	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Consolidated net profit		**249,059**	**215,189**
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	−11,361	−3,283
Amortisation, depreciation, impairment losses (+)/reversals of impairment losses (−) on intangible assets and property, plant and equipment	33	85,349	61,219
Amortisation, depreciation, impairment losses (+)/reversals of impairment losses (−) on financial assets	27, 28	63,054	58,738
Increase (+)/decrease (−) in technical provisions	19	1,047,394	96,839
Increase (+)/decrease (−) in other provisions	20	153,490	27,149
Changes in deferred tax assets and liabilities	35	27,163	44,319
Net gain (−)/loss (+) from the sale of intangible assets and property, plant and equipment	34	−281	−8,229
Net gain (−)/loss (+) from the sale of financial investments (not including participations)	29	−610,138	−639,745
Other non-cash expenses (+)/income (−)	26-29	−134,209	619,725
Other adjustments		−11,527	−171,310
Subtotal		**857,993**	**300,611**
Change in assets and liabilities from operating activities			
Increase (−)/decrease (+) in building loans	5	−815,636	166,626
Increase (−)/decrease (+) in other assets	5, 6, 9, 12, 13, 15	1,053,556	63,198
Increase (−)/decrease (+) in financial assets with positive or negative market values	3, 16	−95,752	−15,459
Increase (−)/decrease (+) in liabilities evidenced by certificates	17	−339,003	367,630
Increase (−)/decrease (+) in liabilities to credit institutions	17	867,573	−1,280,615
Increase (−)/decrease (+) in liabilities from reinsurance business	17	4,748	−9,416
Increase (−)/decrease (+) in liabilities to customers	17	−1,036,100	−242,017
Increase (−)/decrease (+) in other liabilities	17, 18, 20, 21, 23	563,150	−74,104
Subtotal		**202,536**	**−1,024,157**
I. Cash flow from operating activities		**1,060,529**	**−723,546**

in € thousands	cf. Note no.	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Cash receipts from the disposal of intangible assets and property, plant and equipment	10, 11	1,191	12,513
Cash payments for investments in intangible assets and property, plant and equipment	10, 11	–135,500	–62,804
Cash receipts from the disposal of financial assets	3, 4, 5, 8	11,504,614	14,049,783
Cash payments for investments in financial assets	3, 4, 5, 8	–12,696,462	–13,138,451
Cash receipts from the loss of control over subsidiaries and other business units	7, 26	9,812	—
Cash payments for investments in financial assets accounted for using the equity method	7	–1,133	–256
II. Cash flow from investing activities		**–1,317,478**	**860,785**
Dividend payments to shareholders	25	–60,902	–60,855
Transactions between shareholders		919	274
Change in funds resulting from subordinated capital	24	–10,000	–15,003
Interest payments on subordinated capital	26	–21,106	–20,728
Cash payments towards finance lease liabilities	17	–18,784	–3,818
III. Cash flow from financing activities		**–109,873**	**–100,130**
Cash and cash equivalents as at 1 January		**1,437,128**	**1,391,890**
Net change in cash and cash equivalents (I.+II.+III.)		–366,822	37,109
Change in cash and cash equivalents attributable to the effects of exchange rates and the scope of consolidation		–16,359	8,129
Cash and cash equivalents as at 31 December		**1,053,947**	**1,437,128**
Components of cash and cash equivalents			
Cash reserves	1	35,758	83,898
Cash available for sale	2	26,203	201,362
Balances with credit institutions payable on demand	5	991,986	1,151,868
Cash and cash equivalents at the end of the financial year		**1,053,947**	**1,437,128**

In the 2019 financial year, cash flow from interest received amounted to €1,010.6 million (previous year: €1,243.6 million), cash flow from interest paid amounted to –€240.9 million (previous year: –€244.6 million), cash flow from dividends received amounted to €228.6 million (previous year: €217.7 million) and cash flow from income taxes paid/received amounted to –€179.1 million (previous year: –€62.0 million). These amounts are included in cash flow from operating activities.

The W&W Group can freely dispose of its cash and cash equivalents.

Reconciliation of debt instruments to cashflows from financing activities

	Subordinated capital		Lease liabilities[1]	
in € thousands	2019	2018	2019	2018
			IFRS 16	IAS 17
As at 1 January.	**435,476**	**450,976**	**20,133**	**23,951**
Additional lease liabilities from the initial application of IFRS 16 as at 1 January 2019	–	–	73,366	–
As at 1 January, after adjustment	435,476	450,976	93,499	23,951
Coupons	-21,106	-20,728	–	–
Issue/redemption	-10,000	-15,003	-18,784	-3,818
Net change with an effect on cash	**-31,106**	**-35,731**	**-18,784**	**-3,818**
Classified as held for sale	–	–	-3,233	–
Addition of lease liabilities	–	–	4,233	–
Change in accrued interest	20,447	20,576	–	–
Amortisation	33	-345	1,553	–
Net change with no effect on cash	**20,480**	**20,231**	**2,553**	**–**
As at 31 December	**424,850**	**435,476**	**77,268**	**20,133**

1 Name has been changed (formerly "Finance lease liabilities"). IFRS 16 was applied in the 2019 financial year. IFRS 17 had been applied in the 2018 financial year.

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 19 March 2020. They were presented to the Supervisory Board for approval on 25 March 2020.

The consolidated financial statements will be presented to the shareholders at the Annual General Meeting (exact date is to be announced).

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 combined management report was prepared in accordance with the German rules of commercial law.

In conformity with IFRS 4 "Insurance Contracts", insurance-specific business transactions for which IFRSs 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 (€) on the basis of the going concern principle. Where figures are provided in millions of euros or thousands of euros, totalled amounts may have rounding differences due to commercial rounding rules, since the calculations for the individual items are based on whole numbers.

Comparative information

Unless indicated otherwise, comparative information about items in the consolidated income statement relates to the period 1 January 2018 to 31 December 2018, whereas comparative information about items in the consolidated balance sheet relates to 31 December 2018.

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 2018:

- IFRS 16 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 with initial application for financial years starting on or after 1 January 2019,
- Annual Improvements to IFRS Standards 2015-2017 Cycle (IFRS 3, IFRS 11, IAS 12, IAS 23) with initial application for financial years starting on or after 1 January 2019 and
- IFRS 23 with initial application for financial years starting on or after 1 January 2019.

The initial application of IFRS 16 had no material effects on the presentation of the net assets, financial position and financial performance of the W&W Group as at the time of initial application. The other described changes likewise had no material effects on the presentation of the net assets, financial position and financial performance of the W&W Group.

IFRS 16 "Leases"
In general
On 13 January 2016, the IASB issued IFRS 16 “Leases”, which replaces IAS 17. IFRS 16 was adopted into EU law on 9 November 2017. The W&W Group began applying IFRS 16 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.

We applied the modified retrospective method on the date of initial application, meaning that we did not adjust the information for 2018 under IAS 17. Initial application did not have any effect on retained earnings.

W&W Group as lessee
As lessee, the W&W Group is affected, in particular, in connection with the leasing of properties and vehicles. Most of these leases were previously recognised as operating leases, and only lease expenses were included in general administrative expenses. As a result of the new standard, assets and liabilities for these leases are being recognised in the consolidated balance sheet for the first time, as can be seen in the following tables. With regard to the consolidated income statement lease expenses in the 2018 financial year were recognised in general administrative expenses under the sub-item “Materials costs”. Now, from the 2019 financial year, depreciation/amortisation will be recognised in general administrative expenses under the sub-item “Depreciation/amortisation”, and interest expense for lease liabilities will be recognised under current net income under the sub-item “Interest expenses”. Leases previously depicted as finance leases under IAS 17 will be accounted for the same way under IFRS 16. 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 in the course of initial application of IFRS 16:

- 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 Group 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 (€6 thousand) are, as in the past, recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.
- We have adopted the practical expedient that we will not reassess whether a contract is, or contains, a lease as at the date of initial application.
- Furthermore, for the purposes of measuring the right-of-use asset for leases that were previously classified as operating leases under IAS 17, we elected to apply an amount equal to the future lease liability.
- We opted to dispense with impairment testing and instead assessed immediately prior to initial application whether the leases are onerous.
- We excluded the initial direct costs from the measurement of the right-of-use asset at the time of initial application.

In connection with the initial application of IFRS 16, we exercised the following material discretionary judgments:

- 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 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.

As at the date of initial application on 1 January 2019, the W&W Group as lessee recognised the following right-of-use assets and created the following lease liabilities in the balance sheet. This did not result in any differences between assets and liabilities, i.e. there was no conversion effect with respect to equity.

Reconciliation of net balances from IAS 17 to IFRS 16

in € thousands	
Minimum lease payments for operating leases as at 31 December 2018	125,495[1]
Minimum lease payments (nominal value) for finance lease liabilities as at 31 December 2018	21,266
Practical expedient for short-term leases	-120
Non-exercise of the option to apply IFRS 16 to leases of intangible assets (software leases under IAS 17)	-40,945
Gross lease liabilities as at 1 January 2019	**105,696**
Discounting	-12,197
Lease liabilities as at 1 January 2019	**93,499**
Present value of finance lease liabilities as at 31 December 2018 (IAS 17)	20,133
Additional lease liabilities from the initial application of IFRS 16 as at 1 January 2019	**73,366**

1 Prior-year figure adjusted.

The W&W Group applied its incremental borrowing rate as at 1 January 2019 for the measurement of lease liabilities. The weighted average value of the incremental borrowing rate amounted to 2.07%.

The W&W Group recognises its right-of-use assets under the same balance sheet item as for the assets that is actually owns. Right-of-use assets that meet the definition of investment property are recognised there. The carrying amounts of right-of-use assets are as follows:

Carrying amounts of right-of-use assets

in € thousands	31.12.2019	1.1.2019
Right-of-use assets – Investment property	**10,418**	**9,408**
Right-of-use assets – Property, plant and equipment	**65,231**	**82,967**
Right-of-use assets – Property for own use	60,997	76,779
Right-of-use assets – Motor vehicles	2,547	3,436
Right-of-use assets – IT hardware	**1,687**	2,752
Total	75,649	92,375
Present value of right-of-use assets under finance leases as at 31 December 2018 (IAS 17)		–19,009
Additional right-of-use assets from the initial application of IFRS 16		**73,366**

W&W Group as lessor

The W&W Group leases out its investment property. These leases were classified at operating leases under IAS 17 and continue to be classified that way under IFRS 16. The accounting policies to be applied under IFRS 16 as lessor are essentially the same as those under IAS 17.

The initial application of IFRS 16 did not result in any material adjustments to the accounting policies as lessor.

Changes in the presentation of the financial statements

Portfolio hedge adjustments

The periodic review of the proper presentation of the consolidated financial statements resulted in a modification of the portfolio hedge adjustments. In the year under review, the portfolio hedge adjustments were recognised on a higher level in a separate item. On the assets side, the portfolio hedge adjustment is now recognised in a separate pooled item under "Financial assets at amortised cost", rather than, as before, under the respective IFRS 7 class. On the liabilities side, the portfolio hedge adjustment is likewise pooled and recognised as its own item under "Liabilities". As at 31 December 2018, no amount was recognised in the portfolio hedge adjustment item on the liabilities side. The following table shows the changes in the portfolio hedge adjustment on the assets side.

The voluntary change in the presentation and allocation of the items on a higher level serves the purpose of improving transparency and clarity, as well as making it possible to find the relevant information more quickly. In addition, it is customary on the market to recognise them as separate, pooled items.

The modification of the way the portfolio hedge adjustments are recognised had no effect on the consolidated balance sheet total or on the consolidated income statement. The adjustments made to the prior-year figures in the consolidated balance sheet can be found in the following table:

Adjustments to the consolidated balance sheet – assets as at 31 December 2018

in € thousands	Carrying amount prior to the adjustment 31.12.2018	Reclassifications	Carrying amount after to the adjustment 1.1.2019
Financial assets at amortised cost	**28,102,415**	**–**	**28,102,415**
Subordinated securities and receivables	133,380	–	133,380
Senior debenture bonds and registered bonds	1,087,957	-3,116	1,084,841
Thereof portfolio hedge adjustment	3,116	-3,116	–
Senior fixed-income securities	1,054,900	–	1,054,900
Construction loans	23,098,798	-96,279	23,002,519
Thereof portfolio hedge adjustment	96,279	-96,279	–
Other loans and receivables	2,727,380	–	2,727,380
Portfolio hedge adjustment	–	99,395	99,395
Total assets	**72,039,241**	**–**	**72,039,241**

Group income statement

In order to better emphasise the relevance of the insurance area, the breakdown of the individual items in the income statement has been restructured. In future, "Earned premiums (net)" and "Insurance benefits (net)" will be presented after "Net financial income/expense", followed by "Net commission income/expense". The new breakdown of the consolidated income statement provides a faster overview of the relevant information. The voluntary change in the presentation had no effect on the consolidated balance sheet or on consolidated net profit for the year. The breakdown of the prior-year figures in the consolidated income statement was adjusted in the same way.

Segment income statement

In segment reporting, income from existing profit and loss transfer agreements will in future no be longer recognised in the segment of the parent company. Therefore, the column "Consolidation/reconciliation" will no longer include the corresponding reconciliation effects. The prior-year figures were adjusted accordingly. As a result of this more transparent presentation, net income for the segment "All other segments" was reduced by €127.7 million for the 2018 reporting year. Similarly, the reconciliation effect in the column "Consolidation/reconciliation" fell by the same amount.

In addition, the breakdown of the segment income statement was adjusted in the same way as the consolidated income statement in order to show "Earned premiums (net)", "Insurance benefits (net)" and "Net commission income/expense" after "Net financial income/expense".

Cash flow statement

Until now the cash flow statement had been presented using gross figures. For the purposes of presenting operating cash flow, the items "Interest received", "Dividends received", "Interest paid" and "Income taxes paid/received" had been shown separately under "Changes in assets and liabilities from operating activities". Since these items were already included in consolidated net profit, they had been offset in "Other adjustments" in the items in the consolidated financial statements that have no effect on cash and reconciled in "Cash flow from operating activities". In future, recognition will take place neither in the individual items under "Changes in assets and liabilities" nor in the item "Other adjustments". Going forward, this information will instead be provided in running text. The voluntary change in the presentation in the cash flow statement had no effect on the consolidated balance sheet or on consolidated net income statement. The prior-year figures in the cash flow statement were adjusted.

Changes in estimates

Provisions
With regard to property development business, the W&W Group is subject to various claims until completion of construction projects, as well as, in addition, to various warranty claims. The economic boom in the construction industry, together with the associated cost increases, made it necessary to adjust the bases for calculating provisions in this area. This resulted in an addition to "Other provisions" in the amount of €6.0 million.

Provision for future policy benefits

For the additional interest reserve and for interest rate reinforcement, the calculated entity-specific capital disbursement probabilities were updated in the financial year. This resulted in higher additions in the mid-eight-figure range.

Shortening of the remaining useful life of L-Areal

As a consequence of the construction of the new W&W campus in Kornwestheim, the remaining useful life was shortened for various buildings in Ludwigsburg that are for own use. The carrying amount of the buildings concerned amounted to nearly €9.8 million at the start of the financial year. They are depreciated on a straight-line basis over their remaining useful life until mid-2023. The shortened useful life will have an annual impact on the consolidated income statement of an additional €1.6 million. The expenses were recognised in "General administrative expenses".

Issued accounting rules whose application is not yet mandatory

IFRS 17 "Insurance Contracts"
Since publication of the new standard IFRS 17 in May 2017, the IASB has grappled intensively with questions and application problems relating to the introduction of the standard. Against this background, an exposure draft was published on 26 June 2019 with change proposals. The period for submitting comments ended on 25 September 2019. The amended standard is expected to be finalised by mid-2020. IFRS 17 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 Group 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.

The new accounting rules of IFRS 17, including the changes contained in the exposure draft, 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.

At this time, W&W Group intends to apply IFRS 17 for the first time on 1 January 2022.

Other changes
In addition, the following changes have been published:

- 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
- Amendments to IAS 1 with initial application for financial years starting on or after 1 January 2022
- Amendments to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform) with initial application for financial years starting on or after 1 January 2020.

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 for the amendments to IFRS 3 and IAS 1.

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 2019.

Subsidiaries

All subsidiaries are 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 "Non-controlling interests in equity”.

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 under the item "Financial assets at fair value through profit or loss" (Note 34) 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 net 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 in the consolidated statement of changes in equity.

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 liabilities 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 liabilities 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 liabilities 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 policies

Financial instruments

Classes

If disclosures are required for individual classes of financial instruments, these are based on the classification depicted in the following.

Each IFRS 7 class in the following table is derived from the combination of balance sheet item (columns) and risk category (rows):

Classes of financial instruments

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 Financial instruments that constitute a class pursuant to IFRS 7 but are not covered by the scope of IFRS 7 and essentially contain receivables/liabilities from insurance business with disclosure requirements pursuant to IFRS 4.
2 Off-balance-sheet business figures are generally provided at nominal value. Provisions are created where necessary.

	Balance sheet items and measurement basis						
	Financial assets at amortised cost	Positive market values from hedges	Reinsurers' portion of technical provisions	Financial liabilities at fair value through profit or loss	Liabilities	Negative market values from hedges	Subordinated capital
	Amortised cost						
	Amortised cost						
		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

Pursuant to IFRS 9, financial assets and financial liabilities, including all derivative financial instruments, are recognised at the time that a company in the W&W Group becomes a party to the financial instrument. 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 at the fair value on the settlement date. This does not include derivative financial instruments that are recognised at fair value at the time of contract conclusion. Interest income and expenses are recognised on an accrual basis. Accrued interest is recognised together with the corresponding balance sheet item. A financial instrument is derecognised once the contractual rights and obligations under it expire, or when it is transferred and the criteria for disposal are met.

The categorisation 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 subsequent 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, and at amortised cost. The categorisation approach is presented 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 both of generating contractual cash flows and of 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.

In the year under review, a reclassification took place in the securities area from the business model "Hold to collect" to the business model "Hold to collect and sell". Further information can be found in notes to the consolidated statement of comprehensive income in Note 37 "Unrealised gains/losses".

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 flows 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 are made of an amount 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. Fees that are not a part of effective interest are recognised under "Net commission income/expense" at the time they are collected. 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 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. 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, registered bonds, bearer bonds and debenture 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 were not yet due, which were determined using Zillmerisation.

Financial assets at amortised cost are tested for impairment as described in the section "Risk provision – financial assets".

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 mainly includes liabilities to customers. Also recognised here are liabilities evidenced by certificates, liabilities to credit institutions, lease liabilities and miscellaneous liabilities.

Liabilities to customers and credit institutions, as well as liabilities evidenced by certificates, 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".

Lease liabilities are measured at the time of initial recognition at the present value of the lease payments not yet made at such time. Thereafter, they are measured at amortised cost, as increased by interest expenses and reduced by the repayment portion of the lease payments that are made.

Miscellaneous liabilities predominantly include liabilities from direct insurance business. These 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. Also recognised under “Miscellaneous liabilities” are liabilities to insurance agents and liabilities from reinsurance business. These liabilities are recognised in their repayment amount.

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/expense".

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. This level classification is to be used for all assets and liabilities that are measured regularly, once or for the purposes of preparing disclosures about fair value. The identical aforementioned standards and principles apply to this.

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). The level utilised in the respective balance sheet items can be found in Note 38.

Unadjusted quoted or market prices are used as Level 1 input factors only for financial instruments in the balance sheet items “Financial assets at fair value through profit or loss” and “Financial liabilities at fair value through profit or loss”.

The measurement methods used for determining fair in 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 items "Financial assets at fair value through profit or loss”, "Financial liabilities at fair value through profit or loss” and "Financial assets at fair value through other comprehensive income”. Moreover, it is used to measure interest rate swaps and non-optional forward transactions (e.g. currency forwards) in Level 2, which are depicted under the 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". Fund units and capital investments for the account and risk of holders of life insurance policies are also mainly allocated to Level 2. The most recently available redemption price for the underlying investment certificate is used for measurement.

Level 3 for the item “Financial assets at fair value through profit or loss” is characterised by non-exchange-traded equities, as well as investments, including alternative investments. Fair value is mainly determined on the basis of the net asset value. If no information is available, amortised cost is used as an approximate value for fair value. Level 3 for items that are not measured at fair value mainly consists of construction loans. These essentially consist of loans under home loan savings contracts from collective business. With this balance sheet item, if fair value cannot be readily determined, the carrying amount is used as an approximate value for measuring fair value. On the other hand, deposits under home loan savings contracts are allocated to the balance sheet item “Liabilities to customers” and likewise measured at amortised cost.

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".

The fair values of the classes of financial instruments derived from the items “Financial assets at amortised cost”, “Liabilities” and “Subordinated capital” and their fair values listed in the notes to the consolidated financial statements 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 in the classes “Cash reserves” and “Other loans and advances”.

Measurement gains and losses are significantly influenced by the underlying assumptions, particularly by the determination of cash flows and discounting factors.

Hedge accounting

In connection with the accounting of economic hedging relationships, changes in the fair value of financial assets and financial liabilities in the Group's Housing division are depicted in dependence on the hedged risk (fair value hedge). For this purpose, the rules in IAS 39 are still applicable, and in the 2019 reporting year, portfolio fair value hedge accounting was introduced for risks associated with changes in interest rates.

The procedures applied and approaches established in connection with portfolio fair value hedges are consistent with the processes and objectives of the company's risk management, specifically internal interest rate risk management. The application of portfolio fair value hedge accounting is designed to depict the economic management of interest rate risks in accordance with the economic substance of the hedging relationships in IFRS accounting. The management of these risks is reflected, inter alia, in the way portfolios are created in connection with portfolio fair value hedges, which includes the definition of the hedged risk of the portfolio being created, the definition of the selection criteria for the financial instruments to be included in the respective portfolio, the generation of the associated cash flows per portfolio and allocation in maturity bands to be specified, as well as the identification of those derivatives that, with respect to their market fluctuations caused by changes in interest rates, generate a particularly good offsetting effect.

Fair value hedges are generally 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. 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 recognised as a separate sub-item "Portfolio hedge adjustment" under the balance sheet item "Financial assets at amortised cost" on the assets side and under the balance sheet item "Liabilities" on the liabilities side. The respective sub-item involves a measurement item from the interest-rate-based measurement of hedged items designated in connection with the portfolio fair value hedge. Recognised in this regard is the change in the hedged item as relates to the hedged risk. In addition, the market-fluctuation component allotted to the hedged risk is recognised in "Net measurement gain/loss" in the income statement.

When entering into a hedge in accordance with the hedge accounting rules under IAS 39, the hedged item and the hedging instrument are unambiguously stipulated in formal documentation. This 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.

For portfolio fair value hedges, 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 undertaken in accordance with the dollar offset method on the basis of interest rate scenarios for each portfolio (market data shifts). In the process, the relevant interest rate curves are adjusted by +/- 100 basis points, and effectiveness is then measured. In doing so, it is assessed whether the ratio created for the hedge adjustments to the hedged item and the hedging instrument, which are calculated from simulated changes in value, satisfies the effectiveness criterion. In accordance with IAS 39 AG 105, a hedge is regarded as prospectively effective if can be expected that it will offset changes in the fair value of the hedged item and the hedging instrument that are attributable to the hedged risk during the period for which the hedge is designated and if the actual fluctuation in value, i.e. the created ratio, is within a range of 80-125%.

The retrospective effectiveness test is performed on the basis of the change in the market interest rate per portfolio that actually occurred during the period for which the hedge was designated. Here as well, the dollar offset method is applied. In doing so, it is tested whether the ratio created for the hedge adjustments to the hedged item and the hedging instrument, which are calculated from changes in value during the period, satisfies the effectiveness criterion explained above. If the ratio is within a range of 80-125%, the hedge is also regarded as retrospectively effective.

Effectiveness is determined at the end of each month. The corresponds to the length of one-month hedge periods and applies to both the prospective and the retrospective view. As a rule, a hedge is ineffective if the changes in the value of the hedged item and the hedging instrument fall outside of the tolerance range. This would be the case, for example, if a hedged item is eliminated because of an impairment or if actual remeasurements deviate from expected remeasurements within a maturity band.

Existing portfolio fair value hedges serve to reduce the risk of changes in interest rates. The so-called "remaining-term-to-maturity effect" is not a component of the hedged risk. 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. The main hedged items were construction loans, registered bonds, debenture bonds and term deposits.

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 and macroeconomic factors may have an impact on expected credit losses. This assessment is made on the basis of weighted probabilities.

The arrangements in IFRS 9 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 recognised directly in the risk provision position associated with the respective balance sheet item. In the case of assets at fair value through other comprehensive income, the risk provision is recognised in the income statement by adjusting the reserve for financial assets at fair value through other comprehensive income, which is recognised in equity. 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 risk provision model under IFRS 9 does not apply 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 determined 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, to the extent that a default event has not yet occurred. 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.

As a rule, contracts in customer lending business that have been in default for 30 days or longer are considered to have a significantly increased credit risk, and as a result, they are assigned to Level 2. The assumption was refuted for only a small part of the overall portfolio, and despite being past due for more then 30 days, the contracts were assigned to Level 1.

Significant credit deterioration
In lending business, a quantitative assessment is made as to whether a material credit deterioration has occurred since initial recognition using the change in the probability of default. Serving as the quantitative criterion for evaluating a credit deterioration is an actual or anticipated reduction of the borrower's internal credit rating, 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. In general, the macroeconomic factors are used on the basis of qualitative considerations in risk management or professional considerations in order to ascertain point-in-time components. This is because there is a demonstrated interdependence between the relevant forward-looking information and the relevant risk parameters in the sense of a true and fair view, which is considered within the calculation of the risk provision under IFRS 9. For further remarks, please see the section "Modelling of 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, in the case of the determination of a significant credit deterioration, a qualitative criterion is also used, namely, the carrying out of forbearance measures. For further remarks, please see the section "Concessions and renegotiations (forbearance measures)".

In the area of securities, we look at the external issuer rating and other 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). 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%, the security is assigned to 3.

An assignment to Level 3 takes place if the impairment trigger and the supervisory definition in Article 178 CRR is met. 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. The asset will be written off entirely. Normally, an asset is first written off when, following successful realisation of the collateral, the remaining claim is classified as 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 risk (expected credit loss)
In connection with the calculation of the expected credit loss or the expected credit risk, 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 calculating the expected credit risk, we essentially draw on existing (one-year) 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. horizon of several years in the sense of a consideration of residual term to maturity, including macroeconomic factors). In doing so, we use existing one-year models and approximate the maturity-dependent probability of default with the aid of a series of one-year PDs. The key attribute used to determine multi-year, conditional PD profiles is the 12-month or one-year default indicator.

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 a master scale. 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. For further remarks, please see the section "Modelling of point-in-time components".

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.

Modelling of point-in-time components (forward-looking information)
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. By means of the considered macroeconomic factors, the forecasts extend into the future for at most three years.

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 terms of macroeconomic factors, the change in the probability of default in customer lending business 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 terms of macroeconomic factors, the amount of the expected percentage loss in the event of default in customer lending business 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 order to determine the sensitivity of the risk provision in accordance with IFRS 9, the following scenarios were considered in customer lending business. In this regard, the derivation of the relevant macroeconomic factors under each scenario for the forecast for the IFRS 9 risk provision calculation and for the point-in-time correction was as a rule in line with internal company planning, as well as with the availability of the data bases for the forecasts.

Forecast of the relevant macroeconomic factors in ..	Base scenario	Alternative scenario – optimistic	Alternative scenario – pessimistic
Price index for existing residential properties[1]	155.5	159.5	139.5
Unemployment rate, in %[2]	3.3	2.3	4.3
Nominal GDP growth, in %[3]	2.7	4.6	1.0
Long-term 10-year interest rate for German government bonds, in %[4]	−0.2	0.4	−0.8

1 Base year = 2010, data base of the German Federal Statistical Office at the quarterly level, forecast over three years
2 Data base of the OECD at the quarterly level, forecast over one year
3 Data base of the OECD at the quarterly level, forecast over one year
4 Data base of the OECD at the quarterly level, forecast over two years

The foregoing scenarios with reference to the sensitivity calculation are provided solely for information purposes. In the course of calculating an IFRS 9 risk provision, the base scenario is applied, since the modelled risk parameters are themselves already based on various scenarios (default, no default, recovery, settlement) and this scenario remains very well suited for making forecasts. In addition, in implementing the requirement with respect to the use of forward-looking information in the case of the point-in-time correction, historical, current and future (forecast) values are included in macroeconomic factors, whereby the forecast macroeconomic factors themselves already depict a probability-weighted average value of various scenarios. As part of the development of IFRS 9 models, there continued to be no identification of a non-linear or asymmetrical connection to macroeconomic factors.

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. This is because the macroeconomic factors listed above are implicitly included in the risk provision calculation through the expectations of market participants. This correction factor describes the relationship between the current and long-term credit-spread-based expectations of investors on the capital market concerning credit ratings. If this relationship is greater than 1 (less than 1) in the pessimistic (optimistic) scenario, the capital market assumes a higher (lower) probability of default for an issuer, which, in accordance with the correction factor, then has an effect on the calculation of the risk provision.

In the W&W Group as a whole, the risk provision in accordance with IFRS 9 would, in the pessimistic scenario, increase by €23.9 million for customer lending business and securities business and, in the optimistic scenario, fall by a total of €19.4 million for both areas.

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. 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 a qualitative transfer criterion with respect to the forbearance measures that have been taken. This ensures that, as a rule, all forbearance measures trigger a change of level under IFRS 9 from Level 1 to Level 2. For further remarks, please see the section “Exercise of discretionary judgment in the application of IFRS 9 ‘Financial instruments’”.

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 current 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 Group 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, as well as right-of-use assets under leases, that are 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 is subjected to separate scheduled depreciation. In so doing, a distinction is made, at a minimum, between shell construction and interior outfitting/technical systems.

The individual useful lives of shell construction and interior outfitting/technical systems are estimated by architects and engineers in the property division of the W&W Group. For shell construction, the maximum useful life is 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 is estimated to be 25 years (previous year: 25 years).

Shell construction and interior outfitting/technical systems are subjected to scheduled depreciation on a straight-line basis over the expected remaining useful life. Right-of-use assets from investment property are depreciated on a straight-line basis over the expected useful life of up to 99 years.

Investment property is tested for impairment in two steps. First, it is examined whether there is evidence of impairment on the reporting date. If this is the case, the anticipated recoverable amount is determined as the net realisable value (fair value less costs of disposal). If this value is less than amortised cost, an impairment loss is taken in the corresponding amount. In addition, it is examined on the reporting date whether there is evidence that an impairment loss taken for investment property in earlier periods no longer exists or might have declined. If this is the case, the recoverable amount is likewise determined and, if appropriate, the carrying amount is 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 are used, for which reason this method for investment property is 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) are 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 is planned separately. Likewise, vacancy periods, real estate agent costs, etc. in the commercial area are 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 are taken as a basis. Because residential units are similar, we dispense with individual planning.

In particular, the following significant non-observable inputs are used:

- The interest rate of a risk-free financial investment, plus a risk premium, is used as the adjusted capitalisation interest rate in the term period. The risk premium for properties ranged from 271 basis points (previous year: 239 basis points) for, for example, residential properties in top locations to 691 basis points (previous year: 824 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 6.70%, 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 ranged between 3.00% and 7.20%.
- An inflation rate of 1.50% p.a. is 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 is the anticipated change in comparable local rents. In addition, on the basis of past experience, an assumption is made as to the frequency of tenant turnover p.a. for newly rented residential units. In the area of residential properties, it is assumed that rents could be expected to increase by 1.00% to 2.00% p.a. on average.

Investment property is initially valued using outside appraisers (see Note 9). 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.

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, plant and equipment and right-of-use assets. Property for own use means land and buildings used by Group companies. Additional accounting policies concerning right-of-use assets can be found in the section “Leases”.

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. Right-of-use assets from property for own use are depreciated on a straight-line basis over a period of up to 11 years.

Plant and equipment is subject to scheduled depreciation on a straight-line basis over the estimated useful life. Useful life normally amounts to up to 13 years but in some cases may extend to up to 50 years. Right-of-use assets – plant and equipment are depreciated on a straight-line basis over the useful life of up to three 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.

Leases

The W&W Group has been applying IFRS 16 since 1 January 2019. In this regard, it uses the modified retrospective method, which means that no adjustment is made to the comparative information for 2018 under IAS 17.

A lease is a contract or part of a contract that entitles the lessee to control the use of an asset for a period of time in exchange for consideration. At inception of a contract, it must be assessed whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration

W&W Group as lessee
As a rule, a right-of-use asset and a lease liability are recognised in the consolidated balance sheet on the commencement date. Recognised right-of-use assets are depreciated on a straight-line basis until the end of the contract according to the same principles applicable to other comparable assets owned by the W&W Group (cost model). Depreciation is recognised in the sub-item “Depreciation/amortisation” under “General administrative expenses”. 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 right-of-use assets are tested for impairment as at each reporting date. If the recoverable amount of the right-of-use 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 lease liability is measured at amortised cost using the effective interest method. In addition, the present value is calculated on the basis of the lease payments for the right to use the underlying asset that have not yet been made, which are discounted using the interest rate implicit in the lease. Since that rate cannot be readily determined, we use our incremental borrowing rate, which 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.

The W&W Group recognises its right-of-use assets in the same balance sheet item in which its own underlying assets are recognised, i.e. under “Property, plant and equipment” and under “Investment property”.

Lease liabilities are recognised under “Liabilities” as a separate sub-item in the consolidated balance sheet.

Short-term leases with a term of up to one year are 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 of IFRS 16.

Leases whose underlying asset is of low value are, as in the past, recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

W&W Group as lessor
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 reasons for taking the impairment loss no longer exist, it is tested for reversal.

We do not recognise any finance leases as lessor.

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, as well as the deferral of profit or loss from the sale, takes place according to the specific rules in IFRS 16.

The accounting policies pursuant to IAS 17 for the previous year are as follows:

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 that is most likely or corresponds to the expected value. 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 0.0% (previous year: 0.30%) 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 1.8% (previous year: 2.0%), taking into account the created additional interest reserve/interest rate reinforcement. 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) 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 1.92% (previous year: 2.09%) 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 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 1.92% (previous year:

2.09%) was used for the insurance policies of Württembergische Lebensversicherung AG, and a measurement interest rate of 2.3% (previous year: 2.54%) was used for ARA Pensionskasse AG. Calculation of interest rate reinforcement and the additional interest reserve took into account entity-specific capital disbursement probabilities, which were adjusted in 2019. This resulted in higher additions in the mid-eight-figure range. 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 2019 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 5/20) and DAV 2004 R-B20 (at the rate of 15/20), on entity-specific capital disbursement probabilities, which were adjusted in 2019, 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. In this regard, the adjustment of the capital disbursement probabilities resulted in a higher addition in the lower seven-figure range.

(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.

Premiums for which a partial portfolio change was carried out within the portfolio of Württembergische Lebensversicherung AG were for the first time no longer recognised in equal amounts in the items “Other technical income” and “Other technical expenses”. In 2019 this resulted in both items being reduced by €12.8 million with no effect on income.

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".

In the case of unit-linked annuity insurance policies for which the guarantees are depicted as part of a dynamic hybrid concept, recognised as the provision for future policy benefits is the total of fund units and investments in other assets, but at least the prospectively calculated provision for the guarantee benefit.

Health insurance

In health insurance, the average actuarial interest rate for the provision for future policy benefits was 2.21% (previous year: 2.36%). 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 and the provision for unused premiums from dormant motor insurance policies. 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 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. Pension commitments for new hires between 2002 and 2017 have been financed Group-wide by ARA Pensionskasse AG (defined-contribution benefit commitments). For new hires from 2018, pension commitments have been carried out Group-wide through direct insurance policies at Württembergische Lebensversicherung AG (defined-contribution benefit commitments). Managers, senior executives and directors receive pension commitments (defined-contribution 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 savings customers is contained in concluded home loan 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 paid-in capital, earned capital and 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 income/expense

The net financial income/expense of the W&W Group consists of several components, namely:

- Current net income/expense (including, inter alia, 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, investment property, receivables and liabilities, as well as subordinated capital). 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 as 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”.

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).

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.

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” includes income and expenses from property development business. This income is generated, in terms of timing, based on the progress of the construction of the sold residential units, 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 cost and then recognised upon sale as an expense under “Other operating expenses”. 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 tax payments or refunds likely due for periods that have not yet been finally assessed. The amount is calculated as the most likely value or as the anticipated value of the expected tax refund or tax claims.

Income tax earnings and expenses are recognised in the consolidated income statement as income taxes and subdivided in the notes (Note 35) by 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 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 the cash reserves (cash on hand, deposits with central banks) and a portion of other receivables (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 combined 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 lease accounting, the determination of the term of each lease in the case of open-ended contracts in the area of rented properties, as well as the setting of the interest rate underlying each lease, is subject to discretion.

In connection with the accounting of the W&W Group’s financial instruments under IFRS 9, 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 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 the W&W Group 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 to 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 the W&W Group, 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:
  The W&W Group 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
In connection with IFRS 9 requirements, a risk provision need is calculated for securities in the portfolio that fall within the scope of the risk provision rules. The way this need is calculated depends on the expected probability of default of the individual positions. IFRS distinguishes between three levels in this regard. Categorised in Level 1 are those assets for which there has been no significant credit deterioration since conclusion of the credit agreement. New securities which do not evidence any payment problems are also assigned to this level. In this regard, the calculation of the risk provision is based on the 12-month expected credit loss approach.

If the assets show a significant deterioration in credit quality since initial recognition, they are categorised in Level 2. In this level, the risk provision is calculated based on the lifetime expected credit loss approach.

If there is objective evidence that a security is impaired, i.e. there is a specific payment problem, the issuer's probability of default is 100%, and this security or, as the case may be, all securities of the issuer are assigned to Level 3 as a rule.
We make use of the low credit risk exemption under IFRS 9 in the securities area, which allows us to assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Calculation of the risk provision in customer lending business
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 under IFRS 9 if a relative threshold is exceeded. The determination of this relative threshold is based on a statistical distribution across the expected probability of default depending on the year of the relationship (quantile approach). In customer lending business, it is normally 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.

In calculating the mathematically optimal quantile in connection with the quantile approach, two aspects of IFRS 9 are particularly relevant: The first aspect relates to the point prior to a default when a significant increase in credit risk should be identified. IFRS 9 states that there generally needs to be a significant increase in credit risk before default occurs. In this regard, the increase in credit risk should in principle be identified prior to the provision of default or modification information. Accordingly, in the course of calculating the quantile in the customer lending business of the W&W Group, the increase in credit risk is identified, at the latest, starting at the time that default or modification information is provided, unless an increase was identifiable prior to that date. The second aspect is likewise subject to the exercise of discretion and relates to the fact that reductions in credit risk are taken into consideration in the same way as increases. This means that level assignment is symmetrical, and customer loans in the W&W Group for which credit risk improves are included again in Level 1 under IFRS 9. As part of the quantile approach, two target parameters are derived from these two countervailing aspects: 1. maximisation of the share of defaulted loans that x months prior to default are considered as having significantly increased risk, and 2. minimisation of the share of non-defaulted loans that y months after a significant increase are still considered as having increased risk. These two countervailing target parameters are then mathematically optimised with the aid of a loss function. The calculation of an optimal quantile that takes into account both target parameters then constitutes an optimal compromise between the two target parameters, since in order to fulfil the first (second) target parameter, the smallest (largest) possible quantile must be chosen.

IFRS 9 requires that a lifetime expected credit loss be calculated for all financial instruments for which 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, always takes place at the level of the debtor's individual contract. In addition, with respect to this level assignment, and in the sense of the forward-looking risk provision concept of IFRS 9, the quantitative transfer criterion is augmented by a qualitative transfer criterion, and discretion is exercised accordingly. Forbearance measures are used as the qualitative criterion. As a rule, customer credit agreements with active forbearance measures remain in Level 2 for at least three years before being transferred back to the better Level 1 under IFRS 9. If the reasons for default (Level 3) no longer pertain, they are also transferred back to the better level under IFRS 9, and as described above, existing forbearance measures are taken into consideration when switching to a better level.

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 "Accounting policies" 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.

General estimates and assumptions for the purpose of accounting are set forth in the chapter “Accounting policies”. However, special and one-time circumstances are explained in greater detail in the relevant items or in the notes. Accounting principles whose application is based to a considerable extent on estimates and assumptions and that are classified as material for the W&W Group are presented in the following.

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 a 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.

In determining the fair value of assets and liabilities whose prices are quoted on an active market, estimates by management are necessary to only an insignificant extent. In a similar manner, only few subjective measurements or estimates are required for assets and liabilities that are measured with models customary in the industry and whose input are quoted on active markets.

When no observable market transactions or market information are 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 and to deposits in home loan savings 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. Deposits under home loan savings contracts are allocated to the balance sheet item "Liabilities" and measured at amortised cost. For further quantitative information about this, please see Note 5 "Financial assets at amortised cost" and Note 17 "Liabilities".

Additional information concerning the measurement of the fair value of financial instruments can be found in the presentation of the accounting policies in the section "Principles for the recognition, measurement and presentation of financial instruments", in the subsection "Fair value measurement", and in Note 38 "Disclosures concerning the measurement of fair value". The fair value measurement of investment property and property, plant and equipment is described in the chapter "Accounting policies".

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. Impairment is also tested where events or changed underlying conditions indicate that the value of an asset might have declined.

For details about the impairment of financial assets, please see the chapter "Accounting policies: 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 Group 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.

In addition, an impairment loss is always required to be taken on intangible assets, property, plant and equipment and investment property 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.

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.

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 assumptions about trends in investment yields achievable on the capital market, life expectancy, and other statistical data, as well as, in some cases, the costs incurred in connection with management of the contracts. The assumptions are based on the reference interest rate to be specified pursuant to Section 5 (3) of the German Regulation on Calculation of the Provision for Future Policy Benefits (DeckRV) as yield for the expected income of the company. Necessary adjustments to 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 policies”, 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 selected items in the consolidated income statement
Income taxes are subject to estimates. These are described in the chapter “Accounting policies” and there 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 2019	22	5	27
Included as at 31 December 2018	25	6	31
Structured entities (public and special funds)			
Included as at 31 December 2019	16	5	21
Included as at 31 December 2018	16	5	21
Associates accounted for using the equity method			
Included as at 31 December 2019	2	–	2
Included as at 31 December 2018	2	–	2

Changes to the scope of consolidation

Additions to the scope of consolidation

The fund LBBW AM REA-Fonds, Stuttgart, was added to the scope of consolidation in the first half of 2019.

The fund LBBW AM High Yield Corporate Bond Fonds, Stuttgart, was added to the scope of consolidation in the second half of 2019.

Disposals from the scope of consolidation

In the first half of 2019, Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg, W&W Produktion GmbH (in liquidation), Berlin and the fund LBBW- IFRS 93, Stuttgart, were eliminated from the scope of consolidation. Further information about the disposal of Wüstenrot Bank AG Pfandbriefbank can be found in Note 2 “Non-current assets held for sale and discontinued operations”.

In the second half of 2019, Karlsruher Lebensversicherung AG, Karlsruhe, was eliminated from the scope of consolidation as a result of its being merged into Württembergische Lebensversicherung AG, Stuttgart. In addition, the fund LBBW-AM 203, Stuttgart, was eliminated from the scope of consolidation. These changes had no material influence on net assets, financial position and financial performance.

Company mergers

Effective 1 January 2020, W&W AG, through its subsidiary Wüstenrot Bausparkasse AG (BSW), Ludwigsburg, acquired 100% of the voting shares of Aachener Bausparkasse AG (ABAG) from various owners and thereby obtained control over this company. ABAG is a private home loan and savings bank with registered office in Aachen. In addition to home loan savings, its business also focuses on the financing of measures relating to home ownership for private use. In the course of the takeover, BSW also acquired the voting interests held by ABAG in Aachener Bausparkasse Immobilien GmbH (100%), with registered office in Aachen, and in Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH (8.91%), with registered office in Berlin. Both companies are currently not operational. With the takeover of ABAG, we are rigorously continuing our path of growth in home loan savings business. For Wüstenrot, the additional new business volume is expected to be in the nine-figure range annually.

Transfer of control over ABAG took place with effect on 1 January 2020 following supervisory approval. ABAG's results will be included in the consolidated financial statements of W&W AG starting with the time of initial consolidation. With the takeover, BSW is entering into long-term sales partnerships in the home loan and savings area and the construction financing sector with nearly all of the insurance companies that previously owned the company, becoming their exclusive product partner. Multi-year sales targets have been agreed upon with these collaboration partners. We plan to merge ABAG into BSW in the second quarter of 2020.

The fair value of the transferred consideration amounted to €0.5 million, which included the agreed and paid purchase price in the amount of one euro and any compensatory payments by the former owners. In the coming years, the compensatory payments may amount to as much as €5 million if the established sales targets are not reached. It currently appears unlikely that the compensatory payments will have to be made in the full amount. The present value of the compensatory payment was estimated at €0.5 million.

The provisionally calculated fair value of the acquired assets and the assumed liabilities can be found in the following tables.

Assets

in € thousands	1.1.2020
Cash reserves	205,476
Financial assets at fair value through other comprehensive income	457,560
Financial assets at amortised cost	820,744
Other assets	79,011
Total assets	1,562,791

Liabilities

in € thousands	1.1.2020
Liabilities	1,260,056
Other provisions	257,767
Other liabilities	22,728
Equity	22,240
Total liabilities	1,562,791

On the basis of the provisional purchase price allocation, silent reserves were identified. A significant portion of them (€54.7 million) are attributable to held financial instruments. The higher fair value of the financial instruments is essentially attributable to the currently low level of interest rates. The adjustments to the other assets mainly resulted from the initial recognition of sales collaborations in the amount of €8.8 million and increases in the value of properties in the amount of €7.1 million.

The acquired receivables consist of loans and advances to credit institutions and loans and advances to customers. In accordance with current estimates, these receivables are mainly classified as unimpaired.

Acquired receivables

	Fair value of the contractual receivables	Gross amount of the contractual receivables
in € thousands	1.1.2020	1.1.2020
Loans and advances to credit institutions	61,482	60,913
Loans and advances to customers	780,492	730,530
Total	841,974	791,443

The realised silent losses resulted, in particular, from the measurement of existing customer relationships. The main reason has to do with customer deposits, which bear interest at rates higher than current market interest rates. The provisions created for customer relationships in the amount of €153.9 million are largely offset by charges under existing obligations on the basis of the expected run-off of existing business.

With the takeover of ABAG, the existing legal risks in connection with terminations under sections 313 and 314 of the German Civil Code (BGB) were re-evaluated at the time of acquisition, and the current provisions were increased by €5.6 million. If the provisions actually have to be utilised depending on the run-off of existing business over time, then in addition, portions of them may be charged on to the former owners if necessary. The potential indemnity payments are limited to a maximum of €3 million. As part of the provisional purchase price allocation, the indemnity payments were accounted for at €2.9 million.

The difference between the acquired net assets of ABAG, i.e. the recognised assets less the assumed liabilities, and the fair value of the transferred consideration amounted to €22.7 million. There are a number of reasons for this negative goodwill. In addition to the transferred consideration, the main reason is the level of interest rates that currently prevails, which resulted in the realisation of silent reserves in connection with loans and advances to customers, as well as with securities. Having an opposite effect were the realisation of silent losses in the area of customer relationships and the creation or increase of provisions, which reduced profit. In addition, migration expenses in the IT area, investment in marketing and sales and other integration costs as part of the provisional purchase price allocation are not permitted to be recognised. We expect that we can no longer use ABAG's loss carryforwards from past results for tax purposes after transfer of control, meaning that they cannot be recognised as deferred tax assets.

Following a further review of the provisional purchase price allocation, the negative goodwill will be recognised in the 2020 reporting year as other operating income under "Other operating income/expense".

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 settle Group liabilities.

Since enactment of the German Life Insurance Reform Act (LVRG) in August 2014, the subsidiaries Württembergische Lebensversicherung AG and Allgemeine Rentenanstalt Pensionskasse AG are subject to a statutory ban on distributions until further notice.

As a credit institution, the subsidiary Wüstenrot Bausparkasse AG 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 2019, the LCR was 208.99% (previous year: 435.95%) for the subsidiary Wüstenrot Bausparkasse AG. The company has been obligated since the fourth quarter of 2015 to maintain its 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".

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.

Interests in investment funds

As at 31 December 2019, the carrying amounts, the investment strategy, the maximum loss risk and the scope vis-à-vis unconsolidated investment funds were as follows:

2019

in € thousands	Equity funds 31.12.2019	Pension funds 31.12.2019	Real estate funds 31.12.2019	Other funds 31.12.2019	Funds of unit-linked life insurance policies[3] 31.12.2019	Total 31.12.2019
Recognised assets (fund units held)						
Financial assets at fair value through profit or loss	133,626	837,851	2,149	175,075	2,238,019	3,386,720
Total	**133,626**	**837,851**	**2,149**	**175,075**	**2,238,019**	**3,386,720**
Maximum loss risk[1]	133,626	837,851	2,149	175,075	2,238,019	3,386,720
Total scope of fund assets as at the reporting date[2]	114,348	2,769,546	2,072,873	91,290	183,730,208	188,778,265

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 Several funds are included in more than one fund category. In those cases, the total scope of fund assets was assigned to the category with the greatest value.
3 Capital investments are for the account and risk of policyholders.

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[3] 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[2]	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 Several funds are included in more than one fund category. In these cases, the total scope of fund assets was assigned to the category with the greatest value.
3 Capital investments are for the account and risk of policyholders.

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 €1,594.8 million (previous year: €1,333.0 million). 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 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.

Housing

The reportable segment Housing consists of one business segment and includes home loan savings and banking products primarily for retail customers, e.g. home loan savings contracts, bridging loans and mortgage loans. The segment was formerly called Home Loan and Savings Bank and also included Wüstenrot Bank AG Pfandbriefbank, which was sold in the second quarter of 2019.

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.

All other segments

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.

Consolidation/reconciliation

The column "Consolidation/reconciliation" includes consolidation adjustments required to reconcile segment figures to Group figures.

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.

Measurement principles

The measurement principles for segment reporting correspond to the accounting policies applied to the IFRS consolidated financial statements, with the following exceptions. In conformity with internal Group reporting and control, we are continuing to apply IAS 17 to leases within the Group. The interests in the subsidiaries of W&W AG that are not consolidated in “All other segments” are measured there at fair value through other comprehensive income and not reclassified to the consolidated income statement.

Segment income statement

in € thousands	Housing 1.1.2019 to 31.12.2019	Housing 1.1.2018 to 31.12.2018[4]	Life and Health Insurance 1.1.2019 to 31.12.2019	Life and Health Insurance 1.1.2018 to 31.12.2018
Current net income	208,169	284,728	801,465	827,939
Net income/expense from risk provision	-6,617	8,840	2,832	-5,106
Net measurement gain/loss	79,292	-40,289	500,771	-455,369
Net income from disposals	84,408	128,845	449,174	485,498
Net financial result	**365,252**	**382,124**	**1,754,242**	**852,962**
Thereof net income/expense from financial assets accounted for using the equity method	–	–	5,389	1,347
Earned premiums (net)	–	–	2,415,128	2,253,614
Insurance benefits (net)	–	–	-3,665,042	-2,649,077
Net commission income/expense	-11,254	17,342	-151,178	-140,162
General administrative expenses[2]	-322,238	-337,868	-270,884	-263,329
Net other operating income/expense	23,528	24,453	-29,511	-14,432
Segment net income from continued operations before income taxes	**55,288**	**86,051**	**52,755**	**39,576**
Income taxes	-16,984	-26,965	-26,361	-14,841
Segment net income after taxes	**38,304**	**59,086**	**26,394**	**24,735**
Other information				
Total revenue[3]	934,964	1,053,910[7]	3,300,873	3,174,963[7]
Thereof with other segments	26,412	28,336	22,337	32,134
Thereof with external customers	908,552	1,025,574[7]	3,278,536	3,142,829[7]
Interest income	710,445	791,496	610,251	650,947
Interest expenses	-502,281	-506,970	-46,544	-36,276
Scheduled amortisation/depreciation	-8,477	-2,322	-44,773	-44,807
Impairment losses[4]	–	–	-1,267	-1,732
Reversals of impairment losses[4]	–	–	3,616	2,128
Material non-cash items	370	37,765	467,662	385,285
Segment assets[5]	29,354,084	29,436,647	37,923,983	34,911,322
Segment liabilities[5]	27,456,958	27,840,950	37,064,843	34,259,565
Financial assets accounted for using the equity method[5]	–	–	45,779	43,102

1 The column "Consolidation/reconciliation" includes the effects of consolidation between segments.
2 Includes rental and other service income with other segments.
3 Interest, dividend, commission and rental income, as well as income from property development business and gross premiums written.
4 Impairment losses and reversals of impairment losses relate to intangible assets, property, plant and equipment and investment property.
5 Values as at 31 December 2019 and 31 December 2018, respectively.
6 Prior-year figure adjusted. See the remarks in the chapter "Changes in the depiction of the financial statements" starting on page 102.
7 Prior-year figure adjusted as a result of the expanded definition of revenue, particularly to include dividend income.

Property/Casualty Insurance		Total for reportable segments		All other segments		Consolidation/ reconciliation[1]		Group	
1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018	1.1.2019 bis 31.12.2019	1.1.2018 to 31.12.2018	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
72,525	77,228	1,082,159	1,189,895	74,434	70,617[6]	–3,312	–8,794[6]	1,153,281	1,251,718
–430	–878	–4,215	2,856	139	–5,752	41	224	–4,035	–2,672
26,987	–38,847	607,050	–534,505	23,109	–33,342	–17,629	14,622	612,530	–553,225
6,770	23,382	540,352	637,725	2,926	–90	48,430	–	591,708	637,535
105,852	**60,885**	**2,225,346**	**1,295,971**	**100,608**	**31,333[6]**	**27,530**	**6,052[6]**	**2,353,484**	**1,333,356**
3,259	–7,154	8,648	–5,807	556	575	2,131	8,501	11,335	3,269
1,565,315	1,490,104	3,980,443	3,743,718	282,232	269,633	–13,506	–13,287	4,249,169	4,000,064
–823,242	–760,056	–4,488,284	–3,409,133	–179,673	–161,622	17,479	17,020	–4,650,478	–3,553,735
–262,936	–246,537	–425,368	–369,357	–55,312	–56,852	–9,515	–2,397	–490,195	–428,606
–378,472	–361,104	–971,594	–962,301	–115,120	–112,799	6,263	2,027	–1,080,451	–1,073,073
–11,188	15,043	–17,171	25,064	13,388	29,658	–24,737	–12,238	–28,520	42,484
195,329	**198,335**	**303,372**	**323,962**	**46,123**	**–649[6]**	**3,514**	**–2,823[6]**	**353,009**	**320,490**
–51,769	–66,959	–95,114	–108,765	–9,231	6,372[6]	395	–2,908[6]	–103,950	–105,301
143,560	**131,376**	**208,258**	**215,197**	**36,892**	**5,723[6]**	**3,909**	**–5,731[6]**	**249,059**	**215,189**
2,197,989	2,085,176[7]	6,433,826	6,314,049[7]	680,997	779,582[7]	–633,345	–790,894[7]	6,481,478	6,302,737[7]
147,020	146,711[7]	195,769	207,181[7]	437,576	583,713[7]	–633,345	–790,894[7]	–	–
2,050,969	1,938,465[7]	6,238,057	6,106,868[7]	243,421	195,869[7]	–	–	6,481,478	6,302,737[7]
59,135	64,861	1,379,831	1,507,304	130,863	106,561	–26,683	–29,460	1,484,011	1,584,405
–32,003	–13,888	–580,828	–557,134	–63,150	–54,690	28,605	29,349	–615,373	–582,475
–9,186	–6,974	–62,436	–54,103	–56,946	–51,165	1,454	1,400	–117,928	–103,868
–	–	–1,267	–1,732	–10,338	–6	–	–	–11,605	–1,738
–	–	3,616	2,128	–	–	–	–	3,616	2,128
4,888	20,840	472,920	443,890	–50,490	2,273	11,834	–1,991	434,264	444,172
4,910,456	4,686,166	72,188,523	69,034,135	7,668,831	7,382,713	–4,113,845	–4,377,607	75,743,509	72,039,241
3,477,666	3,335,945	67,999,467	65,436,460	4,526,687	4,230,562	–1,617,727	–1,864,112	70,908,427	67,802,910
54,950	54,404	100,729	97,506	8,542	6,812	–9,171	–11,302	100,100	93,016

Information by region (Group)

in € thousands	Revenue from external customers[1] 1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018	Non-current assets[2] 31.12.2019	31.12.2018
Germany	6,388,503	6,216,350[3]	2,339,214	2,193,945
Czech Republic	92,330	85,586	–	5,256
Other countries	645	801	861	542
Total	**6,481,478**	**6,302,737[3]**	**2,340,075**	**2,199,743**

1 Revenue was allocated in accordance with the country in which the operational units are based. This involves interest, dividend, commission and rental income, as well as income from property development business and gross premiums written.
2 Non-current assets include investment property, intangible assets and property, plant and equipment.
3 Prior-year figure adjusted.

Notes concerning the consolidated balance sheet

(1) Cash reserves

in € thousands	31.12.2019	31.12.2018
Cash on hand	70	138
Deposits with central banks	35,192	83,487
Deposits with foreign postal giro offices	496	273
Cash reserves	**35,758**	**83,898**

The fair value of cash reserves corresponds to the carrying amount.

(2) Non-current assets held for sale and discontinued operations

in € thousands	31.12.2019	31.12.2018
	IFRS 9	IAS 39
Cash reserves	26,203	201,362
Financial assets at fair value through profit or loss	6,491	10,450
Financial assets at fair value through other comprehensive income	8,389	898,281
Financial assets at amortised cost	2,572,303	105,149
Investment property	3,413	7,678
Other assets	19,961	13,660
Non-current assets held for sale and discontinued operations	**2,636,760**	**1,236,580**

in € thousands	31.12.2019	31.12.2018
Liabilities	2,409,254	874,967
Financial liabilities at fair value through profit or loss	772	24,929
Other provisions	6,655	33,247
Subordinated capital	–	5,813
Other liabilities	11,235	13,696
Liabilities under non-current assets classified as held for sale and discontinued operations	**2,427,916**	**952,652**

As at 31 December 2019, this item included one investment property and one disposal group.

The property held for sale as at 31 December 2019 has to do with a commercial building in third-party use allocated to the Life and Health Insurance segment. Ownership was transferred in early January 2020. The sale of the property resulted in a gain of €8.6 million for the 2020 financial year, which will be recognised in “Net income from disposals”. The sale was made for reasons of diversification.

The disposal group held for sale as at 31 December 2019 includes the assets and liabilities of the two wholly owned Czech subsidiaries, Wüstenrot hypotecni banka a.s. and Wüstenrot stavebni sporitelna a.s., both with registered office in Prague. Both subsidiaries are assigned to the segment “All other segments”. The sale was made for strategic reasons and is expected to close in the first half of 2020. Financial assets at fair value through other comprehensive income included bearer bonds (€8.4 million). Financial assets at amortised cost mainly included construction loans (€2,147.3 million) and bearer bonds (€141.7 million). Liabilities principally included liabilities to customers (€2,194.3 million) and liabilities evidenced by certificates (€202.9 million). Cumulative unrealised gains and losses recognised under “Other reserves” amounted to €17.6 million. The currency translation reserve amounted €19.0 million, and the reserve for fair value through other comprehensive income amounted to €1.4 million. The following assets and liabilities within the disposal group were not measured pursuant to IFRS 5, but instead on the basis of the following standards:

- Financial instruments (IFRS 9 and IFRS 13)
- Deferred tax assets and liabilities (IAS 12)
- Pension provisions (IAS 19)

The income statement for the Czech subsidiaries included in the disposal group, after consolidation, was as follows:

in € thousands	31.12.2019	31.12.2018
Current net income	**48,731**	**48,060**
Net interest income	48,731	48,060
Interest income	83,999	76,527
Interest expenses	−35,268	−28,467
Net income/expense from risk provision	**3,534**	**−5,348**
Income from risk provision	15,124	13,314
Expenses from risk provision	−11,590	−18,662
Net measurement loss	**−1,977**	**−1,989**
Measurement gains	–	724
Measurement losses	−1,977	−2,713
Net financial income	**50,288**	**40,723**
Net commission income	**2,747**	**3,973**
Commission income	7,890	8,606
Commission expenses	−5,143	−4,633
General administrative expenses	**−37,176**	**−26,338**
Personnel expenses	−12,948	−11,659
Materials costs	−9,841	−11,554
Depreciation/amortisation	−14,387	−3,125
Net other operating expense	**−1,066**	**−1,801**
Other operating income	1,710	1,308
Other operating expenses	−2,776	−3,109
Net income from the disposal group before income taxes	**14,793**	**16,557**
Income taxes	−2,740	−3,288
Net income from the disposal group after income taxes	**12,053**	**13,269**

Non-current assets held for sale and discontinued operations were written down in the amount of €10.3 million. The write-downs were recognised in “General administrative expenses”.

The property held for sale as at 31 December 2018 has to do with a physical rehabilitation facility in third-party use allocated to the Life and Health Insurance segment. The sale of the physical rehabilitation facility resulted in a gain of €10.5 million, which was recognised in "Net income from disposals". The sale was made for reasons of diversification.

The disposal group held for sale as at 31 December 2018 contained the assets and liabilities of Wüstenrot Bank AG Pfandbriefbank, which was sold for strategic reasons on 31 May 2019 and until then had been allocated to the Housing segment. The sale resulted in a deconsolidation gain of €9.8 million. In the consolidated income statement, this deconsolidation gain was recognised under "Income from disposals" within "Net financial income" in the amount of €48.4 million and under "Other operating expenses" in the amount of €38.6 million. The financial assets at fair value through other comprehensive income that are associated with this disposal group mainly consisted 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" amounted to €11.8 million (previous year: €7.5 million). The reserve for pension commitments amounted to €14.6 million, and the reserve for financial assets at fair value through other comprehensive income amounted to €26.4 million. The following assets and liabilities within the disposal group were not measured pursuant to IFRS 5, but instead on the basis of the following standards:

- Financial instruments (IFRS 9 and IFRS 13)
- Deferred tax assets and liabilities (IAS 12)
- Pension provisions (IAS 19)

The income statement of Wüstenrot Bank AG Pfandbriefbank as a disposal group after consolidation was as follows from 1 January 2019 until the time of deconsolidation:

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Current net income	**5,034**	**10,761**
Net interest income	5,034	10,761
Interest income	8,458	19,661
Interest expenses	−3,424	−8,900
Net income/expense from risk provision	**−1,799**	**−1,877**
Income from risk provision	409	541
Expenses from risk provision	−2,208	−2,418
Net measurement loss	**−27**	**−6,042**
Measurement gains	11,336	5,129
Measurement losses	−11,363	−11,171
Result from disposal	**5,511**	**7,899**
Income from disposal	5,695	7,934
Expenses from disposal	−184	−35
Net financial income	**8,719**	**10,741**
Net commission income	**8,310**	**28,639**
Commission income	15,144	36,911
Commission expenses	−6,834	−8,272
General administrative expenses	**−10,712**	**−27,059**
Personnel expenses	−3,503	−9,780
Materials costs	−7,066	−17,274
Depreciation/amortisation	−143	−5
Net other operating expense	**−372**	**−2,839**
Other operating income	482	1,196
Other operating expenses	−854	−4,035
Net income from the disposal group before income taxes	**5,945**	**9,482**
Income taxes	1,152	581
Net income from the disposal group after income taxes	**7,097**	**10,063**

(3) Financial assets at fair value through profit or loss

in € thousands	31.12.2019	31.12.2018
Participations, shares, fund units	3,708,049	3,034,166
Fixed-income financial instruments that do not pass the SPPI test	1,482,665	1,181,283
Derivative financial instruments	147,084	167,782
Senior fixed-income securities	723,814	684,362
Capital investments for the account and risk of holders of life insurance policies	2,238,019	1,711,146
Financial assets at fair value through profit or loss	**8,299,631**	**6,778,739**

The W&W Group offsets financial instruments in the balance sheet. In 2019 they were cleared for the first time through the central counterparty Eurex Clearing AG. The change in the sub-item “Derivative financial instruments” was mainly the result of this offsetting in accordance with IAS 32, with a view to the variation margin.

In connection with the acquisition of ABAG, the W&W Group was offered capitalisation products provided by some of the former owners. In the 2019 financial year, as well as at the start of 2020, the W&W Group subscribed to capitalisation products of a former owner of ABAG in the total amount of €100 million each. The capitalisation products were recognised under “Fixed-income financial instruments that do not pass the SPPI test”.

(4) Financial assets at fair value through other comprehensive income

in € thousands	31.12.2019	31.12.2018
Subordinated securities and receivables	720,209	663,037
Senior debenture bonds and registered bonds	12,984,231	12,599,732
Senior fixed-income securities	23,104,330	18,781,933
Financial assets at fair value through other comprehensive income	**36,808,770**	**32,044,702**

Risk provision by class for debt instruments required to be measured at fair value through other comprehensive income

in € thousands	31.12.2019	31.12.2018
Subordinated securities and receivables	–817	–640
Senior debenture bonds and registered bonds	–7,434	–7,931
Senior fixed-income securities	–23,349	–23,158
Risk provision	**–31,600**	**–31,729**

(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 of assets at amortised cost by risk provision:

in € thousands	31.12.2019	31.12.2018
Subordinated securities and receivables	**163,978**	**133,380**
Credit institutions	94,843	64,776
Other financial companies	36,110	39,371
Other companies	33,025	29,233
Senior debenture bonds and registered bonds	**30,898**	**1,084,841**[3]
Credit institutions	30,898	818,871
Other financial companies	–	40,045
Public authorities	–	225,925
Senior fixed-income securities	**–**	**1,054,900**
Credit institutions	–	250,287
Public authorities	–	804,613
Construction loans	**21,493,189**	**23,002,519**[3]
Loans under home loan savings contracts	1,610,040	1,868,170
Preliminary and interim financing loans	12,489,644	12,282,229
Other construction loans	7,393,505	8,852,120
Other loans and receivables	**2,220,544**	**2,727,380**
Other loans and advances[1]	1,892,175	2,423,689
Miscellaneous receivables[2]	328,369	303,691
Receivables from reinsurance business	83,623	79,840
Receivables from insurance agents	49,459	46,323
Receivables from policyholders	190,954	174,415
Miscellaneous other receivables	4,333	3,113
Portfolio hedge adjustment	**75,438**	**99,395**[3]
Financial assets at amortised cost	**23,984,047**	**28,102,415**

1 Receivables that constitute a class pursuant to IFRS 7.
2 Receivables that constitute a class pursuant to IFRS 7 but are not covered by the scope of IFRS 7 and essentially contain receivables from insurance business with disclosure requirements pursuant to IFRS 4.
3 Prior-year figure adjusted.

Not including risk provision, the loans and advances to credit institutions included under "Other loans and advances" amounted to €1,157.9 million (previous year: €1,943.4 million), of which €1,056.9 million (previous year: €1,289.6 million) were due on demand and €501.0 million (previous year: €653.7 million) were not due on demand.

The item "Portfolio hedge adjustment" involves a measurement item from the interest-rate-based measurement of financial assets at amortised cost designated in connection with the portfolio fair value hedge. Recognised in this regard is the change in the hedged item as relates to the hedged risk.

The W&W Group offsets financial instruments in the balance sheet. In 2019 they were cleared for the first time through the central counterparty Eurex Clearing AG. The change in the sub-item "Other loans and advances" was mainly the result of this offsetting in accordance with IAS 32, with a view to the variation margin.

Risk provision by class for financial assets at amortised cost

in € thousands	31.12.2019	31.12.2018
Subordinated securities and receivables	-235	-145
Senior debenture bonds and registered bonds	-29	-741
Senior fixed-income securities	—	-468
Construction loans	-66,747	-128,293
Other loans and advances	-25,811	-29,623
Miscellaneous receivables	-10,925	-10,634
Risk provision	**-103,747**	**-169,904**

(6) Positive market values from hedges

in € thousands	31.12.2019	31.12.2018
Fair value hedges	**88,994**	**61,686**
Hedging of interest rate risk	88,994	61,686
Positive market values from hedges	**88,994**	**61,686**

(7) Financial assets accounted for using the equity method

in € thousands	31.12.2019	31.12.2018
Carrying amount as at 1 January	**93,016**	**95,469**
Additions	1,133	256
Dividend payments	-5,452	-5,670
Pro rata share of net income	11,361	3,283
Changes recognised directly in equity	42	-322
Carrying amount as at 31 December	**100,100**	**93,016**

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	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Holding, in %	35.00	35.00	15.00	15.00		
Assets	271,780	255,589	1,998,318	1,872,481	2,270,098	2,128,070
Liabilities	10,186	9,291	1,949,391	1,835,088	1,959,577	1,844,379
Net assets (100%)	**261,594**	**246,298**	**48,927**	**37,393**	**310,521**	**283,691**
Group share of net assets	**91,558**	**86,204**	**7,339**	**5,609**	**98,897**	**91,813**
Reconciliation	–	–	1,203	1,203	1,203	1,203
Carrying amount of financial assets accounted for using the equity method	**91,558**	**86,204**	**8,542**	**6,812**	**100,100**	**93,016**

	BWK GmbH Unternehmens-beteiligungsgesellschaft		V-Bank AG		Total	
in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Revenue	33,104	15,731	23,189	19,889	56,293	35,620
Net income (100%)	30,796	7,697	3,885	3,925	34,681	11,622
Other comprehensive income (100%)	–	–	277	-2,148	277	-2,148
Total income (100%)	**30,796**	**7,697**	**4,162**	**1,777**	**34,958**	**9,474**
Group share of net income	10,779	2,694	582	589	11,361	3,283
Group share of other comprehensive income	–	–	42	-322	42	-322
Group share of total income	**10,779**	**2,694**	**624**	**267**	**11,403**	**2,961**
Dividends received	5,425	5,425	–	245	5,425	5,670

In the case of V-Bank, although we hold less than 20% of the voting rights, we exercise significant influence over it as a result of our representation on its supervisory body.

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 properties amounted to €2,388.4 million (previous year: €2,312.4 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 2019, there were contractual obligations to purchase and construct investment properties amounting to €107.6 million (previous year: €248.4 million). There were no material contractual obligations to develop investment property or for repairs, maintenance or improvements.

in € thousands	2019	2018
Gross carrying amounts as at 1 January	**2,196,900**	**2,054,138**
Additions of right-of-use assets as at 1 January 2019 as a result of initial application of IFRS 16.	9,408	–
Adjusted gross carrying amounts as at 1 January	**2,206,308**	**2,054,138**
Additions	194,652	216,289
Disposals	-17,568	-8,707
Reclassifications	329	–
Classified as held for sale	-151,083	-64,820
As at 31 December	**2,232,638**	**2,196,900**
Cumulative depreciation and impairments as at 1 January	**-369,845**	**-370,597**
Additions of right-of-use assets as at 1 January 2019 as a result of initial application of IFRS 16.	–	–
Adjusted amount of cumulative depreciation and impairments as at 1 January	**-369,845**	**370,597**
Additions: depreciation (scheduled)	-43,060	-42,660
Additions: impairments	-1,267	-1,732
Disposals	5,939	1,870
Reversals of impairment losses	3,616	2,129
Reclassifications	–	–
Classified as held for sale	27,203	41,145
As at 31 December	**-377,414**	**-369,845**
	,	,
Net carrying amounts as at 1 January	**1,827,055**	**1,683,541**
Net carrying amounts as at 31 December	**1,855,224**	**1,827,055**

Additions included capitalised production costs of €34.2 million (previous year: €5.4 million).

Impairment expenses in the current period of €1.3 million (previous year: €1.7 million) relate to various residential and commercial properties whose net realisable value is lower than the carrying amount. One of the main reasons for this are ancillary acquisition costs.

(9) Reinsurers' portion of technical provisions

in € thousands	31.12.2019	31.12.2018
Provision for unearned premiums	13,861	12,629
Provision for future policy benefits	86,637	81,388
Provision for outstanding insurance claims	178,310	206,411
Other technical provisions	-2,744	-3,216
Reinsurers' portion of technical provisions	**276,064**	**297,212**

Further remarks can be found at the corresponding liability items starting at Note 19.

(10) Intangible assets

in € thousands	31.12.2019	31.12.2018	Remaining amortisation period (years)
Software	86,961	85,014	1–5
Brand names	12,865	14,473	9
Other purchased intangible assets	113	214	1–7
Intangible assets	**99,939**	**99,701**	–

Changes to intangible assets in 2019

	Externally procured software	Internally developed software	Brand names	Other purchased intangible assets	Total
in € thousands					
Gross carrying amounts as at 1 January	**397,501**	**52,482**	**32,162**	**17,620**	**515,492**
Additions	33,355	605	–	1	33,961
Disposals	-46,144	-47,039	–	-596	-93,779
Reclassifications	3,441	–	–	–	3,441
Classified as held for sale	-17,852	–	–	–	-17,852
Changes in the scope of consolidation	2,151	–	–	–	2,151
Changes from currency translation	206	–	–	–	206
As at 31 December	**372,658**	**6,048**	**32,162**	**17,025**	**443,620**
Cumulative amortisation and impairments as at 1 January	**-312,685**	**-52,284**	**-17,689**	**-17,406**	**-415,791**
Additions: amortisation (scheduled)	-27,189	-120	-1,608	-102	-29,019
Disposals	46,045	47,039	–	596	93,680
Reclassifications	-3,441	–	–	–	-3,441
Classified as held for sale	13,073	–	–	–	13,073
Changes in the scope of consolidation	-2,151	–	–	–	-2,151
Changes from currency translation	-32	–	–	–	-32
As at 31 December	**-286,380**	**-5,365**	**-19,297**	**-16,912**	**-343,681**
Net carrying amounts as at 1 January	**84,816**	**198**	**14,473**	**214**	**99,701**
Net carrying amounts as at 31 December	**86,278**	**683**	**12,865**	**113**	**99,939**

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
Classified as held for sale	–	–	–	–	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
Disposals	–	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**

Wüstenrot Holding AG and W&W AG are parties to a brand name transfer and use agreement. As at 31 December 2019, the carrying amount of the resulting intangible asset amounted to €12.9 million (previous year: €14.5 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 10 years. As at 31 December 2019, the capitalised brand name was offset by a financial liability to Wüstenrot Holding AG in the amount of €15.1 million (previous year: €17.0 million).

Total expenditures for research and development that were recognised in the income statement for the 2019 financial year amounted to €30.0 million (previous year: €35.6 million).

There were obligations to purchase intangible assets in the amount of €8.5 million (previous year: €4.3 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 €240.3 million (previous year: €11.3 million). The rise was mostly due to the construction of the campus in Ludwigsburg, appraised by the net asset value method.

Additions to property for own use included costs for assets under construction in the amount of €73.4 million (previous year: €20.3 million).

Property, plant and equipment

	Property for own use		Plant and equipment		Total	
in € thousands	2019	2018	2019	2018	2019	2018
Gross carrying amounts as at 1 January	**507,224**	**494,012**	**173,908**	**195,736**	**681,132**	**689,748**
Additions of right-of-use assets as at 1 January 2019 as a result of initial application of IFRS 16	60,523	–	3,436	–	63,959	–
Adjusted gross carrying amounts as at 1 January	**567,747**	**494,012**	**177,344**	**195,736**	**745,091**	**689,748**
Additions	75,808	20,569	22,784	10,861	98,592	31,430
Disposals	-50,505	-248	-47,739	-32,653	-98,244	-32,901
Reclassifications	-328	–	–	–	-328	–
Classified as held for sale	-6,142	-7,098	-6,680	–	-12,822	-7,098
Changes from currency translation	20	-11	61	-36	81	-47
As at 31 December	**586,600**	**507,224**	**145,770**	**173,908**	**732,370**	**681,132**
		,				,
Cumulative depreciation and impairments as at 1 January	**-255,872**	**-245,512**	**-137,799**	**-154,834**	**-393,671**	**-400,346**
Additions of right-of-use assets as at 1 January 2019 as a result of initial application of IFRS 16	–	–	–	–	–	–
Adjusted amount of cumulative depreciation and impairments as at 1 January	**-255,872**	**-245,512**	**-137,799**	**-154,834**	**-393,671**	**-400,346**
Additions: depreciation (scheduled)	-27,681	-14,004	-18,169	-15,180	-45,850	-29,184
Additions: impairments	–	–	–	-6	–	-6
Disposals	50,114	178	47,586	32,190	97,700	32,368
Classified as held for sale	2,375	3,460	4,867	–	7,242	3,460
Changes from currency translation	-2	6	-12	31	-14	37
As at 31 December	**-231,066**	**-255,872**	**-103,527**	**-137,799**	**-334,593**	**-393,671**
Net carrying amounts as at 1 January	**251,352**	**248,500**	**36,109**	**40,902**	**287,461**	**289,402**
Net carrying amounts as at 31 December	**355,534**	**251,352**	**42,243**	**36,109**	**397,777**	**287,461**

(12) Inventories

Inventories in the amount of €151.4 million (previous year: €193.4 million) related to property development business and primarily included 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 €24.0 million (previous year: €14.5 million). Also recognised under "Inventories" were raw materials and consumables in the amount of €0.3 million (previous year: €0.3million).

An impairment provision in the amount of –€2.2 million (previous year: €0) was created for inventories in the reporting year. Expenses for the utilisation of inventories during the reporting period amounted to €25.4 million (previous year: €58.0 million). Inventories in the amount of €0 (previous year: €0.5 million) 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 €8.7 million (previous year: €28.5 million) within 12 months.

(14) Deferred tax assets

Deferred tax assets were recognised in connection with the following items:

in € thousands	31.12.2019	31.12.2018
Financial assets/liabilities at fair value through profit or loss	36,951	97,185
Financial assets at fair value through other comprehensive income	1,559	11,612
Financial assets at amortised cost	–	8,429
Positive/negative market values from hedges	138,545	36,138
Liabilities	61,872	14,293
Technical provisions	158,008	155,328
Provisions for pensions and similar obligations	335,023	260,982
Other balance sheet items	186,476	241,645
Tax loss carryforward	13,157	7
Deferred tax assets	**931,591**	**825,619**

The portion of the changes to deferred tax assets recognised directly in equity for some items can be seen in the consolidated statement of comprehensive income. The changes recognised in the income statement for some items are presented in Note 35.

Deferred taxes on provisions for pensions and other obligations in the amount of €315.8 million (previous year: €239.7 million) were recognised directly in the reserve for pension commitments.

Deferred tax assets in the amount of €116.4 million (previous year: €103.2 million) and deferred taxes on tax loss carryforwards in the amount of €13.2 million (previous year: €0.0 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 €25.1 million (previous year: €1.8 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	31.12.2019	31.12.2018
Financial liabilities held for trading	**80,287**	**455,318**
Derivative financial instruments	80,287	455,318
Financial liabilities at fair value through profit or loss	**80,287**	**455,318**

The W&W Group offsets financial instruments in the balance sheet. In 2019 they were cleared for the first time through the central counterparty Eurex Clearing AG. The change in the sub-item “Derivative financial instruments” was mainly the result of this offsetting in accordance with IAS 32, with a view to the variation margin.

(17) Liabilities

in € thousands	31.12.2019	31.12.2018
Liabilities evidenced by certificates	**947,565**	**1,286,568**
Liabilities to credit institutions	**2,232,992**	**1,454,518**
Liabilities to customers	**21,641,444**	**23,580,660**
Deposits from home loan savings business and savings deposits	18,446,460	19,299,783
Other liabilities	3,194,984	4,277,279
Down payments received	–	3,598
Lease liabilities[1]	**77,268**	**20,133**
Miscellaneous liabilities	**1,373,138**	**1,243,198**
Other liabilities[2]	418,792	351,985
Sundry liabilities[3]	954,346	891,213
Liabilities from reinsurance business	124,575	119,827
Liabilities from direct insurance business	678,553	639,377
Other sundry liabilities	151,218	132,009
Portfolio hedge adjustment	**47,797**	**–**
Liabilities	**26,320,204**	**27,585,077**

1 Name has been changed (formerly “Finance lease liabilities”). IFRS 16 is being applied in the 2019 financial year. IFRS 17 was applied in the 2018 financial year.
2 Liabilities that constitute a class pursuant to IFRS 7.
3 Liabilities that constitute a class pursuant to IFRS 7 but are not covered by the scope of IFRS 7 and essentially contain liabilities from insurance business with disclosure requirements pursuant to IFRS 4.

Of the other liabilities from liabilities to customers, €2,249.5 million (previous year: €3,030.2 million) are due on demand and €945.5 million (previous year: €1,247.0 million) have a fixed term.

Of the liabilities from direct insurance business within sundry liabilities, €622.5 million (previous year: €585.9 million) were attributable to policyholders and €56.0 million (previous year: €53.5 million) to insurance agents.

The item "Portfolio hedge adjustment" involves a measurement item from the interest-rate-based measurement of liabilities designated in connection with the portfolio fair value hedge. Recognised in this regard is the change in the hedged item as relates to the hedged risk. The portfolio of derivatives as at 31 December 2019 resulted from portfolio fair value hedges that were newly designated in the 2019 financial year.

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	31.12.2019	31.12.2018
Fair value hedges	**216,195**	**126,449**
Hedging of interest rate risk	216,195	126,449
Negative market values from hedges	**216,195**	**126,449**

(19) Technical provisions

	Gross	
in € thousands	31.12.2019	31.12.2018
Provision for unearned premiums	241,497	242,680
Provision for future policy benefits	29,959,727	28,971,646
Provision for outstanding insurance claims	2,591,943	2,547,021
Provision for premium refunds	4,594,755	2,928,607
Other technical provisions	41,219	38,258
Technical provisions	**37,429,141**	**34,728,212**

Provision for unearned premiums

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	2019	2019	2018	2018
As at 1 January	**242,680**	**12,629**	**245,008**	**11,849**
Additions	241,497	13,861	242,680	12,629
Withdrawals	-242,680	-12,629	-245,008	-11,849
As at 31 December	**241,497**	**13,861**	**242,680**	**12,629**

Provision for future policy benefits

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	31.12.2019	31.12.2019	31.12.2018	31.12.2018
Life insurance	29,072,557	86,637	28,189,901	81,388
Health insurance	887,170	—	781,745	—
Provision for future policy benefits	**29,959,727**	**86,637**	**28,971,646**	**81,388**

Provision for future policy benefits by type of business operated as life insurance

in € thousands	Gross 2019	Reinsurers' portion 2019	Gross 2018	Reinsurers' portion 2018
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	—
As at 1 January	**28,076,018**	**81,388**	**28,077,425**	**90,370**
Additions from premiums[1]	1,721,817	—	1,577,948	—
Use and release[1]	-2,308,059	—	-2,210,946	—
Interest[1]	715,054	—	724,849	—
Other changes[1]	755,158	5,249	-93,258	-8,982
As at 31 December	**28,959,988**	**86,637**	**28,076,018**	**81,388**
Provision for future policy benefits	26,834,538	—	26,478,755	—
Provision for future policy benefits for unit-linked insurance contracts	2,238,019	—	1,711,146	—
Receivables not yet due from policyholders	-112,569	—	-113,883	—

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	2019	2018
As at 1 January	**781,745**	**692,428**
Share of association rates	-68,362	-63,922
As at 1 January, not including association rates	**713,383**	**628,506**
Premiums from the provision for premium refunds	7,043	10,545
Additions from premiums	61,731	58,171
Interest	16,793	15,834
Direct credits	7,402	327
As at 31 December, not including association rates	**806,352**	**713,383**
Share of association rates	80,818	68,362
As at 31 December	**887,170**	**781,745**

Provision for outstanding insurance claims

in € thousands	Gross 31.12.2019	Reinsurers' portion 31.12.2019	Gross 31.12.2018	Reinsurers' portion 31.12.2018
Life and health insurance	222,932	10,342	208,507	7,309
Property/casualty insurance and reinsurance	2,369,011	167,968	2,338,514	199,102
Provision for outstanding insurance claims	**2,591,943**	**178,310**	**2,547,021**	**206,411**

In the area of life and health insurance, the provision for outstanding insurance claims changed as follows:

in € thousands	Gross 2019	Reinsurers' portion 2019	Gross 2018	Reinsurers' portion 2018
As at 1 January	**208,507**	**7,309**	**201,657**	**11,969**
Changes recognised in the income statement	14,425	3,033	6,850	-4,660
As at 31 December	**222,932**	**10,342**	**208,507**	**7,309**

In the area of property/casualty insurance and reinsurance, the provision for outstanding insurance claims changed as follows:

in € thousands	Gross 2019	Reinsurers' portion 2019	Gross 2018	Reinsurers' portion 2018
As at 1 January prior to reclassification	**2,338,514**	**199,102**	**2,345,648**	**211,467**
Reclassification according to IFRS9	–	–	–	-7,214
As at 1 January after reclassification	**2,338,514**	**199,102**	**2,345,648**	**204,253**
Additions	630,776	27,522	583,559	40,647
Use	-463,406	-46,020	-444,028	-46,768
Release	-139,942	-12,761	-148,097	786
Changes from currency translation	3,069	125	1,432	184
As at 31 December	**2,369,011**	**167,968**	**2,338,514**	**199,102**

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	31.12.2010	31.12.2011	31.12.2012	31.12.2013
Provision for outstanding insurance claims (gross)	**2,202,643**	**2,138,684**	**2,115,807**	**2,298,051**
Less provision for claim adjustment expenses	170,487	151,053	143,828	146,869
Provision for outstanding insurance claims (gross)	**2,032,156**	**1,987,631**	**1,971,979**	**2,151,182**
Payments, cumulative (gross)				
One year later	333,833	323,446	342,885	423,322
Two years later	473,612	470,817	466,803	587,072
Three years later	574,571	554,140	568,052	682,855
Four years later	638,949	634,042	636,356	744,049
Five years later	707,944	690,416	686,623	797,797
Six years later	757,448	733,169	733,089	837,437
Seven years later	795,821	774,277	768,435	–
Eight years later	832,241	806,812	–	–
Nine years later	861,816	–	–	–
Original provision, reestimated (gross)				
One year later	1,900,053	1,864,927	1,867,591	2,075,251
Two years later	1,809,559	1,768,517	1,801,134	1,970,230
Three years later	1,719,811	1,727,154	1,746,498	1,917,310
Four years later	1,687,446	1,688,593	1,715,199	1,845,499
Five years later	1,666,085	1,675,483	1,671,041	1,782,454
Six years later	1,658,294	1,637,511	1,620,406	1,698,995
Seven years later	1,630,541	1,596,263	1,546,986	–
Eight years later	1,593,276	1,529,010	–	–
Nine years later	1,530,554	–	–	–
Cumulative gross surplus (deficit) excluding currency rate effects	**501,602**	**458,621**	**424,993**	**452,186**
Cumulative gross surplus (deficit) including currency rate effects	**498,775**	**459,942**	**422,413**	**448,785**

1 The run-off triangle retroactively includes Group companies newly consolidated and retroactively excludes Group companies deconsolidated.
2 Prior-year year figure adjusted.

31.12.2014	31.12.2015	31.12.2016	31.12.2017	31.12.2018	31.12.2019
2,307,159	**2,320,346**	**2,317,581**	**2,345,648**	**2,338,514**	**2,369,011**
151,782	149,474	152,178	159,303	154,968[2]	161,650
2,155,377	**2,170,872**	**2,165,403**	**2,186,345**	**2,183,546**	**2,207,361**
,	,	,	,	,	
364,833	348,789	344,452	381,744	394,733	–
505,919	480,556	483,154	474,709	–	–
591,536	568,893	553,855	–	–	–
656,358	623,787	–	–	–	–
701,745	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
2,021,321	2,028,815	2,017,472	2,035,807	2,028,907	–
1,927,813	1,899,667	1,880,631	1,841,344	–	–
1,837,551	1,798,574	1,741,332	–	–	–
1,753,505	1,678,098	–	–	–	–
1,657,418	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
497,959	**492,774**	**424,072**	**345,001**	**154,639**	**–**
496,665	**493,413**	**424,990**	**343,784**	**151,590**	**–**

Net run-off triangle[1]

in € thousands	31.12.2010	31.12.2011	31.12.2012	31.12.2013
Provision for outstanding insurance claims (gross)	**2,202,643**	**2,138,684**	**2,115,807**	**2,298,051**
Reinsurers' portion	243,629	240,553	213,375	316,616
Provision for outstanding insurance claims (net)	**1,959,014**	**1,898,131**	**1,902,432**	**1,981,435**
Less provision for claim adjustment expenses	161,599	145,605	146,226	148,891
Provision for outstanding insurance claims (net)	**1,797,415**	**1,752,526**	**1,756,206**	**1,832,544**
Payments, cumulative (net)				
One year later	308,239	292,000	314,905	307,660
Two years later	429,469	420,514	427,222	438,212
Three years later	516,963	493,036	518,813	512,108
Four years later	572,590	564,039	576,288	564,949
Five years later	632,887	609,585	619,557	610,641
Six years later	672,583	645,340	658,478	643,259
Seven years later	704,098	678,902	685,626	–
Eight years later	733,118	701,758	–	–
Nine years later	753,247	–	–	–
Original provision, reestimated (net)				
One year later	1,657,659	1,631,744	1,652,034	1,734,546
Two years later	1,572,665	1,533,715	1,580,346	1,638,230
Three years later	1,485,203	1,486,977	1,532,754	1,588,680
Four years later	1,445,935	1,454,094	1,502,142	1,523,096
Five years later	1,430,759	1,441,670	1,463,334	1,462,090
Six years later	1,424,467	1,409,041	1,414,419	1,393,485
Seven years later	1,402,051	1,369,512	1,354,562	–
Eight years later	1,366,532	1,314,341	–	–
Nine years later	1,316,047	–	–	–
Cumulative net surplus (deficit) excluding currency rate effects	**481,368**	**438,185**	**401,644**	**439,059**
Cumulative net surplus (deficit) including currency rate effects	**467,302**	**437,327**	**410,236**	**423,787**
Net run-off ratios, in %				
Excluding currency rate effects	26.78	25.00	22.87	23.96
Including currency rate effects	26.00	24.95	23.36	23.13

1 The run-off triangle retroactively includes Group companies newly consolidated and retroactively excludes Group companies deconsolidated.

	31.12.2014	31.12.2015	31.12.2016	31.12.2017	31.12.2018	31.12.2019
	2,307,159	**2,320,346**	**2,317,581**	**2,345,648**	**2,338,514**	**2,369,011**
	237,472	218,041	199,237	211,467	199,102	167,968
	2,069,687	**2,102,305**	**2,118,344**	**2,134,181**	**2,139,412**	**2,201,043**
	149,880	151,350	153,953	160,848	153,402	160,751
	1,919,807	**1,950,955**	**1,964,391**	**1,973,333**	**1,986,010**	**2,040,292**
	323,041	308,063	314,233	334,172	349,320	–
	440,783	427,759	436,488	457,349	–	–
	516,509	502,780	512,766	–	–	–
	572,962	560,603	–	–	–	–
	615,086	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	1,793,132	1,817,162	1,826,697	1,829,213	1,842,017	–
	1,702,937	1,697,479	1,693,847	1,698,806	–	–
	1,618,970	1,598,995	1,586,644	–	–	–
	1,536,901	1,503,456	–	–	–	–
	1,459,426	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	460,381	**447,499**	**377,747**	**274,527**	**143,993**	**–**
	446,432	**455,422**	**393,755**	**274,151**	**138,753**	**–**
	23.98	22.94	19.23	13.91	7.25	–
	23.25	23.34	20.04	13.89	6.99	–

Provision for premium refunds

The provision for premium refunds changed as follows:

in € thousands	2019	2018
As at 1 January	**2,928,607**	**2,093,507**
Provision for premium refunds as at 1 January	**1,488,284**	**1,430,240**
Additions	317,190[1]	274,355
Withdrawals with effect on liquidity	−152,469	−148,759
Withdrawals with no effect on liquidity	−90,334	−67,552
As at 31 December	**1,562,671**	**1,488,284**
Provision for deferred premium refunds as at 1 January	**1,440,323**	**663,267**
Reclassification according to IFRS 9	–	1,458,150
Provision for deferred premium refunds as at 1 January	**1,440,323**	**2,121,417**
Changes recognised in the income statement	,58,930	−38,443
Changes recognised directly in equity	1,650,691	−642,651
As at 31 December	**3,032,084**	**1,440,323**
As at 31 December	**4,594,755**	**2,928,607**

1 In der Zuführung für das Geschäftsjahr 2019 ist eine Nachholung für das Jahr 2018 aufgrund § 4 MindZV in Höhe von 15 186 Tsd € enthalten.

Other technical provisions

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	2019	2019	2018	2018
As at 1 January	**38,258**	**−3,216**	**36,115**	**–**
Additions	41,219	−2,744	38,258	–
Use and release	−38,258	3,216	−36,115	−3,216
As at 31 December	**41,219**	**−2,744**	**38,258**	**−3,216**

(20) Other provisions

in € thousands	31.12.2019	31.12.2018
Provisions for pensions	1,777,345	1,513,309
Provisions for other long-term employee benefits	42,784	45,533
Provisions for pensions and other long-term employee benefits	**1,820,129**	**1,558,842**
Other provisions	1,131,586	1,091,752
Risik provision for granted loans and financial guarantees	3,655	3,207
Miscellaneous provisions	**2,955,370**	**2,653,801**

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 pension provisions	
in € thousands	2019	2018	2019	2018	2019	2018
As at 1 January	**1,806,698**	**1,863,551**	**293,389**	**323,252**	**1,513,309**	**1,540,299**
Income and expenses recognised in the consolidated income statement	49,986	51,178	4,836	4,720	45,150	46,458
Current service cost	19,626	22,088	–	–	19,626	22,088
Gains/losses from plan settlements and curtailments	72	1,499	–	–	72	1,499
Interest expenses	30,288	27,591	–	2	30,288	27,589
Prospective income from plan assets	–	–	4,836	4,718	-4,836	4,718
Actuarial gains (-) or losses (+) recognised in other comprehensive income	272,171	-44,693	8,214	-16,901	263,957	-27,792
Pension payments (utilisation)	-65,197	-63,338	-17,979	-17,682	-47,218	-45,656
Classified als held for sale	2,147	–	–	–	2,147	–
As at 31 December	**2,065,805**	**1,806,698**	**288,460**	**293,389**	**1,777,345**	**1,513,309**

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	31.12.2019	31.12.2018
Financial assets	**290,122**	**294,634**
Cash reserves	37,229	38,136
Participations, shares, fund units	25,542	23,629
Senior debenture bonds and registered bonds	50,315	–
Senior fixed-income securities	174,890	232,869
Derivative financial instruments	2,146	–
thereof market price quoted on an active market	109	
Financial liabilities	**1,662**	**1,245**
Liabilities to credit institutions	–	1
Other liabilities	111	61
Derivative financial instruments	1,551	1,183
Thereof market price quoted on an active market	1,551	1,183
Total	**288,460**	**293,389**

The following material actuarial assumptions were used in determining pension provisions under defined-benefit plans:

in %	2019	2018
Actuarial interest rate	0.80	1.70
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 2018G

Sensitivity analysis

Changes in the assumptions would have had the following effects on the defined-benefit obligation. In the process, each sensitivity analysis is performed independently of the others.

Present value of defined-benefit pension commitments

		31.12.2019		31.12.2018	
		Present value in € millions	Change in %	Present value in € millions	Change in %
Discount rate	+50 bp	1,903.1	–7.9	1,699.6	–7.2
	–50 bp	2,248.2	8.9	1,985.1	8.4
Trend in pension/inflation	+25 bp	2,121.6	2.7	1,883.0	2.8
	–25 bp	2,011.1	–2.6	1,788.4	–2.4
Trends in salaries/projected benefit obligation	+25 bp	2,073.5	0.4	1,841.8	0.5
	–25 bp	2,056.8	–0.4	1,827.5	–0.3
Life expectancy	By one more year	2,146.1	3.9	1,901.6	3.8

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- 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 was no liquidity problem.

The weighted average term to maturity of benefit obligations (Macaulay duration) amounted to 16.8 years (previous year: 15.9 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, 0.10% (previous year: 0.30%); contracts for phased-in early retirement ("Altersteilzeit"), 0.20% (previous year: 0.80%); long-term service benefits, 0.20% (previous year: 0.80%)).

Other provisions in 2019

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	**2,164**	**32,236**	**1,014,835**	**42,517**	**1,091,752**
Additions	17,556	2,204	138,226	28,764	186,750
Use	-228	-2,280	-141,970	-15,499	-159,977
Release	-1,246	-79	-18,015	-6,960	-26,300
Classified as held for sale	–	–	-5,318	-684	-6,002
Interest effect	–	1,773	43,597	47	45,417
Reclassification	–	–	–	-109	-109
Change to the scope of consolidation	-20	–	–	-3	-23
Changes from currency translation	–	–	69	9	78
As at 31 December	**18,226**	**33,854**	**1,031,424**	**48,082**	**1,131,586**

Additions to the restructuring provisions in the 2019 financial year have to do with restructuring provisions for the purpose of increasing efficiency by the in-house and mobile sales force staffs at Württembergische Versicherung AG.

Other provisions in 2018

in € thousands	For restruc-turing	For the refunding of closing fees in the case of loan waivers	For the interest bonus option	Other	Total
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**

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:

2019

in € thousands	Within 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Other provisions for restructuring	12,715	5,511	–	–	18,226
Other provisions for the refunding of closing fees in the case of loan waivers	4,216	4,845	24,793	–	33,854
Other provisions for the interest bonus option	243,730	306,963	480,731	–	1,031,424
Other	29,237	13,636	5,154	55	48,082
Other provisions, total	**289,898**	**330,955**	**510,678**	**55**	**1,131,586**

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**

(21) Current tax liabilities

Current tax liabilities amounted to €125.7 million (previous year: €206.4 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	31.12.2019	31.12.2018
Financial assets/liabilities at fair value through profit or loss	140,006	29,248
Financial assets at fair value through other comprehensive income	349,591	134,577
Financial assets at amortised cost	44,392	43,872
Positive/negative market values from hedges	–	16,189
Financial assets accounted for using the equity method	746	1,845
Liabilities	84,564	80,414
Technical provisions	164,175	159,043
Other balance sheet items	120,849	105,125
Deferred tax liabilities	**904,323**	**570,313**

In the reporting year, the portion of the changes to deferred tax liabilities recognised directly in equity for some items can be seen in the consolidated statement of comprehensive income. The changes recognised in the income statement for some items are presented in Note 35.

Deferred tax liabilities in the amount of €64.6 million (previous year: €40.7 million) are expected to be realised within 12 months.

(23) Other liabilities

This item includes contract liabilities in the amount of €3.4 million (previous year: €23.3 million) and deferred income and accrued expenses in the amount of €2.4 million (previous year: €9.9 million).

(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	31.12.2019	31.12.2018
Subordinated liabilities	422,736	433,270
Profit participation certificates	2,114	2,206
Subordinated capital	**424,850**	**435,476**

(25) Equity

in € thousands	31.12.2019	31.12.2018
Interests of W&W shareholders in paid-in capital	1,486,514	1,485,595
Interests of W&W shareholders in earned capital	3,313,465	2,725,867
Non-controlling interests in equity	35,103	24,869
Equity	**4,835,082**	**4,236,331**

We propose appropriating the unappropriated surplus of €75.4 million that was generated by W&W AG in the 2019 financial year as follows: distribution of a dividend in the amount of €0.65 for each share entitled to receive dividends, i.e. a total of €60,937,318.

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 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.

On 5 June 2019, the Annual General Meeting of W&W AG resolved to distribute a dividend in the amount of €0.65 (previous year: €0.65) per share from the unappropriated surplus for the 2018 financial year as calculated in accordance with the German Commercial Code (HGB), which amounted to €65.3 million (previous year: €65.2 million). Based on the shares entitled to receive dividends, this corresponded to a maximum distribution of €60.9 million (previous year: €60.9 million). Of the remaining amount, €4.0 million (previous year: €4.0 million) was allocated to "Other reserves", and €0.4 million (previous year: €0.2 million) was carried forward.

Share capital

Share capital is divided into 93,695,834 outstanding 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

	31.12.2019	31.12.2018
As at 1 January	**93,622,994**	**93,550,955**
Disposals	72,840	72,039
As at 31 December	**93,695,834**	**93,622,994**

Authorised capital
Pursuant to Article 5 (5) of the Articles of Association of W&W AG, the Executive Board is authorised until 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 instru-

ments on or before 12 June 2023. Article 5 (6) of the Articles of Association accordingly provides that the share capital of WW AG is contingently increased by the nominal amount of not more than €240,000 thousand, divided into not more than 45,889,102 registered no-par-value shares.

Non-controlling interests in equity

The non-controlling interests in equity can be broken down as follows:

in € thousands	31.12.2019	31.12.2018
Interest in unrealised gains and losses	14,187	4,936
Interest in the consolidated net profit	983	1,026
Other interests	19,933	18,907
Non-controlling interests in equity	**35,103**	**24,869**

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	31.12.2019	31.12.2018
Participation of non-controlling interests, in %	5.11	5.11
Assets (100%)	36,807,183	33,912,146
Liabilities (100%)	36,014,736	33,320,201
Net assets (100%)	**792,447**	**591,945**
Net assets attributable to WürttLeben/Wüstenrot stavebni Sporitelna	792,447	591,945
Net assets attributable to non-controlling interests	–	–
Carrying amount of non-controlling interests in net assets	**40,494**	**30,248**
Net income (100%)	19,739	20,217
Net income attributable to WürttLeben/Wüstenrot stavebni Sporitelna	19,739	20,208
Net income attributable to non-controlling interests	–	9
Other comprehensive income (100%)	180,763	-70,250
Total income (100%)	**200,502**	**-50,033**
Total net income allocated to non-controlling interests	**1,009**	**1,042**
Dividends paid to non-controlling interests	–	–
Cash flows (100%)	-180,773	221,468

Employee share ownership programme

An employee share ownership programme was conducted in the first half-year of 2019. 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 €12.62 (previous year: €13.18) per share, which represented a discount of €5.00 (previous year: €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 XETRA closing price on 1 April 2019.

Treasury shares in the portfolio were used for this programme. Employees acquired a total of 72,840 (previous year: 72,039) of these shares. This resulted in personnel expenses of €0.4 million (previous year: €0.4 million). Thus, as at 31 December 2019 W&W AG still held 53,886 (previous year: 126,726) treasury shares.

Notes concerning the consolidated income statement

(26) Current net income/expense

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Interest income	**1,484,011**	**1,584,405**
Subordinated securities and receivables	21,560	20,715
Fixed-income financial instruments that do not pass the SPPI test	46,222	43,964
Derivative financial instruments	78,104	75,580
Senior debenture bonds and registered bonds	274,132	351,468
Senior fixed-income securities	406,471	402,151
Construction loans	600,167	651,486
Other loans and receivables	45,940	31,898
Other loans and advances	21,072	21,403
Other receivables	24,868	10,495
Negative interest on liabilities	11,415	7,143
Interest expenses	**−615,373**	**−582,475**
Liabilities evidenced by certificates	−11,880	−29,308
Deposit liabilities and other liabilities	−398,565	−386,650
Lease liabilities	−1,620	−362
Reinsurance liabilities	−2,461	−1,729
Miscellaneous liabilities	−29,327	−6,372
Subordinated capital	−20,449	−19,939
Derivative financial instruments	−109,852	−100,063
Negative interest on receivables	−8,074	−7,047
Other	−33,145	−31,005
Dividend income	**215,134**	**192,044**
Other current net income	**69,509**	**57,744**
Net income from financial assets accounted for using the equity method	11,335	3,283
Net income from investment property	58,167	54,426
Other	7	35
Current net income	**1,153,281**	**1,251,718**

Net income from investment property contains income from leasing in the amount of €124.8 million (previous year: €121.9 million). In addition, it includes directly attributable operating expenses for repairs, maintenance and management, as well as depreciation. These expenses consisted of €63.5 million (previous year: €64.7 million) for investment property that generated rental income and €3.1 million (previous year: €2.7 million) for investment property that did not generate any rental income.

(27) Net expense from risk provision

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Income from risk provision	**86,310**	**91,995**
Release of risk provision	73,035	77,431
Subordinated securities and receivables	199	73
Senior debenture bonds and registered bonds	1,810	1,154
Senior fixed-income securities	11,925	4,771
Construction loans	54,674	66,571
Other loans and receivables	4,074	4,567
Other loans and advances	2,444	2,189
Other receivables	1,630	2,378
Reinsurers' portion of technical provisions	353	295
Release of provisions in lending business, for irrevocable loan commitments, for financial guarantees	2,681	2,997
Write-ups/receipts on written-down securities and receivables	10,594	11,567
Expenses from risk provision	**−90,345**	**−94,667**
Additions to risk provision	−86,105	−90,827
Subordinated securities and receivables	−466	−431
Senior debenture bonds and registered bonds	−809	−3,780
Senior fixed-income securities	−12,369	−14,450
Construction loans	−48,628	−55,554
Other loans and receivables	−23,735	−16,418
Other loans and advances	−20,269	−14,519
Other receivables	−3,466	−1,899
Reinsurers' portion of technical provisions	−98	−194
Additions to provisions in lending business, for irrevocable loan commitments, for financial guarantees	−4,240	−3,840
Net expense from risk provision	**−4,035**	**−2,672**

(28) Net measurement gain/loss

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Net income/expense from financial assets/liabilities at fair value through profit or loss	**728 084**	**–427 055**
Participations, shares, fund units	198 013	–153 708
Senior fixed-income securities	35 296	–24 515
Derivative financial instruments	72 783	44 244
Capital investments for the account and risk of holders of life insurance policies	381 011	–252 820
Fixed-income financial instruments that do not pass the SPPI test	40 981	–40 256
Net expense from the discounting of provisions for home loan savings business	**–37 601**	**–15 280**
Net income/expense from hedges[1]	**13 706**	**–43 242**
Impairments/reversals of impairment losses taken on investment property	**2 349**	**397**
Net currency expense	**–94 008**	**–68 045**
Participations, shares, fund units	19 918	41 675
Subordinated securities and receivables	76	638
Fixed-income financial instruments that do not pass the SPPI test	252	3 398
Senior fixed-income securities	62 135	132 597
Other loans and receivables	13 353	22 252
Derivative financial instruments	–194 630	–284 873
Capital investments for the account and risk of holders of life insurance policies	5 449	15 076
Liabilities	–561	1 192
Net measurement gain/loss	**612 530**	**–553 225**

1 Hedge accounting (hedged items and hedging instruments)

The net income/expense from financial assets/liabilities at fair value through profit or loss included measurement gains in the amount of €1,148.8 million (previous year: €432.7 million) and measurement losses in the amount of €420.7 million (previous year: €859.7 million). Of this, measurement gains in the amount of €331.3 million (previous year: €119.8 million) and measurement losses in the amount of €258.5 million (previous year: €106.1 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 €211.3 million (previous year: €450.9 million) and losses in the amount of €305.3 million (previous year: €518.9 million). Of this, currency gains in the amount of €88.3 million (previous year: €137.8 million) and currency losses in the amount of €283.0 million (previous year: €293.2 million) were attributable to currency derivatives, which hedged currency gains and losses on capital investments.

(29) Net income from disposals

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Income from disposals	**630,945**	**737,631**
Subordinated securities and receivables	4,021	2,887
Senior debenture bonds and registered bonds	261,580	499,718
Senior fixed-income securities	289,725	192,534
Construction loans	1	—
Investment property	75,618	42,492
Expenses from disposals	**−39,237**	**−100,096**
Subordinated securities and receivables	−881	−1,286
Senior debenture bonds and registered bonds	—	−662
Senior fixed-income securities	−37,755	−97,623
Financial assets accounted for using the equity method	—	−15
Investment property	−551	−6
Other	−50	−504
Net income from disposals	**591,708**	**637,535**

(30) Earned premiums (net)

Life and health insurance

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Gross premiums written	2,359,228	2,211,253
Change in the provision for unearned premiums	7,696	5,550
Premiums from the provision for premium refunds	64,367	53,136
Earned premiums (gross)	**2,431,291**	**2,269,939**
Premiums ceded to reinsurers	−29,668	−29,612
Earned premiums (net)	**2,401,623**	**2,240,327**

Property/casualty insurance and reinsurance

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Gross premiums written	1,960,425	1,854,195
Direct	1,954,386	1,847,725
Reinsurance	6,039	6,470
Change in the provision for unearned premiums	−6,513	−3,222
Earned premiums (gross)	**1,953,912**	**1,850,973**
Premiums ceded to reinsurers	−106,366	−91,236
Earned premiums (net)	**1,847,546**	**1,759,737**

(31) Insurance benefits (net)

Benefits under insurance contracts from direct business are shown without claim adjustment expenses. These are included 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" is also the change in the provision for deferred premium refunds recognised in the income statement.

Life and health insurance

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Payments for insurance claims	−2,395,178	−2,312,838
Gross amount	−2,411,228	−2,326,076
Thereof to: reinsurers' portion	16,050	13,238
Change in the provision for outstanding insurance claims	−11,387	−11,498
Gross amount	−14,425	−6,850
Thereof to: reinsurers' portion	3,038	−4,648
Change in the provision for future policy benefits	−982,653	−71,777
Gross amount	−987,902	−78,806
Thereof to: reinsurers' portion	5,249	7,029
Change in the provision for premium refunds	−258,167	−235,622
Gross amount	−258,167	−235,622
Thereof to: reinsurers' portion	—	—
Change in other technical provisions	−84	−33
Gross amount	−84	−33
Thereof to: reinsurers' portion	—	—
Insurance benefits (net)	**−3,647,469**	**−2,631,768**
Gross amount, total	−3,671,806	−2,647,387
Thereof to (total): reinsurers' portion	24,337	15,619

Property/casualty insurance and reinsurance

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Payments for insurance claims	−943,231	−919,963
Gross amount	−1,015,938	−984,452
Thereof to: reinsurers' portion	72,707	64,489
Change in the provision for outstanding insurance claims	−58,946	3,122
Gross amount	−27,427	8,570
Thereof to: reinsurers' portion	−31,519	−5,448
Change in the provision for premium refunds	−93	−290
Gross amount	−93	−290
Thereof to: reinsurers' portion	—	—
Change in other technical provisions	−739	−4,836
Gross amount	−1,212	−1,620
Thereof to: reinsurers' portion	473	−3,216
Insurance benefits (net)	**−1,003,009**	**−921,967**
Gross amount, total	−1,044,670	−977,792
Thereof to (total): reinsurers' portion	41,661	55,825

(32) Net commission expense

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Commission income	**256,769**	**275,444**
from the conclusion of building savings contracts	123,010	140,186
from home loan savings business	36,020	39,448
from reinsurance	26,093	23,178
from brokering activities	66,841	34,013
from investment business	3,196	37,486
from other business	1,609	1,133
Commission expenses	**–746,964**	**–704,050**
from insurance	–482,492	–450,988
from banking/home loan savings business	–185,826	–183,606
from reinsurance	–8	–1,342
from brokering activities	–13,160	–10,810
from investment business	–25,904	–25,817
from other business	–39,574	–31,487
Net commission expense	**–490,195**	**–428,606**

The net commission expense includes income in the amount of €0.6 million (previous year: €0.7 million) and expenses in the amount of €1.8 million (previous year: €2.0 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 €8.0 million (previous year: €8.6 million) and commission expenses in the amount of €5.2 million (previous year: €4.6 million).

(33) General administrative expenses

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Personnel expenses	**−613,552**	**−588,962**
Wages and salaries	−463,638	−446,409
Social remittances	−84,286	−80,456
Expenses for pension scheme and support	−49,754	−48,736
Other	−15,874	−13,361
Materials costs	**−381,550**	**−422,892**
Depreciation/amortisation	**−85,349**	**−61,219**
Property for own use	−31,927	−14,004
Plant and equipment	−19,654	−15,191
Intangible assets	−33,768	−32,024
General administrative expenses	**−1,080,451**	**−1,073,073**

During the reporting period, contributions totalling €20.1 million (previous year: €16.2 million) were paid towards defined-contribution plans. In addition, employer contributions totalling €40.7 million (previous year: €40.0 million) were paid towards statutory pension insurance.

General administrative expenses contain personnel expenses totalling €14.7 million (previous year: €15.1 million) for phased-in early retirement ("Altersteilzeit") and early retirement.

The application of IFRS 16 resulted in lower expenses for materials but higher depreciation/amortisation. In all, this had no appreciable impact on results.

(34) Net other operating income/expense

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Other operating income	**204,471**	**178,390**
Sales proceeds from inventories (property development business)	78,627	60,842
Release of provisions	12,851	26,881
Income from sales	377	8,806
Other income from currency translation	157	1,781
Other technical income	16,309	25,562
Miscellaneous income	96,150	54,518
Other operating expenses	**−232,991**	**−135,906**
Other taxes	−1,758	−3,263
Expenses from inventories (property development business)	−108,990	−51,276
Additions to provisions	−27,316	−3,505
Losses from sales	−38,684	−577
Other expenses from currency translation	−3,216	−2,702
Other technical expenses	−34,929	−54,024
Miscellaneous expenses	−18,098	−20,559
Net other operating expense	**−28,520**	**42,484**

Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg, which had been held for sale as at 31 December 2019, was sold on 31 May 2019, resulting in a disposal gain of €9.8 million. In the consolidated income statement, this gain was recognised under “Net income from disposals” within “Net financial income” in the amount of €48.4 million and under “Other operating expenses” in the amount of €38.6 million.

(35) Income taxes

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Current income taxes paid for the reporting period	−73,362	−156,074
Current taxes paid for other periods	3,174	6,454
Deferred taxes	−33,762	44,319
Income taxes	**−103,950**	**−105,301**

Deferred taxes recognised in the income statement were created in connection with the following items:

Deferred taxes

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Financial assets/liabilities at fair value through profit or loss	–170,992	–16,068
Finanzielle Vermögenswerte erfolgsneutral zum beizulegenden Zeitwert bewertet (OCI)	9,323	63,499
Finanzielle Vermögenswerte zu fortgeführten Anschaffungskosten bewertet	–8,948	–31,268
Positive and negative market values from hedges	118,643	16,209
Financial assets accounted for using the equity method	1,100	–312
Liabilities	43,429	724
Technical provisions	–2,451	–10,326
Provisions for pensions and other obligations	–2,069	6,936
Other items	–34,947	31,391
Tax loss carryforward	13,150	–16,466
Deferred taxes	**–33,762**	**44,319**

The following reconciliation statement shows the relationship between the income taxes expected and those actually recognised in the consolidated financial statements:

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Consolidated earnings before income taxes from continued operations	**353,009**	**320,490**
Uniform consolidated tax rate, in %	30,58	30,58
Expected income taxes	–107,950	–98,006
Tax rate discrepancies of Group companies	4,673	4,603
Effects of tax-free income	15,014	8,095
Effects of non-deductible expenses	–11,441	–9,343
Prior-period effects (current and deferred)	–376	–6,219
Other	–3,870	–4,431
Income taxes	**–103,950**	**–105,301**

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 €222.9 million (previous year: €322.3 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:

		1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Result attributable to shareholders of W&W AG	in €	248,076,003	214,207,527
Number of shares at the beginning of the financial year	#	93,622,994	93,550,955
Number of shares held by the company	#	-53,886	-126,726
Weighted average number of shares	#	93,677,674	93,604,639
Basic (= diluted) earnings per share	in €	**2.65**	**2.29**

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

	Financial assets at fair value through other comprehensive income		Financial assets accounted for using the equity method		Cash flow hedges	
in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Recognised in other comprehensive income	3,016,060	-435,153	42	-161	–	–
Reclassified to the consolidated income statement	-514,035	-599,625	–	–	153	1,402
Unrealised gains/losses (gross)	**2,502,025**	**-1,034,778**	**42**	**-161**	**153**	**1,402**

As at 1 January 2019, the W&W Group reclassified senior debenture bonds and registered bonds as well as senior bearer bonds from the business model "Hold to collect" to the business model "Hold to collect and sell". As a result, portfolios of in the category "Financial assets at amortised cost" with a carrying amount of €1,900.0 million were reclassified to the category "Financial assets at fair value through other comprehensive income" with a carrying amount/fair value of €2,206.0 million, with unrealised gains of €304.9 million, gross, being recognised in other comprehensive income. The business model was adjusted as a consequence of the changed objective (particularly due to the sale of Wüstenrot Bank AG Pfandbriefbank) of earning income in future on a regular basis from cash flows and from the sale of financial assets.

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 generally 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. Level classification is to be used for all assets and liabilities that are measured regularly, once or for the purposes of preparing disclosures about fair value. The identical aforementioned standards and principles apply to this.

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. In this case, such financial instruments are assigned to Level 3.

The level classification is determined on a regular basis throughout the reporting period. If the relevant input factors change, this may lead to regroupings between the levels at such time. Financial instruments in Level 1 are regrouped to Level 2 if the previously identified active market on which quoting took place no longer exists. In this regard, the essential features of an active market are regular trading frequency and a sufficiently traded market volume that guarantees reliable price information. In analogous fashion, it is possible to regroup from Level 2 to Level 1 once an active market can be identified.

Regroupings to Level 3 take place if fair value no longer can be measured on the basis of observable input parameters. However, if these are identified for financial instruments that had previously been grouped in Level 3, they can be switched to Level 1 or Level 2 if there are reliable price quotations on an active market or if input parameters are observable on the market.

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 and
- Positive/negative market values from hedges.

The disclosures in the table "2019 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.

2019 measurement hierarchy (items that were measured at fair value)

in € thousands	Level 1 31.12.2019	Level 2 31.12.2019	Level 3 31.12.2019	Fair value/ carrying amount 31.12.2019
Non-current assets held for sale and discontinued operations	**—**	**14,760**	**120**	**14,880**
Financial assets at fair value through profit or loss	**664,598**	**5,589,941**	**2,045,092**	**8,299,631**
Participations, shares, fund units	640,945	1,061,471	2,005,633	3,708,049
Participations other than in alternative investments	—	—	219,034	219,034
Participations in alternative investments, including private equity	—	—	1,594,796	1,594,796
Equities	640,945	—	104,573	745,518
Fund units	—	1,061,471	87,230	1,148,701
Fixed-income financial instruments that do not pass the SPPI test	—	1,449,453	33,212	1,482,665
Derivative financial instruments	23,653	123,431	—	147,084
Interest-rate-based derivatives	—	80,999	—	80,999
Currency-based derivatives	—	37,091	—	37,091
Equity- and index-based derivatives	23,653	5,233	—	28,886
Other derivatives	—	108	—	108
Senior fixed-income securities	—	723,814	—	723,814
Capital investments for the account and risk of holders of life insurance policies	—	2,231,772	6,247	2,238,019
Financial assets at fair value through other comprehensive income	**—**	**36,808,770**	**—**	**36,808,770**
Subordinated securities and receivables	—	720,209	—	720,209
Senior debenture bonds and registered bonds	—	12,984,231	—	12,984,231
Credit institutions	—	8,694,056	—	8,694,056
Other financial companies	—	157,339	—	157,339
Public authorities	—	4,132,836	—	4,132,836
Senior fixed-income securities	—	23,104,330	—	23,104,330
Credit institutions	—	6,852,781	—	6,852,781
Other financial companies	—	1,106,461	—	1,106,461
Other companies	—	1,360,503	—	1,360,503
Public authorities	—	13,784,585	—	13,784,585
Positive market values from hedges	**—**	**88,994**	**—**	**88,994**
Total assets	**664,598**	**42,502,465**	**2,045,212**	**45,212,275**

2019 measurement hierarchy (items that were measured at fair value)

	Level 1	Level 2	Level 3	Fair value/ carrying amount
in € thousands	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Liabilities under non-current assets classified as held for sale and discontinued operations	**–**	**772**	–	**772**
Financial liabilities at fair value through profit or loss	**694**	**79,593**	**–**	**80,287**
Derivative financial instruments	694	79,593	–	80,287
Interest-rate-based derivatives	–	67,079	–	67,079
Currency-based derivatives	–	6,958	–	6,958
Equity- and index-based derivatives	694	5,556	–	6,250
Technical provisions	**–**	**2,238,019**		**2,238,019**
Provision for future policy benefits for unit-linked insurance contracts	–	2,238,019		2,238,019
Negative market values from hedges	**–**	**216,195**	**–**	**216,195**
Total liabilities	**694**	**2,534,579**	**–**	**2,535,273**

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
Non-current assets held for sale and discontinued operations	**—**	**907,213**	**1,518**	**908,731**
Financial assets at fair value through profit or loss	**571,820**	**4,520,9351**	**1,685,9841**	**6,778,739**
Participations, shares, fund units	527,264	857,3291	1,649,5731	3,034,166
Participations other than in alternative investments	—	—[1]	228,3491	228,3491
Participations in alternative investments, including private equity	—	—	1,333,0431	1,333,0431
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**	**37,534,536[1]**	**1,687,502[1]**	**39,793,858**

1 Prior-year year figure adjusted.

2018 measurement hierarchy (items that were measured at fair value) – (continuation)

in € thousands	Level 1 31.12.2018	Level 2 31.12.2018	Level 3 31.12.2018	Fair value/ carrying amount 31.12.2018
Liabilities under non-current assets classified as held for sale and discontinued operations	**–**	**24,929**	**–**	**24,929**
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
Technical provisions	**–**	**1,711,146**	**–**	**1,711,146**
Provision for future policy benefits for unit-linked insurance contracts	–	1,711,146	–	1,711,146
Negative market values from hedges	**–**	**126,449**	**–**	**126,449**
Total liabilities	**1,000**	**2,316,842**		**2,317,842**

2019 measurement hierarchy
(items that were not measured at fair value)

	Level 1	Level 2	Level 3	Fair value	Carrying amount
in € thousands	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Non-current assets held for sale and discontinued operations	**26,157**	**446,963**	**2,147,334**	**2,620,454**	**2,601,920**
Cash reserves	**35,688**	**—**	**—**	**35,688**	**35,688**
Deposits with central banks	35,192	–	–	35,192	35,192
Deposits with foreign postal giro offices	496	–	–	496	496
Financial assets at amortised cost	**—**	**8,638,692**	**15,852,556**	**24,491,248**	**23,984,047**
Subordinated securities and receivables	–	179,569	–	179,569	163,978
Senior debenture bonds and registered bonds	–	32,224	–	32,224	30,898
Construction loans	–	7,881,195	14,177,750	22,058,945	21,493,189
Other loans and receivables	–	545,704	1,674,806	2,220,510	2,220,544
Other loans and advances	–	545,704	1,346,437	1,892,141	1,892,175
Miscellaneous receivables	–	–	328,369	328,369	328,369
Portfolio hedge adjustment	n/a	n/a	n/a	n/a	75,438
Investment property	**—**	**40,906**	**2,347,530**	**2,388,436**	**1,855,224**
Total assets	**61,845**	**9,126,561**	**20,347,420**	**29,535,826**	**28,476,879**
Liabilities under non-current assets classified as held for sale and discontinued operations	–	1,147,138	1,260,147	2,407,285	2,409,254
Liabilities	–	3,658,040	21,731,306	26,343,692	26,320,204
Liabilities evidenced by certificates	–	922,614	–	922,614	947,565
Liabilities to credit institutions	–	1,698,709	549,086	2,247,795	2,232,992
Liabilities to customers	–	1,013,226	20,709,651	21,722,877	21,641,444
Lease liabilities	–	1,655	75,613	77,268	77,268
Miscellaneous liabilities	–	23,094	1,350,044	1,373,138	1,373,138
Other liabilities	–	21,836	396,956	418,792	418,792
Sundry liabilities	**—**	1,258	953,088	954,346	954,346
Portfolio hedge adjustment	**n/a**	n/a	n/a	n/a	47,797
Subordinated capital	**—**	**479,075**	**—**	**479,075**	**424,850**
Total liabilities	**—**	**5,284,253**	**22,991,453**	**29,230,052**	**29,154,308**

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
Non-current assets held for sale and discontinued operations	**201,362**	**72,321**	**50,738**	**324,421**	**314,189**
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	1,084,841[1]
Senior fixed-income securities	–	1,173,253	–	1,173,253	1,054,900
Construction loans	–	8,044,684	15,447,127	23,491,811	23,002,519[1]
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
Miscellaneous receivables	–	–	303,691	303,691	303,691
Portfolio hedge adjustment	n/a	n/a	n/a	n/a	99,395[1]
Investment property	**–**	**–**	**2,312,429**	**2,312,429**	**1,827,055**
Total assets	**285,122**	**12,124,565**	**19,087,753**	**31,497,440**	**30,327,419**
Liabilities under non-current assets classified as held for sale and discontinued operations	–	5,359	874,967	880,326	880,780
Liabilities	–	4,131,132[1]	23,557,903[1]	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	–	1,931,981[1]	21,739,776	23,671,757[1]	23,580,660
Finance lease liabilities	–	–	20,271	20,271	20,133
Miscellaneous liabilities	–	9,509[1]	1,233,778	1,243,287[1]	1,243,198
Other liabilities	–	7,378[1]	344,697	352,075[1]	351,985
Sundry liabilities	–	2,131	889,081	891,212	891,213
Portfolio hedge adjustment	**n/a**	n/a	n/a	n/a	–
Subordinated capital	**–**	**470,792**	**–**	**470,792**	**435,476**
Total liabilities	**–**	**4,607,2831**	**24,432,870[1]**	**29,040,153**	**28,901,333**

1 Prior-year year figure adjusted.

Changes in Level 3

in € thousands	Participations other than in alternative investments	Participations in alternative investments	Equities
As at 1 January 2018	**233,878[3]**	**1,225,461[3]**	**29,418[3]**
Total comprehensive income for the period	–11,938	39,927	–3,854
Income recognised in the consolidated income statement[1]	13,572	101,017	–
Expenses recognised in the consolidated income statement[1]	–25,510	–61,090	–3,854
Purchases	20,125	118,076	38,010
Sales	–18,296	–53,954	–
Transfer in Level 3	4,580	3,533	–
As at 31 December 2018	**228,349[3]**	**1,333,043[3]**	**63,574[3]**
Income recognised in the consolidated income statement as at 31 December[2]	13,572	101,017	–
Expenses recognised in the consolidated income statement as at 31 December[2]	–25,510	–61,090	–840
As at 1 January 2019	**228,349**	**1,333,043**	**63,574**
Total comprehensive income for the period	6,074	23,389	–1,439
Income recognised in the consolidated income statement[1]	11,820	93,375	–
Expenses recognised in the consolidated income statement[1]	–5,746	–69,986	–1,439
Purchases	3,767	456,100	42,438
Sales	–19,061	–220,695	–
Reclassifications	–	2,959	–
Classified as held for sale	–120	–	–
Changes in the scope of consolidation	25	–	–
As at 31 December 2019	**219,034**	**1,594,796**	**104,573**
Income recognised in the consolidated income statement as at 31 December[2]	11,820	93,375	–
Expenses recognised in the consolidated income statement as at 31 December[2]	–5,746	–69,924	–1,439

1 Income and expenses are mainly included in the net measurement gain/loss in the consolidated income statement.
2 Net income/expense includes period income and expenses for assets still in the portfolio at the end of the reporting period.
3 Prior-year figure adjusted.

	Financial assets at fair value through profit or loss				Non-current assets held for sale and discontinued operations	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**	**1,228**	**1,532,734**
	−307	–	–	−2,270	290	21,848
	1,451	–	–	–	290	116,330
	−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**	**1,518**	**1,687,502**
	1,451	–	–	-	290	116,330
	−1,758	–	–	−2,270	–	−91,468
	24,607	**35,837**	**–**	**574**	**1,518**	**1,687,502**
	3,554	–	–	2,867	–	34,445
	4,590	–	–	2,867	–	112,652
	−1,036	–	–	-	–	−78,207
	75,435	248	–	3,380	–	581,368
	−13,407	−2,873	–	−574	–	−256,610
	−2,959	–	–	–	–	–
	–	–	–	–	120	–
	–	–	–	–	−1,518	−1,493
	87,230	**33,212**	**–**	**6,247**	**120**	**2,045,212**
	4,590	–	–	2,867	–	112,652
	−1,036	–	–	–	–	−78,148

Description of the applied measurement processes and effects of alternative assumptions in the case of financial instruments in Level 3.

Used in connection with the measurement process for calculating fair value are the capitalised earnings method, the adjusted net asset value method and the approximation method.

With regard to the capitalised earnings method, which is uniform throughout the Group, internal plan values and estimates are used as the basis for discounting future net cash flows and distributions under application of risk parameters derived on the market.

With regard to the adjusted net asset value method, the externally calculated and reported pro-rata net asset value is normally the measurement parameter that is used as the basis for calculating fair value. The external fund manager calculates the net asset value on the basis of recognised measurement methods. Subsequently the net asset value figures and development as provided by the fund management companies are validated and assessed for plausibility and there is, as needed, an examination in the W&W Group of the respective substantial portfolio companies. In addition, carrying amounts, fair values, distributions and obligations to provide additional funding are monitored. Where appropriate, the pro-rata net asset value is adjusted by outstanding performance-related compensation claims of the fund manager concerned or by risk premiums in order thereby to represent the fair value. An exception to the external provision of the pro-rata net asset value is made in the case of self-measured property participations that are assigned to “Participations other than in alternative investments”.

With regard to the approximation method, amortised cost is used to measure fair value for reasons of simplicity. The approximation method is applied, for instance, in the case of no quotation and minor significance.

The securities in Level 3 mainly consist of unquoted interests in participations in alternative investments, including private equity, as well as other participations. The fair values of Level 3 portfolios are customarily calculated by the management of the respective company. For the majority of all externally measured interests, namely in the amount of €1,441.8 million (previous year: €1,186.6 million[1]), fair value is determined on the basis of the net asset value. By contrast, the net asset value of participations other than in alternative investments is calculated internally in all cases. Of the total amount of the interests measured externally using the net asset value, €80.4 million (previous year: €39.1 million[1]) was attributable to unquoted equities and fund certificates, and €1,331.4 million (previous year: €1,182.4 million[1]) to participations in alternative investments, including private equity. The calculation of the net asset value in the case of externally measured interests is based on specific information that is not publicly available and 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 2019 of €172.0 million (previous year: €149.0 million) are measured internally for Group property participations that are assigned to “Participations other than in alternative investments". The value of the properties included there is calculated using income-based present value methods. These recognised measurement methods are based on discount rates of 2.89% to 7.54% (previous year: 2.49% to 8.91%), which determine the fair value of the property. A change in discount rates by +100 basis points in connection with a sensitivity analysis leads to a reduction in fair value to €157.3 million (previous year: €137.3 million), while a change in discount rates by -100 basis points leads to an increase to €188.2 million (previous year: €161.8 million).

The most significant measurement parameters for interests measured using the capitalised earnings method in 2019 of €50.3 million (previous year: €59.3 million) are the risk-adjusted discount rate and future net cash flows. 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.

All changes in fair values are reflected in the consolidated income statement.

The measurement methods used are listed in the following table ("Quantitative information about the measurement of fair value in Level 3").

1 Prior-year figure adjusted.

Quantitative information about the measurement of fair value in Level 3

	Fair value		Measurement method	Non-observable input factors	Range, in %	
in € thousands	31.12.2019	31.12.2018			31.12.2019	31.12.2018
Financial assets at fair value through profit or loss	**2,045,092**	**1,685,984[1]**				
Participations, shares, fund units	2,005,633	1,649,573[1]				
Participations other than in alternative investments	219,034	228,349[1]				
	25,465	27,947	Capitalised earnings method	Discount rate, future cash flows	6.50-12.09	6.85-11.70
	11,881	40,762[1]	Approximation method	n/a	n/a	n/a
	181,688	159,640[1]	Adjusted net asset value	n/a	n/a	2.49-8.91
Participations in alternative investments, including private equity	1,594,796	1,333,043[1]				
	24,850	31,353	Capitalised earnings method	Discount rate, future cash flows	3.76	4.24
	201,118	75,306	Approximation method	n/a	n/a	n/a
	1,368,828	1,226,384[1]	Adjusted net asset value	n/a	n/a	n/a
Equities	104,573	63,574				
	25,102	26,004	Approximation method	n/a	n/a	n/a
	79,471	37,570	Adjusted net asset value	n/a	n/a	n/a
Fund units	87,230	24,607				
	12,635	1,328	Approximation method	n/a	n/a	n/a
	74,595	23,279	Adjusted net asset value	n/a	n/a	n/a
Fixed-income financial instruments that do not pass the SPPI test	33,212	35,837	Approximation method	n/a	n/a	n/a
Capital investments for the account and risk of holders of life insurance policies	6,247	574	Black-Scholes Model	Index weighting, volatility	n/a	n/a
Non-current assets held for sale and discontinued operations	**120**	**1,518**	**Approximation method**	**n/a**	**n/a**	

1 Prior-year figure adjusted.

(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	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Nominal values of hedges	–	–	7,935,630	1,823,000
Up to 1 year	–	–	451,384	–
1 to 5 years	–	–	1,105,600	229,000
Longer than 5 years	–	–	6,378,646	1,594 000
Positive market values from hedges	–	–	88,994	61,686
Negative market values from hedges	–	–	216,196	126,449
Changes in fair value	–	–	133,145	11,192

The hedging instruments are recognised in the items "Positive market values from hedges" and "Negative market values from hedges".

Disclosures concerning hedged items

	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	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Carrying amounts of hedges	–	–						
Assets	–	–	–	–	426,747	575,538	–	–
Liabilities	–	–	–	–	2,961,668	1,322,940	–	–
Cumulative changes and changes attributable to the hedged risk	–	–						
Assets	–	–	–	–	20,377	7,030	-10,391	2,472
Liabilities	–	–	–	–	6,254	7,613	74,012	3,350
Changes in the hedged risk	–	–	–	–	-75,507	-10,741	–	–
Reserve for cash flow hedges	–	–	-47	-153	–	–	–	–

The hedged items are contained in the follow 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	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Unrealised gains and losses recognised in other comprehensive income	—	—	n/a	n/a
Income/expenses from ineffective portions	—	—	5,242	458
Reserves for cash flow hedges reclassified to the consolidated income statement	– 153	– 1,402	n/a	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.

(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. In the reporting period, these securities were allocated to the category "Financial assets at fair value through other comprehensive income" (previous year: "Financial assets assets at fair value through profit or loss") 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 resell 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

	Carrying amount					
	Repurchase agreements		Securities lending transactions		Total	
in € thousands	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
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	**1,019,113**	**–**	**10,068**	**–**	**1,029,181**	**–**
Senior fixed-income securities	1,019,113	–	10,068	–	1,029,181	–
Total	**1,019,113**	**–**	**10,068**	**29,606**	**1,029,181**	**29,606**
Associated liabilities	1,019,113	–	–	–	1,019,113	–
Net position	–	–	10,068	29,606	10,068	29,606

As was the case in the previous year, as at 31 December 2019 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 2019

	Transferred financial assets	Other collateral granted	Granted but as yet unused collaterals	Total
in € thousands	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Financial assets at fair value through profit or loss	**1,029,181**	**–**	**472,244**	**1,501,425**
Senior fixed-income securities	1,029,181	–	472,244	1,501,425
Financial assets at amortised cost	**–**	**178,977**	**–**	**178,977**
Senior fixed-income securities	–	–	–	–
Construction loans	–	178,977	–	178,977
Total	**1,029,181**	**178,977**	**472,244**	**1,680,402**

Financial assets granted as collateral in 2018

in € thousands	Transferred financial assets 31.12.2018	Other collateral granted 31.12.2018	Granted but as yet unused collaterals 31.12.2018	Total 31.12.2018
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**

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.

Other collateral granted has to do with loans in the amount of €179.0 million (previous year: €296.3 million) that were assigned in connection with the utilisation of promotional loan programmes.

The amount of cash collateral granted for derivatives amounted to €363.0 million (previous year: €510.0 million).

Aside from the securities pledged as collateral for the foregoing repurchase agreements, no cash collateral was provided for them, as was the case in the previous year.

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 the 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.

Cash collateral received under repurchase agreements amounted to €1,019.1 million (previous year: €0).

Offsetting of financial instruments

The W&W Group offsets financial assets and financial liabilities and presents the net amount if the relevant netting agreements under which they were concluded satisfy the offsetting criteria in IAS 32.42. The W&W Group offsets financial instruments in the balance sheet, which are cleared through the central counterparty Eurex Clearing AG.

If the netting agreements do not fully satisfy the offsetting criteria in IAS 32, the financial instruments are not offset in the balance sheet. This is normally the case if in the event of payment default or insolvency of a counterparty and in the normal course of business, the right to set off the recognised amounts is not always legally enforceable or there is no intention to settle on a net basis. In the W&W Group, this applies, inter alia, to bilateral transactions that were concluded under master agreements without the use of a central counterparty. The offsetting effects underlying these netting agreements are to be shown in the notes and are presented in the following.

The following tables show the derivatives and repurchase agreements that are subject to a master netting agreement. They also include the cash collateral granted by or received from the respective counterparty.

Offsetting of financial assets in 2019

	Gross amount of financial assets prior to offsetting	Offset amount of financial liabilities	Recognised net amount of financial assets	Associated amounts that are not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
in € thousands	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Derivatives (netting legally enforceable)	503,111	-497,481	5,630	–	–	5,630
Derivatives (netting not legally enforceable)	85,968	–	85,968	-1,515	-68,184	16,269

Offsetting of financial liabilities in 2019

	Gross amount of financial liabilities prior to offsetting	Offset amount of financial liabilities	Recognised net amount of financial liabilities	Associated amounts that are not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
in € thousands	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Derivatives (netting legally enforceable)	497,481	-497,481	–	–	-148,668	-148,668
Derivatives (netting not legally enforceable)	150,493	–	150,493	-5,529	-214,380	-69,416
Repurchase agreements, securities lending transactions and similar agreements (netting not legally enforceable)	1,019,113	–	1,019,113	- 1,019,113	–	–

Offsetting of financial assets in 2018

	Gross amount of financial assets prior to offsetting	Offset amount of financial liabilities	Recognised net amount of financial assets	Associated amounts that are not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
in € thousands	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
Derivatives (netting not legally enforceable)	62,755	–	62,755	–5,184	–26,186	31,385

Offsetting of financial liabilities in 2018

	Gross amount of financial liabilities prior to offsetting	Offset amount of financial liabilities	Recognised net amount of financial liabilities	Associated amounts that are not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
in € thousands	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018	31.12.2018
Derivatives (netting not legally enforceable)	586,448	–	58, 448	–105,197	–510,003	–28,752

(41) Trust business

Trust business not required to be shown in the balance sheet had the following scope:

in € thousands	31.12.2019	31.12.2018
Trust assets pursuant to the German Building Code	12,182	12,476
Trust assets	**12,182**	**12,476**
Trust liabilities pursuant to the German Building Code	12,182	12,476
Trust liabilities	**12,182**	**12,476**

(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.

in € thousands	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Financial assets/liabilities at fair value through profit or loss	**572,761**	**-631,609**
Net gains	1,280,181	706,124
Net losses	-707,420	-1,337,733
Financial assets at fair value in OCI	**565,385**	**696,492**
Net gains	629,041	836,284
Net losses	-63,656	-139,792
Financial assets at amortised costs	**10,451**	**32,462**
Net gains	89,394	122,861
Net losses	-78,943	-90,399
Finanical liabilities at amortised costs	**-612**	**688**
Net gains	43	1,593
Net losses	-655	-905

For financial assets and liabilities measured at amortised cost, total interest income amounted to €668.5 million (previous year: €744.9 million), and total interest expenses amounted to €469.9 million (previous year: €449.3 million).

Total interest income from financial assets at fair value through other comprehensive income amounted to €682.2 million (previous year: €708.8 million).

In addition, 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 €79.9 million (previous year: €177.4 million) and currency expenses in the amount of €18.6 million (previous year: €40.9 million).

Financial assets at amortised cost amounted to €24,019.8 million (previous year: €28,186.3 million), and financial assets at fair value through profit or loss amounted to €8,388.6 million (previous year: €6,840.4 million).

Financial liabilities at amortised cost amounted to €26,745.1 million (previous year: €28,020.6 million), and financial assets at fair value through profit or loss amounted to €296.5 million (previous year: €581.8 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 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 business 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 potentials 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 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.

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 aims at managing our risks throughout the Group and at the individual company level. At the same time, it is intended to ensure 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 defined. Within the organisational and operational structure, the individual areas of responsibility for all of the following bodies, committees and functions are defined, 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. The Chief Risk Officer (CRO) is responsible for risk management on the Executive Board of W&W AG.

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** and the Nomination Committee of W&W AG and the corresponding committees of Wüstenrot Bausparkasse AG, Württembergische Versicherung AG and Württembergische Lebensversicherung AG are regularly presented with information required pursuant to the bylaws, including risk reports with a description of the current risk situation and the measures that have been initiated to manage it.

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 CRO of W&W AG and the CROs of the Housing and Insurance divisions. The risks in the brandpool division are covered by the Group-wide risk management in accordance with the processes specified in the Group risk policy. Other 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, the two (independent) risk controlling functions of the Housing (Wüstenrot) and Insurance (Württembergische) divisions and select observers. 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 (Württembergische). The **BSW Risk Board** handles this duty in the Housing division (Wüstenrot). The participation of the responsible executive board members and departments concerned guarantees the integration of entity-specific circumstances as well as the speedy exchange of information and quick decision-making. 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 throughout the Group 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 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. The systematic identification of risks takes places 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 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. Risks are largely assessed by means of a stochastic procedure using the value-at-risk standard. If this procedure cannot be used for certain risk areas, analytical computational procedures or regulatory standard procedures are applied, as well as expert estimates.

At both the Group level as well as the level of the individual W&W companies, the relevant statutory and regulatory confidence levels are applied for measuring risks from an economic perspective:

- For individual W&W companies, including W&W AG, that are subject to insurance supervision law, this corresponds to a confidence level of 99.5%, based on a risk horizon of one year.
- For individual W&W companies, including W&W AG, that are subject to banking supervision law, this corresponds to a confidence level of 99.9%, based on a risk horizon of one year.

At the level of the W&W Group, risks are measured based on a confidence level of 99.5%. The target and minimum ratios for economic risk-bearing capacity at the Group level are derived from the capital requirements that result from compliance with the aforementioned confidence levels at the associated individual companies. Accordingly, an overall confidence level in excess of 99.5% is achieved.

At the level of the financial holding group, a confidence level of 99.9% is applied, with the exception of the risks arising from the reinsurance business of W&W AG, which are assessed with the confidence level relevant for insurance undertakings.

In addition, risks are assessed from a supervisory (normative) perspective using regulatory risk parameters. If risk models are employed that are oriented toward the balance sheet or income statement specific to the individual company, a confidence level of at least 95.0% is applied to them.

We include the results of these assessments in the evaluation of risk-bearing capacity or in additional risk controlling tools, taking into consideration 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. As a rule, the entity that assumed the risks is 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. Key management parameters at Group level are 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 as a rule are equally weighted but highlight different objectives and aspects:

- The economic perspective assesses risk coverage capacity, i.e. permanent assurance of the company's substance in order to protect first-rate creditors against losses from an economic standpoint.
- The normative perspective looks at compliance with the regulatory minimum requirements for risk capitalisation in order to be able to continue business operations as planned.

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. 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 at most 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. 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. By means of the established reporting processes, 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 accomplished 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 and discussed with respect to risk assessment. On this basis, action recommendations and measures are established where necessary for the W&W Group, which are then implemented 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 internal ad-hoc risk reporting at the Group and individual company level. Quantitative criteria are used as thresholds, which as a rule are in line with internal and supervisory parameters. In addition, pertinent ad-hoc risk reporting takes place when qualitatively material events occur.

The operability, appropriateness and effectiveness of our risk management system is audited by Internal Audit. As part of the audits of 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, as well as that of the W&W Group and the financial holding group.

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 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 capital investments and from the economic and regional structure of 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 manage concentrations. 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 risk 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 capital 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 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. In 2019 the reference interest rate dropped to 1.92% (previous year: 2.09%).

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 interest rate reinforcement is determined by the measurement interest rate, which amounted to 1.92% (previous year: 2.09%) for Württembergische Lebensversicherung AG and to 2.30% (previous year: 2.54%) for ARA Pensionskasse AG. In the WürttLeben group, the additional interest reserve and interest rate reinforcement were strengthened by €364.8 million (previous year: €155.2 million) on this basis. In order to depict the build-up of the additional interest rate reserve and interest rate reinforcement as realistically as possible, capital disbursement probabilities are applied in this regard that are specific to each company. These were updated in 2019, which led to a higher build-up of the additional interest rate reserve and interest rate reinforcement. For 2020 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 Housing 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). In addition, in banking business, loans, advances and securities in the category “Financial assets at fair value through other comprehensive income” are measured at fair value. We discontinued a cash flow hedge in this financial year.

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 material effects on interest rate scenarios are attributable to positionings, particularly at Wüstenrot Bausparkasse AG, through a strong build-up of swap volumes.

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 Württembergische 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 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 rate 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	31.12.2019	31.12.2018	31.12.2019	31.12.2018
+100 basis points	-326,443	-69,464	-847,728	-645,473
-100 basis points	393,545	96,586	980,128	723,135
+200 basis points	-606,084	-122,900	-1,593,832	-1,221,400

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.

The changes effect, 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	
in € thousands	31.12.2019	31.12.2018
+ 10%	94,225	74,978
–10%	–93,310	–71,792
+ 20%	188,716	150,096
–20%	–185,108	–141,372

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.

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.

Risk of changes in exchange rates: Net effect after deferred taxes and provision for deferred premium refunds

	Change in the consolidated income statement	
in € thousands	31.12.2019	31.12.2018
USD		
+ 10%	6,921	10,812
– 10%	–6,921	–10,812
DKK	,	,
+ 1%	193	314
– 1%	–193	–314

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), from the default of business partners in customer lending business (counterparty credit risk associated with customer lending business) and 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 construction 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 0.15% (previous year: 0.14%). With regard to receivables from agents, the average default rate over the last three years amounted to 2.2% (previous year: 2.0%). 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.

For further information about the management of counterparty credit risk in the W&W Group, please see the risk reporting in the Management Report.

Breakdown of risk provision for financial assets at amortised cost in 2019

in € thousands	Opening balance as at 1.1.2019	Reclassifications from Level 1	Reclassifications from Level 2	Reclassifications from Level 3	Classified as held for sale	Additions for newly issued/ acquired financial assets	Additions for financial assets currently in the portfolio
Subordinated securities and receivables	**−145**	**—**	**—**	**—**	**—**	**−98**	**−16**
Level 1	−145	–	–	–	–	−98	−16
Senior debenture bonds and registered bonds	**−741**	**—**	**—**	**—**	**—**	**—**	**−16**
Level 1	−741	–	–	–	–	–	−16
Senior fixed-income securities	**−468**	**—**	**—**	**—**	110	**—**	**−3**
Level 1	−468	–	–	–	110	–	−3
Construction loans	**−128,293**	**—**	**—**	**—**	**49,908**	**−8,249**	**−40,368**
Level 1	−14,893	581	−446	−28	1,721	−3,086	−2,332
Level 2	−38,806	−500	3,263	−1,668	7,448	−3,309	−16,983
Level 3	−74,594	−81	−2,817	1,696	40,739	−1,854	−21,053
Other loans and advances	**−29,623**	**—**	**—**	**—**	**1,003**	**−15,577**	**−3,893**
Level 1	−1,116	–	–	–	18	−12,237	−3,173
Level 2	−26,486	–	1	−2	10	-	−5
Level 3	−2,021	–	−1	2	975	−3,340	−715
Other receivables	**−10,634**	**—**	**—**	**—**	**—**	**−1,921**	**−1,545**
Level 1	−10,634	–	–	–	–	−1,921	−1,545
Risk provision for financial assets at amortised cost	**−169,904**	**—**	**—**	**—**	**51,021**	**−25,845**	**−45,841**

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 sale	Utilisation/ reclassification (write-off)	Changes from currency-translation	Interest effects	Reclassifications	Closing balance as at 31.12.2019
—	**1**	**23**	**—**	**—**	**—**	**—**	**–235**
–	1	23	–	–	–	–	–235
—	**1**	**13**	**—**	**—**	**—**	**714**	**–29**
–	1	13	–	–	–	714	–29
—	**10**	**3**	**—**	**–1**	**—**	**349**	**—**
–	10	3	–	–1	–	349	–
—	**35,275**	**14,230**	**12,079**	**–662**	**–535**	**–132**	**–66,747**
–	4,877	559	108	–24	–	–	–12,963
–	19,847	2,301	147	–103	–	–	–28,363
–	10,551	11,370	11,824	–535	–535	–132	–25,421
—	**102**	**2,216**	**19,839**	**–10**	**—**	**132**	**–25,811**
–	7	205	3,351	–	–	–6,146	–19,091
–	8	971	16,156	–	–	8,215	–1,132
–	87	1,040	332	–10	–	–1,937	–5,588
—	**—**	**1,630**	**1,545**	**—**	**—**	**—**	**–10,925**
–	–	1,630	1,545	–	–	–	–10,925
—	**35,389**	**18,115**	**33,463**	**–673**	**–535**	**1,063**	**–103,747**

Breakdown of risk provision for financial assets at amortised cost in 2018

in € thousands	Opening balance as at 1.1.2018	Reclassifications from Level 1	Reclassifications from Level 2	Reclassifications from Level 3	Classified as held for sale	Additions for newly issued/acquired financial assets	Additions for financial assets currently 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 sale	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 2019

	Opening balance as at 1.1.2019	Reclassifi-cations from Level 1	Additions for newly issued/ acquired financial assets	Additions for financial assets currently in the portfolio	Releases of finan-cial assets currently in the portfolio	Releases of derecog-nised finan-cial assets as a result of repayment of principal, modification or sale	Reclassifi-cations	Closing balance as at 31.12.2019
in € thousands								
Subordinated securi-ties and receivables	**–640**	**—**	**–225**	**–106**	**18**	**148**	**–12**	**–817**
Level 1	–640	—	–225	–106	18	148	–12	–817
Senior debenture bonds and registered bonds	**–7,931**	**—**	**–111**	**–551**	**476**	**1,314**	**–631**	**–7,434**
Level 1	–7,931	—	–111	–551	476	1,314	–631	–7,434
Senior fixed-income securities	**–23,158**	**—**	**–9,653**	**–1,624**	3,231	**8,186**	**–337**	**–23,349**
Level 1	–16,106	—	–9,650	–1,371	2,443	5,402	–337	–19,606
Level 2	–7,052	—	–3	–253	788	2,784	—	–3,743
Risk provision for financial assets at amor-tised cost	**–31,729**	**—**	**–9,989**	**–2,281**	**3,725**	**9,648**	**–980**	**–31,600**

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	Additions for newly issued/ acquired financial assets	Additions for financial assets currently in the portfolio	Releases of financial assets currently in the portfolio	Releases of derecognised financial assets as a result of repayment of principal, modification or sale	Reclassifications	Closing balance as at 31.12.2018
Subordinated securities and receivables	**−373**	**—**	**−109**	**−222**	**11**	**53**	**—**	**−640**
Level 1	−373	—	−109	−222	11	53	—	−640
Senior debenture bonds and registered bonds	**−5,628**	**—**	**−681**	**−2,761**	**218**	**921**	**—**	**−7,931**
Level 1	−5,628	—	−681	−2,761	218	921	—	−7,931
Senior fixed-income securities	**−14,087**	**—**	**−5,598**	**−8,009**	1,639	**2,897**	**—**	**−23,158**
Level 1	−11,049	157	−5,598	−3,497	1,127	2,754	—	−16,106
Level 2	−3,038	−157	-	−4,512	512	143	—	−7,052
Risk provision for financial assets at amortised cost	**−20,088**	**—**	**−6,388**	**−10,992**	**1,868**	**3,871**	**—**	**−31,729**

Breakdown of the risk provision for off-balance-sheet business in 2019

in € thousands	Opening balance as at 1.1.2019	Reclassifi-cations from Level 1	Reclassifi-cations from Level 2	Reclassifi-cations from Level 3	Classified as held for sale	Additions for newly issued/ acquired financial assets	Additions for financial assets cur-rently in the portfolio
Irrevocable loan commitments	**−3,207**	**—**	**—**	**−1**	**654**	**−2,188**	**−1,474**
Level 1	−2,143	27	−2	−1	366	−1,473	−30
Level 2	−924	−20	8	−1	20	−529	−1,234
Level 3	−140	−7	−6	1	268	−186	−210
Provision for off-balance-sheet business	**−3,207**	**—**	**—**	**−1**	**654**	**−2,188**	**−1,474**

Breakdown of the risk 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	Classified as held for sale	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 disposall	Changes from currency translation	Reclassifications	Closing balance as at 31.12.2019
	—	**656**	**1,915**	**–8**	**–2**	**–3,655**
	—	430	1,208	–5	–2	–1,625
	—	209	668	—	—	–1,803
	—	17	39	–3	—	–227
	—	**656**	**1,915**	**–8**	**–2**	**–3,655**

	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 disposall	Changes from currency translation	Reclassifications	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 reinsurers' portion of technical provisions in 2019

in € thousands	Opening balance as at 1.1.2019	Additions for newly issued/ acquired financial assets	Releases of derecognised financial assets as a result of repayment of principal, modification or sale	Closing balance as at 31.12.2019
Portion of the provision for outstanding insurance claims	**–7,114**	**–98**	**353**	**–6,859**
Level 1	–7,114	–98	353	–6,859
Reinsurers' portion of technical provisions	**–7,114**	**–98**	**353**	**–6,859**

Breakdown of reinsurers' portion of technical provisions in 2018

in € thousands	Opening balance as at 1.1.2018	Additions for newly issued/ acquired financial assets	Releases of derecognised financial assets as a result of repayment of principal, modification or sale	Closing balance as at 31.12.2018
Portion of the provision for outstanding insurance claims	**–7,214**	**–195**	**295**	**–7,114**
Level 1	–7,214	–195	295	–7,114
Reinsurers' portion of technical provisions	**–7,214**	**–195**	**295**	**–7,114**

Interest income accrued on impaired assets was recognised as an interest effect.

Newly issued construction loans totalling €5,545 million (previous year: €5,219 million) resulted in an increase in the risk provision in the amount of €8.2 million (previous year: €6.6 million). Repayments of principal totalling €5,084 million (previous year: €5,472 million) resulted in a release from the risk provision in the amount of €14.2 million (previous year: €16.3 million).

Newly acquired senior fixed-income securities at fair value through other comprehensive income totalling €7,326 million (previous year: €8,102 million) resulted in an increase in the risk provision in the amount of €9.7 million (previous year: €5.6 million). Disposals and scheduled repayments totalling €5,638 million (previous year: €6,971 million) resulted in a release from the risk provision in the amount of €8.2 million (previous year: €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 €8.2 million (previous year: €12.1 million) despite an estimation that they are uncollectable.

Effects of collateral on the amount of expected credit losses in 2019

	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	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Financial assets at fair value through other comprehensive income	**32,761,045**	**—**	**32,761,045**	**—**	**—**	**—**
Subordinated securities and receivables	679,050	—	679,050	—	—	—
Senior debenture bonds and registered bonds	10,968,049	—	10,968,049	—	—	—
Senior fixed-income securities	21,113,946	—	21,113,946	—	—	—
Financial assets at amortised cost	**23,766,145**	**19,380,508**	**4,385,637**	**195,340**	**146,303**	**49,037**
Subordinated securities and receiv-ables	164,213	—	164,213	—	—	—
Senior debenture bonds and registered bonds	30,927	—	30,927	—	—	—
Senior fixed-income securities	—	—	—	—	—	—
Construction loans	21,375,003	19,380,508	1,994,495	184,933	146,303	38,630
Construction loans secured with a land charge (Grundpfandrecht)	19,259,133	19,259,086	47	145,564	145,488	76
Construction loans secured otherwise	121,422	121,422	—	815	815	—
Unsecured construction loans	1,994,448	—	1,994,448	38,554	—	38,554
Other loans and receivables	2,196,002	—	2,196,002	10,407	—	10,407
Other loans and advances	1,863,193	—	1,863,193	10,407	—	10,407
Other receivables	332,809	—	332,809	—	—	—
Reinsurers' portion of technical provisions	**282,923**	**—**	**282,923**	**—**	**—**	**—**
Irrevocable loan commitments	**1,218,420**	**—**	**1,218,420**	**2,024**	**—**	**2,024**

Effects of collateral on the amount of expected credit losses in 2018

	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, a risk provision was not created in the financial year for gross carrying amounts totalling €1.3 million (previous year: €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 gross carrying amounts according to external and internal rating classes.

Gross carrying amounts by external rating class per level in 2019

	AAA	AA	A	BBB	BB	B or worse	Total
in € thousands	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Financial assets at fair value through other comprehensive income	**14,512,482**	**10,597,646**	**2,970,414**	**3,687,587**	**6,690**	**501,400**	**32,761,045**
Subordinated securities and receivables	–	–	109,985	562,034	6,690	341	679,050
Level 1	–	–	109,985	562,034	–	341	679,050
Senior debenture bonds and registered bonds	7,341,009	3,308,523	283,326	35,191	–	–	10,968,049
Level 1	7,341,009	3,308,523	283,326	35,191	484,826	–	10,968,049
Senior fixed-income securities	7,171,473	7,289,123	2,577,103	3,090,362	447,036	501,059	21,113,946
Level 1	7,171,473	7,289,123	2,577,103	3,087,767	37,790	457,770	21,030,272
Level 2		–	–	2,595	–	43,289	83,674
Financial assets at amortised cost	**–**	**21,250**	**78,786**	**95,104**	**–**	**–**	**195,140**
Subordinated securities and receivables	–	–	69,109	95,104	–	–	164,213
Level 1	–	–	69,109	95,104	–	–	164,213
Senior debenture bonds and registered bonds	–	21,250	9,677	–	–	–	30,927
Senior fixed-income securities	–	–	–	–	–	–	–
Level 1	–	–	–	–	–	–	–
Reinsurers' portion of technical provisions	**–**	**242,996**	**38,187**	**–**	**–**	**1,740**	**282,923**
Level 1	–	242,996	38,187	–	–	1,740	282,923
Total	**14,512,482**	**10,618,896**	**3,049,200**	**3,782,691**	**491,516**	**501,400**	**32,956,185**

Gross carrying amounts by external rating class per level in 2018

	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
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 receiv-ables	–	–	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**

Gross carrying amounts by internal rating class per level in 2019

	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	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Financial assets at amortised cost	**2,150,528**	**8,691,701**	**4,549,385**	**3,585,077**	**252,170**	**175,836**	**21,559,936**
Construction loans secured by a land charge (Grundpfandrecht)	2,150,528	8,691,701	4,549,385	3,585,077	252,170	175,836	19,404,697
Level 1	2,150,528	8,690,441	4,483,121	2,839,282	13,387	54	18,176,813
Level 2	–	1,260	66,264	745,795	238,783	30,218	1,082,320
Level 3	–	–	–	–	–	145,564	145,564
Construction loans secured otherwise	–	8,629	40,446	53,373	18,470	1,319	122,237
Level 1	–	8,629	38,110	46,933	13,025	–	106,697
Level 2	–	–	2,336	6,440	5,445	504	14,725
Level 3	–	–	–	–	–	815	815
Unsecured construction loans	291,160	650,507	672,008	314,573	56,031	48,723	2,033,002
Level 1	291,160	649,171	630,969	236,889	280	–	1,808,469
Level 2	–	1,336	41,039	77,597	55,633	10,374	185,979
Level 3	–	–	–	87	118	38,349	38,554
Irrevocable loan commitments[1]	**41,907**	**151,619**	**277,919**	**721,774**	**20,213**	**7,012**	**1,220,444**
Level 1	41,907	151,587	277,771	715,040	2,524	–	1,188,829
Level 2	–	32	148	6,734	17,689	4,988	29,591
Level 3	–	–	–	–	–	2,024	2,024
Total	**2,192,435**	**8,843,320**	**4,827,304**	**4,306,851**	**272,383**	**182,848**	**22,780,380**

1 Nominal value.

Gross carrying amounts by internal rating class per level in 2018

in € thousands	Internal rating: A1-A2 31.12.2018	Internal rating: B1-B2 31.12.2018	Internal rating C1-C2: 31.12.2018	Internal rating: D-H 31.12.2018	Internal rating: I-M 31.12.2018	Internal rating: worse than M 31.12.2018	Total 31.12.2018
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 value.

(47) Underwriting risks

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 2019 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.

Biometrics 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.

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	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Area of life insurance	**29,072,557**	**28,985,920**	**28,189,901**	**28,108,513**
Predominantly mortality risk	10,659,463	10,659,463	10,996,860	10,996,860
Predominantly longevity risk (annuities)	17,191,744	17,191,413	16,082,092	16,081,727
Predominantly disability risk	1,221,350	1,135,044	1,110,949	1,029,926
Area of health insurance	**887,170**	**887,170**	**781,745**	**781,745**
Total	**29,959,727**	**29,873,090**	**28,971,646**	**28,890,258**

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, by type of insured risk

	Gross	Gross
in € thousands	31.12.2019	31.12.2018
Less than €0.5 million	28,376,897	27,533,738
€0.5 million to €1.0 million	260,760	259,122
€1 million to €5 million	268,960	230,545
€5 million to €15 million	165,940	166,496
Total	**29,072,557**	**28,189,901**

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**

  In life insurance, 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. In health insurance, the risk of a negative selection generated by the above-described option is taken into account through an option premium or through the way the option is structured.

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 future policy benefits, by type of insured risk

	Gross	Net	Gross	Net
in € thousands	31.12.2019	31.12.2019	31.12.2019	31.12.2019
General liability, corporate customers	374,804	364,428	387,150	374,204
Property insurance, corporate customers	270,691	223,303	270,815	224,252
General liability, retail customers	77,910	76,570	74,828	73,478
Other, retail customers	1,997	1,997	1,723	1,723
Motor liability	1,072,833	973,507	1,061,390	944,240
Other motor	974	974	846	846
Household	16,513	16,135	16,096	15,124
Legal protection	179,165	179,165	171,092	171,092
Partial cover	5,980	5,243	5,635	4,301
Casualty	216,597	215,947	205,862	204,994
Full cover	60,973	58,237	52,583	48,129
Residential building	89,030	83,994	88,222	74,759
Other	224,476	214,134	210,779	203,469
Total	**2,591,943**	**2,413,634**	**2,547,021**	**2,340,611**

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 selected financial instruments as at 2019:

Breakdown of remaining term to maturity in 2019: Assets

	Within 3 mont	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
in € thousands						
Financial assets at fair value through profit or loss	**101,068**	**174,224**	**556,650**	**1,451,072**	70,549	**2,353,563**
Fixed-income financial instruments that do not pass the SPPI test	24,635	5,959	66,054	1,315,468	70,549	1,482,665
Derivative financial instruments	40,597	14,262	25,564	66,661	–	147,084
Senior fixed-income securities	35,836	154,003	465,032	68,943	–	723,814
Financial assets at fair value through other comprehensive income	**875,147**	**179,086**	**3,114,640**	**32,462,866**	177,031	**36,808,770**
Subordinated securities and receivables	11,734	–	60,553	647,922	–	720,209
Senior debenture bonds and registered bonds	244,614	46,259	845,199	11,848,159	–	12,984,231
Senior fixed-income securities	618,799	132,827	2,208,888	19,966,785	177,031	23,104,330
Financial assets at amortised cost	**2,546,209**	**1,950,455**	**7,116,374**	**11,952,768**	**342,803**	**23,908,609**
Subordinated securities and receivables	3,384	6,983	–	97,400	56,211	163,978
Senior debenture bonds and registered bonds	616	9,996	10,989	9,297	–	30,898
Senior fixed-income securities	–	–	–	–	–	–
Construction loans	850,116	1,744,246	7,058,157	11,803,608	37,062	21,493,189
Other loans and receivables	1,692,093	189,230	47,228	42,463	249,530	2,220,544
Positive market values from hedges	**9,750**	**2,722**	**23,769**	**52,753**	–	**88,994**
Reinsurers' portion of technical provisions	**28,978**	**47,791**	**105,481**	**68,865**	**24,949**	**276,064**

Breakdown of remaining term to maturity in 2019: Liabilities

	Within 3 mont	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
in € thousands						
Financial liabilities at fair value through profit or loss	**25,555**	**3,207**	**5,552**	**45,973**	–	**80,287**
Liabilities	**3,971,666**	**18,871,689**	**768,901**	**1,242,656**	720,232	**25,575,144**
Liabilities evidenced by certificates	43,282	20,000	136,410	747,873	–	947,565
Liabilities to credit institutions	1,153,756	273,036	217,964	51,819	536,417	2,232,992
Liabilities to customers	2,480,785	18,385,831	349,522	415,556	9,750	21,641,444
Lease liabilities[1]	2,704	10,553	40,642	22,359	1,010	77,268
Miscellaneous liabilities[2]	291,139	182,269	24,363	5,049	173,055	675,875
Negative market values from hedges	**11,404**	**55**	**12,280**	**192,456**	**–**	**216,195**
Subordinated capital	**6,816**	**30,007**	**49,886**	**338,141**	**–**	**424,850**

1 Name has been changed (formerly "Finance lease liabilities"). IFRS 16 was applied in the 2019 financial year. IFRS 17 had been applied in the 2018 financial year.
2 For more information about prospective maturity, please see the table "Prospective maturity of amounts recognised in the balance sheet".

The following presents a breakdown of the residual term to maturity of selected financial instruments as at 2018:

Breakdown of remaining term to maturity in 2018: Assets

	Within 3 mont	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
in € thousands						
Financial assets at fair value through profit or loss	**141,708**	**158,516**	**476,141**	**1,161,161**	95,902	**2,033,428**
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 mont	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
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[1]	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**

1 For more information about prospective maturity, please see the table “Prospective maturity of amounts recognised in the balance sheet”.

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 2019

	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	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Financial liabilities at fair value through profit or loss	**38,220**	**1,809**	**20,643**	**35,653**	**3,628**	**290**	**—**	**100,243**
Derivative financial liabilities at fair value through profit or loss	38,220	1,809	20,643	35,653	3,628	290	—	100,243
Negative market values from hedges	**41,497**	**—**	**108,515**	**78,756**	**1,644**	**220**	**—**	**230,632**
Liabilities	**4,841,040**	**18,404,166**	**878,279**	**993,224**	**214,889**	**25,306**	**10,175**	**25,367,079**
Liabilities evidenced by certificates	69,931	—	157,011	653,274	73,559	—	—	953,775
Liabilities to credit institutions	1,970,468	18	227,025	58,737	106	101	1,965	2,258,420
Liabilities to customers	2,465,918	18,334,031	415,736	274,459	138,500	20,235	—	21,648,879
Deposits from home loan savings business and savings deposits	—	18,334,031	—	—	—	—	—	18,334,031
Savings deposits with agreed termination period	112,430	—	—	—	—	—	—	112,430
Other deposits	2,353,488	—	415,736	274,459	138,500	20,235	—	3,202,418
Down payments received	—	—	—	—	—	—	—	—
Lease liabilities	2,797	13,251	51,341	4,917	2,244	2,243	3,873	80,666
Miscellaneous liabilities	331,926	56,866	27,166	1,837	480	2,727	4,337	425,339
Subordinated capital	**58,985**	**—**	**127,446**	**179,541**	**62,312**	**62,312**	**302,036**	**792,632**
Profit participation certificates	296	—	592	2,148	—	—	—	3,036
Subordinated liabilities	58,689	—	126,854	177,393	62,312	62,312	302,036	789,596
Irrevocable loan commitments	**1,154,244**	**31,115**	**35,085**	**—**	**—**	**—**	**—**	**1,220,444**
Total	**6,133,986**	**18,437,090**	**1,169,968**	**1,287,174**	**282,473**	**88,128**	**312,211**	**27,711,030**

Prospective maturity of amounts recognised in the balance sheet in 2019

	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	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Liabilities from reinsurance business	**18,394**	**316**	**—**	**—**	**—**	**—**	**—**	**18,710**
Liabilities to customers from direct insurance business	244,010	52,900	131,449	92,322	61,074	38,636	58,162	678,553
Technical provisions	**956,890**	**2,386,394**	**7,962,183**	**6,363,443**	**4,329,031**	**2,851,000**	**6,856,778**	**31,705,719**
Provision for future policy benefits in the area of life insurance	439,550	1,586,808	6,909,447	5,731,019	3,827,301	2,403,589	5,936,824	26,834,538
Provision for outstanding insurance claims	499,321	686,758	707,289	244,854	147,829	138,163	167,729	2,591,943
Provision for unit-linked life insurance contracts	17,809	71,819	345,447	387,570	353,901	309,248	752,225	2,238,019
Other technical provisions	210	41,009	—	—	—	—	—	41,219
Total	**1,219,294**	**2,439,610**	**8,093,632**	**6,455,765**	**4,390,105**	**2,889,636**	**6,914,940**	**32,402,982**

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
Financial liabilities at fair value through profit or loss	**122,556**	**–**	**191,270**	**43,276**	**–,39,388**	**–,8,609**	**–**	**309,105**
Derivative financial liabilities at fair value through profit or loss	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
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

in € thousands	Within 3 months 31.12.2018	3 months to 1 year 31.12.2018	1 to 5 years 31.12.2018	5 to 10 years 31.12.2018	10 to 15 years 31.12.2018	15 to 20 years 31.12.2018	Later than 20 years 31.12.2018	Total 31.12.2018
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**

For further information about the management of liquidity risk 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 2019, the equity of the W&W Group according to IFRS amounted to €4,835.1 million (previous year: €4,236.3 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 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 fulfilled the regulatory capital requirements. As at 31 December 2019, the total capital ratio of Wüstenrot Bausparkasse AG was 19.1% (previous year: 18.9%). 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 of 2020. The ratios calculated as at 31 December 2018 were reported to BaFin in the second quarter of 2019. They amounted to 406.8% for Wüstenrot & Württembergische AG, to 540.7% for Württembergische Lebensversicherung AG and to 189.1% for Württembergische Versicherung AG. Württembergische Lebensversicherung AG received approval from BaFin to apply transitional measures for technical provisions, and it is currently applying them.

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 undertaking 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 2019, the total capital ratio of the financial holding group stood at 26.8% (previous year: 25.7%).

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 2020. The ratio for the previous year, which stood at 255.1%, was reported to BaFin in the second quarter of 2019.

As the superordinate undertaking 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 245.2% as at 31 December 2018.

Internal calculations on the basis of the data for 2019 and on the basis of the planning for 2020 and 2021 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.

2019

in € thousands	Housing 1.1.2019 to 31.12.2019	Life and Health Insurance 1.1.2019 to 31.12.2019	Property/ Casualty Insurance 1.1.2019 to 31.12.2019	All other segments 1.1.2019 to 31.12.2019	Consolidation/ reconciliation 1.1.2019 to 31.12.2019	Total 1.1.2019 to 31.12.2019
Commission revenue	**99,312**	**15,243**	**15,677**	**49,977**	**-72,543**	**107,666**
From home loan savings business	29,585	–	–	6,443	-8	36,020
From brokering activities	65,580	14,630	15,677	2,553	-31,599	66,841
From investment business	–	–	–	40,356	-37,160	3,196
From other business	4,147	613	–	625	-3,776	1,609
Net other operating income/expense	**18,169**	**591**	**5,435**	**101,615**	**-2,792**	**123,018**
Veräußerungserlöse aus Vorräten (Bauträgergeschäft)	–	–	–	78,627	–	78,627
Veräußerungserlöse aus Sachanlagen	–	–	–	315	–	315
Other revenue	18,169	591	5,435	22,673	-2,792	44,076
Net income/expense from disposals	**–**	**204,060**	**–**	**–**	**–**	**204,060**
Disposal revenue from investment property	–	204,060	–	–	–	204,060
Total	**117,481**	**219,894**	**21,112**	**151,592**	**-75,335**	**434,744**
Type of revenue recognition						
Satisfied at a point in time	92,069	219,894	21,112	113,890	-52,994	393,971
Satisfied over time	25,412	–	–	37,702	-22,341	40,773
Total	**117,481**	**219,894**	**21,112**	**151,592**	**-75,335**	**434,744**

2018

in € thousands	Housing 1.1.2018 to 31.12.2018	Life and Health Insurance 1.1.2018 to 31.12.2018	Property/ Casualty Insurance 1.1.2018 to 31.12.2018	All other segments 1.1.2018 to 31.12.2018	Consolidation/ reconciliation 1.1.2018 to 31.12.2018	Total 1.1.2018 bis 31.12.2018
Commission revenue	**119,718**	**13,628**	**16,478**	**50,225**	**–87,969**	**112,080**
From 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**
Veräußerungserlöse aus Vorräten (Bauträgergeschäft)	–	–	–	60,842	–	60,842
Sonstige Erlöse	8,175	514	5,159	12,857	–2,725	23,980
Veräußerungsergebnis	–	110,520	–	8	–2,708	107,820
Net income/expense From disposals	**–**	**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**

Performance obligations

Commission revenue from home loan savings business

In home loan 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. 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.

Commission revenue from investment business

Commission revenue from investment business consists of advisory services with respect to the purchase of investment fund units.

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". In the case of new construction, the property developer is required to provide a five-year warranty for each purchased residential unit.

Contract balances

Receivables from contracts with customers primarily consist of fees owed by home loan savings customers in the amount of €9.4 million (previous year: €14.5 million) and receivables from property development business in the amount of €16.8 million (previous year: €5.6 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 €3.9 million (€6.3 million) for loans and advances to home loan savings customers and to €3.0 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 €35.8 million (previous year: €19.6 million). Revenue from property development business was recognised in the reporting period in the amount of €19.6 million (previous year: €32.0 million), which was included at the start of the period in the liability balance for down payments received. The rise in down payments received was attributable to the advanced state of construction in property development projects.

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: €2.0 million). Amortisation amounts totalled €0.2 million (previous year: €0.8 million).

(53) Leasing

W&W Group as lessee

The W&W Group leases properties, vehicles and EDP equipment for own use, as well as investment properties.

Most of the properties for own use have indefinite terms. Renewal options exist in some cases. Price adjustment clauses are likewise agreed to, which are based on the consumer price index. There are normally no purchase options. Recognised under "Property for own use" is, in particular, the property 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-time 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.

EDP equipment and vehicles have fixed terms of up to three years. Investment properties have terms of up to 70 years.

The following overview shows the changes in right-of-use assets in the consolidated balance sheet from 1 January to 31 December 2019.

Right-of-use assets in 2019

	Investment property	Property for own use	Vehicles	EDP equipment	Total
in € thousands	2019	2019	2019	2019	2019
Carrying amounts as at 1 January	9,408	76,779	3,436	2,752	92,375
Additions	1,185	2,098	911	–	4,194
Disposals	–	-391	-30	–	-421
Classified as held for sale (carrying amount)	–	-4,220	-298	–	-4,518
Scheduled depreciation	-175	-14,451	-1,596	-1,065	-17,287
Classified as held for sale (impairment)	–	1,182	125	–	1,307
As at 31 December	**10,418**	**60,997**	**2,548**	**1,687**	**75,650**

Recognised in the consolidated income statement were interest expenses from lease liabilities in the amount of €1.6 million and expenses for short-term leases in the amount of €0.2 million.

We are the lessor under subleases for the leased property in Friedrich-Scholl-Straße in Karlsruhe, Germany, for which future minimum payments of €6.3 million (previous year: €7.3 million) are expected.

Payment outflows under leases in the amount of €8.5 million were recognised in the cash flow statement.

For an analysis of the remaining term to maturity of lease liabilities, please see Note 48 "Liquidity risk".

W&W Group as lessor

We are the lessor under operating leases 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. Rental income amounted to €124.8 million (previous year: €121.9 million). Variable rent payments recognised as income amounted to €1.4 million (previous year: €1.1 million).

Undiscounted minimum lease payments in 2019

	Lessor – operating leases under IFRS 16
in € thousands	31.12.2019
Within 1 year	**83,127**
1 to 2 years	69,912
2 to 3 years	63,031
3 to 4 years	58,683
4 to 5 years	46,784
Later than 5 years	255,022
Total	**576,559**

We do not recognise any finance leases as lessor.

The comparative information for 2018 was prepared pursuant to IAS 17.

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	26,775[1]	125,495[1]

1 Previous year's figure adjusted.

In 2018 we were the lessee under operating leases for property for own use, mainframe computers, mainframe hardware and software, printers and vehicles. The leases normally had terms of up to 10 years. Renewal options existed with some properties for own use. Price adjustment clauses were likewise agreed to, which were based on the consumer price index. There were normally no purchase options. During the 2018 financial year, minimum lease payments of €22.5 million were recognised as an expense for operating leases as lessee.

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	31.12.2019	31.12.2018
Contingent liabilities	**2,110,199**	**1,493,894**
From deposit protection funds	347,501	360,446
From sureties and warranties	10,148	10,154
From capital contribution calls not yet made	1,388,257	873,050
From contractual obligations to buy and build investment property	107,631	243,615
From contractual obligations to buy and build property, plant and equipment	239,700	4,800
Other contingent liabilities	16,962	1,829
Other obligations	**1,220,444**	**1,395,115**
Irrevocable loan commitments	1,220,444	1,395,115
Total	**3,330,643**	**2,889,009**

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 €34.5 million (previous year: €35.9 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 €2.1 million (previous year: €1.8 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 €310.9 million (previous year: €322.8 million).

As at 31 December 2019, obligations for capital contribution calls not yet made as relate to investments in the W&W Group amounted to €1,388.3 million (previous year: €873.1 million).

Irrevocable loan commitments consisted 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 Bausparkasse AG is a member of Entschädigungseinrichtung deutscher Banken GmbH, which is a company that operates the compensation scheme 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.

In connection with the ownership control procedure for the acquisition of Aachener Bausparkasse AG, Wüstenrot Bausparkasse AG was required by the ECB to submit a binding letter of comfort. The supervisory authority requires such a letter of comfort in all comparable procedures. The letter of comfort was submitted at the time of change of control on 1 January 2020. Although the letter of comfort is open-ended, it will expire when Aachener Bausparkasse AG is merged into Wüstenrot Bausparkasse AG, which is scheduled to take place in the second quarter of 2020.

In connection with the sale of Wüstenrot Bank Pfandbriefbank AG, the buyer has various claims against W&W AG. In the event of a breach of contractual agreements or balance sheet guarantees, the claims are essentially limited to a maximum liability and are prescribed in the short to medium term. There are currently no indications of any claims that will exceed the created provisions.

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 €1,300 thousand per claim and €1,900 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 savings 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 2019, receivables from related persons amounted to €598 thousand (previous year: €521 thousand), and liabilities to related persons amounted to €750 thousand (previous year: €1,247 thousand). In the 2019 financial year, 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: €6 thousand). In the 2019 financial year, premiums in the amount of €50 thousand (previous year: €53 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 2019, a financial liability was owed to Wüstenrot Holding AG under this agreement in the amount of €15.1 million (previous year: €17.0 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.

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.

A voluntary subsidy in the amount of €27.0 million (previous year: €0) was paid to Pensionskasse der Württembergischen VVaG in the 2019 financial year.

As of the reporting date, the open balances from transactions with related companies were as follows:

in € thousands	31.12.2019	31.12.2018
Financial assets with respect to related companies	**176,912**	**117,100**
Unconsolidated subsidiaries	151,925	90,282
Associated companies	–	101
Other related companies	24,987	26,717
Financial liabilities with respect to related companies	**194,752**	**166,595**
Affiliated undertakings	–	4
Unconsolidated subsidiaries	73,889	54,668
Associated companies	80,442	80,463
Other related companies	40,421	31,460

Income and expenses from transactions with related companies were as follows:

in € thousands	1.1.2019 bis 31.12.2019	1.1.2018 bis 31.12.2018
Income from transactions with related companies	**49,406**	**43,776**
Affiliated undertakings	1	1
Unconsolidated subsidiaries	47,289	41,670
Associated companies	7	7
Other related companies	2,109	2,098
Expenses from transactions with related companies	**−92,849**	**−66,988**
Unconsolidated subsidiaries	−49,545	−54,410
Associated companies	−205	−211
Other related companies	−43,099	−12,367

(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 €3,468.9 thousand (previous year: €2,754.5 thousand) and is composed of the following elements:

Remuneration of the individual members of the Executive Board in 2019

						Performance-related remuneration (sustained)					
	Term of office ends	Non-performance-related remuneration		Performance-related remuneration (short term)		from 2018	from 2015	Ancillary benefits		Total	
in € thousands		2019	2018	2019	2018	2019	2019	2019	2018	2019	2018
Active members of the Executive Board											
Jürgen A. Junker	03/2021	1,040.0	1,040.0	117.6	123.3	81.2	–	146.8	159.4	1,385.6	1,322.7
Dr. Michael Gutjahr	08/2020	565.8	565.8	58.5	56.4	80.7	69.7	18.0	15.4	723.0	707.3
Jürgen Steffan	06/2024	483.8	–	41.9	–	97.9	–	14.1	–	637.7	–
Jens Wieland	06/2025	565.8	565.8	78.6	82.5	55.6	53.6	22.6	22.6	722.6	724.5
Total		**2,655.4**	**2,171.6**	**296.6**	**262.2**	**315.4**	**123.3**	**201.5**	**197.4**	**3,468.9**	**2,754.5**

Of the ancillary benefits, remuneration for work as members of the Supervisory Board in the Group companies amounted to €128.2 thousand (previous year: €136.0 thousand).

Sustained performance-related remuneration for a prior financial year was earned with the close of the year 2019. This consisted, on the one hand, of remuneration from employment relationships with the insurance companies for the 2016 financial year, since in the years 2017 to 2019 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 their work at Wüstenrot Bausparkasse AG, Dr Michael Gutjahr and Jürgen Steffan earned remuneration for the 2017 and 2018 financial years 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 2020.

In addition to the earned performance-related remuneration shown in the above table, contingent claims to disbursement of performance-related remuneration for the years 2017 to 2019 were acquired (in each case, the amount of performance-related remuneration not yet disbursed). Disbursement is made only if the aforementioned conditions occur or do not occur in the years 2020 to 2022. Moreover, in the case of Dr Michael Gutjahr and Jürgen Steffan, the variable remuneration for Wüstenrot Bausparkasse AG is disbursed in instalments until 2025, in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions. For 2019 the final amount will not be calculated until the Supervisory Board has ascertained whether targets were achieved.

Performance-related remuneration for the 2018 financial year, which was disbursed in 2019 after ascertaining the degree to which targets were achieved, resulted in an expense totalling €8.9 thousand (previous year: €43.9 thousand). The amount consists of expenses for Jürgen A. Junker in the amount of €4.0 thousand (previous year: €20.7 thousand), for Dr Michael Gutjahr in the amount of €4.5 thousand (previous year: €13.7 thousand) and for Jens Wieland in the amount of €0.4 thousand (previous year: €9.5 thousand).

In the 2018 financial year, provisions in the amount of €262.2 thousand (previous year: €156.1 thousand) were created for acquired contingent claims to disbursement in 2025 of performance-related remuneration for the 2018 to 2022 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 €10.1 thousand (previous year: €43.6 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 €7,213.2 thousand (previous year: €4,756.3 thousand). Of this amount, attributable to Dr Michael Gutjahr is the amount of €4,339.9 thousand (previous year: €3,815.6 thousand), based on a retirement age of 61, and to Jürgen A. Junker the amount of €714.6 thousand (previous year: €385.5), to Jürgen Steffan the amount of €1,344.2 thousand (previous year: €0) and to Jens Wieland the amount of €814.6 thousand (previous year: €555.2 thousand), in each case based on a retirement age of 65. These benefits have to do with long-term post-employment benefits. Additions during the financial year attributable to the Group amounted to €1,547.7 thousand (previous year: release of €33.0 thousand). Of these additions, attributable to Jürgen A. Junker is the amount of €329.0 thousand (previous year: €117.4 thousand), to Dr Michael Gutjahr the amount of €524.3 thousand (previous year: release of €201.1 thousand), to Jürgen Steffan the amount of €435.0 thousand (previous year: €0) and to Jens Wieland the amount of €259.4 thousand (previous year: €50.7 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 €1,829.0 thousand (previous year: €2,068.4 thousand). Of this amount, €434.9 thousand (previous year: €318.0 thousand) was attributable to survivor benefits.

A reserve in the amount of €25,395.5 thousand (previous year: €23,710.9 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 2019 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				Dr. Michael Gutjahr HR, Finance, Risk Management			
	2018	2019	Minimum 2019	Maximum 2019	2018	2019	Minimum 2019	Maximum 2019
Fixed remuneration	1,040.0	1,040.0	1,040.0	1,040.0	565.8	565.8	565.8	565.8
Ancillary benefits[1]	159.4	146.8	146.8	146.8	15.4	18.0	18.0	18.0
Total	**1,199.4**	**1,186.8**	**1,186.8**	**1,186.8**	**581.2**	**583.8**	**583.8**	**583.8**
One-year variable remuneration	104.0	104.0	–	145.6	47.5	47.5	–	66.5
One-year variable remuneration for Wüstenrot Bausparkasse AG	–	–	–	–	4.5	4.5	–	6.3
Multi-year variable remuneration	156.0	156.0	–	218.4	71.3	71.3	–	99.8
Financial year 2018: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2019–2022)	156.0	–	–	–	71.3	–	–	–
Financial year 2019: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2020–2022)	–	156.0	–	–	–	71.3	–	–
Financial year 2018: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in instalments until 2025 in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions	–	–	–	–	18.1	–	–	–
Financial year 2019: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in instalments until 2026 in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions	–	–	–	–	–	18.1	–	25.3
Total	**1,459.4**	**1,446.8**	**1,186.8**	**1,550.8**	**722.6**	**796.5**	**583.8**	**781.8**
Pension expenses (= service cost pursuant to IAS 19)	89.0	134.8	134.8	134.8	–	–	–	–
Total remuneration (German Corporate Governance Code)	**1,548.4**	**1,581.6**	**1,321.6**	**1,685.6**	**722.6**	**796.5**	**583.8**	**781.8**

1 Ancillary benefits also contain the remuneration for work as Supervisory Board members in the Group companies.

Benefits granted – continued

in € thousands	Jürgen Steffan (from 1 July 2019) Risk, Compliance and Data Management, Group Controlling and Cost Controlling				Jens Wieland Enterprise IT Management, Customer Data Protection and Operational Security			
			Minimum	Maximum			Minimum	Maximum
	2018	2019	2019	2019	2018	2019	2019	2019
Fixed remuneration	–	483.8	483.8	483.8	565.8	565.8	565.8	565.8
Ancillary benefits[1]	–	14.1	14.1	14.1	22.6	22.6	22.6	22.6
Total	**–**	**497.9**	**497.9**	**497.9**	**588.4**	**588.4**	**588.4**	**588.4**
One-year variable remuneration	–	27.0	–	37.8	77.0	77.0	–	107.8
One-year variable remuneration for Wüstenrot Bausparkasse AG	–	10.8	–	15.1	–	–	–	–
Multi-year variable remuneration	–	40.5	–	56.7	64.5	64.5	–	90.3
Financial year 2018: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2019–2022)	–	–	–	–	64.5	–	–	–
Financial year 2019: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2020–2022)	–	40.5	–	–	–	64.5	–	–
Financial year 2018: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in instalments until 2025 in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions	–	–	–	–	–	–	–	–
Financial year 2019: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in instalments until 2026 in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions	–	43.3	–	60.6	–	–	–	–
Total	**–**	**619.5**	**497.9**	**668.1**	**729.9**	**729.9**	**588.4**	**786.5**
Pension expenses (= service cost pursuant to IAS 19)	–	72.4	72.4	72.4	57.3	82.6	82.6	82.6
Total remuneration (German Corporate Governance Code)	**–**	**691.9**	**570.3**	**740.5**	**787.2**	**812.5**	**671.0**	**869.1**

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		Jürgen Steffan (from 1 July 2019)		Jens Wieland	
	Executive Board Chair Legal, Audit, Communication, Group Development		Personnel, Accounting, Financial Management, Retained Organisation		Risk, Compliance and Data Management, Group Controlling and Cost Controlling		Enterprise IT Management, Customer Data Protection and Operational Security	
in € thousands	2019	2018	2019	2018	2019	2018	2019	2018
Fixed remuneration	1,040.0	1,040.0	565.8	565.8	483.8	–	565.8	565.8
Ancillary benefits[1]	146.8	159.4	18.0	15.4	14.1	–	22.6	22.6
Total	**1,186.8**	**1,199.4**	**583.8**	**581.2**	**497.9**	**–**	**588.4**	**588.4**
One-year variable remuneration	117.6	123.3	58.5	56.4	41.9	–	78.6	82.5
Multi-year variable remuneration	81.2	–	80.7	69.7	97.9	–	55.6	53.6
Financial year 2015: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2016-2019)	–	–	–	64.7	–	–	–	53.6
Financial year 2016: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2017-2019)	81.2	–	72.0	–	56.1	–	55.6	–
Financial year 2017: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions (financial years 2018 and 2019)	–	–	2.3	5.0	11.1	–	–	–
Financial year 2018: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions (financial year 2019)	–	–	6.4	–	30.7	–	–	–
Total remuneration (Section 314 (1) no. 6 of the German Commercial Code (HGB))	**1,385.6**	**1,322.7**	**723.0**	**707.3**	**637.7**	**–**	**722.6**	**724.5**
Pension expenses (= service cost pursuant to IAS 19)	134.8	89.0	–	–	72.4	–	82.6	57.3
Total remuneration (German Corporate Governance Code)	**1,520.4**	**1,411.7**	**723.0**	**707.3**	**710.1**	**–**	**805.2**	**781.8**

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 Chair and the Deputy Chair, 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 Chair and by 75% for the Chair's deputies.

In the 2019 financial year, the company paid the members of the Supervisory Board of Wüstenrot & Württembergische AG total remuneration of €781.7 thousand (previous year: €756.3 thousand). Of this amount, further Supervisory Board mandates in the Group accounted for €116.3 thousand (previous year: €97.5 thousand). In the 2019 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 €60.5 (previous year: €21.5 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.

Advances and loans to active members of the Supervisory Board of the W&W Group amounted to €581.3 thousand (previous year: €512.0 thousand). The loans were granted by Group companies. The agreed interest rates range from 1.6% to 3.8%. Loans amounting to €7.2 thousand (previous year: €78.8 thousand) were repaid by active 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 in 2019

	Base remuneration	Attendance fees	Committee remuneration	Group		Total
in € thousands	2019	2019	2019	2019	2019	2018
Hans Dietmar Sauer (Vorsitzender)	62.5	2.0	43.4	–	107.9	112.5
Frank Weber (Stv. Vorsitzender)	43.8	2.5	16.0	16.0	78.3	77.8
Petra Aichholz	14.3	1.0	–	–	15.3	–
Peter Buschbeck	25.0	2.5	7.0	–	34.5	35.0
Prof. Dr Nadine Gatzert	25.0	2.0	4.6	–	31.6	14.3
Dr Reiner Hagemann	25.0	2.5	12.0	–	39.5	39.0
Ute Hobinka	25.0	2.5	10.3	–	37.8	35.0
Jochen Höpken	25.0	1.0	4.0	–	30.0	30.0
Corinna Linner	25.0	2.5	20.0	–	47.5	47.0
Marika Lulay	25.0	2.5	4.0	–	31.5	29.2
Bernd Mader	25.0	2.5	8.0	–	35.5	35.0
Andreas Rothbauer	25.0	2.5	8.0	24.0	59.5	59.0
Hans-Ulrich Schulz	25.0	2.5	8.0	–	35.5	35.0
Christoph Seeger	25.0	2.5	10.3	30.0	67.8	65.0
Jutta Stöcker	25.0	2.5	5.1	–	32.6	31.0
Susanne Ulshöfer	14.3	1.5	4.6	16.0	36.4	–
Subtotal	**434.9**	**35.0**	**165.3**	**86.0**	**721.2**	**644.8**
Gudrun Lacher (former)	10.7	1.0	1.7	–	13.4	31.0
Ruth Martin (former)	–	–	–	12.0	12.0	21.5
Gerold Zimmermann (former)	10.7	1.0	5.1	18.3	35.1	59.0
Total	**456.3**	**37.0**	**172.1**	**116.3**	**781.7**	**756.3**

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 €6,563.6 thousand (previous year: €6,977.4 thousand). Of this amount, short-term employee benefits accounted for €5,329.6 thousand (previous year: €5,912.4 thousand), post-employment benefits accounted for €598.9 thousand (previous year: €430.4 thousand), other long-term benefits accounted for €635.1 thousand (previous year: €634.6 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 2019 was 6,754 (previous year: 6,842). As at the reporting date, the number of employees was 7,991 (previous year: 8,129).

The average headcount in the last 12 months was 8,033 (previous year: 8,092). This average is calculated as the arithmetic mean of the end-of-quarter headcounts as of the reporting date between 31 March 2019 and 31 December 2019 and during the corresponding prior-year period and is distributed over the individual segments as follows:

Number of employees by segment on annual average

	31.12.2019	31.12.2018
Housing	2,166	2,207
Life and Health Insurance	836	931
Property/Casualty Insurance	3,583	3,475
All other segments	1,448	1,479
Total	**8,033**	**8,092**

(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 totalled €4,655 thousand (previous year: €6,233 thousand) for the financial year. Of this amount, audit services accounted for €4,285 thousand (previous year: €4,932 thousand), other assurance services accounted for €115 thousand (previous year: €322 thousand), tax advisory services accounted for €21 thousand (previous year: €0 thousand) and other services accounted for €234 thousand (previous year: €979 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 of W&W AG, as well as to other permissible services occasioned directly by the audit. 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 include audits pursuant to the General Terms and Conditions of the Deutsche Bundesbank, the substantive audit of the sustainability report and other audits under the German Securities Trading Act (WpHG). Tax advisory services consist of advisory and support services for various Group companies. Other services include professional advice provided to Group companies on accounting and regulatory matters for the purpose of meeting statutory requirements.

(59) Events after the reporting date

Effective 1 January 2020, W&W AG, through its subsidiary Wüstenrot Bausparkasse AG, Ludwigsburg, Germany, took over 100% of the voting shares of Aachener Bausparkasse AG and thereby obtained control over this company. The shares were acquired from various owners. For further information, please see the disclosures concerning changes to the scope of consolidation.

For the potential impact of the coronavirus pandemic on the W&W Group, please see the remarks in the management report.

No other 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 → Publikationen → Weitere Publikationen

(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 2019 is presented below. We made use 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 (ab 2.1.2020: Württembergische Akademie GmbH)	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
KLV BAKO Dienstleistungs-GmbH, Karlsruhe	93.70	M
KLV BAKO Vermittlungs-GmbH, Karlsruhe	76.80	M
Miethaus und Wohnheim GmbH i.L., Ludwigsburg	100.00	M
NIST GmbH, Berlin	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 i.L., Berlin	100.00	M
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 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 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
Finnland		
Kiinteistö Oy Porkkalankatu 5, Helsinki	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
United States		
BR Guthrie LLC, Wilmington	100.00	M
BR US Holdings I LLC, Wilmington	100.00	M
Guthrie Property Owner LP, Wilmington	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-69, Stuttgart	100.00	F
LBBW AM-76, 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 High Yield Corporates Bonds Fonds, Stuttgart	93.50	F
LBBW AM REA-Fonds, 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	99.90	F
W&W International Global Convertibles Fonds, Dublin	93.14	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	50.00	M
Associates		
Germany		
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	35.00	E
BWK Holding GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	35.00	M
Keleya Digital-Health Solutions UG, Hamburg	23.27	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 %	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	€	31.12.2018	20,529,252	3,055,640
DBAG Fund VI Feeder GmbH & Co. KG, Frankfurt am Main	30.71	€	31.12.2018	45,269,525	5,989,216
Onshore Wind Portfolio 2012 GmbH & Co. KG, Frankfurt am Main	20.72	€	31.8.2019	105,843,735	5,013,130
VC Fonds Baden-Württemberg GmbH & Co. KG, Stuttgart	25.00	€	31.12.2018	1,871,956	427,703
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$[2]	31.12.2018	69,211,000	813,000
White Oak Yield Spectrum Feeder ICAV, Dublin	37.30	US$[2]	31.12.2018	255,963,522	6,999,562
Luxembourg	37,30				
BlackRock Euro Investment Grade Infrastructure Debt Fund SCSp, Luxemburg	22.50		New investment 14.3.2019		
CI III Lux Feeder Fund FCP-RAIF, Luxemburg	35.88	€	31.12.2018	6,664,526	1,501,087
Crescent Private Credit Partners Unitranche Fund (Ireland) LP, Luxemburg	51.48		New investment 1.7.2019		
Deerpath Capital SLP-RAIF, Luxemburg	25.81		New investment 24.6.2019		
Idinvest Lux Fund, SICAV-SIF SCA – Idinvest Private Debt III, Luxemburg	23.80	€	31.12.2018	121,747,600	7,029,646
IKAV SICAV-FIS SCA - ecoprime TK I, Luxemburg	41.28	€	30.9.2019	40,469,740	3,289,197
IKAV SICAV-FIS SCA - Global Energy (Ecoprime III), Luxemburg	45.36	€	30.9.2019	31,290,201	741,647
IKAV SICAV-FIS SCA - Global PV Investments, Luxemburg	46.25	€	30.9.2019	21,737,145	17,540,543
Secondary Opportunities SICAV-SIF - Sub-fund SOF III Feeder USD, Luxemburg	35.48	US$[2]	31.12.2018	60,192,296	136,611
StepStone European Fund SCS, SICAV-FIS – StepStone Capital Partners III, Luxemburg	27.56	US$[2]	31.12.2018	698 563 003	45 001 211
Whitehelm European Infrastructure Fund II, Luxemburg	25.62		New investment 18.10.2019		
United Kingdom					
Asper Renewable Power Partners 2 LP, London	29.53	€	31.12.2018	57,858,977	4,274,052
Capital Dynamics Clean Energy and Infrastructure Feeder L.P., Edinburgh	30.21	US$[2]	31.12.2018	160,824,829	,998
EIG Global Private Debt (Europe UL) L.P., London	29.67	US$[2]	31.12.2018	105,853,000	2,893,000
Project Glow Co-Investment Fund L.P., George Town	51.72	US$[2]	31.12.2018	37,646,797	1,163,649
United States					
Project Finale Co-Investment Fund Holding LLC, Wilmington	30.00	US$[2]	31.12.2018	43,742,380	1,517,351

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] ab 5 % und bis 20 %					
Germany					
European Sustainable Power Fund Nr. 2 GmbH & Co. KG, Grünwald	12.10	€	30.9.2018	454,833,813	25,773,372
Ireland				,	,
White Oak Summit Fund, ILP, Dublin	15.66	US$[2]	31.12.2018	202,347,890	11,501,278
Luxembourg				,	,
AMP Capital Infrastructure Debt Fund (EUR) III L.P., Luxemburg	9.63	€	31.12.2018	282,473,026	13,228,100
First State European Diversified Infrastructure Feeder Fund II SCA, SICAV-SIF, Luxemburg	12.99	€	31.12.2018	322,800,268	29,314,799
United Kingdom				,	,
Brookfield Capital Partners Fund III (NR A) L.P., George Town	12.20	US$[2]	31.12.2018	848,953,000	21,358,000
Glennmont Clean Energy Fund Europe 1 'A' L.P., London	11.52	€	31.12.2018	243,985,378	6,001,350
Global Infrastructure Partners III-C2, L.P., London	9.60	US$[2]	31.12.2018	401,675,571	1,157,358
United States				,	,
H.I.G. Whitehorse Offshore Loan Feeder Fund L.P., Miami	11.06	US$[2]	31.12.2018	296,717,337	22,071,107
ISQ Global Infrastructure Fund (EU) L.P., Wilmington	5.19	US$[2]	31.12.2018	2,749,605,890	233,304,979

1 The figures relate to the most recent annual financial statements available on the reporting date.
2 US$/€-rate on 31 December 2018: 1.1993/1.0000. CA$/€-rate on 31 December 2018: 1.5039/1.0000 £/€-rate on 31 December 2018: 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 brandpool GmbH	Financial company	Stuttgart	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 Bausparkasse AG	Credit institution	Ludwigsburg	Germany
Wüstenrot hypoteční banka a.s.	Credit institution	Prag	Czech Republic
Wüstenrot stavební spořitelna a.s.	Credit institution	Prag	Czech Republic
W&W Asset Management Dublin DAC	Financial services institution	Dublin	Ireland
W&W Investment Managers DAC	Credit institution	Dublin	Ireland
Wüstenrot Bausparkasse AG, Luxembourg branch establishment	Credit institution	Munsbach	Luxembourg

Presented as revenue is net income 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 2019

		Germany	Czech Republic	Luxembourg	Ireland
Revenue	in € thousands	652,539	51,212	4,490	14,858
Recipients of wages and salaries in full-time equivalents	Number	3,752	347	7	10
Profit/loss before taxes	in € thousands	213,941	14,794	834	11,522
Taxes on profit/loss	in € thousands	−59,127	−2,740	−230	−1,580
Public subsidies received	in € thousands	—	—	—	—

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	—	—	—	—

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, 3 March 2020

Jürgen A. Junker

Dr. Michael Gutjahr

Jürgen Steffan

Jens Wieland

W&W Group
Auditor‘s report

Following our audit, we issued the following unqualified audit report:

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 2019, 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 2019, 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 2019. In conformity with German statutory requirements, we have not audited the content of the elements of the combined management report mentioned in the section of our audit report entitled “Other information”.

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 2019 and its financial performance for the financial year 1 January to 31 December 2019, 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 elements of the combined management report mentioned in the section “Other information”.

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 2019. 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 policies: 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
IFRS 9 specifies a classification model that includes certain 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.
- In addition, we reviewed the documentation that the Group prepared concerning the grouping of these financial instruments. These were grouped into those that were assessed with a standardised approach and in those that were analysed individually.

- 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 standards, 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 and spreads that were applied for select securities, receivables and derivative financial instruments and then evaluated those yield curves 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 standards, 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 recognises 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 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 standards, 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 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 standards, 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 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 and the Supervisory Board are responsible for the other information. The other information comprises:

- the Group corporate governance statement, which is contained in the section “Corporate governance statement” in the combined management report,
- the combined non-financial report of the W&W Group, to which reference is made in the combined management report and
- the ancillary disclosures contained in the combined management report that are denoted as unaudited.

Moreover, the other information comprises the remaining portions of the annual report.

The other information does not comprise the consolidated financial statements, the substantively audited disclosures in the combined management report or our associated 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 aforementioned other information and, in doing so, consider whether the other information

- is materially inconsistent with the consolidated financial statements, the substantively audited disclosures in 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 going concern. Moreover, it is responsible for using the going concern basis of accounting unless it 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 judgement 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 22 March 2019. We were given a mandate by the chair of the Supervisory Board's Risk and Audit Committee on 19 June 2019. 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, 10 March 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft

signed Dr Hasenburg Wirtschaftsprüfer (German public auditor)	signed Eisele Wirtschaftsprüfer (German public auditor)

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Financial Statements W&W AG (HGB)

Balance sheet as at 31 December 2019

Assets

in € thousands	cf. Note no.[1]	31.12.2019	31.12.2019	31.12.2019	31.12.2018
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
B. Capital investments					
I. Land, land-type rights and buildings, including buildings on third-party land	2		254,223		186,788
II. Capital investments in affiliated companies and participations	3				
1. Interests in affiliated companies		1,444,333			1,489,749
2. Loans to affiliated companies		411,500			411,700
3. Participations		57,411			44,186
			1,913,244		1,945,635
III. Other capital investments					
1. Shares, interests or shares in investment assets and other variable-yield securities	4	574,536			528,370
2. Bearer bonds and other fixed-income securities		273,928			186,542
3. Other loans	5	285,883			249,226
4. Deposits with credit institutions	6	70,798			132,047
Thereof with affiliated companies: €107,100 thousand (previous year: €20,300 thousand)					
5. Other capital investments		87			87
			1,205,232		1,096,272
IV. Receivables from deposits with ceding companies			28,671		31,120
				3,401,370	3,259,815
C. Receivables					
I. Amounts receivable on reinsurance business			52,425		45,610
II. Other receivables	7		253,178		178,381
Thereof from affiliated companies: €245,273 thousand (previous year: €165,787 thousand)				305,603	223,991
Carryover				**3,706,973**	**3,483,807**

1 See numbered explanations in the notes to the consolidated financial statements.

Assets

in € thousands	cf. Note no.	31.12.2019	31.12.2019	31.12.2019	31.12.2018
Carryover				**3,706,973**	**3,483,807**
D. Other assets					
I. Property, plant and equipment and inventories			1,046		1,180
II. Current accounts with banks, cheques and cash			62,086		204,188
				63,132	205,368
E. Deferred assets					
I. Deferred interest and rental income			7,264		7,285
II. Other deferred assets	8		19		65
				7,283	7,350
F. Excess of plan assets over pension liabilities	9			872	787
Total Assets				**3,778,260**	**3,697,312**

Liabilities

in € thousands	cf. Note no.	31.12.2019	31.12.2019	31.12.2019	31.12.2018
A. Equity					
I. Share capital[1]	10	490,311			490,311
thereof less: mathematical value of own shares		281			663
			490,030		489,648
II. Capital reserve	11		995,195		994,657
III. Retained earnings	12				
Other retained earnings		425,577			406,577
			425,577		406,577
IV. Balance sheet profit	13		75,444		65,338
				1,986,246	1,956,220
B. Technical provisions					
I. Provision for unearned premiums					
1. Gross amount		22,609			20,820
2. Thereof to: the portion for ceded reinsurance business		3,931			2,993
			18,678		17,827
II. Provision for future policy benefits					
1. Gross amount		28,552			30,303
			28,552		30,303
III. Provision for outstanding insurance claims					
1. Gross amount		463,320			479,502
2. Thereof to: the portion for ceded reinsurance business		105,615			128,610
			357,705		350,892
IV. Claims equalisation provision and similar provisions			102,069		94,553
V. Other technical provisions					
1. Gross amount		5,333			4,838
2. Thereof to: the portion for ceded reinsurance business		-801			-1,002
			6,134		5,840
				513,138	499,415
Carryover				**2,499,384**	**2,455,635**

1 Information about authorised and contingent capital is contained in the notes.

Liabilities

in € thousands	cf. Note no.	31.12.2019	31.12.2019	31.12.2019	31.12.2018
Carryover				**2,499,384**	**2,455,635**
C. Other provisions					
I. Provisions for pensions and similar obligations	14		1,026,665		954,132
II. Tax provisions			67,287		86,333
III. Other provisions	15		29,658		26,655
				1,123,610	1,067,120
D. Deposits retained from ceded reinsurance business	16			14,498	16,804
E. Other liabilities					
I. Accounts payable on reinsurance business			48,333		55,483
Thereof to affiliated companies: €38,436 thousand (previous year: €46,807 thousand)					
II. Liabilities to credit institutions			92,364		102,185
Thereof for taxes: €110 thousand (previous year: €5,616 thousand) Thereof to affiliated companies: €89,445 thousand (previous year: €95,352 thousand)				140,697	157,668
F. Deferred liabilities	18			71	85
Total Liabilities				**3,778,260**	**3,697,312**

Income statement W&W AG HGB
for the period 1 January to 31 December 2019

in € thousands	cf. Note no.	1.1.2019 bis 31.12.2019	1.1.2019 bis 31.12.2019	1.1.2019 bis 31.12.2019	1.1.2018 bis 31.12.2018
I. Technical account					
1. Premiums earned for own account					
a) Gross premiums written		389,970			361,094
b) Paid einsurance premiums		106,887			91,244
			283,083		269,850
c) Change in the gross provision for unearned premiums		-1,789			-653
d) Change in the reinsurers' portion of the gross provision for unearned premiums		938			437
			-851		-216
				282,232	269,634
2. Income from technical interest for own account	19			1,193	1,069
3. Other technical incomes for own account				410	394
4. Expenses for insurance claims for own account					
a) Payments for insurance claims					
aa) Gross amount		243,985			239,879
bb) Reinsurers' portion		69,462			60,598
			174,523		179,281
b) Change in the provision for outstanding insurance claims	20				
aa) Gross amount		-16,648			-21,250
bb) Reinsurers' portion		-23,255			-3,621
			6,607		-17,629
				181,130	161,652
5. Change in other net technical provisions					
a) Net provision for future policy benefits			1,351		497
b) Sundry net technical provisions			106		-467
				1,457	30
6. Expenses for insurance business for own account	21				
a) Gross expenses for insurance business			120,383		117,851
b) Thereof less: received commissions and profit participations from ceded reinsurance business			24,233		19,819
				96,150	98,032
7. Other technical expenses for own account				1,502	1,420
8. Subtotal				**6,510**	**10,023**
9. Change in the claims equalisation provision and similar provisions				-7,515	-13,599
10. Net technical loss for own account				-1,005	-3,576
Carryover				**-1,005**	**-3,576**

in € thousands	cf. Note no.	1.1.2019 bis 31.12.2019	1.1.2019 bis 31.12.2019	1.1.2019 bis 31.12.2019	1.1.2018 bis 31.12.2018
Carryover				**−1,005**	**−3,576**
II. Non-technical account					
1. Income from capital investments					
a) Income from participations		33,490			35,860
thereof from affiliated companies: €32,576 thousand (previous year: €11,670 thousand)					
b) Income from other capital investments	22	36,058			35,788
thereof from affiliated companies: €22,210 thousand (previous year: €18,111 thousand)					
c) Income from write-ups	23	14,301			16,210
d) Gains from the disposal of capital investments	24	2,381			2,464
e) Income from profit pools, profit transfer agreements and partial profit transfer agreements		177,188			180,998
			263,418		271,320
2. Expenses for capital investments					
a) Capital investment management expenses, interest expenses and other expenses for capital investments		6,579			13,849
b) Depreciations on capital investments	25	10,511			33,665
c) Losses from the disposal of capital investments	26	6,261			2,458
d) Expenses from loss assumption		12,020			15,054
			35,371		65,026
			228,047		206,294
3. Income from technical interest			−1,190		−1,035
				226,857	205,259
4. Other income	27		83,875		97,399
5. Other expenses	28		164,022		179,275
				−80,147	−81,876
6. Net income from normal business activities				145,705	119,807
7. Income taxes	29		56,223		39,948
8. Other taxes			−526		−160
				55,697	39,788
9. Annual Profit				**90,008**	**80,019**
10. Retained earnings carried forward from the previous year				436	319
11. Allocation to retained earnings					
Other retained earnings				15,000	15,000
12. Balance sheet profit				**75,444**	**65,338**

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.

Self-created intangible fixed assets are not capitalised pursuant to Section 248 (2) sentence 1 of the German Commercial Code (HGB).

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 depreciation takes 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.

Interests in affiliated companies

Interests in affiliated companies are measured at cost. Pursuant to Section 341b (1) in conjunction with Section 253 (3) sentence 5 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 5 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 10.0%. 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 capital 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 measured at cost or in their nominal amounts.

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 the coverage capital specified in the business plan, plus irrevocably committed surplus participation, 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) and thus, in the absence of other measurement methods, to fair value within the meaning of Section 255 (4) sentence 4 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 of impairment losses

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, which are prepared in accordance with the capitalised earnings method. New appraisals are commissioned at regular intervals. The W&W campus is measured with the net asset value method.

We base the fair value of investments in affiliated companies and participations on their capitalised earnings or on the fair value determined using the net asset value method, in some cases also on cost, the disposal 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 %	31.12.2019	31.12.2018
Actuarial interest rate	2.71	3.21
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 2018G

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 2019 with a 10-year average interest rate were modified by taking the average monthly decline in interest rates from 1 January to 31 October 2019 and extrapolating it for the months of November and December 2019. 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) HGB amounted to €121.4 million. We elected to use the simplification rule in Section 253 (2) sentence 2 HGB.

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. As at the reporting date, under-coverage totalling €1.6 million still existed for two of the companies for which Wüstenrot & Württembergische AG has assumed joint liability for pension commitments. In connection with required netting under Section 246 (2) of the German Commercial Code (HGB), pledged reinsurance policies (€4.9 million; previous year: €4.7 million) were taken into account at fair value (coverage assets). This is composed of the coverage capital plus irrevocably committed surplus participation.

Tax provisions and miscellaneous provisions

Other 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 term of the provision at 1.5%. The rate used to discount other 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 remaining term to 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”. Tax provisions usually have a term of less than one year and are not discounted (pursuant to the German Fiscal Code (AO), interest starts to apply after 15 months).

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 1.09% 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 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 terms to maturity are 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 investments denominated in foreign currency are recognised under "Income from write-ups" and "Gains from the disposal of investments", while the corresponding losses are recognised under "Write-downs on investments" and "Losses from the disposal of 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 2018 in the amount of €6.2 million (previous year: €6.5 million) was recognised in the 2019 reporting year.

Notes concerning assets

A. Investments (1)

Recognised under this item are software acquisition costs minus depreciation.

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 €254.2 million (previous year: €186.8 million), a significant portion of which is attributable to the first phase of the campus project, which has now been completed, and to the second phase of the campus project currently under way.

Assets under construction have been in the portfolio since 2016 for the second phase of the campus project.

No properties were acquired or sold during the reporting year.

The underlying useful lives of the buildings amount to 40 to 50 years. During the financial year, the remaining useful life of one of our properties in own use within the Group was shortened to 3.5 years effective 31 December 2019. As a result, the depreciation on this building increased from €0.4 million to €2.1 million in the financial 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 shareholdings”. 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	31.12.2019	31.12.2018
Interests or shares in investment assets	574,536	528,370
Total	**574,536**	**528,370**

3. Other loans (5)

in € thousands	31.12.2019	31.12.2018
Registered bonds	124,434	134,454
Promissory notes and loans receivable	161,449	114,772
Total	**285,883**	**249,226**

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 €70.8 million (previous year: €132.0 million), thereof €57.1 million (previous year: €107.1 million) in affiliated companies.

Fair value of investments

Valuation reserves

in € thousands	Carrying amount 31.12.2019	Fair value 31.12.2019	Valuation reserves[1] 31.12.2019	Carrying amount 31.12.2018	Fair value 31.12.2018	Valuation reserves[1] 31.12.2018
Land, land-type rights and buildings, including buildings on third-party land	254,223	261,920	7,697	186,788	190,368	3,580
Interests in affiliated companies	1,444,333	2,689,367	1,245,034	1,489,749	2,734,317	1,244,568
Loans to affiliated companies	411,500	446,698	35,198	411,700	433,627	21,927
Participations	57,411	68,997	11,586	44,186	58,793	14,607
Shares, interests or shares in investment assets and other variable-yield securities	574,536	636,175	61,639	528,370	568,620	40,250
Bearer bonds and other fixed-income securities	273,928	285,091	11,163	186,542	191,042	4,500
Registered bonds	124,434	138,277	13,843	134,454	147,195	12,741
Promissory notes and loans receivable	161,449	169,970	8,521	114,772	121,818	7,046
Deposits with credit institutions	70,798	70,846	48	132,047	132,072	25
Other capital investments	87	87	–	87	87	–
Deposits from reinsurance accepted	28,671	28,671	–	31,120	31,120	–
Total	**3,401,370**	**4,796,099**	**1,394,729**	**3,259,815**	**4,609,059**	**1,349,244**
Carrying amount of all investments, in %			**41.00**			**41.39**

1 Net perspective, balance of valuation reserves and hidden liabilities.

Disclosures pursuant to Section 285, no. 18 of the German Commercial Code (HGB) concerning investments recognised at greater than fair value

In the case of loans to affiliated companies, the carrying amounts of €75,000 thousand are €445 thousand higher than the market values; in the case of debenture bonds, the carrying amounts of €30,000 thousand are €44 thousand higher than the market values; and in the case of deposits with credit institutions, the carrying amounts of €7,100 thousand are €0.03 thousand higher than the market values.

They were not written down because the circumstances were 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
Currency-related transactions	Currency forwards	98,144	141	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%)	339,251	310,034	29,217	–
LBBW AM-EMB3	Pension fund	103,714	85,504	18,210	–
LBBW AM-W&W AG Corporate Bonds Fonds	Pension fund	64,551	56,500	8,051	–
W&W Flexible Point & Figure	Mixed fund (up to 70%)	49,403	48,045	1,358	–
W&W Flexible Premium II Fund B	Mixed fund (up to 70%)	19,904	18,991	913	–
LBBW AM-USD Corp. Bonds Fonds 3	Pension fund	23,754	23,754	–	808
LBBW AM Cove.Call USA Fund	Equity fund	16,030	14,339	1,691	1,780
W&W South East Asian Equity	Equity fund	19,008	16,808	2,200	–

None of the funds have any restrictions with respect to the daily sell option or to the termination notice period of three months in the event that all fund units are sold.

C. Receivables

II. Other receivables (7)

in € thousands	31.12.2019	31.12.2018
Receivables from settlement transactions with affiliated companies and companies in which a participation interest is held	62,110	9,904
Receivables from profit and loss transfer agreements	177,188	151,328
Receivables from the tax office	4,125	10,330
Assets that have been pledged, deposited or assigned for the purposes of security[1]	5,996	4,556
Miscellaneous other receivables	3,759	2,263
Total	**253,178**	**178,381**

1 These are pledged cash securities from margin exposures relating to OTC derivatives.

Remaining term to maturity of receivables
Receivables with a remaining term to maturity of more than one year amount to €5,976 thousand and relate to receivables from reinsurance policies on pension commitments.

E. Deferred assets

II. Other deferred assets (8)

This mainly includes deferred interest on deposits with credit institutions in the amount of €0.0 million (previous year: €0.0 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 €1.7 million (previous year: €1.9 million) with partial amounts of the phased-in early retirement provisions for satisfaction arrears in the amount of €0.8 million (previous year: €1.1 million) resulted in an excess of €0.9 million (previous year: €0.8 million).

Notes concerning liabilities

A. Equity

Another employee share ownership programme was conducted in the first half-year of 2019. 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 €12.62 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 72,840 treasury shares within the Group in 2019 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 €0.9 million from the issuance of treasury shares. The remaining balance of 53,886 treasury shares, representing an amount of €281,823.78 (0.06%) of share capital, is to be used for additional employee share ownership programmes.

I. Share capital (10)

Share capital of €490.0 million (previous year: €489.6 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 2019 employees purchased a total of 72,840 treasury shares, resulting in an increase €0.4 million. The remaining balance of 53,886 treasury shares reduces the amount of share capital by €0.3 million.

Share capital

in € thousands	
As at 31 December 2018	489,648
Sale of treasury shares	382
As at 31 December 2019	**490,030**

II. Capital reserve (11)

As at the reporting date, the capital reserve amounted to €995.2 million (previous year: €994.7 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 €2.6 million (previous year: €3.1 million), which constitutes the net amount of the difference between the mathematical value of treasury shares and the difference between the acquisition costs and the sales proceeds for them, which was allocated to the capital reserve.

Capital reserve

in € thousands	
As at 31 December 2018	994,657
Sale of treasury shares	538
As at 31 December 2019	**995,195**

III. Retained earnings (12)

Retained earnings increased from €406.6 million to €425.6 million as a result of the resolution adopted by the Annual General Meeting to allocate €4.0 million from the unappropriated surplus and €15.0 million from the 2019 net profit.

Retained earnings

in € thousands	
As at 31 December 2018	406,577
Retained earnings from 2018 as allocated by the Annual General Meeting	4,000
Allocation from net profit	15,000
As at 31 December 2019	**425,577**

IV. Unappropriated surplus (13)

The unappropriated surplus amounted to €75.4 million (previous year: €65.3 million). It includes retained earnings in the amount of €0.4 million (previous year: €0.3 million) carried forward from the previous year.

Proposal for the appropriation of unappropriated surplus

The unappropriated surplus amounts to €75,444,239.90. We propose that it be appropriated as follows:

in €	31.12.2019
Dividend of €0.65 per share	60,937,318.00
Allocation to retained earnings	9,000,000.00
Carry forward to new account	5,506,921.90
Total	**75,444,239.90**

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 €1,026.7 million (previous year: €954.1 million). This amount includes the netting of the asset value from reinsurance policies in the amount of €4.9 million (previous year: €4.7 million).

III. Other provisions (15)

in € thousands	31.12.2019	31.12.2018
Phased-in early retirement	729	633
Expenses for the annual financial statements	2,992	2,808
Holiday obligations and flex-time credits	3,106	2,857
Bonuses and performance incentives	4,509	4,440
Outstanding receivables in real estate	347	832
Expenses for omitted land maintenance	85	130
Employee long-service obligations	224	225
Legal risks	6,842	1,500
Interest expense under Section 233 a of the German Fiscal Code (AO)	7,462	7,358
Provision for sureties	994	1,297
Contributions to the employers' liability insurance scheme, compensatory levy for disabled persons, etc.	2,051	4,556
Derivatives	317	19
Total	**29,658**	**26,655**

“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	31.12.2019	31.12.2018
Amount needed to satisfy vested claims	1,545	1,752
thereof capable of being netted with reinsurance	816	1,119
Carrying amount	**729**	**633**

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)

in € thousands	31.12.2019	31.12.2018
Miscellaneous liabilities to affiliated companies	89,445	95,352
Trade payables	1,251	273
Taxes	110	5,616
Other miscellaneous liabilities	1,558	944
Total	**92,364**	**102,185**

Remaining term to maturity of other liabilities
This item includes liabilities with a remaining term to maturity of up to one year in the amount of €140,267 thousand. Liabilities with a remaining term to maturity of more than one year amounted to €430 thousand.

F. Deferred liabilities (18)

These consist of discounts for registered bonds and deferred interest items in the amount of €0.1 (previous year: €0.1 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 actuarial provisions 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 €13.8 million (previous year: €23.0 million) resulted from the settlement of the provision for outstanding insurance claims that was assumed from the previous financial year. They mainly came from the business lines liability (€3.8 million), motor (€4.6 million), fire (€3.7 million) and other property insurance (€4.3 million).

6. Expenses for insurance business for own account (21)

Gross expenses for insurance business amounted to €120.4 million (previous year: €117.9 million), of which €119.9 million (previous year: €117.3 million) was attributable to acquisition costs and €0.5 million (previous year: €0.6 million) to general administrative expenses.

II. Non-technical account

1. Income from investments

b) Income from other capital investments (22)

in € thousands	2019	2018
Land, land-type rights and buildings, including buildings on third-party land	8,956	8,688
Other capital investments	27,102	27,100
Total	**36,058**	**35,788**

c) Income from write-ups (23)

The individual amounts are shown in the annex to the notes under “Individual disclosures concerning assets”.

Currency write-ups in the amount of €5.3 million were recorded in 2019.

d) Gains from the disposal of investments (24)

in € thousands	2019	2018
Participations[1]	113	1,247
Shares, interests or shares in investment assets and other variable-yield securities	322	–
Bearer bonds and other fixed-income securities[2]	1,762	942
Deposits with credit institutions[3]	184	85
Other investments	–	190
Total	**2,381**	**2,464**

1 Thereof exchange rate gains of €59 thousand (previous year: €21 thousand)
2 Thereof exchange rate gains of €2 thousand (previous year: €5 thousand)
3 Thereof exchange rate gains of €148 thousand (previous year: €85)

2. Expenses for investments

b) Write-downs on investments (25)

The item includes unscheduled write-downs that were taken in accordance with Section 253 (3) sentences 5 and 6 and (4) in conjunction with Section 277 (3) sentence 1 of the German Commercial Code (HGB). They can be broken down as follows:

Write-downs on investments

in € thousands	2019	2018
Affiliated companies and participations	2,155	22,237
Securities and interests or shares in investment	2,352	7,019
Deposits with credit institutions	–	118
Other investments	41	65
Total	**4,548**	**29,439**

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 in the amount of €0.1 million were recorded in the year.

c) Losses from the disposal of investments (26)

in € thousands	2019	2018
Affiliated companies	4,099	–
Participations[1]	1,395	1,408
Shares and variable-yield securities	421	127
Bearer bonds and fixed-income securities[2]	81	17
Deposits with credit institutions[3]	–	906
Other investments	265	–
Total	**6,261**	**2,458**

1 Thereof exchange rate losses of €1 thousand (previous year: €288 thousand).
2 Thereof exchange rate losses of €57 thousand (previous year: €9 thousand)
3 Thereof exchange rate losses of €0 thousand (previous year: €906 thousand)

4. Other income (27)

Material items are:

in € thousands	2019	2018
Income from services provided to affiliated companies	76,521	88,328
Interest income from taxes	3,758	3,629
Exchange rate gains[1]	434	453
Release of other provisions	528	592
Total	**81,241**	**93,002**

1 Thereof realised exchange rate gains of €383 thousand (previous year: €306 thousand)

5. Other expenses (28)

The position includes the following material items:

in € thousands	2019	2018
General administrative expenses	130,496	140,639
thereof: Expenses for services provided to affiliated companies[1]	76,521	88,328
Interest expenses	30,927	35,867
thereof: Interest due on credit accounts resulting from the assumption of joint liability for pension commitments	14,729	15,936
thereof: Interest expenses for pension provisions	14,861	15,017
thereof: Interest expenses from the compounding of provisions	17	33
Negative interest	421	347
Currency expenses[2]	481	829
Total	**161,904**	**177,335**

1 Includes a voluntary special supplement in the amount of €1,474 thousand (previous year: €0 thousand) that was paid to Württembergische Pensionskasse (pension fund) in the financial year for the purpose of generally strengthening the provision for future policy benefits.
2 Thereof realised exchange rate losses of €0 thousand (previous year: €0 thousand).

With respect to phased-in early retirement agreements, expenses from compounding in the amount of €6.0 thousand (previous year: €15.2 thousand) and income from discounting with respect to the assets to be offset in the amount of €43.1 thousand (previous year: €43.4 thousand) were offset against each other pursuant to Section 246 (2) second sentence of the German Commercial Code (HGB). Similarly, expenses from the compounding of the pension provision in the amount of €14,861.3 thousand (previous year: €15,017.0 thousand) and income from the discounting of assets under reinsurance polices in the amount of €115.6 thousand (previous year: €110.8 thousand) were offset against each other pursuant to Section 246 (2) second sentence HGB.

7. Income taxes (29)

Taxes on income showed expenses of €56.2 million (previous year: €39.9 million) as at 31 December 2019. Tax expenses rose by €16.3 million. The increase resulted both from higher net income as calculated in accordance with the German Commercial Code and from current-account tax effects, particularly due to discrepancies between the balance sheet prepared for commercial purposes and the balance sheet prepared for tax purposes.

From carrying amounts for land, land-type rights and buildings result deferred tax liabilities which are offset against deferred tax assets, mainly arising from shares, investment property and other variable-yield securities, provisons for outstanding insurance claims and pensions. Deferred taxes were calculated using a tax rate of 30.6%. Since after offsetting the tax liabilities are higher than tax assets. The deferred tax assets were not capitalized after exercising the option in Section 274 (1) sentence 2 of the German Commercial Code (HGB).

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 (Chair)
Former Chair of the Executive Board
Landesbank Baden-Württemberg
Former Chair of the Executive Board
Landeskreditbank Baden-Württemberg

Frank Weber (Deputy Chair)[1]
Chair of the Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG,
Karlsruhe site
Chair of the Group Works Council
a) Württembergische Lebensversicherung AG, Stuttgart

Petra Aichholz[1]
(from 5 June 2019)
Insurance employee
Württembergische Versicherung AG

Peter Buschbeck
Member of the Executive Board
Investors Marketing AG

Prof. Dr Nadine Gatzert
Chair of Insurance Economics and Risk Management
Friedrich Alexander University Erlangen-Nuremberg
b) Nürnberger Beteiligungs-AG, Nuremberg
Nürnberger Lebensversicherung AG, Nuremberg
ERGO Group AG, Düsseldorf

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

Ute Hobinka[1]
Chair of the Works Council
W&W Informatik GmbH
a) W&W Informatik GmbH, Ludwigsburg (Deputy Chair)

Jochen Höpken[1]
Trade Union Secretary
ver.di (multi-service trade union)
b) FIDUCIA & GAD IT AG, Karlsruhe

1 Employee representatives.

Gudrun Lacher[1]
(until 5 June 2019)
Insurance employee
Württembergische Versicherung AG

Corinna Linner
Linner Wirtschaftsprüfung
b) Donner & Reuschel AG, Munich/Hamburg

Marika Lulay
Chief Executive Officer (CEO), Managing Director and
Member of the Supervisory Board of GFT Technologies SE
b) EnBW Energie Baden-Württemberg AG, Karlsruhe (from 14 February 2019)

Bernd Mader[1]
Head of customer service – cross-department responsibilities
Württembergische Versicherung AG

Andreas Rothbauer[1]
Chair 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]
Chair of the Central Works Council
Wüstenrot Bausparkasse AG
a) Wüstenrot Bausparkasse AG, Ludwigsburg (Deputy Chair)

Jutta Stöcker
Former Member of the Executive Board
RheinLand-Versicherungsgruppe
b) RheinLand Lebensversicherung AG, Neuss
b) RheinLand Versicherung AG, Neuss
RheinLand Holding AG, Neuss
ERGO Group AG, Düsseldorf

Susanne Ulshöfer[1]
(from 5 June 2019)
Member of the Works Council
Wüstenrot Bausparkasse AG, Ludwigsburg site
a) Wüstenrot Bausparkasse AG, Ludwigsburg

Gerold Zimmermann[1]
(until 5 June 2019)
Former Chair of the Group Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG
Former Member of the Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG,
Stuttgart head office
a) Württembergische Versicherung AG, Stuttgart (until 30 November 2019)

1 Employee representatives.

Members of the Executive Board of W&W AG

Jürgen A. Junker (Chair)
Group Legal, Group Audit, Communication, Group Development (strategy, M&A, strategic brand management and corporate identity, customer data) and Company Organisation

a) Württembergische Lebensversicherung AG, Stuttgart (Chair)
   Württembergische Versicherung AG, Stuttgart (Chair)
   Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg (Chair) (until 31 May 2019)
   Wüstenrot Bausparkasse AG, Ludwigsburg (Chair)
c) Wüstenrot Wohnungswirtschaft reg. Gen. m.b.H., Salzburg (from 13 June 2019)

Dr Michael Gutjahr
Group Personnel, Group Accounting, Financial Management, Retained Organisation

a) Allgemeine Rentenanstalt Pensionskasse AG, Stuttgart (from 7 May 2019) (Chair from 14 May 2019)
   Karlsruher Lebensversicherung AG, Karlsruhe (12 April to 4 September 2019)
   W&W Informatik GmbH, Ludwigsburg (Chair)

Jürgen Steffan
(from 1 July 2019)
Risk, Compliance and Data Management (money laundering/securities compliance), Group Controlling, Cost Controlling

a) Württembergische Krankenversicherung AG, Stuttgart (Deputy Chair)
b) V-Bank AG, Munich (from 21 January 2020), (Deputy Chair from 14 February 2020)
c) Wüstenrot stavební spořitelna a.s., Prague (Chair)
   Wüstenrot hypoteční banka a.s., Prague (Chair)

Jens Wieland
Enterprise IT Management, Customer Data Protection and Operational Security

Supplementary disclosures

Contingent liabilities and other financial obligations

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 €106.6 million. Based on the creditworthiness assessment of the German Reinsurance Pharma Pool, no claims are expected.

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 €20.8 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. Based on the creditworthiness assessment of the debtor, no claims are expected.

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 €28.7 million, taking into account the provision in the amount of €1.0 million that was created for loan guaranties. Based on the creditworthiness assessment by Wüstenrot Bausparkasse AG about the borrowers, no further claims are expected.

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. Based on the creditworthiness assessment of the debtor, no claims under the guaranty are expected.

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 €0.1 million. Since the subsidy terms stipulated by the Stuttgart Regional Council have been met, no claims are expected.

The sale of Wüstenrot Bank AG Pfandbriefbank includes different claims under the guarantees of W&W AG to the new owner. These claims are limited to a maximum liability and expire in the short-to-medium term. There are currently no indications of a possible claim.

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.

Outstanding payment obligations for participation and fund commitments entered into amounted to €72.6 million.

W&W AG has financial obligations in the amount of approximately €239.7 million under contracts concluded for the first and second phases of construction for the new W&W campus.

As a result of existing control and profit-and-loss transfer agreements, we expect compensatory payments in the amount of €10.7 million over the next three years for losses incurred by start-ups. Profits are expected in the intermediate term.

Expenses for internal Group services are expected to amount to €38.2 million in 2020.

Authorised capital

Pursuant to Article 5 (5) of the Articles of Association of W&W AG, the Executive Board is authorised until 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 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 are 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 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 Service GmbH and W&W brandpool GmbH remain in place. With effect from 1 January 2019, W&W Produktion GmbH was placed in liquidation, and the control and profit-and-loss transfer agreement with W&W AG was terminated.

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

For information about the effects of the Corona crisis, we refer to the Management Report.

Expenses for the auditor

The fee for KPMG AG Wirtschaftsprüfungsgesellschaft includes auditing the consolidated financial statements and the annual financial statements of W&W AG and other services directly relating to this audit. Furthermore KPMG audited the financial statements of various subsidiaries and conducted statutory audits under the German Securities Trading Act (WpHG), the German Act on the Supervision of Insurance Undertaktings (VAG), the German Stock Corporation Act (AktG) and other legal provisions.

Other services include audits pursuant to the General Terms and Conditions of the German Bundesbank, the sustainability report and other audits under the German Securities Trading Act (WpHG) as well as further audits in connection with foreign premiums. Tax audits have been conducted for various subsidies. Other services include professional advice provided to Group companies on accounting and regulatory matters for the purpose of meeting new requirements. In addition KPMG conducted services in the fields of analysis and data protection as well as project-related audits of IT migrations.

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 German Commercial Code (HGB), we have elected to dispense with publication here.

Employees

Number[1]	2019	2018
Total employees	541	526
thereof women	279	276
thereof men	262	250
thereof full-time	409	402
thereof part-time	**132**	**124**

1 Average employee headcount for the year pursuant to Section 285, no. 7 of the German Commercial Code (HGB).

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 €2,475.3 thousand (previous year: €1,862.6 thousand) and is composed of the following elements:

Remuneration of the individual members of the Executive Board in 2019

	Term of office ends	Non-performance-related remuneration		Performance-related remuneration (short term)		Performance-related remuneration (sustained) from 2016	Performance-related remuneration (sustained) from 2015	Ancillary benefits		Total	
in € thousands		2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Active members of the Executive Board											
Jürgen A. Junker	03/2021	1,040.0	1,040.0	117.6	123.3	81.2	–	20.2	23.4	1,259.0	1,186.7
Dr Michael Gutjahr	08/2020	475.2	271.6	53.8	32.2	34.8	31.2	13.8	7.4	577.6	342.4
Jürgen Steffan	06/2024	267.5	0.0	30.5	–	–	–	7.0	–	305.0	–
Jens Wieland	06/2025	260.1	260.1	29.4	30.8	33.8	32.2	10.4	10.4	333.7	333.5
Total		**2,042.8**	**1,571.7**	**231.3**	**186.3**	**149.8**	**63.4**	**51.4**	**41.2**	**2,475.3**	**1,862.6**

Sustained performance-related remuneration for a prior financial year, i.e. the 2016 financial year, was earned with the close of the year 2019, since in the years 2017 to 2019 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 2020. The final remuneration can only be fixed after achievement of targets will be ascertained by the Supervisory Board.

In addition to the earned performance-related remuneration shown in the above table, contingent claims to disbursement of performance-related remuneration for the years 2017-2019 were acquired (in each case, the amount of performance-related remuneration not yet disbursed). Disbursement is made only if the aforementioned conditions occur or do not occur in the years 2020 to 2022. The final remuneration can only be fixed after achievement of targets will be ascertained by the Supervisory Board.

Performance-related remuneration for the 2018 financial year, which was disbursed in 2019 after ascertaining the degree to which targets were achieved, resulted in an expense totalling €4.0 thousand (previous year: €31.7 thousand).

The amount consists of expenses for Jürgen A. Junker in the amount of €4.0 thousand (previous year: €20.7 thousand), for Dr Michael Gutjahr in the amount of €0.4 thousand (previous year: €6.0 thousand) and for Jens Wieland in the amount of €0.4 thousand (previous year: release of €5.0 thousand).

In the 2018 financial year, provisions in the amount of €186.3 thousand (previous year: €105.2 thousand) were created for acquired contingent claims to disbursement in 2022 of performance-related remuneration for the 2018 financial year. After achievement of targets was ascertained, a release took place in the amount of €4.0 thousand (previous year: €31.7 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 increase in short-term non-performance-related and performance-related remuneration for Dr Gutjahr in 2019 was due to the shifting of compensation from the subsidiaries to W&W AG.

The present value of pensions attributable to the company amounts to €4,300.4 thousand (previous year: €1,893.4 thousand). Attributable to Dr Michael Gutjahr based on the final age of 61 is the amount of €2,716.1 thousand (previous year: €1,459.9 thousand), as well as, based on a retirement age of 65, to Jürgen A. Junker the amount of €422.9 thousand (previous year: €256.0 thousand), to Jürgen Steffan the amount of €925.0 thousand (previous year: €0 thousand) and to Jens Wieland the amount of €236.3 thousand (previous year: €177.5 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 €636.7 thousand (previous year: €225.2 thousand). Of these additions, attributable to Jürgen A. Junker is the amount of €166.9 thousand (previous year: €108.1 thousand), to Dr Michael Gutjahr the amount of €161.3 thousand (previous year: €75.8 thousand), to Jürgen Steffan the amount of €249.7 thousand (previous year: €0 thousand) and to Jens Wieland the amount of €58.8 thousand (previous year: €41.3 thousand).

The pension of Dr Michael Gutjahr amounted to €111.7 thousand (previous year: €63.8 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 €1,829.0 thousand (previous year: €2,068.4 thousand). Of this amount, €434.9 thousand (previous year: €318.0 thousand) was attributable to survivor benefits.

A reserve in the amount of €20,511.1 thousand (previous year: €20,124.0 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 Chair and the Deputy Chair, 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 Chair and by 75% for his deputies.

In the 2019 financial year, the company paid the members of the Supervisory Board of Wüstenrot & Württembergische AG total remuneration of €665.4 thousand (previous year: €658.8 thousand). In the 2019 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 €30.2 thousand (previous year: €14.0 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 2019

	Base Remuneration	Attendance fee	Committee Remuneration	Total	Total
in € thousands	2019	2019	2019	2019	2018
Hans Dietmar Sauer (Chairman)	62.5	2.0	43.4	107.9	112.5
Frank Weber (Deputy Chairman)	43.8	2.5	16.0	62.3	61.8
Petra Aichholz	14.3	1.0	–	15.3	–
Peter Buschbeck	25.0	2.5	7.0	34.5	35.0
Prof. Dr. Nadine Gatzert	25.0	2.0	4.6	31.6	14.3
Dr. Reiner Hagemann	25.0	2.5	12.0	39.5	39.0
Ute Hobinka	25.0	2.5	10.3	37.8	35.0
Jochen Höpken	25.0	1.0	4.0	30.0	30.0
Corinna Linner	25.0	2.5	20.0	47.5	47.0
Marika Lulay	25.0	2.5	4.0	31.5	29.2
Bernd Mader	25.0	2.5	8.0	35.5	35.0
Andreas Rothbauer	25.0	2.5	8.0	35.5	35.0
Hans-Ulrich Schulz	25.0	2.5	8.0	35.5	35.0
Christoph Seeger	25.0	2.5	10.3	37.8	35.0
Jutta Stöcker	25.0	2.5	5.1	32.6	31.0
Susanne Ulshöfer	14.3	1.5	4.6	20.4	–
Subtotal	**434.9**	**35.0**	**165.3**	**635.2**	**574.8**
Gudrun Lacher (former)	10.7	1.0	1.7	13.4	31.0
Ruth Martin (former)	–	–	–	–	14.0
Gerold Zimmermann (former)	10.7	1.0	5.1	16.8	39.0
Total	**456.3**	**37.0**	**172.1**	**665.4**	**658.8**

Individual disclosures concerning assets

Notes concerning assets

in € thousands	Carrying amounts 2018	Additions	Disposals	Reclassifi-cations	Write-ups	Write-downs	Carrying amounts 2019
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	1	–				1	–
B. I. Land, land-type rights and buildings, including buildings on third-party land	**186,788**	**73,398**	**–**	**–**	**–**	**5,963**	**254,223**
B. II. Capital investments in affiliated companies and participations							
1. Interests in affiliated companies	1,489,749	–	–	47,727	2,311	–	1,444,333
2. Loans to affiliated companies	411,700	304,250	–	304,450	–	–	411,500
3. Participations	44,186	17,109	–	4,662	2,933	2,155	57,411
4. Loans to companies in which an investment is maintained	–	–	–	–	–	–	–
Total B. II.	**1,945,635**	**321,359**	**–**	**356,839**	**5,244**	**2,155**	**1,913,244**
B. Other capital investments							
1. Shares, interests or shares in investment assets and other variable-yield securities	528,370	47,940	–	8,171	6,711	314	574,536
2. Bearer bonds and other fixed-income securities	186,542	146,825	–	59,501	2,099	2,037	273,928
3. Other loans							
a) Registered bonds	134,454	–	–	10,000	21	41	124,434
b) Promissory notes and loans receivable	114,772	372,676	–	325,999	–	–	161,449
4. Deposits with credit institutions	132,047	63,472	–	124,947	226	–	70,798
5. Other investments	87	–	–	–	–	–	87
Total B. III.	**1,096,272**	**630,913**	**–**	**528,618**	**9,057**	**2,392**	**1,205,232**
Total	**3,228,696**	**1,025,670**	**–**	**885,457**	**14,301**	**10,511**	**3,372,699**

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		€	31.12.2018	61,987,959	1,213,919
Adam Riese GmbH, Stuttgart[2]		100.00	€	31.12.2019	25,000	–
Adveq Europe II GmbH, Frankfurt am Main		16.77	€	31.12.2018	1,027,048	−32,495
Adveq Opportunity II Zweite GmbH, Frankfurt am Main		29.31	€	31.12.2018	20,529,252	3,055,640
Adveq Technology V GmbH, Frankfurt am Main		16.50	€	31.12.2018	47,235,483	11,788,410
Allgemeine Rentenanstalt Pensionskasse AG, Stuttgart		100.00	€	31.12.2019	47,525,555	9,230,148
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	€	31.12.2018	2,991,777	−293,044
Atlantic Labs IV GmbH & Co. KG, Berlin		14.92		New investment 23.7.2019		
Auda Ventures GmbH & Co. Beteiligungs-KG, München		5.79	€	31.12.2018	6,248,403	664,248
Berlin Leipziger Platz Grundbesitz GmbH, Stuttgart (ab 02.01.2020: Württembergische Akademie GmbH)		100.00	€	31.12.2019	2,098,062	17,103
Beteiligungs-GmbH der Württembergischen, Stuttgart		100.00	€	31.12.2019	3,310,146	138,555
BPE2 Private Equity GmbH & Co. KG, Hamburg		10.00	€	31.12.2018	816,146	87,204
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart		35.00	€	31.12.2018	241,927,171	5,078,280
BWK Holding GmbH Unternehmensbeteiligungs-gesellschaft, Stuttgart		35.00	€	31.12.2018	10,563,870	850,083
City Immobilien GmbH & Co. KG der Württembergischen, Stuttgart		100.00	€	31.12.2019	103,502,585	3,950,438
City Immobilien II GmbH & Co. KG der Württembergischen, Stuttgart		100.00	€	31.12.2019	104,432,380	3,045,434
CROWN Premium Private Equity III GmbH & Co. KG, Grünwald		6.60	€	31.12.2018	21,515,864	2,200,767
DBAG Fund VI Feeder GmbH & Co. KG, Frankfurt am Main		30.71	€	31.12.2018	45,269,525	5,989,216
Deutscher Solarfonds „Stabilität 2010“ GmbH & Co. KG, Frankfurt am Main		17.77	€	31.10.2019	80,955,146	12,629,940
Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin		19.82	€	31.12.2018	10,893	−1,667
Earlybird DWES Fund VI Affiliates GmbH & Co. KG, München		7.74	€	31.12.2018	45,634,288	4,243,125
Elvaston Capital Fund III GmbH & Co. KG, Berlin	6.08	6.08	€	31.12.2019	96,219,795	552,599
Elvaston Capital Fund IV GmbH & Co. KG, Berlin	1.16	6.60		New investment 3.9.2019		
EquiVest II GmbH & Co. Zweite Beteiligungs KG Nr. 1 für Vermögensanlagen, München		8.47	€	31.12.2018	33,084,119	156,568
European Sustainable Power Fund Nr. 2 GmbH & Co. KG, Grünwald	1.00	11.10	€	30.9.2018	454,833,813	25,773,372
familynet GmbH, Potsdam		5.89		New investment 30.7.2019		
Ganzer GmbH & Co. KG, Harrislee		100.00	€	31.12.2018	1,335,369	738,733
Gerber GmbH & Co. KG, Stuttgart		100.00	€	31.12.2019	262,313,106	1,926,589
Gestorf GmbH & Co. KG, Stuttgart		100.00	€	31.12.2018	441,094	27,138
GLL GmbH & Co. Messeturm Holding KG, München		5.97	€	31.12.2018	18,141	−38,630
GMA Gesellschaft für Markt- und Absatzforschung mbH, Ludwigsburg		100.00	€	31.12.2018	1,820,822	232,161

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]
Hinterbliebenenfürsorge der Deutschen Beamtenbanken GmbH, Karlsruhe		100.00	€	31.12.2018	114,354	16,730
IVB - Institut für Vorsorgeberatung, Risiko- und Finanzierungsanalyse GmbH, Karlsruhe		100.00	€	31.10.2019	78,181	1,653
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	€	31.12.2018	875,029	809,164
Keleya Digital-Health Solutions GmbH, Hamburg		23.27	€	31.12.2018	–171,723	–336,626
Kinderheldin GmbH, Berlin		10.00		New investment 19.11.2019		
KLV BAKO Dienstleistungs-GmbH, Karlsruhe		93.70	€	31.12.2018	222,900	12,360
KLV BAKO Vermittlungs-GmbH, Karlsruhe		76.80	€	31.12.2018	232,998	8,996
Miethaus und Wohnheim GmbH i.L., Ludwigsburg		100.00	€	31.12.2019	1,961,603	194,420
Nist GmbH, Berlin2		100.00	€	31.12.2018	25,000	–
NORD KB Micro-Cap V GmbH & Co. KG, Hannover		10.21	€	31.12.2018	35,225,406	–2,639,388
Onshore Wind Portfolio 2012 GmbH & Co. KG, Frankfurt am Main		16.31		31.8.2019	105,843,735	5,013,130
Schulenburg GmbH & Co. KG, Stuttgart	4.41	100.00	€	31.12.2018	212,169	-393,323
Stuttgarter Baugesellschaft von 1872 AG, Stuttgart		100.00	€	31.12.2018	203,094	6,817
treefin GmbH, München2		100.00	€	31.12.2018	3,382,560	–
V-Bank AG, München		15.00	€	31.12.2018	37,471,369	3,835,088
VC Fonds Baden-Württemberg GmbH & Co. KG, Stuttgart		25.00	€	31.12.2018	1,871,956	427,703
ver.di Service GmbH, Berlin		50.00	€	31.12.2018	150,276	53,570
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]			€	31.12.2018	11,261,185	–
W&W brandpool GmbH, Stuttgart[2]	100.00		€	31.12.2019	3,275,000	–
W&W Gesellschaft für Finanzbeteiligungen mbH, Stuttgart	100.00		€	31.12.2019	59,409,366	-26,341
W&W Informatik GmbH, Ludwigsburg[2]	100.00		€	31.12.2019	473,025	–
W&W Produktion GmbH i.L., Berlin[2]	100.00		€	31.12.2018	25,000	–
W&W Service GmbH, Stuttgart[2]	100.00		€	31.12.2019	100,153	–
Wellington Partners Life Sciences V Investment GmbH & Co. KG, München	100.00	5.75	€	31.12.2019	47,883,549	–503,726
Windpark Golzow GmbH & Co. KG, Rheine		100.00		31.12.2018	–7,431,377	–716,471
WL Erneuerbare Energien Verwaltungs GmbH, Stuttgart		100.00	€	31.12.2018	73,575	5,043
WL Renewable Energy GmbH & Co. KG, Stuttgart		100.00	€	31.12.2019	94,718,381	9,882,966
WL Sustainable Energy GmbH & Co. KG, Stuttgart		100.00	€	31.12.2019	81,236,893	9,896,865
Wohnimmobilien GmbH & Co. KG der Württembergischen, Stuttgart		100.00	€	31.12.2019	118,430,875	3,855,632
Württembergische Immobilien AG, Stuttgart		100.00	€	31.12.2019	120,257,087	673,389
Württembergische Kö 43 GmbH, Stuttgart		89.90	€	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		€	31.12.2019	49,048,122	5,600,000
Württembergische Lebensversicherung AG, Stuttgart	94.89		€	31.12.2019	473,511,724	35,000,000
Württembergische Logistik I GmbH & Co. KG, Stuttgart		100.00	€	31.12.2018	11,354,735	836,358
Württembergische Rechtsschutz Schaden-Service-GmbH, Stuttgart		100.00	€	31.12.2019	76,694	–
Württembergische Versicherung AG, Stuttgart2	100.00		€	31.12.2019	350,563,107	–
Württembergische Vertriebspartner GmbH, Stuttgart2		100.00	€	31.12.2019	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, Stuttgart2		100.00	€	31.12.2019	103,025,000	–
WürttVers Alternative Investments GmbH, Stuttgart2		100.00	€	31.12.2019	46,025,000	–
Wüstenrot Bausparkasse AG, Ludwigsburg	100.00		€	31.12.2019	830,563,506	30,238,795
Wüstenrot Grundstücksverwertungs-GmbH, Ludwigsburg	100.00		€	31.12.2019	2,057,024	10,082
Wüstenrot Haus- und Städtebau GmbH, Ludwigsburg	100.00		€	31.12.2018	96,954,047	2,628,846
Wüstenrot Immobilien GmbH, Ludwigsburg	100.00		€	31.12.2018	2,708,514	949,083
YIELCO Special Situations GmbH & Co. KG, München		8.01	€	31.12.2018	40,388,574	-199,123
Australia						
REI Head Trust, Sydney		100.00		New investment 26.9.2018		
REI Property Sub Trust, Sydney		100.00		New investment 26.9.2018		
Finnland						
Kiinteistö Oy Porkkalankatu 5, Helsinki		100.00		New investment 17.7.2018		
France						
Württembergische France Immobiliere SARL, Straßburg		100.00	€	30.9.2019	15,267,223	1,207,596
Württembergische France Strasbourg SARL, Straßburg		100.00	€	30.9.2019	45,513,011	1,884,704
Ireland						
BlackRock NTR Renewable Power Fund plc, Dublin		89.55	US$	31.12.2018	69,211,000	813,000
W&W Asset Management Dublin DAC, Dublin		100.00	€	31.12.2018	14,927,058	5,521,596
W&W Europe Life Limited i.L., Dublin	100.00		€	31.12.2014	18,834,772	-733,611
W&W Investment Managers DAC, Dublin		100.00	€	31.12.2018	13,288,031	3,348,159
White Oak Summit Fund ILP, Dublin		15.66	US$	31.12.2018	202,347,890	11,501,278
White Oak Yield Spectrum Feeder ICAV, Dublin		37.30	US$	31.12.2018	255,963,522	6,999,562

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]
Luxembourg						
Alcentra European Direct Lending Fund III SCSp, Luxemburg		5.97		New investment 4.2.2019		
AMP Capital Infrastructure Debt Fund (EUR) III L.P., Luxemburg		9.63	€	31.12.2018	282,473,026	13,228,100
AMP Capital Infrastructure Debt Fund IV (EUR) L.P., Luxemburg		8.98		New investment 12.9.2019		
Barings Global Credit Fund (LUX) SCSp, SICAV-SIF - Barings European Private Loan Fund II, Luxemburg		6.44	€	31.12.2018	15,022,862	18,828
BlackRock Euro Investment Grade Infrastructure Debt Fund SCSp, Luxemburg		22.50		New investment 14.3.2019		
CI III Lux Feeder Fund FCP-RAIF, Luxemburg		35.88	€	31.12.2018	6,664,526	–1,501,087
Crescent Private Credit Partners Unitranche Fund (Ireland) L.P., Luxemburg		51.48		New investment 1.7.2019		
DB Secondary Opportunities SICAV-SIF – Sub Fund DB SOF II Feeder USD, Luxemburg		16.79	S$	31.12.2018	24,792,328	–151,893
Deerpath Capital SLP-RAIF, Luxemburg		25.81		New investment 24.6.2019		
First State European Diversified Infrastructure Feeder Fund II SCA, SICAV-SIF, Luxemburg		12.99	€	31.12.2018	322,800,268	29,314,799
Idinvest Lux Fund, SICAV-SIF SCA – Idinvest Private Debt III, Luxemburg		23.80	€	31.12.2018	121,747,600	7,029,646
Idinvest Private Debt V SCSp SICAV-RAIF, Luxemburg		19.96		New investment 28.6.2019		
IKAV SICAV-FIS SCA – Ecoprime Energy, Luxemburg		18.81	€	30.9.2019	97,086,659	4,170,420
IKAV SICAV-FIS SCA – Ecoprime TK I, Luxemburg		41.28	€	30.9.2019	40,469,740	3,289,197
IKAV SICAV-FIS SCA – Global Energy (Ecoprime III), Luxemburg	15.12	30.24	€	30.9.2019	31,290,201	741,647
IKAV SICAV-FIS SCA – Global PV Investments, Luxemburg		46.25	€	30.9.2019	21,737,145	17,540,543
Rotonda Infrastructure 1 SCSp, Luxemburg		9.68	€	30.9.2019	117,548,988	–947,014
Secondary Opportunities SICAV-SIF – Sub-fund SOF III Feeder USD, Luxemburg		35.48	US$	31.12.2018	60,192,296	–136,611
StepStone European Fund SCS, SICAV-FIS – StepStone Capital Partners III, Luxemburg	7.15	20.41	US$	31.12.2018	698,563,003	45,001,211
Whitehelm European Infrastructure Fund II, Luxemburg		25.62		New investment 18.10.2019		
Austria						
G6 Zeta Errichtungs- und VerwertungsGmbH & Co OG, Wien		99.90	€	31.12.2018	22,380,678	1,704,423
SAMARIUM drei GmbH & Co OG, Wien		100.00	€	31.12.2018	9,359,894	301,683
Czech Republic						
WIT Services s.r.o., Prag		100.00	CZK	31.12.2018	3,287,157	–124,361
Wüstenrot hypoteční banka a.s., Prag	100.00		CZK	31.12.2018	2,269,000,000	119,000,000
Wüstenrot stavební spořitelna a.s., Prag	100.00		CZK	31.12.2018	3,165,000,000	301,000,000
Hungary						
Fundamenta-Lakáskassza-Lakástakarékpénztár Zrt., Budapest	11.47		HUF	31.12.2018	59,096,000,000	6,916,000,000

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]
United Kingdom and Northern Ireland						
ASF VI Infrastructure L.P., Edinburgh		5.45	US$	31.12.2018	224,138,265	42,425,288
Asper Renewable Power Partners 2 LP, London		29.53	€	31.12.2018	57,858,977	4,274,052
Brookfield Capital Partners Fund III (NR A) L.P., George Town		12.20	US$	31.12.2018	848,953,000	21,358,000
Capital Dynamics Clean Energy and Infrastructure III L.P., Birmingham		16.21	£	31.12.2018	73,728,245	2,520,781
Capital Dynamics Clean Energy and Infrastructure Feeder L.P., Edinburgh		30.21	US$	31.12.2018	160,824,829	–998
Carlyle Cardinal Ireland Fund L.P., George Town		5.83	€	31.12.2018	142,189,000	35,559,000
EIG Global Private Debt (Europe UL) L.P., London		29.67	US$	31.12.2018	105,853,000	2,893,000
Glennmont Clean Energy Fund Europe 1 ‘A’ L.P., London		11.52	€	31.12.2018	243,985,378	6,001,350
Global Infrastructure Partners III-C2 L.P., London		9.60	US$	31.12.2018	401,675,571	1,157,358
Kennet III A L.P., St. Peter Port		6.73	€	31.12.2018	127,760,286	706,778
Kennet IV L.P., St. Peter Port		18.83	€	31.12.2018	129,069,898	–2,795,599
Partners Group Emerging Markets 2007 L.P., Edinburgh		9.38	US$	31.12.2018	86,148,000	–6,086,000
Project Glow Co-Investment Fund L.P., George Town		51.72	CA$	31.12.2018	37,646,797	1,163,649
United States						
ARDIAN North America Fund II L.P., Wilmington	2.56	8.19	US$	31.12.2018	99,840,672	–8,209,255
BR Guthrie LLC, Wilmington		100.00		New investment 12.6.2019		
BR US Holdings I LLC, Wilmington		100.00		New investment 12.6.2019		
Guthrie Property Owner LP, Wilmington		100.00		New investment 12.6.2019		
H.I.G. Whitehorse Offshore Loan Feeder Fund L.P., Miami		11.06	US$	31.12.2018	296,717,337	22,071,107
ISQ Global Infrastructure Fund (EU) L.P., Wilmington		5.19	US$	31.12.2018	2,749,605,890	233,304,979
Project Finale Co-Investment Fund Holding LLC, Wilmington		30.00	US$	31.12.2018	43,742,380	1,517,351

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)	
	2019	2018	2019	2018	2019	2018
Fire insurance	68,172	57,514	1,481	3,797	737	–324
Other property insurance	98,116	89,666	2,661	–1,441	–450	–1,556
Total fire and other property insurance	**166,288**	**147,180**	**4,142**	**2,356**	**287**	**–1,880**
Motor insurance	129,769	125,056	–6,930	–7,364	–10,230	–12,568
General liability insurance	35,838	33,365	5,973	10,051	5,177	7,802
Casualty insurance	21,695	21,017	2,838	2,338	2,838	2,338
Transport and aviation hull insurance	3,811	3,604	587	548	663	294
Other insurance	27,260	25,147	–755	247	–395	–1,409
Total property/casualty insurance business	**384,661**	**355,369**	**5,855**	**8,176**	**–1,660**	**–5,423**
Life insurance	5,309	5,725	655	1,847	655	1,847
Total	**389,970**	**361,094**	**6,510**	**10,023**	**–1,005**	**–3,576**

Commissions and other remuneration paid to insurance agents, personnel expenses

in € thousands	2019	2018
Wages and salaries	39,520	37,637
Social remittances and expenses for support	6,440	5,732
Expenses for pension scheme	3,885	4,408
Total	**49,845**	**47,777**

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 W&W AG, together with a description of the material opportunities and risks associated with the expected development of the company.

Stuttgart, 19 March 2020

Jürgen A. Junker

Dr. Michael Gutjahr

Jürgen Steffan

Jens Wieland

W&W Group
Auditor‘s report

Report of the independent statutory auditor

To Wüstenrot & Württembergische AG, Stuttgart

Report on the audit of the financial statements and of the combined management report

Audit opinions

We have audited the annual financial statements of Wüstenrot & Württembergische AG, Stuttgart, Germany, comprising the balance sheet as at 31 December 2019, the income statement for the financial year from 1 January to 31 December 2019 and the notes, including the presentation of the accounting policies. In addition, we have audited the combined management report of Wüstenrot & Württembergische AG for the financial year 1 January to 31 December 2019. In conformity with German statutory requirements, we have not audited the content of the elements of the combined management report mentioned in the section of our audit report entitled “Other information”.

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 2019 and its financial performance for the financial year 1 January to 31 December 2019 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 elements of the combined management report mentioned in the section “Other information”.

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 audits 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 2019. 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 €1,501.7 million, or 39.7% of the balance sheet total.

With respect to carrying amounts, capital 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 accurately calculated and recognised.

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 financial statements, the company recognises a provision for future policy benefits for life insurance policies in the amount of €1,026.7 million (about 27.2% 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 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 and the Supervisory Board are responsible for the other information. The other information comprises

- the corporate governance statement, which is contained in the section "Corporate governance statement" in the combined management report and
- the combined non-financial report of the W&W Group, to which reference is made in the combined management report.

Moreover, the other information comprises the remaining portions of the annual report.

The other information does not comprise the annual financial statements, the substantively audited disclosures in the combined management report or our associated 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 aforementioned other information and, in doing so, consider whether the other information

- is materially inconsistent with the annual financial statements, the substantively audited disclosures in 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 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 22 March 2019. We were given a mandate by the chairman of the Supervisory Board's Risk and Audit Committee on 19 June 2019. 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, 11 March 2020

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 2019 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 5 June 2019, the Supervisory Board consists of nine men and seven women. As a result, women make up 44% 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.

Over the course of the 2019 financial year, the Supervisory Board experienced two changes in its membership.

Effective at the conclusion of the Annual General Meeting of 5 June 2019, the terms of office of the shareholder representatives came to an end. All shareholder representatives – i.e. the Supervisory Board members Peter Buschbeck, Prof. Dr Nadine Gatzert, Dr Reiner Hagemann, Corinna Linner, Marika Lulay, Hans Dietmar Sauer, Hans-Ulrich Schulz and Jutta Stöcker – were reelected effective from the end of the Annual General Meeting of 5 June 2019 for the period until the Annual General Meeting at which the actions of the Supervisory Board are approved for the financial year ending on 31 December 2023.

In addition, effective at the conclusion of the Annual General Meeting of 5 June 2019, the terms of office of the employee representatives came to an end. Gudrun Lacher and Gerold Zimmermann stepped down from the Supervisory Board. On 22 May 2019, the employee representatives Ute Hobinka, Jochen Höpken, Bernd Mader, Andreas Rothbauer and Christoph Seeger were reelected to the Supervisory Board, and Petra Aichholz and Susanne Ulshöfer were elected to the Supervisory Board for the first time. Each term of office of the employee representatives began at the conclusion of the Annual General Meeting on 5 June 2019 and runs 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 2023.

The Supervisory Board would like to thank the departing members for their commitment and the constructive collaboration. Their valued advice is very much appreciated, especially in a time of strained markets in which financial service providers have been working for years.

Following the Annual General Meeting, a constitutive meeting of the Supervisory Board was held on 5 June 2019, at which Hans Dietmar Sauer was reelected as Chair, Frank Weber was reelected as Deputy Chair and Dr Reiner Hagemann as independent financial expert. At that time, the elections to the Supervisory Board committees were also held:

- Elected as members of the **Risk and Audit Committee** were Corinna Linner, Peter Buschbeck, Prof. Dr Nadine Gatzert and the independent financial expert Dr Reiner Hagemann as shareholder representatives and Ute Hobinka, Bernd Mader, Andreas Rothbauer and Susanne Ulshöfer as employee representatives. The Risk and Audit Committee of the Supervisory Board of Wüstenrot & Württembergische AG then elected Corinna Linner as committee Chair.

- Elected as members of the **Nomination Committee** were Jutta Stöcker and Dr Reiner Hagemann as shareholder representatives and Jochen Höpken and Christoph Seeger as employee representatives. Pursuant to the bylaws for the Supervisory Board, the Chair and Deputy Chair of the Supervisory board are permanent members of the Nomination Committee. The Nomination Committee of the Supervisory Board of Wüstenrot & Württembergische AG then elected Hans Dietmar Sauer as committee Chair.

- Elected as members of the **Remuneration Control and Personnel Committee** were Hans-Ulrich Schulz as shareholder representative and Christoph Seeger as employee representative. Pursuant to the bylaws for the Supervisory Board, the Chair and Deputy Chair of the Supervisory board are permanent members of the Remuneration Control and Personnel Committee. The Remuneration Control and Personnel Committee of the Supervisory Board of Wüstenrot & Württembergische AG then elected Hans Dietmar Sauer as committee Chair.

- Elected as members of the **Conciliation Committee** were Marika Lulay as shareholder representative and Ute Hobinka as employee representative. Pursuant to the bylaws for the Supervisory Board, the Chair and Deputy Chair of the Supervisory board are permanent members of the Conciliation Committee. The Conciliation Committee of the Supervisory Board of Wüstenrot & Württembergische AG then elected Hans Dietmar Sauer as committee Chair.

At the Supervisory Board meeting of 26 September 2019, committee composition was modified in that Jutta Stöcker and Peter Buschbeck switched their respective seats on the Risk and Audit Committee and the Nomination Committee.

Full Supervisory Board

In the year under review, the Supervisory Board had four ordinary meetings (of which one meeting was held in expanded form as a strategy session) and one constitutive 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 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 the Internal Audit department and the Group Compliance Officer took part in the meeting of the Risk and Audit Committee. In addition, the Chair of the Executive Board and the Chair of the Supervisory Board exchanged information on an ongoing and, where warranted by events, 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. At the strategy session, the Supervisory Board discussed the risk-bearing capacity of the W&W Group in the current environment, as well as the strategies of the three W&W Group divisions (Housing, Insurance and brandpool). In this regard, the Supervisory Board invited the heads of each division to attend the strategy session and discussed their strategies with them in depth.

The further discussions in the Supervisory Board 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 participation management, special attention was given to the development of W&W brandpool GmbH, as well as to the future options for the Czech participations – Wüstenrot stavební spořitelna a.s. (Czech home loan and savings bank) and Wüstenrot hypoteční banka a.s. (Czech mortgage bank) – and ultimately the process to be taken now that it has been decided to sell these companies. The Supervisory Board received a comprehensive report on W&W AG's investments. It had detailed discussions about operational planning for 2020 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. 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.

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 2018, measures were defined for broadening the expertise of Supervisory Board members, and these were implemented during the 2019 financial year. Following the change in the composition of the Supervisory Board, its members once again evaluated their strengths in the fields of capital 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 2020. 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 (DCGK). In December 2019, together with the Executive Board, it adopted and submitted an updated statement of compliance, which however was based on the 2017 DCGK because the 2019 DCGK had not yet taken effect at the time of the Supervisory Board meeting of 6 December 2019. By way of resolution on the agenda for the 2019 Annual General Meeting and the nominations for shareholder representatives included therein, the Supervisory Board had already 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.

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 2019.

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 2019 the **Risk and Audit Committee** had two ordinary meetings and met once by teleconference. The committee also adopted by way of written circulation a resolution concerning the approval of so-called "non-audit services" by the auditor. The **Remuneration and Personnel Committee** had two ordinary meetings. The **Nomination Committee** had one meeting. 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 issues of risk-bearing capacity. In organisational terms, the policy on the provision of non-audit services by the auditor and the internal investment policy were revised and adopted in amended form.

In addition, the Risk and Audit Committee monitored the auditor with respect to non-audit services and the auditor's independence. The committee reviewed the non-financial Group report at its meeting of 24 March 2020, 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 policy 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 2019 financial year, the combined Management Report for Wüstenrot & Württembergische AG and the W&W Group as at 31 December 2019, 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 2019 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 2019 financial year, and it issued an unqualified audit report.

The auditor reported the material results of its audit to the Supervisory Board verbally 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 24 March 2020 and at the accounting meeting of the Supervisory Board on 25 March 2020. 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 independence of the auditor.

Following initial discussion by the Risk and Audit Committee at its meeting of 25 March 2020, the Supervisory Board reviewed the separate non-financial Group report (CSR report), 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 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 25 March 2020, 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 2018, as well as the auditor's report on it.

Composition of the Executive Board

The Executive Board experienced the following changes in its membership in the 2019 financial year:

Effective 1 July 2019, Jürgen Steffan, who until that time had been a member of the Executive Board of Wüstenrot Bausparkasse AG, was appointed as an additional member of the Executive Board of W&W. In this connection, the Supervisory Board gave its approval to the modification of the Executive Board's business allocation plan, effective 1 July 2019. Another modification was made on 1 August 2019 as a consequence of other restructuring activities in the area of enterprise architecture management and Group organisation.

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, 25 March 2020

The Supervisory Board

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. By capital investments, we mean:

- Financial assets at fair value through profit or loss
- Financial assets at fair value through other comprehensive income
- Financial assets at amortised cost
- Financial assets accounted for under the equity method
- Investment property

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 IFRS 9, 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 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. Changes in fair value are recognised in the income statement. 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. In the case of subsequent measurement, changes in fair value are recognised through 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.

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. 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.

Financial holding group

A financial holding group is defined as a group of undertakings consisting of a superordinate undertaking and its consolidated undertakings in the banking sector. The supervisory authority thus has the ability to examine the financial situation from the standpoint of the group.

Financial liabilities at fair value through profit or loss

Recognised here 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 are recognised in the income statement.

Financial liabilities

These are recognised at amortised cost. Costs at the time of acquisition correspond to fair value. 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.

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 at fair value through other comprehensive income

In this reserve 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

The arrangements in IFRS 9 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 recognised directly in the risk provision position associated with the respective balance sheet item. In the case of assets at fair value through other comprehensive income, the risk provision is recognised in the income statement by adjusting the reserve for financial assets at fair value through other comprehensive income, which is recognised in equity. 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.

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 II group

A Solvency II group involves a group of insurance undertakings. The participations of the parent undertaking are pooled in an insurance group. The supervisory authority thus has the ability to examine the financial situation from the standpoint of the group.

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.

SPPI (solely payments of principal and interest)

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 (SPPI test).

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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