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Annual Report 2016
Wüstenrot & Württembergische AG

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

wüstenrot
württembergische

Wüstenrot & Württembergische AG
Key figures of W&W Group

W&W Group (according to IFRS)

Consolidated balance sheet		FY 2016	FY 2015
Total assets	€ bn	72.3	74.1
Capital investments	€ bn	45.8	47.0
Financial assets available for sale	€ bn	24.6	24.3
First tier loans and advances to institutional investors	€ bn	14.3	15.7
Building loans	€ bn	23.7	24.3
Liabilities to customers	€ bn	25.4	25.3
Technical provisions	€ bn	33.3	32.9
Equity	€ bn	3.8	3.6
Equity per share	€	40.56	38.68

Consolidated profit and loss statement		FY 2016	FY 2015
Net financial result (after credit risk adjustments)	€ mn	1,817.7	2,031.5
Premiums/contributions earned (net)	€ mn	3,932.8	3,982.9
Insurance benefits (net)	€ mn	–4,080.1	–4,284.2
Earnings before income taxes from continued operations	€ mn	291.6	323.6
Consolidated net profit	€ mn	235.3	274.3
Total comprehensive income	€ mn	230.9	89.0
Earnings per share	€	2.49	2.88

Other information	FY 2016	FY 2015
Employees (Germany)[1]	6,745	6,907
Employees (Group)[2]	8,395	8,763

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

Key sales figures		FY 2016	FY 2015
Group			
Gross premiums written	€ mn	3,988.8	4,040.5
New construction financing business (including brokering for third parties)	€ mn	5,388.5	5,476.6
Sales of own and third-party investment funds	€ mn	381.2	355.2
Home Loan and Savings Bank			
New home loan savings business (gross)	€ mn	13,550.8	14,082.4
New home loan savings business (net)	€ mn	11,901.7	11,675.5
Life and Health Insurance			
Gross premiums written	€ mn	2,315.8	2,375.3
New premiums	€ mn	659.2	679.1
Property/Casualty Insurance			
Gross premiums written	€ mn	1,678.3	1,638.8
New premiums (measured in terms of annual contributions to the portfolio)	€ mn	207.9	209.8

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

		FY 2016	FY 2015
Net income	€ mn	62.9	60.5
Dividend per share[1]	€	0.60	0.60
Share price at year-end	€	18.57	19.95
Market capitalisation at year-end	€ mn	1,735.4	1,870.3

1 Subject to approval by the Annual General Meeting.

Financial calendar

Annual General Meeting

Annual General Meeting	Thursday, 1 June 2017

Financial reports

2016 Annual Report	Friday, 31 March 2017
Interim management statement as at 31 March	Friday, 12 May 2017
Half-yearly financial report as at 30 June	Friday, 11 August 2017
Interim management statement as at 30 September	Tuesday, 14 November 2017

Wüstenrot & Württembergische AG
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W&W on the path to growth.
„Our focus is on the customer“

Interview with Jürgen A. Junker, Chairman of the Executive Board of Wüstenrot & Württembergische AG

Mr Junker, in January 2017 you became the new Chairman of the Executive Board of W&W AG. What approach are you taking, and how did the 2016 financial year turn out for W&W?

To begin with, it‘s important for me to note that I first arrived at W&W in the spring of 2016, so I certainly can‘t claim credit for the successes that we achieved during this period. However, in light of basic economic conditions, growing regulatory requirements and new players on the financial markets, I can say that our profitability is quite impressive.

Our consolidated annual profit came in at around €235 million, which is significantly higher than our forecast amount of €220 million. Although this is lower than the 2015 consolidated annual profit of €274 million, we were expecting this and also communicated it. In 2015 W&W benefitted from one-off effects from tax refunds and sales of interests. We were aware that it wouldn‘t be so easy to repeat that.

Nevertheless, our company clearly met its earnings objectives. And that was certainly not a sure thing in view of the environment. For this reason, I want to thank our internal and mobile sales force staff for their dedication and extraordinary commitment throughout the previous financial year. Their expertise and motivation are essential to our future.

Our aim is to ensure the future of the W&W Group with ambitious growth targets and intelligent strategies. We want to increase our sales and profit and to expand our customer base.

In order to achieve this, we have to do more than just tap into new customer groups. We also have to make more intensive use of the existing, very high customer base in a region that is very strong economically. For this to be successful, we have to be much more resolute in thinking not only about our products but also about how customers see things. This is because their "purchasing behaviour" has completely changed, including with respect to financial products, as a result of the internet and new media. We once again have to adjust to this with greater intensity and continue to tenaciously pursue and refine our "W&W@2020" programme in that direction.

In what ways have customers changed? What does W&W have to do to adapt to this?

There is no such thing as a universal customer. Some customers value service. They want to be able to contact their adviser personally and to arrange with him or her to get all products from a single source. With our mobile sales force at Wüstenrot und Württembergische, we're in an excellent position to offer this.

Other customers prefer to do business by phone or email, make purchases over the internet and compare prices on online platforms. Customers today are very mobile and use the various forms of new media in a flexible manner. They also switch providers very rapidly and prefer not to be committed to a specific one. At first glance, new players on the market, like FinTechs and InsurTechs, offer them innovative, customer-oriented and affordable solutions. That puts greater pressure on classic product providers in terms of price and time.

Here as well, we have to position ourselves in order to reach this target group, with its affinity for the internet, and gain them as new customers. The only way for us to do that is by staying in step with online providers in terms of the speed and adaptability of product development. At the same time, we have to continue to work on developing cost structures that are competitive with those in the digital realm. In sum, we certainly have to become faster and more agile, but also more innovative.

Do you have any initial ideas about how you can achieve all of this?

Yes, of course. We have plenty of ideas. We're currently looking at what makes sense and what we should target.

In this regard, we're giving our teams the freedom to try things out, spontaneously develop ideas, and, if they don't lead anywhere, to toss them aside. In order to achieve this, we're striving to make the Group more adaptable.

For example, it's conceivable that we'll offer our customers a W&W online marketplace for all matters involving the home. Particularly today, quality of life at home is important to many people, and they invest a great deal of emotion in it. For such a marketplace, we need our own digital brand to complement the well-known Wüstenrot and Württembergische brands. It should be directed at customers who are sensitive to price and are comfortable using the internet, as well as be an additional revenue driver.

But we also intend to be much more open to partnerships.

To do all of this, our IT will have to become more flexible. The aim is to „dock" new digital products to the IT interface quickly and without great effort and expense.

What initiatives have you launched so far?

W&W recently acquired a 75% share in the FinTech company treefin AG. We plan to make the digital financial assistant developed by treefin accessible to all W&W customers. Using a smartphone app, our customers will have a platform for reviewing their accounts, home loan savings contracts and insurance policies at a glance. With our additional open treefin-model they'll be able to make bank transfers and request quotes not just for W&W products, but from any bank, insurance company, or home loan and savings bank whatsoever. That's the intriguing aspect of it. And at the same time, we can offer advisory services in a targeted manner.

Do you still need your own mobile sales force?

Of course. There‘s no question about that. In this respect, we‘re pursuing a clear omni-channel strategy. It‘s important for us to know what customers want in other words, how they prefer to contact us. In order to achieve this, our digital offers must be linked as best as possible with our highly qualified mobile sales partners. In doing so, we naturally have to pay attention to costs.

Service-oriented broker business through our own mobile sales force with roughly 6,000 independently operating sales agents remains the strong core of the W&W Group. And these agents are exceedingly well trained. Many of our competitors envy us for this. In this area, we are investing heavily in basic and advanced training for our agents. There are now roughly 1,900 certified financial planning specialists in the W&W Group.

But at the same time, we need to strengthen our network in the digital market. We want to link the high level of advisory expertise that our sales partners possess with the opportunities offered by digitalisation. In this regard, we also want to raise the digitalisation expertise of our in-house employees and promote the agile capabilities and working practices of individuals and the organisation as a whole. For this purpose, we‘re offering qualification programmes, such as „Agile Project Management“, as well workshops on „Design Thinking“. As you can see, W&W is on the move.

It‘s clear that you‘re also prepared to venture into new territory.

Absolutely. But I‘m also convinced that there‘s no need to overturn everything just because a new CEO is on board.

It‘s important to me to have a look at what we‘re really good at here at W&W, where we have room for improvement, where we can develop new products and where we have to step in and make some changes. We also have to think about what parts of our business we want to continue doing ourselves and what we perhaps don‘t want to directly offer at all anymore. We‘re taking our time to review things and possibly also to separate ourselves from several areas.

Fundamentally speaking, we have to become fresher, faster, more active and more customer-oriented in order to continue to be able to provide our customers with the best offers in all matters involving the home, savings and investment and insurance.

That sounds like it‘s a big task. How much has been budgeted for these ideas? Can shareholders continue to expect to receive attractive dividends?

We will be investing about €100 million in digitalisation over the next three years. It represents an investment in our growth and will benefit shareholders and employees alike.

We plan to offer a dividend to shareholders that is at least equal to last year‘s level. But whether a dividend increase is possible always also depends on overall conditions. For 2016 we have decided to pay an unchanged dividend of €0.60. This represents a dividend yield of 3.23% based on the closing price at the end of 2016.

Are you also willing to call your business model into question generally? The year 2017 will be a challenging one for financial services providers.

No, why should we? Our business model as a financial planning group is a successful one.

But we do need to think at least about new ways to reach customers and be open to new ideas.

And we‘re already doing that. One example: Specialised product offers are currently in the works for price-sensitive online customers. That is the focus of the products. They are standardised and easy to understand. Prices are geared to the desired scope of services. There is much that is possible here – nothing has been decided yet.

But it‘s important to us that we work in parallel with our successful mobile sales force and reach entirely new customer and market segments. It‘s also important to us that we make much more intensive use of the great opportunities offered by a customer-focused networking of our Home Loan and Savings and Insurance divisions.

What is your vision of the future for W&W?

I see the W&W Group as the platform for all matters involving the home, security, savings and investment and insurance, with products offered by us directly or by our partners, regardless of whether through our own mobile sales force or even digitally. This can consist of enabling customers to use their smartphone to handle their mobile banking, obtain a home loan and savings contract, household contents insurance or additional health insurance online, hire a contractor for the flat they just purchased or conclude a maintenance contract for their heating system.

Everything from a single source – when and how the customer wants it.

Are there alternatives to the steps that you‘re taking to enter the digital realm?

In view of the concentration of competition, the disappearance of weak providers and the strains being experienced by the sector as a whole, we have to chart a path of qualitative and quantitative growth, greater profitability, even better products, even better work for and with customers and high-performance IT, combined with the opportunities afforded by digitalisation.

All of this will present a challenge for us at W&W AG in the coming years in order to be able to continue to offer our shareholders an attractive investment and our employees secure jobs. In this regard, however, my Executive Board colleagues and I have no apprehensions: We know what we have to do. We know what our employees are capable of accomplishing, and we have already set the course for the future of our company.

Management Board of W&W Group
Executive Board of W&W AG and Division Heads

Executive Board of W&W AG

Dr. Alexander Erdland
Chairman of the Executive Board
(until 31 December 2016)

Jürgen A. Junker (as of 1 April 2016)
Chairman of the Executive Board (as of 1 January 2017)
Strategy, Communication, Audit,
Corporate Legal and Compliance

Dr. Michael Gutjahr
Finance, Risk Management, Human Resources

Jens Wieland
IT, Operations

Division Heads

Norbert Heinen – Head of Insurance Division
Chairman of the Executive Board of
Württembergische Lebensversicherung AG,
Württembergische Versicherung AG and
Württembergische Krankenversicherung AG

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

Divisions of the W&W-Group:

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

The heads of the divisions, together with the Executive Board of W&W AG, form the Management Board. It is the Group's central coordination body.

Supervisory Board

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

Frank Weber1 – Deputy Chairman
Chairman of the Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG, Karlsruhe site
Chairman of the Group Works Council

Christian Brand
(until 9 June 2016)
Former Chairman of the Executive Board
Landeskreditbank Baden-Württemberg – Förderbank

Peter Buschbeck
Member of the Executive Board
UniCredit Bank AG

Wolfgang Dahlen[1]
(until 9 June 2016)
Former Chairman of the Group Works Council
Württembergische Versicherung AG/
Württembergische Lebensversicherung AG

Thomas Eichelmann
(until 9 June 2016)
Managing Director
Aton GmbH

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

Uwe Ilzhöfer[1]
(until 9 June 2016)
Former Chairman of the Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG, Stuttgart head office

Dr. Wolfgang Knapp, M.C.L.
(until 9. Juni 2016)
Lawyer admitted to the German and Belgian bars
Cleary Gottlieb Steen & Hamilton LLP, Brussels

Gudrun Lacher[1]
(as of 9 June 2016)
Insurance clerk
Württembergische Versicherung AG

Corinna Linner
Linner Wirtschaftsprüfung

Marika Lulay
(as of 9 June 2016)
Managing Director & COO
GFT Technologies SE

Bernd Mader[1]
(as of 9 June 2016)
Head of Life Insurance/Private Customers
Württembergische Lebensversicherung AG

Ruth Martin
Former Member of the Executive Boards
Württembergische Versicherung AG
Württembergische Lebensversicherung AG
Württembergische Krankenversicherung AG

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

Matthias Schell[1]
(until 9 June 2016)
Head of Group Accounting
Wüstenrot & Württembergische AG

Hans-Ulrich Schulz
(as of 9 June 2016)
Former Member of the Executive Board
Wüstenrot Bausparkasse AG

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

Jutta Stöcker
(as of 9 June 2016)
Former Member of the Executive Board
RheinLand-Versicherungsgruppe

Gerold Zimmermann[1]
(as of 9 June 2016)
Chairmann of the Group Works Council
Württembergische Versicherung AG/
Württembergische Lebensversicherung AG
Vorsitzender des Betriebsrats
Württembergische Versicherung AG/Württembergische Lebensversicherung AG, Stuttgart site

1 Employee representatives.

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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 develops and provides the four components of modern provision: financial security, property investment, risk protection and private wealth management. Formed in 1999 by the merger of the long-standing companies Wüstenrot and Württembergische, the Group combines two equally strong pillars, namely the Home Loan and Savings Bank division and the Insurance division. This structure allows every customer to receive a carefully tailored solution for their future financial needs.

Wüstenrot & Württembergische AG (W&W AG), headquartered in Stuttgart, Germany, is the Group‘s strategic management holding company. It coordinates the Group‘s activities, sets standards and manages capital. As an individual entity, W&W AG‘s operations are almost exclusively restricted to reinsuring insurance policies written by the Group. It also renders personnel, legal, auditing, cost controlling and communication services for the Group as a whole. W&W AG is a public company and has been listed on the SDAX Index since March 2016.

Outside Germany, W&W AG focuses on the Czech Republic, where it offers exclusively home loan savings and construction financing products.

Germany is W&W AG's core market. In Germany, the W&W Group is represented by major offices in Stuttgart and Ludwigsburg/Kornwestheim. It has smaller offices in Karlsruhe, Bad Vilbel, Berlin and a few other cities. The following fundamental structural changes have been made to ensure the further integration of the W&W Group: For the first time in the Group's 17-year history, W&W will have an administrative head office in Kornwestheim. The W&W Group is building a new campus at the Kornwestheim site and has invested well over €400 million in the new office landscape. In October 2016 the topping out ceremony was held for the first stage of construction. The two new office blocks should be ready for occupation at the beginning of 2018 and will offer space for around 1,200 W&W employees. The second building phase is set to follow from 2018 in order to complete the W&W campus by 2023. Five additional office buildings have been approved for a further 2,800 employees. With seven new buildings in total, W&W will be able to offer a modern working environment for 4000 people within a few years at the Kornwestheim site. Shorter communication channels, direct dialogue, strengthening the common focus on clients' needs, faster decision-making, more innovation and creativity, openness, team orientation and transparency are the goal.

The central governance bodies in the W&W Group are the Management Board, the Group Board, the division boards and the Group committees. The Management Board of W&W AG is composed of the members of the Executive Board, along with the head of the Home Loan and Savings Bank division and the head of the Insurance division. The Management Board and the Group Board are the central coordinating bodies of the W&W Group.

The announced leadership changes at W&W AG took effect as of 1 January 2017. Dr. Alexander Erdland, who had led the Group since 2006, resigned his office as Chairman of the Executive Board of W&W AG at the Supervisory Board meeting on 6 December 2016, with effect from 31 December 2016. His successor is Jürgen Albert Junker, who took over as Chairman of the Executive Board of the financial services group from 1 January 2017. Junker has held a seat on the W&W Executive Board since April 2016. The changing of the guard is in line with the plan of handing over the reins to a younger generation. In addition to Jürgen Albert Junker, Dr. Michael Gutjahr (Finance/Personnel) and Jens Wieland (Operations/IT) will continue to serve on the Executive Board of W&W AG.

The corporate governance section in this Management Report provides details on the boards‘ composition and how they conduct business. The W&W Group‘s and W&W AG's business model did not change in the 2016 financial year and will be developed on an ongoing basis in the future within the scope of the W&W@2020 programme.

W&W@2020 on course

Creating assets – securing assets. This is our vision. We made significant steps along this road in 2016 with the W&W@2020 programme.

To be able to meet the needs of our clients even more efficiently, we are rigorously combining the competent consulting of our sales representatives with the opportunities of digitalisation. With our newly designed websites, social media and chat offerings, we are now not only faster in terms of customer interaction, but have also made significant improvements. Our Net Promoter Score (NPS) – a measurement of customer satisfaction – also increased further in 2016. The Württembergische has in the meantime consistently achieved scores which are higher than the market level, and its consultant NPS is even at best-practice level.

To maintain these standards we are strengthening the level of service and advice provided locally through a qualifications offensive and by promoting mutual cooperation between Wüstenrot and Württembergische. There are now 1,891 certified financial planning specialists in the W&W Group. By the end of 2016 we were able to expand the number of Financial Planning Centres to 30.

This financial planning from a single source is unique and sets us apart from our competitors. To ensure that our customers are better able to perceive and benefit from this uniqueness, we are working on further extending our communication channels, among other things. Digitally and personally Wüstenrot & Württembergische will therefore continue to be contactable round the clock.

Thanks to W&W@2020, customers now have many options for communicating with us. Hence, in 2016 we conducted over 3,000 chats and over 2,400 video consultations. Parallel to this, our online offerings have continuously been expanded (e.g. the new home loan and savings and term life insurance products). We have not only concentrated on new and attractive products, but also created a large number of convenient and innovative digital offers for our customers. For example, with the new app for the convenient notification of motor insurance claims or the health insurance app for digitally submitting bills incurred for medical treatment.

In addition, the product websites www.wuestenrot.de and www.wuerttembergische.de and the respective agency websites have been redesigned to make them more modern and attractive, meaning that our sales force agencies can also acquire new and prospective customers online. This ensures that our customers always receive a competent reply quickly when submitting any requests for advice online (website, chat).

Strict discipline in terms of running costs is essential for us to finance the appropriate investment that is needed. In line with our strategy of increasing efficiency, we have set ourselves the goal of improving productivity by at least 5% per year.

We are rigorously exploiting new opportunities such as the amendment of the German Building Societies Act within the context of our W&W@2020 programme. As a result, Wüstenrot Bausparkasse AG will now be offering construction financing with a 100% loan-to-value ratio. In addition, in 2017 we shall be pooling the competences of our entire construction financing business centrally at Wüstenrot Bausparkasse AG. Implementation will lead to considerable advantages in the Group, such as the elimination of interfaces and the simplification of IT processes.

Thus, in future,Wüstenrot Bank AG Pfandbriefbank will be able to concentrate fully on its role as a digital bank for retail customers, with products in the area of accounts, card services, fund brokerage and online activities.

The conversion to a digital bank oriented towards the retail business progressed steadily in 2016. At the end of October an important milestone in the W&W@2020 programme was reached: Wüstenrot securities accounts with a volume of around €1.5 billion were successfully transferred to the partner ebase, which is one of the leading providers for portfolio management. In addition to considerable efficiency gains and significantly reduced costs, the partnership is at the same time strengthening the sales-related opportunities of the W&W Group in the investment division. In cooperation with ebase, Wüstenrot Bank AG Pfandbriefbank is playing a pioneering role in promoting “managed securities accounts”. They combine the know-how of experienced portfolio managers with an easy-to-use online application. Wüstenrot Bank AG Pfandbriefbank has therefore introduced the Wüstenrot Exchange Traded Funds (ETF)-Managed Securities Account. The new digital consulting technology complements video consultations in the investment business.

Württembergische Versicherung AG and Württembergische Lebensversicherung AG have introduced a whole host of new products and services within the scope of W&W@2020, such as the IndexClever Rente or new emergency services, and both companies were successful in scooping several awards.

Product mix

Our wide distribution network, comprising partners, brokers and an inhouse mobile sales force, gives us access to a market of more than 40 million people across Germany. We sell more and more products and services directly, too.

Roughly six million W&W customers appreciate the excellent service, skills, expertise and close personal service provided by our employees, both in the mobile sales force and internally. Our customers are both private individuals and businesses. They count on us to be a one-stop shop for financial planning services at every stage in their lives.

Wüstenrot Bausparkasse AG continued to consistently gear its activities to market developments and trends in the 2016 financial year, such as the persistent low interest rate level and increasing digitalisation. It provides an attractive range of financing and home loan savings products for every need: from near-term construction, acquisition and modernisation projects to long-range plans.

In February, Wüstenrot Bausparkasse AG launched the newly developed Wüstenrot home loan and savings product on the market. It is therefore resolutely tailoring its core business to customers' needs whilst taking account of current market conditions. Even the multi-award-winning Wüstenrot Wohn-Riester range offered by Wüstenrot Bausparkasse AG is benefiting from the development of the Wüstenrot home loan and savings product.

The financing models offered by Wüstenrot Bausparkasse AG have also taken on a new slant. Since June 2016 Wüstenrot has been the first large building society to implement the amended Bausparkassengesetz (Building Society Act).

Numerous product and service awards also confirmed the high quality of Wüstenrot products in 2016. For example, the German magazine FOCUS-MONEY awarded the company an overall score "very good" in the "Highest Customer Satisfaction" and "Best Service" categories. The magazine WirtschaftsWoche also attested to "very high customer confidence".

Wüstenrot Bank AG Pfandbriefbank offers its customers needs-oriented, attractive and simple banking products such as current accounts, deposit accounts and security investments.

The digital orientation of Wüstenrot Bank AG Pfandbriefbank is also reflected in a further modernised web presence with a customer-friendly user interface.

In the area of construction financing the range was adjusted in 2016, due to high demand, to include products for extending the minimum repayment period and loan-to-value ratio. Both new and existing customers will benefit from a simple annuity loan whilst simultaneously securing the currently favourable interest terms for the future.

Württembergische Versicherung AG received an award in 2016 for customer satisfaction from MSR Consulting. In the surveys it received an "outstanding" for its service quality and a "very good" for claims processing as a high-service insurer.

To be able to offer its customers high quality products which are geared to their individual needs, Württembergische services a broad product portfolio covering virtually all the property/casualty insurance sectors.

Premium car policies continued to have a high share of the motor vehicle segment in 2016. The range was successfully extended in the area of motor insurance to include the GDV eCall component, the "emergency service" provided by Württembergische. As in the previous financial year, there was an above-average demand for old timer and exotic car models.

In the private customer segment, new modular tariffs were rolled out in the casualty, household and residential building segment, which were awarded an "outstanding" by Franke und Bornberg in the premium protection category. Moreover, the sale of online products was successfully extended by providing guarantees for rent deposits.

Growth also continued in the corporate customer business segment in 2016. It was mainly supported by the core „company policy" product, which was further improved in terms of service by, for example, including photovoltaic systems on commercially used buildings. The marked focus on target group products continued in this financial year.

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

The product range of Württembergische Lebensversicherung AG was expanded in January 2016 to include new, optimised term life and accident insurance tariffs in the variants Premium, Compact and Combined Protection. Customers have also been able to take out compact and premium protection policies online since October 2016. The quality of our term life insurance was recognised by the rating agency Morgen & Morgen in October 2016, with our premium term life insurance achieving the maximum score of five stars. Our revised funeral provision tariff has also been available since the start of the year. This eases the financial burden of surviving family members.

Since mid-2016 our customers have had access to Index-Clever, a modern version of the traditional pension plan, which offers the opportunity for higher returns via an index-linked package.

Classic products in the area of private annuity insurance will no longer be offered on account of very low interest rates. An exception to this are occupational pension schemes and immediate annuities. We shall continue to develop our occupational pension products.

Sales channel mix

The W&W Group serves customers through multiple sales channels and particularly values the competence and reliability that comes from personal service. Our mobile sales force, the main pillar in our sales organisation, consists of the two tied-agents sales departments at Wüstenrot and Württembergische.

In addition, strong cooperation partners from the banking and insurance sector have played a big part in our success. Partners for home loan and savings products include three large private banking groups, Commerzbank, HypoVereinsbank (Member of UniCredit) and Santander. Exclusive sales agreements have also been signed with Allianz, Oldenburgische Landesbank and the ERGO Group. The sales force is supplemented by relationships with other banks, brokers, outside insurance sales teams and unions, such as the German civil servants‘ union DBB. The traditional sales channels are complemented by the consistent utilization of digitalisation opportunities. This includes direct sales platforms, such as the online banking portal operated by Wüstenrot Bank AG Pfandbriefbank.

Commitment to sustainability

The W&W Group disclosed its efforts to promote sustainability in its declaration of conformity with the German Sustainability Code (DNK). The declaration of conformity is also published on the website of the W&W Group under www.ww-ag.com/nachhaltigkeit. The project is coordinated by a central Group Sustainability Committee (GSC) that oversees the Group‘s sustainability programmes.

As a financial services provider and pensions specialist, we are conscious of our responsibility to the environment. For this reason, company vehicles are subsidised or penalised, depending on their CO_2 emissions, and high ecological standards are also at the forefront when it comes to expanding the Ludwigsburg/Kornwestheim site. We are also placing more emphasis on ecological concerns in terms of our investment strategy and our products.

Additionally, responsibility towards employees is a key aspect of sustainability. To ensure our competitiveness and fitness for the future, we need to invest sustainably in people in addition to saving costs. Therefore, W&W offers products and services for the creation of a better work-life balance, health management and further training and development. The current activities are also particularly designed to create more flexibility in the workplace and to promote teleworking.

We believe strongly in supporting worthy projects. The W&W Group is therefore supporting various regional organisations and institutions that promote culture and strengthen society, such as the Friedrich August von Hayek Foundation and the Association for a Safe and Clean Stuttgart ("Förderverein Sicheres und Sauberes Stuttgart e. V.") and Safe Ludwigsburg – Association to Promote Crime Prevention ("Sicheres Ludwigsburg – Förderverein zur Kriminalprävention e. V.").

Regulatory requirements

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

Since 1 January 2016, the new risk-oriented solvency regime Solvency II has been in force. The required quarterly reports were submitted to BaFin on time in 2016. The requirements for coverage ratios were more than satisfied.

The IRBA follow-up audit in 2016 did not lead to any important findings with respect to Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank. We completed the follow-up work at the beginning of 2017. In 2016 the number of publications of new relevant regulatory requirements and the resultant revisions were very high, resulting in the case of Wüstenrot Bank AG Pfandbriefbank, for example, in additional capital requirements due to the national implementation of SREP (Supervisory Review and Evaluation Process).

The requirements for the form of the restructuring plans were finalised in 2016. Currently we are dealing with consumer protection topics such as the introduction of the Payment Accounts Act, as well as with risk management and IT issues.

Reporting segments

The segment information was prepared in compliance with IFRS 8 on the basis of the internal reporting system. We report on the Home Loan and Savings Bank, Life and Health Insurance and Property/Casualty Insurance segments. All other activities – asset management, real estate activities as well as home loan and savings products outside Germany – are grouped under „All other segments“. The products and services offered by the individual segments are broken down in detail in the segment reporting chapter in the notes.

Business management system

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

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

To properly guide the W&W Group, key performance indicators were defined for the areas profitability and market/customers/sales.

Consolidated net profit (after taxes; IFRS) and general administrative expenses are used globally as performance indicators of profitability. Segments, by contrast, are managed using segment earnings after taxes as well as the general administrative expenses including service income. The 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.

In the area of market/customers/sales the management parameter "Group's new customers", i.e. the number of new customers in the W&W Group, will replace the Group customer development as a cross-segment performance indicator. Changes in the management's quantitative corporate objectives are the background to this shift. In this case, the new management parameter replaces all previous customer parameters (Group customer development, customer cross-selling, new Wüstenrot Bank-customers). Customer satisfaction is still a part of management objectives.

From 2016 the segment-specific new business parameters will no longer be part of the performance review goals due to streamlining of the corporate objectives. Therefore, these management parameters will also cease to be key performance indicators.

The redundant key figures are net new business by home loan savings volume and new construction financing business (approvals) in the home loan and savings bank segment, the value-oriented net valuation amount in the life and health insurance segment as well as the value-oriented net sales performance in the property/casualty insurance segment.

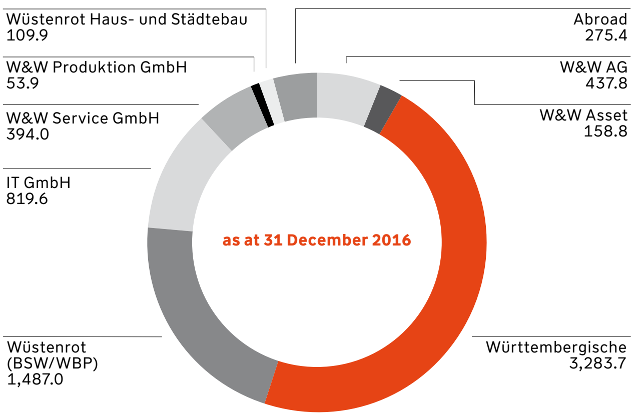
As these key figures are important for management, and to do justice to the W&W Group's different business models for home loans and savings, construction financing, life/health insurance and property/casualty insurance, we shall continue to report these key figures in the comparison with the previous year in the business report and in the outlook.

W&W AG manages the W&W Group as a strategic management holding. Its key performance indicator is net income for the year (German Commercial Code (HGB)). This is the basis for the dividend payment to our shareholders and serves to strengthen the equity of the W&W Group. The previously reported key figure general administrative expenses including the service income of W&W AG will no longer be applied in future as a key performance indicator.

Employees

As at 31 December 2016, the W&W Group employed 7,020 employees (previous year: 7,331) in Germany and abroad, calculated based on full-time equivalents, excluding trainees.

Employees in W&W Group including abroad



The restructuring of the W&W Group to safeguard its future continued in the 2016 financial year. The company focused more on the future-related topic of digitalisation, for example, which will also be of key importance going forward within the scope of the W&W@2020 programme. To make processes more flexible and streamlined it was necessary to carry out restructuring across the Group and cut jobs. In this case, we were on hand to offer support to our employees, and constructive agreements were reached jointly with our staff representative committees.

By 2020 we want to raise the digitalisation expertise of our employees and promote the agile capabilities and working practices of individuals and the organisation as a whole. To this end, we are offering specific opportunities for obtaining additional qualifications, such as the "agile project management" initiative or workshops on "design thinking". In addition, we developed an agility index, which will enable us to monitor the agility level of the organisation and derive suitable measures.

Wüstenrot & Württembergische is and remains an attractive employer. This is illustrated by the wide-ranging support offered in relation to work-life balance. We have helped employees reconcile their personal and career objectives more easily with flexible working hours and workplace models as well as professional childcare and wellness assistance. For example, within the scope of the new working world, which will also be implemented in the new campus, we offer mobile working across the Group. This will give our employees the opportunity to work flexibly regardless of location. Since 2012 the „Feuerseepiraten" corporate childcare centre in Stuttgart and the „Seepferdchen" childcare centre in Ludwigsburg have also contributed to a better work-life balance. As part of the W&W health management initiative our employees also have the chance to take advantage of the numerous health-promoting measures. They include corporate sports offers, partnerships with fitness studios and seminars on health issues. In the last financial year we received the Corporate Health Award in the special prize category "Demographics" for our commitment to company health management. In regard to professional and private problems such as burnout, conflicts in the workplace, life crises and financial emergencies, we offer our staff life-coaching sessions where solution-based counselling can be utilised.

In the 2016 financial year we once again demonstrated our fair treatment of trainees and university graduates with our participation in the „Fair Company Initiative". We also worked harder to promote new talents: Within the framework of the Bildungskongress der Versicherungswirtschaft (BIKO) (Educational Congress of the Insurance Industry), the sales training department of Württembergische Versicherung AG took second place in the "InnoWard" in the category "initial vocational training" with its "teaching platform for field sales". In addition, in the past financial year it was decided that in future 30% of the year's best trainees would each be awarded a permanent employment contract per job description, regardless of whether there was a permanent vacancy.

A particularly important issue for us is the development opportunities of our experienced employees: Attractive prospects abound throughout the W&W Group on both the professional and executive career tracks. We offer particularly talented employees programmes such as our Premium Talent Programme, where entrepreneurial, social and specialist skills are further developed. Mutual understanding and networking within the Group are important to us. We also want to promote this more in the future by offering our staff company-wide programs to develop potential and internships in customer-related areas.

Acknowledgement

We want to thank our internal and mobile sales force staff for their dedication and extraordinary commitment throughout the previous financial year. Their expertise and motivation are essential to our future. We also want to thank the employee representatives and their committees, the representatives of the mobile sales force organisations and the executive representative committees for their close cooperation and constructive support of all the action taken to prepare our company for the future.

Ratings

In the year under review, **Standard & Poor's (S&P)** again confirmed 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 has a BBB+ rating. S&P's rating reflects the W&W Group's good business and financial risk profile, among other things.

After last year's rise on the ratings scale, the risk management of the W&W Group is still listed in the category „strong".

The German mortgage covered bonds issued by Wüstenrot Bank AG Pfandbriefbank once again earned the top rating of „AAA" with a stable outlook.

The hybrid capital bonds of Württembergische Lebensversicherung AG placed on the stock market will retain their „BBB" rating.

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
Wüstenrot Bank AG Pfandbriefbank		A– outlook stable

Share

W&W in the SDAX

The goal of being included in the SDAX Index, formulated in the 2015 annual report, was reached in the reporting period. Since March 2016 W&W AG has been listed in the SDAX of the Frankfurt Stock Exchange. It opens a new chapter for the W&W stock. The aim is to continuing raising investor interest in the stock and to expand our capital market presence. To this end, investor relations activities were intensified significantly. Our responsibility is to increase awareness of W&W AG and its equity story in the capital market, develop new investor contacts and intensify existing contacts. In the year under review the Executive Board and the IR Team travelled to London, Vienna, Brussels, Zurich, Düsseldorf, Hamburg, Berlin, Stuttgart, Baden-Baden, Munich and Frankfurt for roadshows and investor conferences to present the business model, strategy and key figures.

Shareholder group

Since 17 August 2016 the non-profit Wüstenrot Stiftung has held its indirect stake in W&W of 66.31% in two holding companies, rather than in one company, as before. The number of voting rights remains unchanged. Wüstenrot Holding AG holds 39.91% and the newly founded WS Holding AG holds 26.40% of the shares, based on the total number of shares issued. 0.29% of the shares issued are non-voting own shares. Both holding companies are solely owned by Wüstenrot Stiftung. The purpose of this move is to simplify company management against the background of recently introduced sector-wide regulatory requirements.

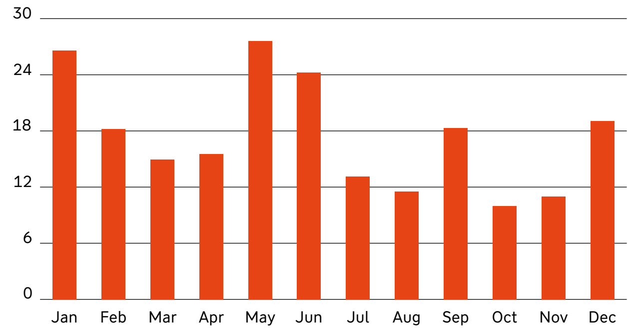
Wüstenrot Stiftung works exclusively and directly on a non-profit basis in the areas of monument conservation, science, research, education, art and culture. As an operating foundation it conceives and realises projects itself and also promotes the implementation of outstanding ideas and projects of other institutions through financial donations. Another principal shareholder of W&W AG is Horus Finanzholding GmbH, with more than 10% of the shares.

In April 2016 W&W AG issued employee shares across the whole Group. Eligible employees received a €5.00 discount on the XETRA closing price on 1 April 2016 for a maximum of 40 shares. In this regard our company is continuing a solid tradition. W&W AG, Württembergische Versicherungen and Leonberger Bausparkasse AG successfully issued employee shares in previous years. In total just under a third of the staff who were eligible took advantage of the offer. The company plans to issue more employee shares in the coming years.

After the sharp rise in trade volume just prior to inclusion in the SDAX, the average daily turnover stabilised once again in December 2016 at 57,606 (previous year: 77,589) units.

Trading volume of the W&W share

2016 in € mn



Dividend policy

W&W AG aims to distribute a stable and reliable dividend to our shareholders. The Annual General Meeting on 1 June 2017 will therefore propose to the Executive Board that the dividend remains unchanged at €0.60 after it was increased in the previous year. Based on the year-end price of €18.57 this would equate to a dividend yield of 3.23%.

Performance of shares

During the course of the year, W&W stock and the market as a whole were quite volatile, following a year-end price in 2015 of €19.95. The announcement of the EU referendum in the UK caused investors‘ risk aversion to increase. The W&W share price briefly fell below the 16-euro mark. After the disappointing result of the British referendum from a stock-market perspective, prices recovered in July, and consequently the W&W stock closed the year at €18.57.

Share price

2016 in €

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 segments		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	
Number of shares	in units	93,749,720, of which 272,780 are non-voting own shares	
Share capital	in €	490,311,036	
		2016	2015
Year-end price[1]	in €	18.57	19.95
Annual high[1]	in €	20.05	19.95
Annual low[1]	in €	15.61	15.36

1 Xetra.

Business report

Business environment

Macroeconomic environment

The German economy continued its steady growth from previous years in 2016. According to provisional calculations, it generated an increase in GDP of around 1.9%. The most important support for the economy was the dynamic consumer demand of private households. By contrast, the manufacturing industry only achieved modest growth. This was particularly due to exports, which continued to suffer from the disappointing demand from key emerging countries (China, Russia, Brazil). The disappointing foreign trade business and continuing political uncertainty (e.g. the UK's envisaged exit from the EU) hampered the propensity of companies to invest despite historically low financing conditions. Given the historically still very low mortgage interest rates and continuing high need for housing in conurbation areas, the construction sector saw lively demand for properties and a high level of building activity. From the standpoint of the W&W Group, in particular the historically above-average income trends for private households and the dynamics of the housebuilding sector therefore presented a favourable macroeconomic environment in 2016.

Capital markets

Bond markets

Long-term interest rates continued their long-standing downward trend in the second half of 2016. At the beginning of the year, in particular, very weak economic data from China put a dampener on the global economic outlook. In addition, the initially continuing slump in the oil price caused inflation expectations to sink further. The European Central Bank (ECB) resolved in March to continue pursuing an expansionary monetary policy in the form of a renewed reduction in key rates and an extension of its bond purchase programme. Consequently, the yields of ten-year bunds, which had stood at 0.63% at the turn of the year, were in the -0.2% range at the beginning of July, which corresponded to a new record low. The decision by the Brits in a referendum, who surprisingly voted for a Brexit, was also a contributing factor. The resultant political and economic uncertainty also drove many investors into the safe haven of bunds.

From springtime the globally reported economic data stabilised, which meant that recessionary fears receded once again. A turnaround then took hold in mid-July. Long-term interest rates increased again by a modest amount. The political and economic trend in the UK after the Brexit vote was much more stable than had been originally feared by the financial markets. Moreover, the oil price made a significant recovery. After Donald Trump's surprising election as the new US president, market players increased their growth and inflation forecasts for the US economy. The yields of US bonds subsequently rose appreciably, which spread at least in part to the German bond market. As a result the yields of ten-year bunds stood at at least 0.21% again at the end of 2016 and were therefore 42 basis points lower than at the end of 2015.

Supported by a further reduction in key rates by the ECB in March, the yields of short-term bonds continued their downward trend in 2016, reaching a new record low of −0.81% shortly before the year-end. Ultimately the two-year yield ended 2016 at −0.77% and was therefore 42 basis points lower than at the end of 2015.

Equity markets

European equities markets had a historically weak start in 2016. For example the Euro STOXX 50 and the DAX had already posted price losses of around 18% by mid February. The main reason for this was an increasing economic pessimism amongst investors, which was also fuelled by the very weak economic data from China and the initially persisting decrease in oil prices. A gradual turnaround then took hold from mid-February. Various triggers for this can be mentioned: The economic confidence of investors rose somewhat again due to the improved US economic data, the more stable development in China and the supporting measures adopted by the ECB. Oil prices also recovered considerably. As a result the Euro STOXX 50 fluctuated over the remaining course of the year in a narrow price bandwidth of 2,900 to 3,100 points. The most important exception to this was the time frame from mid June to the beginning of July when the risk aversion of investors rose sharply in connection with the referendum in the UK on whether to remain in the EU. Following a surprising "no" vote by the British people, the Euro STOXX 50 even briefly fell to below 2,700 points. The surprisingly robust British economy and the swift establishment of a new government quickly calmed the stock markets once again. In the last few weeks of trading, the European stock market indices tended to be considerably more friendly once again thanks to the positive indications for the US stock markets in the wake of Trump's election as the next US president. Overall the German stock market posted a price increase of 6.9%, with the DAX closing the year at 11,481 points. The Euro STOXX 50 closed at 3,291 points and was therefore only 0.7% higher than at the end of 2015.

Industry trends

In 2016 the financial services industry was again faced with further regulatory stipulations and requirements. The implementation of the stipulations from Basel represented a major challenge for the industry and will play a key role in 2017, as well (CRD2, CRD5, Basel IV). In addition, revision of the Credit Risk Standard Approach (KSA) and the requirements for internal models, i.e. general evaluation of risk-weighted assets and related equity requirements, is planned. Regulations arising from the SREP (Supervisory Review and Evaluation Process) will continue to be rolled out in detail on the national level, which will lead to new capital requirements.

In February 2017 the Federal Supreme Court of Germany (BGH) ruled that the termination of home loan and savings contracts which matured more than ten years ago is lawful. This will act as a cushion against the negative effects of low interest rates on the home loan savings community. The home loan and savings pool is protected by cancelling contracts which matured more than ten years ago where loans were not taken out.

Wüstenrot Bausparkasse AG is no. 2 in the home loan and savings rankings, measured by new business (gross). According to the German Association of Private Bausparkassen ["Home Loan and Savings Banks", (Verband der Privaten Bausparkassen e.V.)], the contract volume from new business (net) in the sector fell by 9% to around €90 billion. This drop is primarily due to non-recurring effects from rate adjustments by some building societies, which led to a high prior-year level.

New business in private residential financing declined in 2016. According to the German Bundesbank, private households took out around €235 billion (previous year: roughly €244 billion) in building loans. This equates to a fall of 4%. Following the strong increase in the previous year, market volume nevertheless continued to range at a high level, from which Wüstenrot Bank AG Pfandbriefbank was able to benefit. The persistently low mortgage interest rates are having a favourable effect. More homes were approved and completed. The declining volume of new loans can be attributed to the regional supply shortages on the existing market and to the fact that inherited money is increasingly being used to fund property. In addition, lending is more difficult due to the restrictive implementation of the residential property lending directive in Germany.

The advance of digitalisation also had an impact on the financial services industry in 2016.

New market participants such as Fintechs are also acting as driving forces for innovation. They develop financial services and technological innovations relating to payment transactions and financial investment. Banks and Fintechs are now in some cases gradually extending their digital products in cooperation and thereby offering customers the greatest possible diversity of products and services. This means customers can decide themselves which channel they want to use to contact their provider. The growing use of digital channels by customers will also offer direct banks large growth potential in the future despite the persisting low-interest phase.

Württembergische Lebensversicherung AG came in 15th among its benchmark group of German life insurers based on gross premiums written. The life insurance industry posted a slight increase in ongoing new premiums in 2016, while the single-premium business was down on the previous year. Overall, new premiums of life insurers fell by 3.8% to €29.9 billion (previous year: €31.1 billion). The unit-linked insurance product group posted growth of 5.1% and with a 16.5 % share of new premiums (previous year: 15.1%) is growing in importance in the current low interest rate environment. On the other hand, in terms of traditional product groups, new premiums in the life insurance industry fell by 6.2% to 23.5 billion (previous year: 25.0 billion).

Life insurers' gross premiums written fell in the period under review, mainly due to the fall in the single-premium business, to €86.6 billion (previous year: €87.9 billion).

Württembergische Versicherung AG occupies the 10th spot in the current ranking list for property/casualty insurers in the German market, based on gross premiums written. In the area of property/casualty insurance premium income rose by 2.8% compared with the same period last year, according to provisional calculations by the German Insurance Association (GDV). The largest rates of growth were posted by private property insurance at 5.0%. The rate of growth for motor insurance was 2.8% less than in the previous year, with only a small increase in the average premiums. However, at the same time, claims burdens rised by 2.8% which equals the size of premium revenues. Thus the claims ratio stays at the previous years' level of 76%. This indicates a slightly reduced overall performance for the sector over the year at €2.6 billion (previous year: €2.5 billion). The combined ratio (combined ratio of claims and expenses) stayed at approximately 96%.

Business development and position of the W&W Group

Business development

In 2016, the W&W Group generated consolidated net profit of €235.3 million (previous year: €274.3 million). The consolidated net profit thus exceeded the forecast for the financial year 2016.

Especially the underwriting income from property/casualty insurance was again excellent. Moreover, general administrative expenses were further reduced through continuous cost management.

New business key figures (Group)

	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015	Change
	in € million	in € million	in %
Gross new home loan and savings business	13,988.8	14,471.7	-3.3
Net new home loan and savings business	12,304.2	12,035.1	2.2
Gross premiums written (Life and Health Insurance)	2,315.8	2,375.3	-2.5
Gross premiums written (Property/Casualty Insurance)	1,678.3	1,638.8	2.4
Construction financing business (including brokering for third parties)	5,388.5	5,476.6	-1.6

New business in construction financing across all the segments in the entire W&W Group stood at €5,388.5 million (previous year: €5,476.6 million). This figure includes mortgage loans of Württembergische Lebensversicherung AG in the amount of €240.7 million (previous year: €347.6 million) and loan disbursements under home loan and savings contracts in the amount of €639.7 million (previous year: €710.0 million). Brokering for third parties (including construction financing portal) amounted to €1,188.5 million (previous year: €1,224.5 million). The Czech home loan bank and mortgage bank, whose business activities are reported under „All other segments“, contributed €506.8 million (previous year: €453.7 million).

In February 2017, the German Federal Court of Justice (BGH) decided that the termination of home loan and savings contracts that reached maturity more than 10 years ago is legitimate. Thus, the consolidated net profit of W&W was not encumbered. Thanks to this decision, it will be possible to buffer the negative impact of the low-interest policy on the home loan and savings community. The home loan and savings pool can be protected by terminating contracts that reached maturity more than 10 years ago and whose loans were not made use of.

In 2016, our W&W@2020 programme made good progress. We have developed our communication routes by expanding the online product range for our customers (e.g. by means of the new „Wohnsparen“ concept and term life insurance) and establishing a wide spectrum of digital offers.

We will continue to work towards our productivity target of 5% a year. In 2017, we will centralise the processing of the entire construction financing business at Wüstenrot Bausparkasse AG. In this way, Wüstenrot Bank AG Pfand-briefbank will be able to fully concentrate on its role as a digital bank for private customers.

Financial performance

Total comprehensive income

Consolidated income statement

As at 31 December 2016, consolidated profit after taxes amounted to €235.3 million (previous year: €274.3 million). Earnings per share stood at €2.49 (previous year: €2.88).

Composition of consolidated net profit

in € million	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Home Loan and Savings Bank segment	58.7	57.0
Life and Health Insurance segment	49.7	40.3
Property/Casualty Insurance segment	108.3	114.9
All other segments	103.8	105.7
Consolidation across segments	-85.2	-43.6
Consolidated net profit	**235.3**	**274.3**

The net financial income amounted to €1,817.7 million (previous year: €2,031.5 million). On the one hand, the year-to-date income declined as a consequence of the low interest rate environment. On the other hand, securities were subject to higher impairment, and unit-linked life insurance policies recorded a weaker performance. Furthermore, the measurement income declined. However, the net income from risk provisioning underwent a positive development.

The W&W Group also made investments in foreign currency in order to be able to exploit attractive yield opportunities for its customers. The resulting exchange rate risks are limited by means of hedging strategies. As the capital assets (AfS and receivables) and the hedges (FVtPL) need to be presented in different earnings categories, the individual earnings are marked by substantial effects. At the bottom line, however, these are largely balanced.

- Net income from available-for-sale financial assets (AfS) dropped €291.9 million to €1,114.7 million (previous year: €1,406.6 million). The decline was caused by the said net currency income and higher impairment expenses.

- Net income from financial assets accounted for using the equity method amounted to €8.1 million (previous year: €33.5 million). Income from the sale of shareholdings in an associated company was less in the financial year than in the previous year.

- Net income from financial assets measured at fair value through profit or loss (FVtPl) improved €183.4 million to -€226.6 million (previous year: -€410.0 million). This is essentially due to interest rate and currency-related derivatives used as hedges.

- Net income from receivables, liabilities and subordinated capital amounted to €833.4 million (previous year: €884.9 million). Net income from disposals was higher than in the previous year. By contrast, the interest rates, which fell once again, had a negative impact due, in particular, to the discounting of the interest bonus pro-vision. Net currency income also declined in the financial year 2016.

- The hedge income dropped €50.0 million to €70.9 million (previous year: €120.9 million). This was caused by the termination of the portfolio fair value hedges and higher reversals of the provision (OCI) from cash flow hedges.

- Net income from risk provision improved by €21.7 million to €17.2 million (previous year: -€4.5 million). The good economic situation in the core market Germany and risk-conscious lending contributed to this development.

As at 31 December 2016, net premiums earned amounted to €3,932.8 million (previous year: €3,982.9 million). The increase in property/casualty insurance was unable to balance the decline in life and health insurance.

Net insurance benefits fell to €4,080.1 million (previous year: €4,284.2 million). Despite the storms in spring, claims development in property insurance was once again very good. The decline in life and health insurance was caused by the lower premiums and the reduced allocation to the additional interest reserve including the interest rate reinforcement.

Thanks to continued, determined cost management, general administrative expenses dropped €32.7 million to €1,075.3 million (previous year: €1,108.0 million). Due to a lower headcount, personnel expenses declined despite collectively bargained pay raises. Write-downs were also lower. However, material costs were higher due to increased contributions to the deposit guarantee scheme and IT investments.

In the year under review, tax expenses amounted to €56.3 million (previous year: €49.3 million). As in the previous year, this item was affected by alleviating one-time tax effects. This was especially due to the positive outcome of a financial court case in the financial year, which resulted in tax refunds for previous years.

Consolidated statement of comprehensive income
As at 31 December 2016, total comprehensive income stood at €230.9 million (previous year: €89.0 million). It consists of consolidated net profit and other comprehensive income (OCI).

OCI was -€4.4 million (previous year: -€185.3 million). The interest rates fell during the reporting period, while in the previous year, they had still risen in the longer maturity bands.

The discount rate for pension provisions dropped compared to the end of the previous year and now stands at 1.5% (previous year: 2.0%). This resulted in actuarial losses of €98.9 million from defined benefit plans for pension schemes (previous year: gain of €51.0 million).

The unrealised net income from financial assets available for sale climbed to €104.3 million (previous year: -€192.3 million). These measurement gains, which are recognised directly in equity, were the result of the decline in interest rates during the year and the associated interest rate-related increase in prices of bearer instruments. Realisations were effective in the opposite direction.

Net income from cash flow hedges amounted to -€11.9 million (previous year: -€45.1 million). This income effect was also caused, in particular, due to realisations. The gains that had previously been recognised directly in equity have now also been included in the income statement.

The valuation effects recognised directly in equity mainly reflect the interest rate sensitivity of the assets side of the balance sheet. However, developments in the opposite direction on the equally interest rate sensitive equity and liabilities side, e.g. in the field of underwriting and deposits, are not presented.

Home Loan and Savings Bank segment

Net income in the Home Loan and Savings Bank segment went up to €58.7 million (previous year: €57.0 million). The net new business increased. Within the scope of the reduction of total assets in line with the strategy, the total segment assets dropped significantly to €31.7 billion (previous year: €35.1 billion.

New business
In the financial year 2016, the gross new business in home loan and savings declined to €13.6 billion (previous year: €14.1 billion). The net new business (paid-in new business) by contract volume amounted to €11.9 billion (previous year: €11.7 billion). Home Loan and Savings performed much better than the market in terms of both

the gross and net new business, expanding its market shares.

New business key figures

	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015	Change
	in € million	in € million	in %
Gross new business	13,550.8	14,082.4	-3.8
Net new business (paid-in new business)	11,901.7	11,675.5	1.9
New construction financing business (approvals)	2,812.9	2,740.7	2.6

New construction financing business (approvals) in the segment increased to €2,812.9 million (previous year: €2,740.7 million). This includes €350.7 million in follow-up financing (previous year: €414.4 million), while new lending business reached €2,462.2 million (previous year: €2,326.3 million). The company succeeded in utilising the positive development of the construction financing market overall, with the focus continuing to be on value retention.

Financial performance

The net income of the Home Loan and Savings Bank segment increased to €58.7 million as at 31 December 2016 (previous year: €57.0 million). A higher net financial income and reduced general administrative expenses were offset by much lower net other operating income.

The net financial income in the Home Loan and Savings Bank segment reached €438.0 million (previous year: €419.4 million). It was affected by the persistent low interest rates, the strategy-compliant reduction of total assets in the course of the bank's realignment and an improved portfolio structure through the development of new plans and products.

Within the scope of the interest book management, especially interest rate risks are hedged in order to counteract the negative effect on net income both from financial instruments and from the discounting of the provisions for loan savings business (bonus provisions). In 2016, interest rates again dropped significantly compared to the previous year.

- Net income from financial assets available for sale fell to €177.6 million (previous year: €204.0 million), mainly as a result of the strategy-compliant decrease in the total assets and the associated decline in interest income.

- The free-standing derivatives used for interest book management improved the net income from the financial assets measured at fair value to -€65.8 (previous year: -€152.9 million). This compensated the reverse effects from the discounting of the provisions for the loan savings business on the income from receivables and liabilities.

- For governance-related reasons, hedge income dropped to €70.9 million (previous year: €120.9 million). This was caused by the discontinuation of the portfolio fair value hedges at Wüstenrot Bank AG Pfandbriefbank and higher reversals of the provision (OCI) from cash flow hedges.

- Due the lower current net interest income as a result of the significant interest rate drop and the higher expenses for the interest bonus provision compared to the previous year, the net income from receivables, liabilities and subordinated capital declined to €230.8 million (previous year: €245.9 million). This was partially offset by gains from disposals that were achieved from the strategy-compliant reduction of total assets.

- Net income from risk provision improved to €24.4 million (previous year: €1.5 million). Both the positive macroeconomic situation and the very good quality of the credit portfolio contributed to a further reduction of the risk provision.

Net commission income improved to €7.1 million (previous year: €4.9 million). The negative commission balance in the home loan and savings area was reduced. The strategy-compliant discontinuation of the institutional securities business (wholesale business) was effective in the opposite direction.

General administrative expenses declined to €363.8 million (previous year: €369.6 million). Despite the higher contributions to the deposit guarantee scheme that were determined for the first time according to the calculation methodology harmonised throughout Europe and investments in the realignment of the bank as a digital bank for private customers, general administrative expenses were able to be reduced thanks to lower personnel expenses and material costs.

Net other operating income dropped significantly to €1.5 million (previous year: €18.0 million). This was mainly due to higher allocations to miscellaneous provisions. Among other things, restructuring expenses were incurred as a result of the centralisation of the service telephony.

Tax expenses rose to €24.1 million (previous year: €15.7 million). This year-on-year increase was caused by the higher segment earnings before taxes and the fact that in the financial year, no tax-reducing effects were considered for previous years.

Life and Health Insurance segment

As at 31 December 2016, net segment income increased to €49.7 million (previous year: €40.3 million). New premiums in Life and Health Insurance were slightly lower than in the previous year. The segment's total assets increased to €33.5 billion (previous year: €33.0 billion).

New business

As at 31 December 2016, new premiums for the Life and Health Insurance segment stood at €659.2 million (previous year: €679.1 million). New regular premiums rose to €116.6 million (previous year: €114.5 million). Single premiums declined to €542.6 million (previous year: €564.6 million).

Gross premiums written fell to €2,315.8 million (previous year: €2,375.3 million). The decrease was caused by the declining single-premium business and portfolio losses. The losses are mainly associated with the strong new business prior to 2005, which had been recorded due to the change in the taxation of life insurance.

New business key figures

	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015	Change
	in € million	in € million	in %
New premiums (segment)	**659.2**	**679.1**	**–2.9**
Single premiums, life	542.6	564.6	–3.9
Regular premiums, life	105.5	101.9	3.5
Annual new premiums, health	11.1	12.6	–11.9

In the financial year, the total premium from new business increased 4.9% – a rate higher than that of the sector in general – to €3,674.4 million (previous year: €3,504.1 million). We use the value-oriented net valuation amount, which weights the total premium from new business of each product group with value-oriented factors, as a management parameter and basis for the provisioning. In the year under review, the value-oriented net valuation amount declined slightly by 1.0% to €2,418.2 million (previous year: €2,443.2 million).

Financial performance

Segment earnings were up €9.4 million to €49.7 million (previous year: €40.3 million). The lower net financial and real estate income was compensated by lower benefits from insurance contracts, lower general administrative expenses and extraordinary tax income in the financial year.

The net financial income in the Life and Health Insurance segment dropped significantly by €196.4 million to €1,280.9 (previous year: €1,477.3 million). The main drivers were higher impairments on equity instruments and declining net income from investments for unit-linked life insurance policies. Net income from disposals also declined but was still at a high level. This also served to hedge obligations to our customers. In addition, the results for the individual categories included currency effects whose bottom-line effect on the net financial income was also negative. These effects were mainly caused by valuation incongruence. While the currency gains of shares were recognised in equity, the losses of the hedges taken out in this connection were recognised directly in the income statement.

- Net income from financial assets available for sale fell significantly by €251.3 million to €856.8 million (previous year: €1,108.1 million). This was due to the lower net currency income and the significantly reduced scope of gains. In addition, the impairments on equity instruments were higher.
- Net income from financial assets measured at fair value increased to -€129.2 million (previous year: -€216.5 million). The reduced losses from currency hedges had a positive effect on this item. The net income from investments to cover unit-linked life insurance policies developed in the opposite direction. This was largely because the share price increases in the market segments in which the funds invest were lower than in the previous year.
- Net income from receivables, liabilities and subordinated capital fell to €548.0 million (previous year: €577.6 million). The higher net income from disposals was unable to balance the decline in net currency income.

Net income from investment property dropped €10.5 million to €84.4 million (previous year: €94.9 million). This was especially due to declining gains from disposals and lower rent income due to numerous disposals in 2015.

Net commission income increased to -€140.9 million (previous year: -€146.2 million). Among other things, this was due to lower commission expenses as a result of the reduced new business and the reduced portfolio.

Year on year, the net premiums earned decreased. They stood at €2,337.4 million (previous year: €2,395.4 million). This was due to the lower volume of single-premium insurance in new business as well the decline in the regular premium portfolio.

Net insurance benefits decreased to €3,222.3 million (previous year: €3,409.9 million). This decline was mainly caused by the allocation to the provision for future policy benefits, which was considerably lower than in the previous year due to lower premiums and the lower expenses for stepping up the additional interest reserve (including interest rate reinforcement). This resulted from company specific probabilities of capital payouts. Benefits to customers were further secured by means of the regular increase of the additional interest reserve (including interest rate reinforcement). The allocation amounted to €290.5 million (previous year: €396.1 million). Consequently, these reserves totalled €1,599.7 million.

General administrative expenses in the Life and Health Insurance segment fell to €261.0 million (previous year: €277.5 million). This was largely due to the lower personnel expenses and an unscheduled write-down on an acquired insurance portfolio in the previous year.

Other operating income increased to -€56.9 million (previous year: -€81.8 million). Among other things, this item was affected by lower expenses from the reduced capitalisation of acquisition costs.

Instead of the tax expenses of €12.0 million that had been incurred in the previous year, a tax gain of €28.0 million accrued in the financial year. This was due, in particular, to the positive outcome of a financial court case in the financial year, which resulted in tax refunds for previous years.

Property/Casualty Insurance segment

In the financial year 2016, net segment income reached €108.3 million (previous year: €114.9 million). New business was at a level similar to that of the previous year. The segment's total assets amounted to €4.4 billion (previous year: €4.2 billion).

New business/premium development

At €207.9 million (previous year: €209.8 million), new business was at the same level as in the previous year. The declines in the business segments Motor and Private Customers were almost compensated by the growth in the business segment Corporate Customers.

New business key figures

	1.1.2015 to 31.12.2015	1.1.2014 to 31.12.2014	Change
	in € million	in € million	in %
Annual contributions to the portfolio (segment)	**207.9**	**209.8**	**-0.9**
Motor	155.5	158.5	-1.9
Corporate customers	27.6	25.9	6.6
Retail customers	24.8	25.4	-2.4

Business increased not only in the corporate customer segment, but also in the motor and private customer segments due to strong net sales in the past financial year, which took into account the replacement business and cancellations in addition to new business. Despite the challenging market environment, gross premiums written thus increased €39.5 million to €1,678.3 million (previous year: €1,638 million).

As at 31 December 2016, value-oriented net sales in new business stood at €23.7 million (previous year: €26.8 million). This key figure describes net sales by product and weights them using a factor that varies depending on their profitability. As in the previous year, it is positive and indicates a profitably growing insurance portfolio.

Financial performance

Net segment income was €108.3 million (previous year: €114.9 million). The lower net financial income was offset by better underwriting income. Individual categories contained high currency results, which however balanced each other.

The net financial income dropped €27.2 million to €44.0 million (previous year: €71.2 million). In this context, the net financial income reflects a valuation incongruence. While the valuation gains from shares were recognised in equity, the losses of the hedges taken out in this connection were recognised directly in the income statement.

- Net income from financial assets available for sale fell significantly by €29.9 million to €50.6 million (previous year: €80.5 million). This decline was mainly caused by the lower net currency income. Furthermore, equity instruments were subject to higher impairment.

- Net income from financial assets accounted for using the equity method fell to €3.4 million (previous year: €9.6 million). Income from the sale of shareholdings in an associated company was less in the financial year than in the previous year.

- Net income from financial assets measured at fair value increased €9.3 million to -€31.5 million (previous year: -€40.8 million). Gains from currency hedges were off-set by losses from share derivatives.

- Net income from receivables, liabilities and subordinated capital amounted to €19.5 million (previous year: €23.3 million). Current net interest income was higher than in the previous year. However, net currency income was lower.

Net commission income stood at -€217.2 million (previous year: -€208.1 million). This was mainly due to commission paid in connection with the higher insurance portfolio and sales promotion measures.

Net premiums earned continued to perform well. They rose significantly by €35.3 million to €1,360.6 million (previous year: €1,325.3 million). Growth was achieved in all business lines.

Net insurance benefits stood at €713.2 million (previous year: €714.9 million). Despite the higher natural disaster claims and growth in the portfolio, insurance benefits declined. A key reason for this positive trend is a sustainable, risk-conscious underwriting policy. As a result, the already excellent combined ratio (gross) dropped even further to 90.1% (previous year: 92.1%).

General administrative expenses amounted to €351.0 million (previous year: €349.4 million). Personnel expenses were further reduced despite collectively bargained salary increases. By contrast, material costs increased slightly.

Tax expenses rose to €50.9 million (previous year: €46.7 million). The financial year was especially encumbered by write-downs on stocks that could not be recognised for tax purposes.

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, the Czech subsidiaries and the Group‘s internal service providers. The total assets of the other segments amounted to €6.2 billion (previous year: €6.0 billion). “All other segments“ posted net income after taxes of €103.8 million (previous year: €105.7 million). This figure is largely comprised as follows: W&W AG €65.9 million (previous year: €56.6 million), W&W Asset Management GmbH €20.6 million (previous year: €21.0 million), Czech subsidiaries €15.2 million (previous year: €10.8 million), Wüstenrot Haus- und Städtebau GmbH €2.3 million (previous year: €6.5 million).

Year on year, the net financial income went up to €183.5 million (previous year: €151.3 million). It was mainly shaped by long-term equity investment income from within the Group received by W&W AG, which is included in net income from financial assets available for sale and was considerably above the level of the previous year. This equity investment income is eliminated in the consolidation/reconciliation column in order to obtain values for the Group. The sale of the Czech insurance subsidiaries resulted on the whole in a positive effect on results in the amount of € 6.4 million.

The previous year saw better net interest income and positive effects from the sale of the Slovak home loan and savings bank, which was measured according to the equity method.

Net commission income improved to -€41.5 million (previous year: -€46.1 million). This was due to factors such as the higher commission income from the investment business of W&W Asset Management GmbH and the improved income from the brokering activities of the Czech home loan and savings bank.

Earned premiums fell by €27.5 million to €247.2 million (previous year: €274.7 million). This was mainly attributable to the sale of the two Czech insurance companies Wüstenrot životní pojišt‘ovna a.s. and Wüstenrot pojišt‘ovna a.s. Insurance benefits decreased analogously to -€156.5 (previous year: -€181.1), also as a consequence of the improved claims development.

General administrative expenses fell €10.5 million to €96.0 million (previous year: €106.5 million). Apart from the disposal of the Czech insurance units, the material costs dropped in the areas of consulting, advertising and shipping and postage expenses.

The decline in other operating income to €20.5 million (previous year: €27.5 million) was mainly due to the reduced net income from property development business, as Wüstenrot Haus- und Städtebau GmbH invested major amounts in projects in the construction preparation stage.

Segment tax expenses rose to €54.0 million (previous year: €14.3 million). In contrast to the previous year, segment net income was not influenced by tax refunds from the settlement of previous-year taxes.

A table summarising all the segments of the W&W Group is provided in the chapter „Segment reporting“ in the notes.

Net assets

Asset structure

In the financial year ended, the consolidated total assets of the W&W Group decreased €1.8 billion to €72.3 billion (previous year: €74.1 billion).

Receivables still represented the bulk of assets. Their decline was mainly caused by the reduced promissory notes and registered bonds in the amount of €14.3 billion (previous year: €15.7 billion). Building loans also decrea-sed to €23.7 billion (previous year: 24.3 billion). Owing to the focus on value-retaining new financing business in the case of loans as well as the strategy-compliant reduction of total assets within the scope of the reorganisation of the new building financing business in the Home Loan and Savings Bank division, the W&W Group experienced a decline in these balance sheet items. Fixed-income securities continued to dominate financial assets available for sale. Year on year, their balance increased slightly to €20.0 billion (previous year: 19.6 billion).

As at 31 December 2016, investments totalled €45.8 billion (previous year: €47.0 billion). 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 valuation reserves are still high because of the continuing low interest rates. Such reserves mainly existed for first-rate receivables from institutional investors in the amount of €2,973.9 million (previous year: €2,745.0 million), for building loans in the amount of €612.9 million (previous year: €763.8 million) and for investment property in the amount of €430.8 million (previous year: €401.6 million).

However, the interest situation also created hidden liabilities with respect to long-term fixed-rate liabilities and lowered returns on reinvestments. The offsetting effects on the liabilities side, however, are not netted against valuation reserves and must not be reported in the consolidated financial statements.

Financial position

Capital structure

Owing to the business model as a financial service provider group, the liabilities side is marked by technical provisions and liabilities to customers that mainly stem from the deposit business of the bank and home loan bank.

Technical provisions – including those for unit-linked life insurance policies – totalled €33.3 billion (previous year: €32.9 billion). This includes €28.3 billion (previous year: €28.1 billion) for the provision for future policy benefits, €2.2 billion (previous year: €2.0 billion) for the provision for premium refunds, and €2.5 billion (previous year: €2.5 billion) for the provision for outstanding insurance claims.

The liabilities are primarily liabilities to customers amounting to €25.4 billion (previous year: €25.3 billion). They largely consist of deposits from the home loan and savings business amounting to €18.4 billion (previous year: €18.1 billion) and savings deposits. The liabilities to credit institutions dropped significantly to €2.3 billion (previous year: €4.1 billion) in connection with the strategy-compliant reduction of total assets in Home Loan and Savings.

The subordinated capital dropped to €396.7 million (previous year: €570.2 million), largely due to terminations.

As at 31 December 2016, the W&W Group‘s equity reached €3,811.6 million, compared to €3,643.7 million as at 31 December 2015. The consolidated net profit and the net income included in equity of €230.9 million had an increasing effect. The dividend payout, by contrast, reduced the equity by €56.1 million. Moreover, other effects of €6.9 million had a reducing effect.

Detailed information on the structure of the liabilities side and on the remaining terms to maturity is provided in the notes to the consolidated financial statements.

Liquidity

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

The cash flow statement shows cash outflows amounting to €1,558.0 million (previous year: €1,305.2 million) from operating activities and cash inflows amounting to €1,878.9 (previous year: €1,717.1 million) for investing activities, including capital investments. Financing activities resulted in cash outflows of €236.9 million (previous year: €186.0 million). This results in a net change in cash of +€84.1 million in the year under review. Further information is provided in the cash flow statement in the notes.

Investments

Most of the capital expenditure for non-current assets was incurred in the Life and Health Insurance segment. It consisted mainly of investment property and an increased involvement in long-term equity investments. In the „Other“ segment, most of the capital expenditure relates to hardware and software purchased by our IT subsidiary. Additionally, the construction of new office buildings in Kornwestheim continued.

The W&W Group has also taken over 75% of the interests in the fintech company treefin AG. The objective of the transaction is to make the „digital financial assistant“, which is developed by treefin, available to all customers of the W&W Group. This financial assistant is to provide more transparency and convenience when using banking and insurance products.

Customer development in the Group

In the reporting period, we gained 325,000 new custo-ers for the W&W Group.

Last year, however, the number of customers declined 2.2% to about 6.05 million. The decline was stronger in the Home Loan and Savings Bank division than the Insu-ance division, where health insurance saw a significant increase in the number of new customers. The decline in the Home Loan and Savings Bank division was partly due to the scheduled termination of high-yield home loan and savings plans that exceeded the savings limit.

Overall view

The W&W Group‘s net assets, financial position and finanial performance are stable and orderly. We are satisfied with our net income, considering the continuing low interest rates and increasing regulatory tightening.

Comparison of business development with outlook

The following comparison of the current business performance with the forecasts made in last year‘s annual report shows that the W&W Group has achieved a positive performance despite the persistently low interest rates.

Home Loan and Savings Bank segment

In the financial year 2016, the general administrative expenses in the Home Loan and Savings Bank segment again improved. The predicted stable development was achieved.

As projected, the net income of the Home Loan and Savings Bank segment totalled €58.7 million, a level similar to that of the previous year.

Life and Health Insurance segment

General administrative expenses developed more positively than expected due to our continuing rigorous cost management and other reasons and were below the previous year's level.

Our net segment income of €49.7 million exceeded our expectations. This was due to different measurement effects according to the German Commercial Code (HGB) and IFRS compared to the forecast.

Property/Casualty Insurance segment

In line with our forecast, general administrative expenses were at the same level as in the previous year.

The above-average net income of €108.3 million in property/casualty insurance was achieved especially due to lower insurance benefits. The risk-conscious subscription policy pursued in recent years also contributed to this success. As projected, we were unable to reach the very high net segment income from the previous year.

All other segments

A comparison of business development with the outlook for W&W AG can be found in the chapter „Comparison of business development with outlook (HGB)".

Group

In the financial year 2016, we had intended to slightly increase the number of new customers of the Group. However, due to the receding home loan and savings market development, our strict income focus in connection with the effects of the Mortgage Credit Directive (MCD) on construction financing and the market interest on deposits, the number of new customers in 2016 remained slightly below the previous year. By contrast, we achieved substantial growth in the number of customers in the field of life and health insurance through the sale of unit-linked and modern life insurance policies and supplementary health insurance policies.

However, general administrative expenses performed better than had been projected in 2016. While we had anticipated a stable development, we were able to reduce them compared to the previous year by means of further cost optimisation and productivity boosting measures.

Despite persistently low interest rates, we generated a consolidated net profit of €235.3 million in the financial year 2016, thereby surpassing the original forecast of at least €220 million as published in the last annual report.

Development of business and position of W&W AG

Business development

W&W AG closed the financial year 2016 successfully with net income pursuant to the German Commercial Code (HGB) of €62.9 million (previous year: €60.5 million). The net income was marked by profit transfers. In 2016, the diverse regulatory requirements as well as Solvency II posed a challenge for W&W AG.

Financial performance

Net income

In the financial year 2016, W&W AG's net income pursuant to the German Commercial Code (HGB) stood at €62.9 million (previous year: €60.5 million). Based on this result, we can propose to the Annual General Meeting on 1 June 2017 to pay a dividend of €0.60 (previous year: €0.60) per share for the financial year 2016 and allocate €7.0 million to reserves. The Management Board and the Supervisory Board did not make any advance appropriations to retained earnings this year. After accounting for €0.5 million in profit brought forward from 2015, the unappropriated surplus amounted to €63.4 million (previous year: €61.5 million).

Net investment income

In 2016, W&W AG's net investment income increased to €202.6 million (previous year: €159.2 million). This rise is mainly due to higher income from profit transfers. The adjustment of the valuation of investments resulted in appreciation of €28.5 million on a related company and write-downs of €27.2 million on a related company.

Reinsurance/underwriting income

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

The underwriting income before the claims equalisation provision amounts to €7.3 million, a year-on-year increase of €10.3 million (previous year: loss of €2.9 million).

Gross premiums written increased by 1.5% to €323.6 million (previous year: €318.8 million) in the year under review due to an increase in the premium income of Württembergische Versicherung AG and thus the volume of reinsurance business ceded. Net premiums earned increased by 1.1% to €247.2 million (previous year: €244.6 million).

Net expenses for insurance benefits amounted to €157.9 million (previous year: €166.2 million. The net loss ratio dropped to 63.9% (previous year: 68.0%). Expenses for insurance business for own account increased slightly from €82.3 million in the previous year to €83.7 million in the year under review, mainly due to reinsurance commission for a proportional reinsurance contract within the Group. €11.3 million had to be transferred to the claims equalisation provision, as stipulated (previous year: €7.1 million). Overall, the claims equalisation provision still stands at a comfortable €69.8 million (previous year: €58.4 million). This corresponds to 28.2% (previous year: 23.9%) of net premiums earned. After the allocation to the claims equalisation provision, the underwriting loss stood at €4.0 million (previous year: €10.1 million).

Lines

Gross premiums from fire and other property insurance lines increased from €122.6 million to €125.1 million. After an allocation to the claims equalisation provision of €5.3 million (previous year: €1.7 million), the result was an underwriting loss of €4.6 million (previous year: €6.8 million).

Gross premiums from the motor lines increased to €115.4 million (previous year: €114.1 million). After an allocation to the claims equalisation provision of €4.6 million (previous year: €4.4 million), the loss stood at €10.1 million (previous year: €10.6 million).

Gross premiums from the liability line increased slightly to €30.7 million (previous year: €30.2 million). After an allocation to the claims equalisation provision of €1.3 million (previous year: €1.1 million), the result was a profit of €5.6 million (previous year: €3.6 million).

Gross premiums from the accident line grew slightly to €20.2 million (previous year: €19.9 million). The profit after the claims equalisation provision was €5.2 million, an amount significantly higher than in the previous year (€2.8 million).

Transport and aviation hull insurance premiums increased slightly from €3.0 million to €3.2 million. In the year under review, the underwriting income after the claims equalisation provision was neutral (previous year: gain of €0.5 million).

Gross premiums from other insurance lines (mainly legal expenses insurance) rose slightly to €22.8 million (previous year: €22.5 million). The underwriting income after the claims equalisation provision showed a loss of €1.9 million (previous year: €1.3 million).

Gross premiums from life insurance decreased slightly to €6.2 million (previous year: €6.4 million). The income was positive and amounted to €1.8 million (previous year: €1.7 million).

Taxes

As at 31 December 2016, taxes on income accounted for expenses of €41.0 million (previous year: €8.9 million). In the previous year, the settlement of taxes from previous years had reduced the effect.

Net assets

Asset structure

In the financial year, W&W AG's total assets increased €94.0 million to €3,501.9 million (previous year: €3,407.9 million). Investments make up most of the assets. Receivables are another large item.

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

Equity

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

As at 31 December 2016, W&W AG's equity stood at €1,911.3 million (previous year: €1,910.2 million). The equity increased due to the net income of €62.9 million. By contrast, the equity decreased due to the dividend payout of €56.1 million for the financial year 2015. From the net income for 2015, €5.0 million were appropriated to the retained earnings by virtue of the resolution of the General Meeting. Of the treasury shares purchased in the first half of the year for the employee share programme, some remained in company. These reduced the equity by €5.7 million. In total, the equity increased €1.1 million.

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 the investments dropped €23.5 million to €3,197.9 million (previous: €3,221.4 million). This figure mainly includes interests in affiliated companies and long-term equity investments of €1,733.7 million (previous year: €1,750.5 million) and fixed-income securities of €393.6 million (previous year: €438.4 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). The valuation reserves for investments of W&W AG amounted to €1,279.6 million (previous year: €1,122.6 million. This includes €1,161.9 million (previous year: €1,012.6 million) for interests in affiliated companies, €40.3 million (previous year: €40.5 million) for funds and €34.9 million (previous year: €36.1 million) for registered bonds/promissory notes and participation certificates. As in previous years, W&W AG has elected not to use the option provided by German Commercial Code Section 341b (2) to use the provisions for fixed assets when valuing securities classified as current assets.

Pension provisions

Pension provisions of €841.0 million (previous year: €780.4 million) represent a large proportion of the liabilities held by Wüstenrot & Württembergische AG. This item includes pension provisions for nine subsidiaries in addition to Wüstenrot & Württembergische AG‘s own pension provisions. Wüstenrot & Württembergische AG assumed joint liability for the pension commitments of these subsidiaries in exchange for a one-time compensation payment and made an internal agreement with the 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. The risk report contains more information on liquidity management.

Overall view

W&W AG‘s net assets, financial position and financial performance are stable and orderly. We are satisfied with our net income, considering the continuing low interest rates and increasing regulatory tightening.

Comparison of business development with outlook (HGB)

Due to the structure of W&W AG as a holding company, its earnings after taxes are determined primarily by dividends and profit transfers from subsidiaries as well as appreciation and write-downs of investments. At €62.9 million, the forecast of slightly outperforming the earnings after taxes of the previous year was achieved. Despite the persistently low interest rate, the business performance of our holding company remains positive.

Opportunity and risk report

Opportunity report

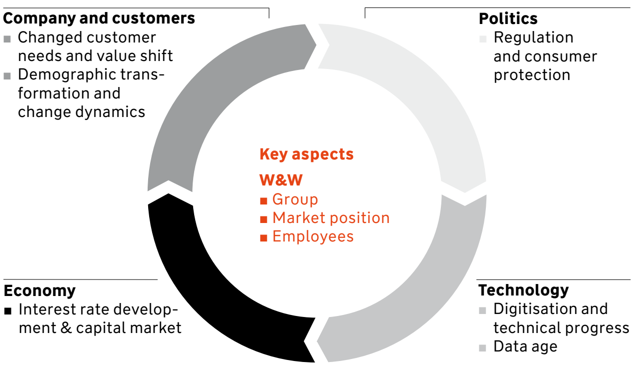
Recognising and exploiting opportunities is a fundamental requirement for the successful development of our management holding company. Consequently, the operational units and W&W AG pursue the goal across the Group of systematically identifying, analysing and evaluating opportunities and initiating suitable measures to utilise them.

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

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

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

External and internal influence factors for W&W



Unless indicated otherwise, the opportunities described concern all company segments to different extents. Where opportunities are likely to occur, we have included them in our business plans, our forecast for 2016 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. To ascertain all our customers' needs and gain constant customer feedback, we engage in intensive market research. The Net Promoter Score (NPS) is used to gauge the willingness of customers to recommend us and their satisfaction with the products and service in connection with our strong brands Wüstenrot and Württembergische. Our sales organisations and partners also provide valuable impetus for changes in customer needs and trends.

The dissemination and use of digital media enables more intensive and targeted customer contact along with corresponding sales potential for W&W AG. Our customers increasingly expect simple, transparent, individualised and flexible products, as well as networking across all interaction channels. Hence, the growing need for financial security offers huge business opportunities for the W&W Group. It adapts strategically to the changed financial planning market with its sustainable, integrated advisory approach and its target group concepts and solutions.

Especially in times of uncertainty, there is great demand for a stable financial provider with a high degree of credibility. Considering our more than 188 years of financial planning experience in the field of financial services, we are in a good position in this respect. We combine this outstanding foundation with our personal advisory approach and the new digital possibilities.

Digital advances have materially changed the expectations of many existing and potential customers. The communication between customers, sales and companies is increasingly taking place on the basis of digital technology. In the age of the Internet and social media and the intensified use of smartphones, speed is an indicator for customer satisfaction and is thus increasingly becoming a critical success factor.

Customers want to be able to contact us regardless of office hours or distance via their preferred medium and manage their affairs independently via self-service. For us, the new mobility and networking of customers through digital lifestyles opens up new possibilities for approaching and managing our customers and for the innovation processes that we will roll out.

Opportunities due to demographic changes and the dynamics of change

Democratic change and a changed society offer new growth opportunities.

People are living longer and remaining active until an older age. In the long run, the government pension alone will not be sufficient to finance this self-determined, independent lifestyle. Independence, mobility and an active life until old age come at a cost. Society is demanding more flexibility in regard to products, consulting and communication due to a change in lifestyle habits.

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

Economy

Opportunities through interest rate trends

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

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

Politics

Opportunities through increasing regulation and consumer protection

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

Government interventions, such as capping charges for card payments, may lead to a boost in the market penetration of individual products, for example, in relation to the acceptance of credit cards.

Technology

Opportunities through digitalisation and technical progress

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

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

The targeted use of customer data (in compliance with digital ethics) means that we can create personalised offers. This also makes it possible to extend the business model.

Internal influencing factors

Opportunities through the Group

The solid base of our business model with its two pillars Home Loan and Savings Bank, and Insurance offers us the best chance of remaining in the market on a long-term basis through its diversification.

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

The prospects remain positive. Germany's economic performance is above the European average and it has a low unemployment rate. Growing income and a generally optimistic basic sentiment give us strong momentum in our customer business.

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

Diversification is of great significance to our business model with its broad product range that spans various business segments and regions, as it curbs the economic impact of a single event. For example, business segments are systemically much less dependent on the development of interest rates and need less capital. This particularly includes the property/casualty insurance segment.

All stakeholder groups benefit from the diversification effect. As far as pricing is concerned, we can offer customers lower risk premiums for the same level of security. For our shareholders, the diversification reduces the part of the equity that is tied up through the assumption of risk and stabilises the income and risk profile.

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

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

Opportunities through market position

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

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

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

In particular, the consistent digitalisation of customer contact points offers opportunities for the optimisation of sales channels. The W&W Group has identified this potential and accommodates it by means of the strategy programme W&W@2020.

Opportunities through our employees

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

The W&W Group is the largest independent employer among the financial service providers in Baden-Württemberg, guaranteeing security even in times of economic turbulence thanks to its high stability. As a financial conglomerate, it offers varied and challenging working conditions. We secure and retain the best brains and most talented people through flexible working time models, the compatibility of work and private life, diverse development opportunities and adaptable career paths. Above all, our business strategy explicitly provides for the promotion of female junior executives.

Further information on how we promote the dedication of our employees is available in the employees chapter.

Risk report

Risk management system in the W&W Group

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

According to the provisions of the German Banking Act (KWG), the German Insurance Supervision Act (VAG), the Financial Conglomerates Directive as well as the German Supervision of Financial Conglomerates Act (FKAG), the W&W Group represents a financial conglomerate. The financial holding group is based on the requirements of the German Banking Act (KWG). Additionally, the Solven-cy II group and the insurance companies are subject to the regulations of Solvency II. All the specified legal pro-vi-sions result in special requirements for risk management and controlling. Wüstenrot & Württembergische AG (W&W AG) is the parent company of the financial conglomerate, the Solvency II group and the financial holding group. In this capacity, W&W AG is responsible for defining and further developing risk management standards throughout the Group and checking compliance with these standards.

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

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

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

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

The risk management and controlling system comprises all internal and external regulations that ensure the structured handling of risks in the W&W Group.
Risk controlling is part of risk management and records, communicates, analyses and evaluates risks. It also monitors risk governance measures.

The principles of the risk management system as well as the organisation of our risk management as presented in the Annual Report 2015 were also applied in 2016 and will continue to be applied, subject to the changes and enhancements presented below.

For information on the enhancements planned for 2017, refer to the chapter „Further developments and outlook“.
Tasks and goals

The tasks and goals of risk management are aligned with the following core functions:

- **Legal:** To ensure compliance with relevant risk-related internal and external requirements.

- **Protection of the going concern:** Avoidance of risks that endanger the going concern, protecting the company as a whole and preserving the capital base as a key precondition for the going concern.

- **Quality assurance:** Establishment of a joint risk understanding, pronounced risk awareness, a risk culture and transparent risk communication in the W&W Group.

- **Value creation:** Governance and action impetus in the case of deviations from the risk profile, impetus for risk hedging and conservation of value, promotion and assurance of sustainable value creation for shareholders, to seize opportunities.

Another duty of risk management is to protect the reputation of the W&W Group as a financial planning specialist. The reputation of the W&W Group as a stable, reliable and trustworthy partner of our customers represents a key factor for our sustainable success.

Risk management framework

The integrated risk strategy of the W&W Group establishes minimum requirements for the direction and framework of the W&W Group‘s risk policy.

Risk managament framework

Overview

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

It is derived from our business strategy and describes the type and scope of the material risks in our Group. Our risk strategy defines goals, risk tolerance, limits, measures and instruments to handle assumed or future risks. The risk strategy of the W&W Group is adopted by the Management Board of W&W AG and is discussed in the Supervisory Board at least once a year. As a matter of principle, efforts are made to balance business opportunities with the associated risks, the top priority always being the ongoing protection of the Group and its companies as a going concern. The objective is to avoid taking risks that endanger its existence or that are incalculable. As a matter of principle, the individual companies of the financial conglomerate are integrated in the risk consolidation scope and the Group-wide risk management system according to the statutory and regulatory provisions. How-ever, the scope and intensity of the risk management activities vary depending on the risk content of the business engaged in (principle of proportionality).

The inclusion of the contribution to the overall risk of the W&W Group is performed with the help of a risk classification procedure (risk classes 1-5) according to the principle of materiality of the minimum requirements for risk management.

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

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

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

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

As a guideline for risk management at the Group level and W&W AG, our Group Risk Policy defines differentiated requirement profiles in order to map both the specific risk management requirements in the individual companies as well as the conditions for the integrated Group risk governance.

Risk governance/risk bodies

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

A brief outline of the importance of the Group Board as well as the Supervisory Board and the Risk and Audit Committee can be found in the introductory sections of this chapter. For further information on this, please refer to the section „Corporate Governance Statement“.

The Management Board of W&W AG bears the overall responsibility for the appropriate business organisation of the W&W Group and thus for an adequate, effective risk management system. Accordingly, the Management Board of W&W AG makes sure that the risk management system is effectively implemented, maintained and further developed. This includes the development, promotion and integration of an appropriate risk culture.

The great significance of the risk management system within our business organisation is reflected both internally and externally in the function of a Chief Risk Officer (CRO) within the Management Board of W&W AG. He is responsible for the due implementation and performance of the risk management.

In its capacity as the Management Board‘s control body, the Supervisory Board of W&W AG also monitors the adequacy and effectiveness of the risk management system. For this purpose, it is regularly updated on the risk situation.

The **Risk and Audit Committee** of W&W and of Wüstenrot Bausparkasse AG regularly verify whether the risk management organisation in the respective fields of responsibility is adequate. For Württembergische Versicherung AG, Württembergische Lebensversicherung AG and Wüstenrot Bank AG Pfandbriefbank, this duty was assumed by the respective full Supervisory Board in 2016.

Our internal bodies play an important role in ensuring compliance with our internal governance. The **Group Board Risk** is key element of the structure of our internal bodies. This central body, which is headed by the CRO of W&W AG, coordinates the Group-wide risk management. In this function, it supports and guides the Management Board of W&W AG in risk-relevant issues. The CROs of the Home Loan and Savings Bank and Insurance divisions and the head of the Group Risk Management/Controlling department are permanent members of the Group Board Risk. Other members include the heads of the Controlling/Risk Management departments of the insurance companies, the head of Controlling at the Home Loan and Savings Bank division, the head of the Group Audit department and the general managers in asset management (back office).

The body meets once a month and, where necessary, on an ad-hoc basis. The Group Board Risk monitors the W&W Group‘s risk profile, appropriate capitalisation and liquidity resources. Moreover, it deliberates on Group-wide structural and procedural organisation standards in risk management and proposes these to the responsible members of the Executive Board. This also includes the recommendation and initiation of risk governance measures.

The Group Board Risk also serves as an interface to the Risk Boards of the insurance and home loan and savings divisions. For Group-wide management purposes, it supervises the Risk Boards of the divisions. Risk-relevant circumstances of the Czech subsidiary are integrated through procedural networking and a direct reporting line to the Group Board Risk.

The Insurance Risk Board manages and monitors risks in the Insurance division. The Home Loan and Savings Bank Risk Board takes care of this duty in the Home Loan and Savings Bank division. The participation of the responsible Management Board members and affected departments guarantees the integration of circumstances pertaining to individual companies as well as the speedy exchange of information and quick action. We integrate risk-relevant aspects of our Czech subsidiaries via a direct reporting line of the Czech Republic Risk Board to the Group Board Risk.

Group Risk Management/Controlling guides and supports the Group Board Risk in defining Group-wide risk management standards. It develops cross-company methods and processes for risk identification, evaluation, governance, monitoring and reporting. Moreover, the department creates qualitative and quantitative risk analyses The Group Risk Management/Controlling department, which is based in W&W AG, is responsible both for the entire W&W Group and for W&W AG as an individual operating company.

The chart at the end of the page shows how the responsible bodies collaborate in risk-related decisions.

The **Group Credit Committee** was established for efficient Group-wide credit governance. It develops proposals for loan decisions in the institutional area and submits them to the Group risk committee for adoption.

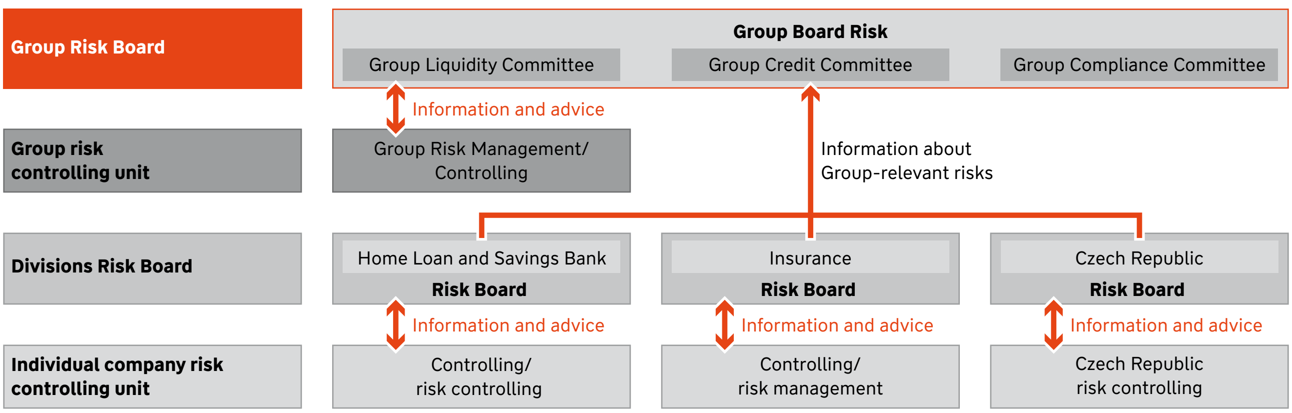
A **Group Liquidity Committee** has been established for Group-wide liquidity management. It is composed of representatives from the individual companies. It is responsible for Group-wide liquidity management and monitoring.

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 officer regularly reports directly to the Management Board of W&W AG and to the Group Board Risk about compliance risks.

Key functions have been implemented in our business organisation. These are structured in the form of three lines of defence.

Risk Board Structure

Overview



- The business units that are responsible for the operational decentralised risk governance (e.g. sales, application processing, investments) constitute the first line of defence. Within the scope of their competencies, these units deliberately decide to assume or avoid risks. In this context, they observe centrally determined standards, risk limits and risk lines as well as the adopted risk strategies. Compliance with these competencies and standards is monitored by means of internal controls.

- The Risk Controlling, Actuarial and Compliance functions form the elementary parts of the second line of defence. The Risk Controlling function of the W&W Group coordinates Group-wide risk management activities The Actuarial function ensures correct calculation of the technical provisions and assists the Risk Controlling function in the risk assessment. The Home Loan and Savings Mathematics unit is responsible for measuring the pool risks in Wüstenrot Bausparkasse AG. The Compliance function is in charge of adequate legal monitoring and the effectiveness of the compliance with internal and external regulations.

- 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.

In our structural and procedural organisation, the individual duties of all aforementioned bodies, committees and functions as well as their connections and reporting lines among each other are clearly defined. This ensures a regular and timely information flow across all levels of the W&W Group, enabling any necessary decisions on risk governance measures to be taken comprehensively and efficiently.

We implement the principle of functional separation through strict separation of risk-taking units (e.g. investments, active reinsurance) and risk-monitoring units (controlling, accounting, risk controlling).

The chart at the bottom of this page presents the responsibilities in risk management.

Limitations of the risk management system

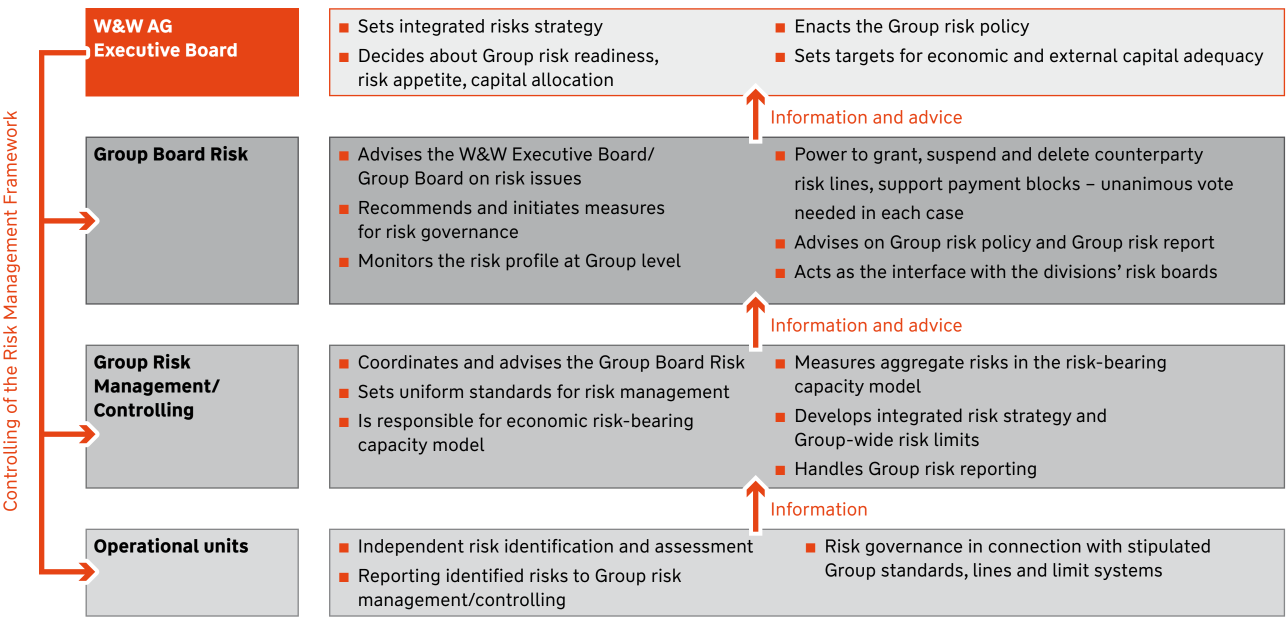
Good and effective risk management improves the implementation of business and risk strategy goals. However, it cannot ensure full security, as the effectiveness of the risk management is limited:

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 predicted 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 risk can arise from faulty model input (input risk) and improper model use (use risk).

Risk management responsibilities

Overview



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

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

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

Risk management process

Our Group's risk management process is based on the control loop described below and in the integrated risk strategy.

Risk identification

Within the scope of the risk inventory, we regularly record, update and document assumed or potential risks. Based on an initial assessment by the responsible business units, we use thresholds to classify our risks in material and immaterial risks. In this assessment, we also evaluate the extent to which individual risks can take on a material character through interaction or accumulation (risk concentrations). Risks that we classify as material are actively managed in the next four steps of the risk management process. Risks classified as immaterial are reviewed at least once a year in the individual business units. We reflect the results of the risk identification in our risk inventory. In this context, we also show in which W&W company the individual risks can occur.

Risk assessment

Depending on the type of risk, we employ various risk measurement procedures for their quantitative evaluation. As a risk measure, we use the value at risk (VaR) with a confidence level of 99.5% and a time horizon of one year. If possible, risks are measured with a stochastic, simulation-based approach. Currently, we determine market price and counterparty credit risks in the proprietary business and insurance risks in property insurance with this approach. For the other risk areas, we use analytical assessment methods or regulatory standard procedures as well as expert opinions. For example, the risks identified within the scope of the risk inventory are evaluated on the basis of the probability of occurrence and loss potential. Sensitivity and scenario analyses are regularly conducted within the scope of stress scenarios for specific risk areas and across risk areas. Indicator analyses 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 framework of the fields of action defined in the business strategy, both on a decentralised basis by the business divisions and by W&W AG. 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 management.

The IFRS income and division-specific indicators serve as our key management parameters. To combine earnings and risk governance for the purpose of value-oriented governance and to substantiate our decisions, we conduct supplementary analyses with an RORAC approach.

The evaluation of the adequacy of the risk capitalisation takes place on the basis of equally positioned risk-bearing capacity concepts, which however, examine different objectives and aspects:

- The economic risk-bearing capacity model assesses the risk coverage capacity from the present value perspective on the basis of future cash flows. The economic risk-bearing capacity concept focuses primarily on the protection of first-rate creditors (gone concern).

- The balance sheet/income statement-oriented risk-bearing capacity examination serves the ongoing protection of the going concern on the basis of a risk examination of income statement/balance sheet indicators of the accrual accounting under commercial law. The examination takes place for W&W AG and other individual companies.

- The regulatory capital requirement assesses compliance with the regulatory minimum requirements for risk capitalisation in order to continue business operations as planned.

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

We constantly monitor compliance with the framework requirements for the risk strategy and risk organisation and the appropriateness of the quality and grade of risk governance. Action recommendations are derived from these control activities for quantifiable and non-quantifiable risks, enabling us to take corrective action at an early stage and thus achieve the goals formulated in the business and risk strategy. Our economic risk-bearing capacity model represents an important basis for the Group-wide monitoring of our overall risk profile and economic capitalisation. The ability of the W&W Group and its main individual companies to support assumed risks with sufficient capital is continually tracked by risk management. Additionally, we monitor risk-bearing capacity with the help of regulatory procedures (Solvency II, CRD IV/CRR).

Risk reporting

All material risks of our group are duly and regularly communicated to the Management Board, to the Group Board and to the Supervisory Board of W&W AG. In these reports, we also present the available own funds, the regulatory capital requirements, the risk capital requirement, the compliance with limits and lines and the risk governance measures that have already been taken and that still need to be taken. The Group-wide risk reporting system is supplemented by a procedure for adhoc risk communication. In this way, the Management Board of W&W AG and the Group Board of the W&W Group promptly learn of any significant events or extraordinary changes in the risk situation that exceed our defined internal thresholds. The reporting obligations are also fulfilled at all levels in the subsidiaries.

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

Capital management in the W&W Group

The individual companies and W&W AG keep risk capital in order to cover losses if assumed risks should occur. The risk management manages and monitors the balance between the risk capital and the risk capital requirement. This balance results from the danger of losses in connection with assumed risks (capital adequacy, risk-bearing capacity). Governance takes place from two perspectives: With respect to regulatory capital adequacy, the relationship of regulatory capital to the regulatory solvency requirements is examined. Statutory and supervisory requirements relating to capital resources and risk-bearing capacity apply, respectively, for the financial conglomerate, the Solvency II Group, the financial holding group and W&W AG as an individual institution. For this, the provisions of the German Banking Act (KWG), the German Insurance Supervision Act (VAG), the German Financial Conglomerates Solvency Regulation (FkSolV) and the Capital Requirements Regulation (CRR) are applied.

Moreover, the avoidance of the risk of excessive debt is an integral part of the balance sheet management of the financial holding group and the individual companies affiliated with it, which 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, the economic risk capital requirements are determined on the basis of an economic risk-bearing capacity model and compared with the available economic capital.

Objectives

For the capital management in the W&W Group, in the Solvency II group, the financial holding group and W&W AG, a general framework has been implemented to determine the goals and principles for the capital management and to determine the capital management process. Moreover, our capital management aims at

- ensuring adequate risk-bearing capacity, especially on the basis of the economic risk-bearing capacity model,
- fulfilling regulatory minimum capital requirements,
- optimising the 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 requirements

The regulatory provisions give rise to requirements for regulatory capitalisation. The following table shows the equity and solvency indicators of the material credit institutions:

in € million	Available own funds according to CRR 2016	2015	Total risk amount according to CRR 2016	2015	Ratio in % 2016	2015
Wüstenrot Bausparkasse AG	893.5	810.4	5,882.7	5 941.5	15.2	13.6
Wüstenrot Bank AG Pfandbriefbank	446.9	461.7	2,630.4	3 393.1	17.0	13.6

As at the reporting date, Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank fulfilled the regulatory capital requirements. The regulatory coverage ratio of the insurance companies that belong to the Group most likely amounts to significantly more than 100% (the final results will be published in the second quarter). The Federal Financial Supervisory Authority (BaFin) has granted Württembergische Lebensversicherung AG and Karlsruher Lebensversicherung AG permission to apply a transitional provision, of which they will make use of.

Apart from the supervision at the individual company level, the insurance companies of the W&W Group within the scope of consolidation of the Solvency II group are likewise subject to supervision. As at the reporting date, the Solvency II group is expected to have a coverage ratio of more than 100% (the final results will be published in the second quarter).

Pursuant to Section 10a (2), sentence 4 of the German Banking Act (KWG), the parent company W&W AG is responsible for ensuring that the financial holding group has sufficient funds of its own. As at 31 December 2016, the total capital ratio of the financial holding group was 21.0% (previous year: 17.6%). The scope of consolidation was adjusted due to the split of Wüstenrot Holding AG. For this reason, the previous-year's figure can only be compared to a limited extent.

W&W AG ensures that the regulatory requirements for financial conglomerates under the German Supervision of Financial Conglomerates Act (FKAG) and the German Financial Conglomerates Solvency Regulation (FkSolV) are fulfilled.

As at the closing date, the financial conglomerate's capital-solvency margin relation was considerably higher than 100%.

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

Internal calculations on the basis of the data for 2016 and on the basis of the planning for 2017 and 2018 show that in the future, it will continue to be possible to surpass the regulatory requirements for own funds in the financial conglomerate, in the financial holding group and in the Solvency II group.

Our goal is to anticipate the potential capital requirements for the W&W Group. The entry into force of the new statutory regulations according to CRD IV/CRR from 2014 for credit institutions and of Solvency II from 2016 for insurance companies is associated with increasingly strict capitalisation requirements that need to be fulfilled. For the domestic credit institutions, the internal minimum target for 2017 has been set at 12.5% for the total capital ratio and at 13.0% for the financial holding group. The target for the core capital ratio for 2017 is 10.5% for the domestic credit institutions and at least 11.0% for the financial holding group. The minimum target ratio for the Solvency II group is 125%.

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 the economic risk-bearing capacity model, and suitable limits are derived.

The limit process in the W&W Group is based on an inter-active 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 the approval of the limits at the Management Board level, their operational implementation takes place in the risk management cycle. In regard to risk limitation the company generally aims to reach an average limit utilisation of up to 80%. 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 the implementation and limit monitoring lies with the individual decentralised risk con-trolling units and the Group Risk Management/Controlling department for the Group as a whole.

The risk situation is presented on the basis of the data used by the company management for economic risk governance and risk reporting. The material risks, which are determined by means of a standardised approach, are aggregated to form risk capital requirements and compared with the financial funds available for risk coverage. As at the reporting date 31 December 2016, the total risk capital requirements of the W&W Group after diversification amounted to €3,533.7 million (previous year: €3,758.0 million).

For risk consolidation in connection with the measurement of risk-bearing capacity, W&W AG, Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank, Württembergische Lebensversicherung AG, Württembergische Versicherung AG, Württembergische Krankenversicherung AG as well as the Czech companies Wüstenrot stavební spořitelna a.s. and Wüstenrot hypoteční banka a.s. are first modelled separately and subsequently aggregated for the Group view. Since 31 December 2015, the economic risk-bearing capacity model of Württembergische Lebensversicherung AG has been based on an adjusted standard model according to Solvency II.

Risks of the other individual companies that are not modelled separately as well as strategic risks are measured with a blanket approach.

Value at risk. The risk measurement takes place according to the value-at-risk approach. The risk is measured as the negative deviation of the loss potential from the statistically expected value for a given security level. The value at risk (VaR) thus indicates what value the unexpected loss of a particular risk position (e.g. of a securities portfolio) will not exceed with a given probability and over a given risk horizon. Based on Solvency II, the Group uses a confidence level of 99.5% for the VaR measurement. The risk horizon is the period during which possible events and their impact on the company's risk-bearing capacity are examined. The risk-bearing capacity of the W&W Group is determined largely stochastically for a risk horizon of one year.

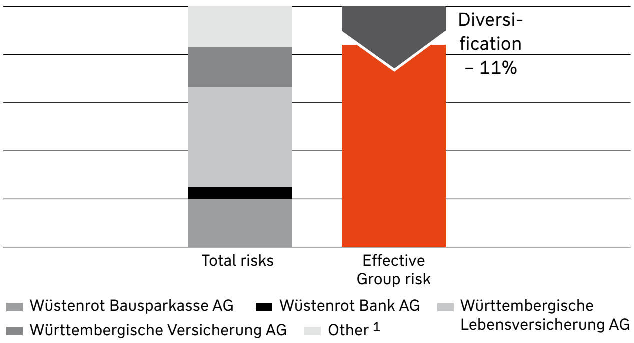
Within the scope of the risk strategy, the W&W Group aims at an economic risk-bearing capacity ratio of over 125%. Our calculations furnish evidence of risk-bearing capacity above this target ratio as at the closing date 31 December 2016.

Diversification

The assumption and governance of risks comprise the core of the business model of the W&W Group. The risk profiles of home loan and savings, bank, property and casualty insurance and life and health insurance differ considerably. As the assumed risks in these companies usually do not occur at the same time, the risk capital requirements of the Group are smaller 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 Home Loan and Savings or Life Insurance, is largely independent of the occurrence of a natural disaster, which mainly pertains to the property and casualty insurance. This risk diversification effect depends on the correlation of the risks among each other, on the one hand, and on their size in the individual companies, on the other hand. In regard to security-based modelling, the economic risk-bearing capacity model at the Group level only takes account of diversification effects arising between the individual companies within one risk area. The alleviation of the economic risk capital requirements at Group level was as follows as at 31 December 2016:

Diversification

schematic



[1] W&W AG, Württembergische Krankenversicherung AG, Consolidation

All material stakeholder groups benefit from this pronounced diversification effect in the W&W Group. A stable income and risk situation makes the companies of the W&W Group more attractive for our customers and external creditors, strengthens our competitive position and, last but not least, protects the jobs of employees.

Diversification is very important for our business model, which features a broad product portfolio over various business segments and regions. Diversification between business segments helps us to handle our risks efficiently, as it limits the economic impact of a single event. As a whole, it also contributes to a relatively stable income 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 the risk and income diversification, further diversification effects can be used in different areas due to the structure of the W&W Group. For example, this concerns the capital fungibility within the W&W Group and the networked approach across division borders (know-how transfer).

Risk profile and material risks of W&W AG

To present our risks transparently, we aggregate similar risks to form so-called risk areas that are standardised throughout the Group.

The following table demonstrates the risk exposure in the individual segments of the W&W Group and shows which risk areas have been uniformly identified as material (see also chart „Risk landscape of the W&W Group“):

Risk areas

by segment

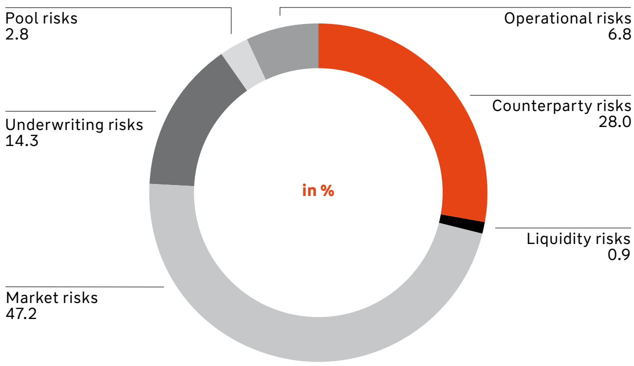
We separately draw attention to any segment-specific risks and risk management methods within the risk areas.

In the seamless risk management process, we examine material risks (proportionality principle). Generally, all risk areas that could have a sustainable negative impact on the economic, financial or income performance of the W&W Group or of a respective W&W company are regarded as material. Thresholds are defined in order to operationalise the concept of materiality. For content-related reasons, it may be appropriate to determine thresholds at various points of the risk management process (e.g. risk inventory, implementation of limits and lines, ad hoc risk reporting, inclusion limits for internal management re-porting).

The risks presented below are explained according to the methodology of our internal risk reporting regulations.

As at 31 December 2016, the risk profile of the quantified risk areas, which was determined according to our methods for economic risk-bearing capacity measurement (see section „Economic capital adequacy“), was distributed as follows:

Risk profile of the W&W Group [1]



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

At 47.2% (previous year: 55.6%), **market price risks** currently account for the largest share of the risk capital requirement. The most significant risk types included in this item are interest rate risks of 16.7% (previous year: 17.2%) and credit spread risks of 15.0% (previous year: 23.3%). Insurance risks account for 14.3% (previous year: 15.1%), operational risks for 6.8% (previous year: 5.1%) and pool risks 2.8% (previous year: 2.1%).

Due to the exposures in our investment portfolios and our customer credit activities, **counterparty credit risks** represent the predominant risk area, accounting for 28.0% (previous year: 21.2%).

We take business risks, i.e. risk areas that cannot be quantified via the economic risk-bearing capacity model, into consideration in our risk-bearing capacity calculation by applying a blanket discount when determining the aggregate risk cover.

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

Risk landscape of W&W Group

Overview of risk areas

Overall risk profile

Market risks	Counterparty risks	Underwriting risks	Pool risks	Operational risks	Business risks	Liquidity risks
Interest rate risk	Counterparty credit risk – customer credit business	UR personnel/employee life insurance	Pool risk	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 counter-party credit risks	UR property and casualty insurance		Personnel risk	Reputational risk	Market liquidity risk
Foreign currency risk				Process risk		
Real estate risk				Information risk		
Long-term equity investment risk				Model risk		
Commodities risk				Service provider risk		

Market price risks

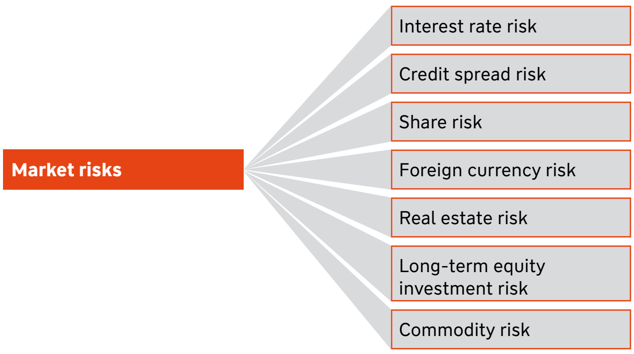
- Intensified risk-minimising measures to manage the interest rate risks (interest rate change and interest guarantee risks) of the W&W Group due to continually low interest rates
- Retention of the high guarantee level of the share port-folios in 2016

Risk definition

We define market price risks as potential losses resulting from the uncertainty concerning the future development (size, volatility and structure) of market risk factors. Such market risk factors are, for example, interest rates, share prices, exchange rates and commodities prices, real estate prices or corporate values, as well as risk premiums (credit spreads) for a given credit risk. In the W&W Group, all risk types (except for commodity risk) within the scope of the market price risk are considered to be significant and are detailed below.

Market risks

Systemisation



Market environment

Interest rate development. In the first half of the year, long-term interest rates continued to pursue their multi-year downward trend. In March, the European Central Bank (ECB) adopted further expansive monetary policy measures in the form of another reduction of the key interest rates and expansion of its asset purchase programme. As a result, the yield of 10-year federal government bonds, which had still been 0.63% at the turn of the year, dropped to -0.2% in early July, a new historic record low. However, from spring onwards, the worldwide economic data stabilised, causing fears of recession to disperse. From mid-July, a turnaround became evident. Long-term interest rates picked up moderately. The yield of US bonds increased noticeably in the second half of the year, which was also reflected at least to a certain extent on the German bond market. At the bottom line, the yield of 10-year German government bonds had at least reached 0.21% as of the end of 2016, i.e. 42 basis points less than at the end of 2015.

Backed by another reduction of in the key interest rate by the ECB in March, the yields of short-term bonds continued to drop in 2016, reaching a new record low of -0.81% shortly before the end of the year. The two-year yield closed the year at -0.77%, 42 basis points below the level at the end of 2015.

This interest rate trend had a similar effect on swap rates. Compared to the end of 2015, the 30-year swap rate dropped by 38.6 basis points to a level of 1.2%. By the end of 2016, the yield of the two-year swap rate had further declined by 14 basis points compared to the previous year to -0.18%.

Share performance. European equities markets made a historically weak start into 2016. By mid-February, the Euro STOXX 50 and the DAX sustained losses of about 18%. From mid-February, the trend gradually reversed. In the remaining part of the year, the Euro STOXX 50 mostly fluctuated within a narrow bandwidth of 2,900 to 3,100 points. The most important exception was the period from mid-June to early July, when the investors‘ risk aversion increased significantly in the vicinity of the UK referendum as to whether the country is to stay in the EU. Following the surprising „leave“ vote, the Euro STOXX 50 temporarily even dropped below the mark of 2,700 points. However, thanks to the surprisingly robust UK economy and the quick establishment of a new government, the stock markets calmed down speedily. In the last trading weeks, the European stock indices recovered significantly thanks to positive signals from the US stock markets after Trump‘s election as the new US President. With a year-end DAX level of 11,481 points, the German stock market achieved a gain of 6.9%. The Euro STOXX 50 finished at 3,291 points, only 0.7% higher than at the end of 2015.

Risk situation

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

Continually low interest rates are associated with earnings risks, as new investments and reinvestments are only possible at lower interest rates, while previously assured interest rates and interest obligations (interest guarantee risk) still need to be fulfilled for customers. When interest rates drop, long-term obligations react with more severe value changes than interest-sensitive investments. The result: lower economic own funds.

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

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

The extremely low interest rates increase the demands on our risk-minimising measures.

In the Life and Health Insurance segment (mainly Württembergische Lebensversicherung AG), we implemented the following measures:

- Extending duration of bond investments,
- Use of derivatives, forward purchases and sales to hedge interest rate risks,
- Examination and use of alternative investment strategies and instruments,
- Reserves: additional interest reserve for new portfolio and reinforcement for old annuity portfolio,
- Profit sharing for 2017 was reduced for all the individual companies in the WürttLeben Group
- Development of products with alternative guarantee forms.

Section 5 of the German Policy Benefit Provision Regulation (DeckRV) also regulates the framework for strengthening the provision for future policy benefits in the form of an additional interest reserve. The amount of the addition-al interest reserve is determined by the reference interest rate, which is calculated as the average of Euro interest swap rates over 10 years. In 2016, the reference interest rate dropped to 2.54% (previous year: 2.88%).

Based on the regulations for the additional interest reserve, interest reinforcement established in the business plan was provided in the old portfolio. The amount of interest reinforcement is determined by the measurement interest rate, which amounts to 2.36% (previous year: 2.65%) for Württembergische Lebensversicherung AG, 2.50% (previous year: 2.60%) for Karlsruher Lebensversicherung AG and 2.65% (previous year: 2.75%) for ARA Pensionskasse AG. On this basis, the additional interest reserve and interest rate reinforcement in the WürttLeben Group were stepped up by €290.5 million (previous year: €396.1 million). To present the structure of the additional interest reserve and interest rate reinforcement as realistically as possible, company-specific capital payout probabilities were used in the financial year ended. For 2017, we expect a further decline in the interest rates relevant to measurement and thus a further increase in the additional interest reserve and interest 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.

To limit the interest rate risks, Württembergische Lebensversicherung AG makes use of suitable hedging instruments (e.g. interest rate swaps, swaptions, and forward purchases and sales).

The continuing low interest rates are viewed critically, and therefore Wüstenrot Bausparkasse AG also continued its risk-minimising measures:

- Duration-controlling measures in the case of interest-bearing assets to reduce interest rate sensitivity,
- Diversification in proprietary business,
- Use of derivative financial instruments (swaps, swaptions, forward purchases/forward sales) to stabilise the interest rate income,
- Portfolio optimisation in customer business.

To manage market price risks, Wüstenrot Bank AG Pfandbriefbank makes use of derivative financial instruments such as interest rate swaps, swaptions, caps/floors, futures and forward purchases/forward sales.

Credit spread risk. The credit spread risk comprises the risk of value changes of the receivables through change of 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, clear distinction is made between the credit spread risk, migration risk and default risk. Accordingly, only credit spread changes that do not result from a change (migration including default) of the rating are considered for securities.

Investment risk. Within the W&W Group, significant long-term equity investments are held by W&W AG, Württembergische Lebensversicherung AG and Württembergische Versicherung AG. Within the scope of the strategic asset allocations, investments are made in alternative investments including private equity investments. Due to the high proportion of the investments in the investment portfolio, W&W AG is subject to a highly significant investment risk due to its business model. When investment risks materialise, measurement losses can lead to write-downs of investments being recognised as a loss, the non payment of dividends or the need to make contributions to earnings.

Among other things, we intervene in the business and risk policy of our investments through our representation in the supervisory bodies, depending on the size and significance of the long-term equity investments. The functions are usually assumed by Management Board members.

Share risk. Among the companies of the W&W Group, significant share portfolios are held by Württembergische Versicherung AG, Württembergische Lebensversicherung AG and W&W AG.

Sudden and severe price slumps on the stock markets could impair the risk-bearing capacity of the Group companies that invest in shares in the form of write-downs being recognised as a loss.

Share risks are reduced with suitable hedging strategies by means of derivatives (e.g. put options, short futures). For the portfolios of our companies with material share portfolios of a total market value of €716.1 million, the market value changes in the case of an index fluctuation of the EURO STOXX 50 were as follows as at 31 December 2016:

Market value changes of material share portfolios

	Market value	Change in market value			
in € million		Increase by 10%	Increase by 20%	Decrease by 10%	Decrease by 20%
WL[1]	595.2	29.5	58.5	–33.9	–65.4
WV[1]	74.4	3.7	6.8	–5.2	–9.3
W&W AG[1]	46.5	3.7	7.3	–4.2	–8.1
Total	**716.1**	**36.9**	**72.6**	**–43.3**	**–82.8**

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

The high guarantee level of our insurance companies in this asset category was retained in 2016.

Foreign exchange risk. Foreign exchange risks can result from open net FX positions in globally aligned investment funds and foreign currency bonds of our insurance companies (mainly Württembergische Lebensversicherung AG and Württembergische Versicherung AG).

In accordance with our strategic orientation, we concentrate our foreign exchange exposure on Danish krones and US dollars. Within the scope of individual fund mandates, we also have minor exposure in other currencies. The open foreign currency investments are of secondary significance to our overall investment portfolio.

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

Real estate risk. Within the Group, property portfolios in the form of direct investments and via fund mandates and long-term equity investments are held by Württembergische Lebensversicherung AG and Württembergische Versicherung AG. 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. Due to our predominant investment activity in prime locations, we consider the risk to be relatively low.

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

Strategy and organisation

Strategic asset allocation. The strategic asset allocation forms the basis of our investment policy and thus of one of the most significant factors that influence our risk situation in the risk area market price risk. In this context, the companies place emphasis on an appropriate mix and spread of asset classes, as well as on broad diversification by industries, regions and investment styles. The W&W companies that fall under Solvency II adhere to internal guidelines in terms of quantity and quality. In our investments, we pursue a security-oriented investment policy. The two main objectives are to maintain sufficient liquidity and to ensure the required minimum return.

Organisation. The Management Board of W&W AG and the Risk and Audit Committee adopt the strategic asset allocation. The operational governance takes place in the front-office units.

Property Portfolio Management develops investment concepts for the asset class property.

The Alternative Investments unit is responsible for in-vestments in alternative financing. Our strategic long-term equity investment activities are supervised by Group Controlling. The decentralised and centralised risk controlling units operate as independent monitoring units. Apart from the operational limit monitoring, superior method and risk modelling expertise are taken care of at the respective levels. Functional separation has been implemented between risk-taking units and risk-monitoring units. This is also reflected in the assignment of responsibilities within the Management Board of W&W AG.

Risk management methods and risk controlling

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

Economic risk-bearing capacity model. We quantify the risks from interest rate changes both on the assets side and on the liabilities side within the scope of the internal models. The companies included in our economic risk-bearing capacity models at the Group level measure the market price risks of the interest-bearing securities and of the interest-dependent assets and liabilities positions economically, i.e. we take future discounted cash flows into consideration on the basis of a value-at-risk model (confidence level 99.5%, risk horizon one year). For this purpose, the assets and liabilities are measured in the economic risk-bearing capacity model of the respective individual companies on the basis of generated capital market scenarios. For every individual company, market values are available for the annuity, share, property, long-term equity investment and overall portfolio in 10,000 corresponding capital market scenarios. The value at risk per individual company is calculated on the basis of these scenarios. The application of the procedure to the annuity, share, property, long-term equity investment and overall portfolio delivers the value at risk for the risk types in the market price risk (interest rate change risk, share price risk, real estate risk and long-term equity investment risk). Correlations between the risk types are implicitly taken into consideration in the Monte Carlo scenarios. Württembergische Lebensversicherung AG and Württembergische Krankenversicherung AG are considered on the basis of scenarios derived from the standard formula under Solvency II.

Foreign exchange risks are taken into consideration in the asset classes in which they are incurred. In the case of annuities/cash flows, exchange rate fluctuations that are closely attached to the development of the foreign ex-change interest rates are examined simultaneously along with the interest rate fluctuations and are fully allocated to the interest rate risk. Currency fluctuations of shares listed in foreign currency are duly taken into consideration in the share risk.

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 requirements“.

Risk management

Method depiction

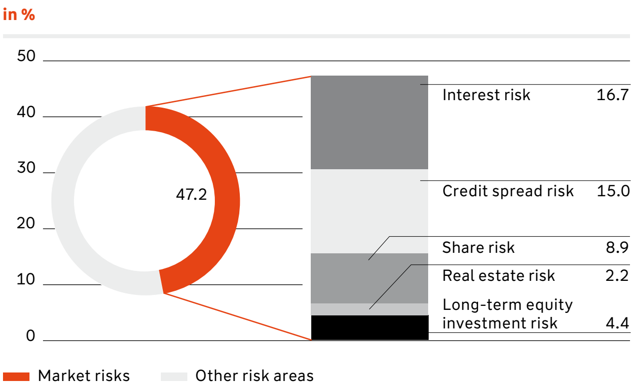
Risk controlling (Group-wide)

■ 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 Bank AG Pfandbriefbank	■ 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 Bank AG Pfandbriefbank	■ 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	■ 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

As at 31 December 2016, the **risk profile** of the risk area market price risks, which was determined according to our methods for risk-bearing capacity measurement (see section „Economic capital adequacy"), was distributed as follows:

Risk profile for market risks



Risk capital requirements. The interest rate risk, which accounts for 16.7% (previous year: 17.2%), is the most important among the market price risks. Measured against the total economic risk capital, the credit spread risk accounts for 15.0% (previous year: 23.3%). The share risk comes next, with a weighting of 8.9% (previous year: 7.9%). The long-term equity investment risk accounts for 4.4% (previous year: 5.0%). The real estate risk constitutes about 2.2% (previous year: 2.1%).

In 2016, the market price risks were in accordance with the risk strategy. The risk limit was consistently complied with at Group level.

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

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

In the Home Loan and Savings Bank segment, Wüstenrot Bank AG Pfandbriefbank maintains a risk management system designed especially for the German covered bond business pursuant to Section 27 of the German Pfandbrief Act (PfandBG), in addition to the overall bank governance. Moreover, a trading strategy defines the permissible framework for trading activities.

Sensitivity and scenario analyses. From the Group perspective, we regularly examine economic stress scenarios in order to identify interest rate sensitivities, and for the purpose of simulating the developments on the stock 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 50 in the notes to the consolidated financial statements.

Asset liability management. Within the scope of asset liability management, the asset and liability positions are managed and monitored in such a way that the assets correspond to the liabilities and the risk profile of the company. We counter the interest rate guarantee risk by managing the durations and by means of a dynamic product and pricing policy.

Financial instruments. In the strategic and tactical asset allocations, the companies of the W&W Group made use of derivative financial instruments in 2016.

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

Further details are presented in the notes to the consolidated financial statements from note 42.

Long-term equity investment controlling. Long-term equity investments 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 of the material long-term equity investments. Additionally, independent risk management and controlling processes are in place for private equities and alternative investments. In this way, impending long-term equity investment risks can be reacted to at an early stage.

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

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

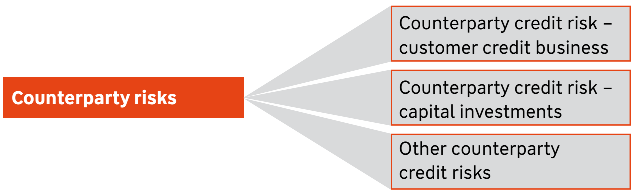
New-products process. Prior to their introduction, new products (lending and deposit products) are submitted to a new-products process, especially in order to ensure due handling in the accounts and in the risk controlling systems.

Counterparty credit risks

- Annuity portfolio: Focus on high rating and good collateral structure.
- European financial crisis continues to necessitate stringent risk management.
- Risk profile customer credit exposure constant at a very good level.

Counterparty risks

Systemisation



Risk definition

We define counterparty credit risks as potential losses arising from the default or solvency deterioration of borrowers or debtors.

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

Market environment

The risk premiums for European corporate bonds have evened out close to the historic lows. The credit spreads for European securities have thus narrowed in all credit rating classes.

Risk situation

Counterparty credit risk from investments. Especially Württembergische Lebensversicherung AG, Württembergische Versicherung AG, W&W AG, Wüstenrot Bank AG Pfandbriefbank, Wüstenrot Bausparkasse AG and Wüstenrot stavební spořitelna a.s. are exposed to counterparty credit risks from investments.

In line with our strategic orientation, the credit rating structure of our investment portfolio is conservative, with 96.4% (previous year: 96.9%) of the investments in the investment grade range.

Rating (Moody's scale)

	2016		2015	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
AAA	16,208.5	43.2	17,956.7	46.1
Aa1	5,273.0	14.1	4,669.2	12.0
Aa2	3,187.4	8.5	3,691.1	9.5
Aa3	1,421.8	3.8	667.4	1.7
A1	1,828.5	4.9	1,924.9	4.9
A2	1,504.9	4.0	1,665.4	4.3
A3	1,252.4	3.3	1,948.9	5.0
Baa1	2,525.8	6.7	2,359.2	6.1
Baa2	1,845.2	4.9	1,944.9	5.0
Baa3	1,097.0	2.9	933.7	2.4
Non-investment-grade/non-rated	1,332.0	3.6	1,206.6	3.1
Total	**37,476.5**	**100.0**	**38,968.0**	**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

in € million	Aaa - Aa	A - Baa	NIG/NR	Total	Share in total exposure in %
				Portfolio carrying amount	
	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Home Loan and Savings Bank	7,497.5	2,767.7	334.9	10,600.1	28.3
Life and Health Insurance	16,862.5	6,158.3	875.8	23,896.6	63.8
Property and Casualty Insurance	1,107.6	479.2	114.9	1,701.7	4.5
All other segments	622.9	648.5	6.7	1,278.1	3.4
Total	**26,090.5**	**10,053.7**	**1,332.3**	**37,476.5**	**100.0**
Rating cluster share in %	69.6	26.8	3.6	100.0	

Note 51 in the notes to the consolidated financial statements presents all our assets by rating classes and maturity structures 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

	2016		2015	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
Public	11,999.3	32.0	11,864.8	30.4
German covered bond	10,972.9	29.3	11,748.3	30.1
With guarantor's liability	–	–	–	–
Deposit guarantee or government liability	6,057.1	16.2	6,764.2	17.4
Uncovered	8,447.2	22.5	8,590.7	22.0
Total	**37,476.5**	**100.0**	**38,968.0**	**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	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Home Loan and Savings Bank	3,518.4	3,187.6	1,339.6	2,554.5	10,600.1
Life and Health Insurance	7,745.4	6,861.5	4,409.3	4,880.4	23,896.6
Property and Casualty insurance	609.5	505.5	204.2	382.5	1,701.7
All other segments	126.0	418.3	104.0	629.8	1,278.1
Total	**11,999.3**	**10,972.9**	**6,057.1**	**8,447.2**	**37,476.5**
Collateralisation structure share in %	32.0	29.3	16.2	22.5	100.0

Country risks. As at 31 December 2016, the total volume of bonds of the peripheral EMU countries (Portugal, Italy, Ireland and Spain) amounted to €1,390.7 million (previous year: €1,259.9 million). Of this amount, Spain accounted for €586.9 million (previous year: €533.2 million) and Italy for €432.2 million (previous year: €459.9 million). As at 31 December 2016, the W&W Group did not hold any direct investments in Greece.

In the year under review, write-downs of €1.72 million were applied to the bonds of the peripheral EMU countries. The exposure in government bonds of the peripheral countries is subject to limitations and ongoing monitoring. The structure of our entire government bond exposure by segments is as follows:

Government bonds by regions 2016

in € million	Germany	Europe	Central/ South America	North America	Asia	Africa	Other	Portfolio carrying amount Total	Share in total exposure in %
Home Loan and Savings Bank	872.4	2,471.9	–	–	–	–	–	3,344.3	28.3
Life and Health Insurance	3,019.7	3,648.1	250.7	89.9	113.5	128.1	495.6	7,745.6	65.5
Property and Casualty Insurance	335.4	121.5	40.3	7.7	14.5	15.8	74.2	609.4	5.2
All other segments	107.3	18.7	–	–	–	–	–	126.0	1.1
Total	**4,334.8**	**6,260.2**	**291.0**	**97.6**	**128.0**	**143.9**	**569.8**	**11,825.3**	**100.0**
Share in %	36.7	52.9	2.5	0.8	1.1	1.2	4.8	100.0	

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

Subordinate exposure. Though our subordinate exposures (participation rights, silent long-term equity investments and other subordinate receivables) increased slightly to €1,698.0 million (previous year: €1,645.4 million), they still account for only a small proportion of the total volume of our investment portfolio.

As a result of the general financial crisis, increased credit-rating-induced default risks persist for uncovered and subordinate exposures, especially for investments in the financial industry. Further loss of interest and reductions of the nominal value (haircuts) cannot currently be excluded.

Counterparty credit risk customer credit business. Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank account for the W&W Group's most significant counterparty credit risks. The mortgage portfolios of Württembergische Lebensversicherung AG are of secondary significance. As at the end of the year, the carrying amount of the mortgages according to the German Commercial Code (HGB) amounted to €1,911.6 million (previous year: €1,967.2 million).

Dunning status of customer loans

	Wüstenrot Bausparkasse AG				Wüstenrot Bank AG Pfandbriefbank			
	2016		2015		2016		2015	
	in € million	in %	in € million	in %	in € million	in %	in € million	in %
Non-critical	10,731.3	96.8	10,673.3	95.8	6,361.0	96.4	6,827.4	95.8
Dunned	289.7	2.6	387.0	3.5	183.5	2.8	219.2	3.1
Terminated	63.9	0.6	83.2	0.7	53.2	0.8	82.2	1.2
Total	**11,084.9**	**100.0**	**11,143.5**	**100.0**	**6,597.7**	**100.0**	**7,128.8**	**100.0**

At the end of the year, the credit risk provision rate of Wüstenrot Bank AG Pfandbriefbank pursuant to the German Commercial Code (HGB) (credit risk provision in relation to the credit portfolio) amounted to -0.26% (previous year: -0.01%), and the credit default rate according to the German Commercial Code (HGB) (credit default in relation to the credit portfolio) to 0.08% (previous year: 0.15%). As at the closing date, the expected probability of default of the credit portfolio was 1.90% (previous year: 1.99%). The average loss given default (LGD) amounted to 8.59% (previous year: 7.77%).

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 -0.06% (previous year: 0.00%), and the credit default rate according to the German Commercial Code (HGB) (credit default in relation to the credit portfolio) to 0.07% (previous year: 0.07%). As at the closing date, the expected probability of default of the credit portfolio was 1.86% (previous year: 2.06%). The average loss given default (LGD) amounted to 9.19% (previous year: 8.04%).

Our receivables portfolio mainly comprises loans, most of which are secured by mortgage deeds and intrinsically diversified. Thus there are no material risk concentrations. Due to our strategic orientation, our credit portfolios are mainly endangered by collective and structural risks. The good risk situation as well as the positive development of the portfolio due to the very good economic situation are reflected in the low credit risk provision rates and credit default rates. Currently, no signs of significant risks are evident in our customer credit portfolios.

For an additional examination of the counterparty credit risks from the customer business according to IFRS accounting, please refer to note 51.

Other counterparty credit risk. Bad-debt risks vis-à-vis our contracting partners in connection with reinsurance can arise at W&W AG and Württembergische Versicherung AG. The reinsurance activities are bundled in the reinsurance unit of Württembergische Versicherung AG. The bad-debt risks in the reinsurance business (risk type other counterparty credit risks), which have been determined on the basis of the capital to be provided according to the economic risk-bearing capacity model, remain at a continually low level.

Strategy and organisation

Diversification and core business. We limit counterparty credit risks through the careful selection of issuers and reinsurance partners, as well as broadly diversified investments. In this context, we take the investment regulations applicable to the respective business areas into consideration. The contracting partners and securities are primarily limited to top credit ratings in the investment-grade range. In the customer credit business, we largely focus on building financing loans for private customers, which are secured with property. Our strategic focus on residential property building loans excludes individual loans that endanger the portfolio. The counterparty credit risks are strategically and structurally managed by the risk committees of the divisions on the basis of the specifications adopted in the risk strategy.

Organisational structure. In customer credit business, operational risk governance is handled by the credit units and the back offices of our subsidiaries. We control and manage counterparty credit risks from the customer credit business through careful credit review and scoring procedures, clear approval guidelines, loans secured by property, various monitored and limited risk indicators and a sophisticated system that automatically determines any impairment.

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

The **Group Credit Committee** has been implemented for overarching credit governance. It develops proposals for loan decisions in the institutional area and submits them to the Group risk committee for adoption.

Risk management methods and risk controlling

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

Economic risk-bearing capacity model. In the bank and insurance area, we not only monitor counterparty credit risks from investment activities at an individual level; we also evaluate them at 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.

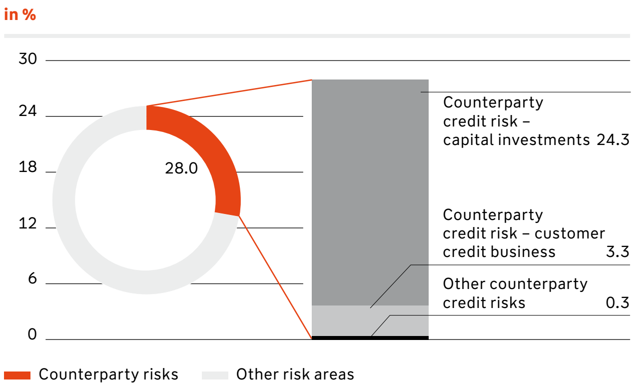
The risk capital requirements are calculated as value at risk with the prescribed confidence level of 99.5% on the basis of one-year default/migration probabilities.

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

The customer credit portfolios in the Home Loan and Savings Bank division are also measured with a standard credit-value-at-risk model. An analytical approach is used for this purpose.

As at 31 December 2016, the **risk profile** of the risk area counterparty credit risks, which was determined according to our methods for risk-bearing capacity measurement (see section „Economic capital adequacy"), was distributed as follows:

Risk profile for counterparty risks



Risks from our investments constitute the greatest share of the risk capital requirements for counterparty credit risks. Measured against the total economic risk capital, the proportion amounts to 24.3% (previous year: 18.0%).

Counterparty credit risks from the customer credit business accounted for 3.3% (previous year: 2.9%). Other counterparty credit risks largely concern bad-debt risks in the reinsurance business. These merely accounted for 0.3% (previous year: 0.2%). In 2016, the counterparty credit risks were in accordance with the risk strategy. The risk limits were consistently complied with at Group level.

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

Risk classification and scoring procedures. We manage and monitor counterparty risks in the customer credit business with application and behaviour scoring procedures. The risk classification procedure implemented in the Home Loan and Savings Bank segment enables the management of customer credit portfolios through allocation to risk classes on the basis of loss potential.

Limit and investment line methodology. To assess counterparty and issuer risks and determine lines, the W&W Group makes use of the evaluations of international rating agencies, which it supplements with its own creditworthiness analyses. The lines for key issuers and counterparties are continually reviewed. Monitoring of the counterparty credit risks over the line system takes place both while they are pending (counterparty risk) and after their settlement up to the final maturity (issuer risk). Country risks are assessed with a methodology for monitoring and managing country limits. Lines for individual countries are derived from economic framework data (e.g. national debt, gross domestic product) and external and internal credit rating evaluations.

The utilisation of the limits and investment lines is monitored by the decentralised risk controlling units and comprehensively by Group Risk Management/Controlling.

Collateral management. Collateral management is an integral element in the credit management process of the individual companies in the W&W Group that grant credit. Our credit controlling units apply strict standards for the quality of the accepted collateral. Property collateral is mainly furnished in the form of mortgage deeds. Moreover, we use guarantees and financial collateral. To minimise the counterparty credit risk for trading transactions, collateral is usually accepted in the form of cash. The foundation consists of framework agreements with the respective counterparties on the basis of market standards such as the ISDA Master Agreement (ISDA = International Swaps and Derivatives Association) or the German Master Agreement for Financial Futures.

Risk provisions. Impending defaults from customer transactions, investments or the reinsurance business are taken into account by means of suitable allowances. The methodology for the recognition of risk provisions and allowances and their development in 2016 are presented in the chapter „Impairment and reversal of impairment losses“ in note 6 in the notes to the consolidated financial statements. In the customer credit business for the Home Loan and Savings Bank segment, the risk provisions are calculated at the individual contract level with the help of the parameters probability of default (PD), loss given default (LGD) and exposure at default (EAD), and are based on the expected loss. Additionally, an LIP factor (loss identification period) is taken into consideration for receivables that do not default. All changes of the customer credit portfolio with respect to the credit rating or collateral structure thus directly result in a change of the risk provisions.

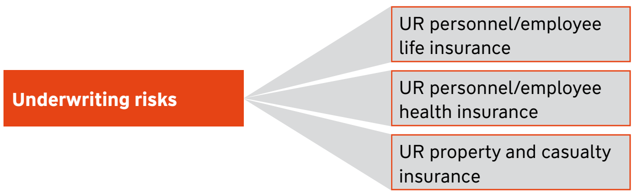
Monitoring. To identify risks that could arise from the development of the capital markets, we carefully monitor and analyse our investments. For this purpose, we draw on the economic expertise of W&W Asset Management GmbH. Furthermore, all indicators of the aforementioned instruments and procedures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

Insurance risks

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

Underwriting risks

Systemisation



Market environment

Compared to the previous year, the loss ratio of the financial year at 31 December 2016 improved. Year on year, 2016 saw slightly increased expenses of €58.5 million (previous year: €54.8 million) for natural disaster claims. This was due to accumulation events such as the severe storms „Elvira“ and „Friederike“.

Risk situation

The interest rate guarantee risk of life insurance must be regarded both as an insurance risk and as a market price risk. In our quantitative models, we map the interest rate guarantee risk within the framework of the market price or interest rate change risk. It is examined in close coordination between actuarial practice and investment and is described in the chapter „Market price risks“. Concerning the presentation of the risks from our insurance portfolio, please also refer to the information in note 52 „Insurance risks“ in the notes to the consolidated financial statements. Concerning the net claims and net settlement rates, please refer to note 20 in the notes to the consolidated financial statements.

Among the risk types of the life and health insurance (mainly Württembergische Lebensversicherung AG and Württembergische Krankenversicherung AG), insurance risks arise primarily from biometric and cancellation risks. The cost risk and the calculation risk are of secondary importance.

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

Cancellation risk. The cancellation risk pertains to the detrimental change of the value of insurance liabilities due to changes in the amount or volatility of cancellation, termination, renewal and redemption rates of insurance contracts. By means of scenarios, a direct permanent increase of the cancellation rates, a permanent decline in cancellation rates and mass cancellation are considered.

In the risk type of property and casualty insurance, the insurance risks result from the premium and reserve risk.

Premium risk. If costs and claims remain stable or increase, sinking premiums or premiums not duly calculated can result in inadequate premiums. A material portion of the premium risk results from natural disasters, accumulation risks and catastrophes. Cancellation risks are also examined under premium risks. Increased cancellation behaviour by customers can result in greater liquidity outflows than expected. However, as the change in cancellation rates did not undergo any major fluctuations in the past, we currently consider this risk to be low.

Accumulation risks mainly result from natural disasters like storms, hail or flooding.

Reserve risk. A reserve risk exists in the event of inadequate claims reserves. The settlement of claims can fluctuate with respect to time and amount, so the reserves set up for claims benefits may not be sufficient in the event of high volatility. Despite the discontinuation of new underwriting for the UK subsidiary, Württembergische Versicherung AG is liable for the business underwritten until and including 2007. The resulting reserve risk is declining but is still present due to the volume of claims reserves to be settled. The development of 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 set up thus far.

Strategy and organisation

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

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

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

Organisational structure. The risk management of life and health insurance and property/casualty insurance is closely interwoven with Group Risk Management/Controlling 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 Management Board and in bodies that meet regularly. Controlling units measure the insurance risks.

Risk management

Method depiction

Risk controlling (Group-wide)

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

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

Risk management methods and risk controlling

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

For Württembergische Versicherung AG, the quantification of the insurance risks takes place on the basis of a stochastic approach. The risk is presented as value at risk, with a confidence level of 99.5%. In accordance with the reinsurance business retained by W&W AG, the insurance risk capital requirements for W&W AG are derived from the insurance risk of Württembergische Versicherung AG. For Württembergische Lebensversicherung AG, the quantification of the insurance risk takes place on the basis of the stress scenarios provided for under Solvency II. In this context, the effect of the respective stress scenario on the available solvency margin is examined.

Risk capital requirements. The chart in the chapter „Economic capital adequacy“ (section „Economic risk capital“) demonstrates the weighting of the risk capital required for insurance risks. In total, insurance risks account for 14.3% (previous year: 15.1%) of the overall risk capital requirements of the W&W Group. The main risk carrier is Württembergische Versicherung AG, followed by Württembergische Lebensversicherung AG and W&W AG.

In 2016, the insurance risks were in accordance with the risk strategy. The minor limit overruns in the course of the year in this risk area at Group level were controlled by reallocating risk capital.

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

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

Loss management. Apart from risk balancing through our sector and product mix, efficient loss management and a cautious loss reserve policy limit the gross insurance risk.

Reinsurance. Adequate reinsurance protection for individual risks and for accumulation risks reduces the insurance risks 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 matter of principle, the actuarial development is continually analysed and monitored by way of stringent controlling of premiums, costs, losses and benefits. The operational run-off risks of the UK subsidiary are handled by Antares Underwriting Services Limited via a service contract under the close supervision and governance of Württembergische Versicherung AG. We monitor the settlement risks through our own management and collaboration in material business transactions on site in London, external run-off reviews and continual checking of the loss reserves.

Reserves. For claims that occur, the W&W insurers recognise due provisions in good time in the form of specific and general provisions. The technical provisions, as well as the structure of our provisions for future policy benefits, are explained in note 20 in the notes to the consolidated financial statements.

Further information on the insurance risks (property/casualty insurance and life and health insurance business) is provided in note 52 in the notes to the consolidated financial statements.

Pool risks

- Overall risk profile: constant weighting of the pool risks

Risk definition

Technical home loan and savings pool risks refer to possible deviations from the expected result that arise from changed customer behaviour concerning the exercise of options from home loan and savings contracts, which does not depend on the market interest rate. For example, such changes in the field of home loan and savings include the termination or suspension of the savings, the use of the bonus interest or the selection or change of rates. Moreover, negative risk concentrations can arise with respect to the pool risks. For example, a specific change of risk factors can influence the cash flows of the home loan and savings pool to such an extent that a significant loss of present value occurs.

Risk situation

Measured against the pro rata risk capital, the pure pool risks at Group level are rather insignificant. However, pool risks are significant to our home loan and savings banks, Wüstenrot Bausparkasse AG (Home Loan and Savings Bank segment) and the Czech Wüstenrot stavebnÌ spořitelna a.s. (all other segments).

Strategy and organisation

The risk strategies define the home loan and savings banks' dealings with the resulting risks. For this purpose, the market price-induced risk from the home loan and savings pool is assessed within the scope of the market price risk.

Balance. For our pool, we strive to achieve a balanced relation between savings and loan customers and a balanced relation of terms to maturity between the assets side and the liabilities side. This balance is promoted by means of active portfolio management. Pricing and lending decisions are risk and cost-oriented and take the defined internal guidelines into consideration. Risk containment measures include the adjustment of interest rates, the adjustment of the home loan and savings conditions, the promotion of new business, the promotion of loan raising and portfolio management.

Organisational structure. The strategic management of the pool risks is taken care of by the responsible members of the Management Board. The organisational unit Home Loan and Savings Mathematics is responsible for measuring the pool risks in Wüstenrot Bausparkasse AG. Monitoring within the scope of risk-bearing capacity measurement takes place in risk controlling.

Risk management methods and risk controlling

Technical home loan and savings simulation. To evaluate the pool risks, Wüstenrot Bausparkasse AG and the Czech Wüstenrot stavebnÌ spořitelna a.s. employ statistically supported simulations in which changed customer behaviour is mapped through specific changes of the relevant pool parameters. The parameters are regularly matched against the actual development in order to detect deviations at an early stage. Any detected sustainable deviations are incorporated in the parameterisation of the model. Effects on the long-term model results are analysed, and any material deviations are communicated. The quantification takes place both at the present value and with a view to the income statement and takes future cash flows into consideration on the basis of a value-at-risk approach. For the parameterisation, both historical developments as well as forecast results of the technical home loan and savings simulation model are made use of.

The chart in the chapter „Economic capital requirements" (section „Economic risk capital") demonstrates the weighting of the risk capital reserved for pool risks. In total, pool risks accounted for 2.8% (previous year: 2.1%) of the overall risk capital requirements of the W&W Group. The main risk carrier is Wüstenrot Bausparkasse AG. In 2016, all pool risks were in accordance with the risk strategy. The limits were observed.

Sensitivity and scenario analyses. The results of the simulation calculations are incorporated in the pricing and product development and enable us to identify and manage potential disruptions of an appropriate balance between the savings side and the loan side at an early stage.

Portfolio management. Our home loan and savings banks are aware of the limited or greatly deferred governance measures for pool risks. Pool risks can only be actively managed to a limited extent, e.g. through portfolio measures such as pricing adjustments or the use of options.

Limitation. The risk of loss from pool risks is limited by implementing risk limits, and compliance with these is continually monitored. Within the scope of the ordinary reporting on the overall risk situation, material pool risks and the utilisation of the risk limits are regularly reported on.

Monitoring. The deviation of the actual behaviour of the home loan and savings customers from their predicted behaviour is ascertained through ongoing monitoring of home loan and savings behaviour. The development of the pool is tracked on the basis of various indicators.

Operational risks

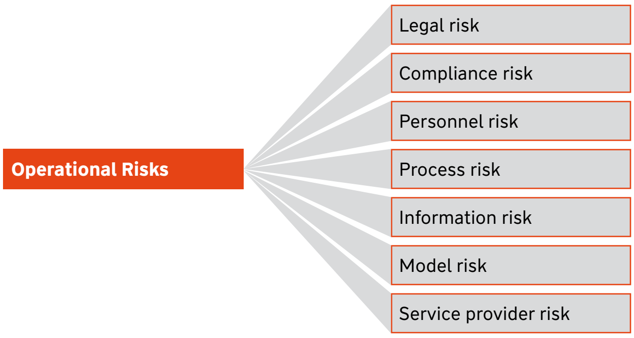
- Legal and compliance risks resulting from court rulings, consumer protection and data protection
- Process risks resulting from large projects (including the implementation of regulatory requirements) and process harmonisation throughout the Group
- Information security risks from complex data and system structures

Risk definition

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

Operational Risks

Systemisation



Risk situation

Operational risks are inevitable when companies do business. In principle, **all companies of the W&W Group** are exposed to operational risks. In order to understand operational risks, experts estimate them regularly within the scope of the risk inventory.

Legal risk. In terms of legal and supervisory requirements, we are witnessing a growing level of European harmonisation and expansion of creditor and consumer rights and disclosure obligations. Legal proceedings pending in the financial sector may lead to subsequent financial recovery claims. New legal interpretations in supreme court jurisprudence, in particular, are associated with material risks and can significantly impair the future financial performance.

On 21 February 2017, the German Federal Court of Justice (BGH) decided that the termination of home loan and savings contracts not utilised by the customer for at least 10 years is legitimate (socalled „Mülbert decision"). As the decision is within the value adjustment period, the effects have already been taken into consideration in the consolidated financial statements.

Compliance risk. Inadequate compliance with or implementation of laws, statutory regulations, regulatory requirements or ethical/moral standards and of internal regulations and provisions can cause 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 can lead to increased staff workload. We rely on effective personnel management in order to support our employees.

Process risk. Unsuitable process management procedures entail the risk of inefficiencies and process errors. If processes and controls are not adequately designed, this can lead to consequential risks. W&W's process management procedure ensures that services are provided in the W&W Group in an effective, efficient manner, particularly at the interfaces of organisational units.

Information risk. Information risks concern the total or partial outage of our IT systems (IT/system outage risk) as well as the unsuitability of internal systems, technical equipment and data processing. As a financial services provider, the W&W Group greatly depends on IT systems; this is associated with information security risks with respect to the goals of protecting the availability of applications, confidentiality and integrity of data and cyber risks. Analyses are conducted regularly in order to determine the protection needs of data and the establishment of 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, which has been marked by mergers, makes it difficult to collate and analyse data and to automate processes.

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

Service provider risk. Service provider risk mainly refers to risks resulting from contractual relationships with third parties. This mainly includes outsourcing risks, especially outsourcing outside the Group. These risks are regularly assessed and monitored within the scope of the active outsourcing management via the Retained Organisation, e.g. in the form of risk analyses.

Strategy and organisation

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

Organisational structure. Operational risks are generally managed on a decentralised basis by the responsible organisational units. The Group's Legal department is primarily in charge of identifying and managing legal and compliance risks. The Group Compliance Committee is the central body for compliance-relevant matters. The Group Tax department identifies, assesses and manages tax risks (see chart below).

The Customer Data Protection and Operational Security unit is responsible for determining information security standards in order to ensure the availability, confidentiality and integrity of our data. This unit ensures a uniform IT security management system, a uniform data protection organisation and a business continuity management system with uniform methods and standards throughout the group. A framework for operational risks associated with IT security has been established in collaboration with the central and decentralised risk control units.

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

The chart (section „Risk profile and material risks") depicts the weighting of the risk capital reserved for operational risks. In total, operational risks accounted for 6.8% (previous year: 5.1%) of the Group's total risk capital requirements.

In 2016, operational risks were in accordance with the risk strategy. The risk limit was consistently complied with at the Group level.

Risk assessment. The risk inventories of all material individual companies are systematically managed in a software application („Risk Assessment Plus"). Risks are classified with respect to their probability of occurrence and potential for damage. Subsequently, the information is transferred to a risk matrix, which helps to distinguish significant risks from insignificant ones. This is done by means of a materiality inventory. The results of the materiality inventory are consolidated by the risk controlling units and made available to the risk committees. By being highly pervasive throughout the organisation, risk assessments make an important contribution to supporting the risk culture in the W&W Group.

Risk management

Method depiction

Risk controlling (Group-wide)

■ Risk assessments ■ Economic risk-bearing capacity model ■ Limit system ■ Sensitivity and scenario analyses ■ Reporting ■ Internal control system ■ Claim database ■ Organisational guidelines

Operational risk area	Company	Risk controlling (specific)
Legal risk	In principle, all companies in the W&W Group are exposed to operational risks	■ Legal monitoring
Compliance risk		■ Fraud prevention ■ Legal monitoring
Personnel risk		■ Human resource management
Process risk		■ Business continuity management ■ Internal control system ■ Process management procedures
Information risk		■ Information security management system ■ Identity management ■ Business continuity management ■ IT risk management
Model risk		■ Model risk – inventory
Service provider risk		■ Outsourcing management ■ Risk analyses – outsourcing

Loss event database. In the W&W Group, loss event databases are used to compile and evaluate operational loss events. From 2017, the Group-wide process will be rolled out to other companies; thus, like the risk inventory, it will take place in an integrated and tool-supported manner.

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.

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 the fluctuation risk, we regularly analyse the fluctuation within the W&W Group. For further information, please see the „Employees“ section in the chapter „Group fundamentals“.

Business continuity management. In order to ensure continued business operations in the event of process or system outages, critical processes were identified Group-wide in an impact analysis. The contingency plans associated with the processes are subject to regular functionality checks. Our business continuity management system ensures that, even in the event of a major disruption to business operations, critical business processes will remain intact and continue to function.

Fraud prevention. To forestall the risk of fraud, the W&W Group has put measures in place in order to comply with statutory and regulatory requirements concerning controls and technical security systems, as well as to make employees more aware of the issue of fraud prevention. Implemented and documented process controls help to avoid and reduce fraudulent actions, thereby working to counteract damage to our reputation, for example.

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

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 ensuring the goals for protection of availability, confidentiality and integrity.

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

Monitoring and collaboration. Compliance and legal risks are handled by means of ongoing legal monitoring as well as observation and analysis of case law. In close collaboration with associations, various departments monitor relevant draft laws, developments in case law and new requirements imposed by the regulatory authorities.

Business risks

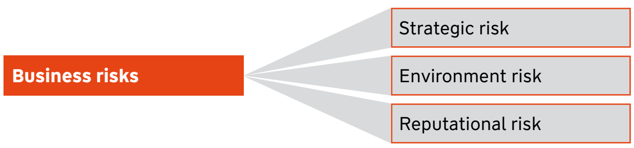
- Increased regulatory costs and rising equity requirements
- Sustained pressure on investment gains due to historically low capital market interest rates

Risk definition

We define business risks as potential losses incurred as a result of management decisions concerning the business strategy and its execution or the failure to achieve strategic targets. This also includes the risks on the sales and procurement markets as well as cost and income risks. Apart from these strategic risks, we consider the dangers that could arise from a changed legal, political or social environment and from reputation.

Business risks

Systemisation



Risk situation

Business risks are inevitable in general business operations and in the event of changes in the industry environment. All companies of the W&W Group and especially W&W AG as the parent company are exposed to business risks. We regularly analyse all business risks in connection with the risk inventory.

Among the business risks, the following risk types are given greater weight.

Strategic risk. This risk results from the company‘s wrong or insufficient strategic orientation, from the non-achievement of strategic goals or from the poor implementation of strategic requirements. The risks are especially reflected in cost and income risks.

By means of the W&W@2020 programme, the W&W Group addresses the challenge of effectively ensuring the income targets in an increasingly dynamic market environment and the growing effect of digitisation on custom-er behaviour.

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

Environment risk. 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 taking on the expanded statutory and regulatory requirements for banks and insurance companies.

Reputation risk. If the company's reputation or brand is damaged, there is a risk of losing business volume immediately or in the future. This could lower the enterprise value. As experts for financial provisions, we greatly depend on our reputation among customers and business partners as a sound, secure group of companies. 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.

Regulatory and political issues with material or potentially material effects on companies of the W&W Group:

SREP. Regulations from the Supervisory Review and Evaluation Process (SREP) are further specified at the national level, resulting in new capital requirements.

MaRisk. The new regulations of the upcoming amendment to the German Minimum Requirements for Risk Management (MaRisk) will focus on the management of outsourcing risks and the establishment and development of the risk culture. The recommendations of the Basel Committee on Banking Supervision on principles for effective risk data aggregation and risk reporting (BCBS 239), which define comprehensive requirements for the availability of data to the management and regulatory authorities, are also taken into consideration. According to the current consultation status of MaRisk (BA), these are to be implemented by system-relevant institutions.

MaGo. The German Minimum Requirements for the Business Organisation of Insurance Companies (MaGo) entered into force as of 1 February 2017. Their purpose is to interpret further regulations concerning the business organisation in a binding and consistent manner from the perspective of the Federal Financial Supervisory Authority (BaFin), in addition to the requirements of the German Insurance Supervision Act (VAG), the Delegated Directive (EU) 2015/35 and the EIOPA guidelines on Solvency II.

Strategy and organisation

Priority of protecting the going concern. As a matter of principle, no individual risks are to be taken that could threaten the going concern.

Focus on core business. The W&W Group concentrates on the German and Czech market in the private customer business. Additionally, the insurance companies also serve the commercial customer segment. Through a comprehensive product policy tailored to target groups, we strive to achieve greater market penetration, better exploit available customer potential and increase customer loyalty. Through this approach we want to generate long-term, low-risk profitable growth above the market average.

W&W@2020 programme. The strategic approaches form the starting point for the strategic goals targeted within a period of about three to five years in order to ensure holistic strategic alignment. The following themes have been defined as action fields:

- Profitability
- Market, customer, sales
- Digitisation
- Efficiency
- Skills

Finally, the Group's strategic goals are operationalised and moved forward by means of strategic measures. These are bundled and stringently managed in the W&W@2020 programme. The measures defined for the action fields are taken into consideration in the yearly operational planning.

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 Management Board is responsible for managing business risks. Depending on the reach of a decision, it may be necessary to coordinate with the Supervisory Board.

Our operational units identify and assess reputation risks within their business processes. In order to avoid and uncover violations of the law, we have established a Group Compliance Committee. Our Code of Conduct defines the key rules and principles for legally correct and responsible conduct by employees.

In line with the amendments to the Building Society Act (BausparkG) and the Building Society Ordinance (BausparkV) in 2015, the strategic alignment of the Home Loan and Savings division is being adjusted. From 2017, Wüstenrot Bausparkasse AG is to take over the construction financing operations of Wüstenrot Bank AG Pfandbriefbank within the scope of the „construction financing bundling" project. The transfer of operations under commercial law is to take place as of 1 January 2017.

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 strategic risks at an early stage in order to be able to develop and introduce suitable risk governance measures.

Economic risk-bearing capacity model. We assess business risks using event-based scenario calculations and expert appraisals. The results are taken into consideration across business divisions in our economic risk-bearing capacity model by providing an appropriate share of the risk coverage potential.

Risk assessment. Our experts regularly evaluate business risks within the scope of the materiality inventory.

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

Liquidity risks

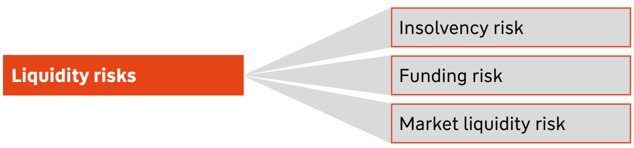
- Competitive advantage of financial conglomerate: diversification of funding sources
- Solid liquidity basis: funding assured for W&W companies

Risk definition

Liquidity risks refer to the danger that liquid resources are not sufficient, that they can only be obtained at higher cost (refinancing risk) or that they can only be realised with discounts (market liquidity risk) in order to fulfil payment obligations that reach maturity (avoidance of insolvency risk).

Liquidity risks

Systemisation



Market environment

The ECB continued to pursue its expanded asset purchase programme in 2016. In early December, it decided to continue at least until the end of December 2017, though with a reduced volume from April. In March, the main refinancing rate was cut from 0.05% to 0.00%, and the rate on the marginal lending facility from 0.30% to 0.25%. The monetary policy of negative interest rates was maintained. The rate on the deposit facility dropped further into the negative range from -0.30% to -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.

Liquidity planning makes it possible to manage and ensure solvency in the W&W Group at all times. A consolidated liquidity plan enables a Group-wide view of our liquidity position.

Liquidity coverage ratio. The fulfilment of the regulatory minimum capital ratio to be determined for the banks and the financial holding group is to ensure the availability of a buffer of highly liquid assets in the event of stress to cover a potential net cash withdrawal for 30 days. In 2016, the minimum ratio to be complied with was 70% (from 2018, a ratio of 100% will be required). As at 31 December 2016, the financial holding group had a ratio of 411.5%.

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

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

Because of its business model, the Home Loan and Savings Bank segment (Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank) requires liquidity governance. In order to satisfy the demand for loans and to make loans, our banks require constant funding.

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

Based on a haircut of 15% on the funding potential of our credit institutions, the value loss would, taking refinancing costs into consideration, amount to -€60.1 million (previous year: -€52.1 million) from the Group perspective. The carrying amount 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 can 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 to the investments of the W&W Group. Based on a haircut of 22.5% under consideration of refinancing cost, the value loss would amount to -€118.1 million (previous year: -€68.0 million) on the available liquidity buffer.

Looking forward, the W&W banks have sufficient liquid resources or can procure them on short notice, even where adverse scenarios are taken as a basis, 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 42).

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 funding sources, especially in difficult markets. In addition to lower funding risk, we also benefit from the reduction in our funding costs through diversification of funding potential. Through a defined share of good-quality securities that are eligible for central bank and repurchase transactions, our banks retain flexibility in funding. 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 44 in the notes to the consolidated financial statements.

Organisational structure. Individual companies are primarily responsible for managing current cash and cash equivalents balances. The Group Risk Management/Controlling department monitors and consolidates liquidity plans on a continuous basis. The Group Liquidity Committee is responsible for the Group-wide controlling of liquidity risks. The liquidity situation 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 the management within the context of ad-hoc reporting.

Risk management methods and risk controlling

Net liquidity and liquidity gaps. We assess liquidity risks by regularly compiling the net liquidity available to us, as well as by calculating liquidity gaps. In order to identify potential liquidity needs, we compare our funding potential regularly at short intervals against the needed funding resources. In addition, the liquidity coverage ratio (LCR) is determined and controlled on a monthly basis for the banks and the financial holding group.

Sensitivity and scenario analyses. In the area of liquidity risks, we regularly view stress scenarios from the 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 funding costs and our emergency liquidity.

Liquidity planning. To monitor the liquidity situation, anticipated cash inflows and outflows are compared. This is done on the basis of a standardised liquidity plan. In the process, the maturity structures of receivables and liabilities are considered.

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

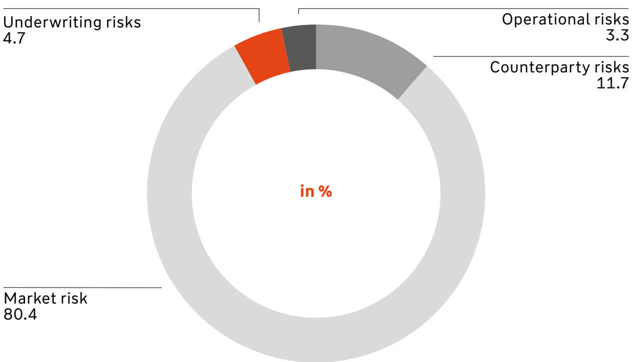
Risk profile and material risks of W&W AG

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 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 representations go into the specifics of W&W AG as an individual company.

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

As at 31 December , the risk profile of the quantified risk areas, which was determined according to our methods for calculating risk-bearing capacity (see section „Economic capital adequacy"), was distributed according to 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 flatrate discount in determining the capital available for risk coverage.

Owing to the volume of our long-term equity investments, market price risks constituted the predominant risk area, accounting for 80.4% (previous year: 83.1%).

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 risks and interest rate guarantee risks on account of interest obligations to employees (pension provisions) and investments in interest-bearing assets.

As at 31 December 2016, under a parallel shift in the swap yield curve, fixed-income securities (direct and fund port-folios, including interest rate derivatives) with a market value of €1,336.7 million (previous year: €1,369.7 million) experienced the following changes in market value:

Interest rate change

	Market value change	
in € million	31.12.2016	31.12.2015
Increase by 100 basis points	-61.5	-67.4
Increase by 200 basis points	-122.0	-135.6
Decrease by 100 basis points	65.4	68.3
Decrease by 200 basis points	131.8	137.1

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

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

As at 31 December 2016, investments in affiliated companies and long-term equity investments as well as in equities, units or equities in investment funds and other non-fixed-income securities totalled €2,555.4 million (previous year: €2,584 million). Of this, interests in affiliated companies accounted for €1,685.7 million (previous year: €1,710 million). When long-term equity investment risks materialise, measurement losses can lead to changes in value of long-term equity investments being recognised as a loss (write-downs), the non payment of dividends or the need to make contributions to earnings.

Share risk. Sudden and severe price slumps on the stock markets could impair the risk-bearing capacity of the Group companies that invest in shares in the form of write-downs being recognised as a loss. W&W AG does not maintain any appreciable share portfolios.

For our portfolios with a market value of €46.5 million (previous year: €37.5 million), the market value changes in the case of an index fluctuation in the EURO STOXX 50 were as follows as at 31 December 2016:

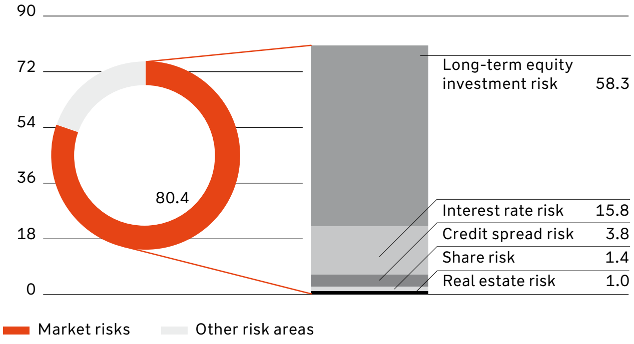
Index change

in € million	Market value change 31.12.2016	Market value change 31.12.2015
Increase by 20%	7.3	5.1
Increase by 10%	3.7	2.7
Decrease by 10%	-4.2	-3.4
Decrease by 20%	-8.1	-5.7

Risk capital requirements. Since W&W AG‘s investments mainly consist of long-term equity investments, the long-term equity investment risk within market price risks is the most significant in terms of risk capital weighting. Measured against the total economic risk capital, the proportion amounts to 58.3% (previous year: 57.8%).

Risk profile for market risks

in %



This is followed by interest rate risks with a weighting of 15.8%. Credit spread risks account for 3.8%. About 1.4% of the total economic risk capital relate to the share risk, and 1.0% to the real estate risk.

In 2016, market price risks were consistently in accordance with the risk strategy. The limits were observed.

Counterparty credit risks

W&W AG is exposed to counterparty credit risks from investments (proprietary business), as well as 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 97.5% (previous year: 97.1%) of investments being in the investment grade area.

Rating (Moody‘s scale)

	2016		2015	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
AAA	482.2	38.3	492.9	37.3
Aa1	45.8	3.6	82.2	6.2
Aa2	52.5	4.2	43.5	3.3
Aa3	37.6	3.0	20.5	1.6
A1	60.5	4.8	64.1	4.9
A2	22.6	1.8	35.3	2.7
A3	109.5	8.7	139.0	10.5
Baa1	165.8	13.2	148.3	11.2
Baa2	226.2	17.9	237.6	18.0
Baa3	26.2	2.1	18.8	1.4
Non-investment-grade/non-rated	31.7	2.5	38.0	2.9
Total	**1,260.6**	**100.0**	**1,320.2**	**100.0**

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

Seniority

	2016		2015	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
Public	179.4	14.2	196.8	14.9
German covered bond	400.9	31.8	442.0	33.5
Deposit guarantee or government liability	102.4	8.1	105.7	8.0
Uncovered	577.9	45.8	575.7	43.6
Total	**1,260.6**	**100.0**	**1,320.2**	**100.0**

Subordinate exposure. Our subordinate exposures (profit sharing certificates, silent long-term equity investments and other subordinate receivables) amounted to €225.9 million (previous year: €221.9 million).

Reinsurance. The counterparty credit risks in the 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, 96% (previous year: 97%) of the recognised receivables from reinsurance business in the amount of €171.5 million (previous year: €169.1 million), were due from companies with a rating of A or better.

Standard & Poor's

	2016		2015	
	Portfolio carrying amount[1]	Share	Portfolio carrying amount[1]	Share
	in € million	in %	in € million	in %
AAA	–	–	–	–
AA	125.7	73.3	125.8	74.4
A	38.5	22.4	38.1	22.5
BBB	–	–	–	–
BB	2.0	1.2	0.9	0.5
B	–	–	–	–
CCC and lower	–	–	–	–
Without rating	5.3	3.1	4.3	2.5
Total	**171.5**	**100.0**	**169.1**	**100.0**

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

As at the reporting date, €4.7 million (previous year: €3.7 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 2017.

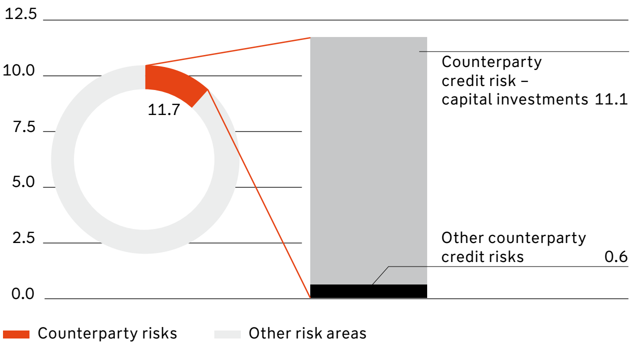
Credit portfolio model. We not only monitor counterparty credit risks at an individual level but also assess them at the portfolio level with our credit portfolio model.

We measure the bonds we hold according to economic criteria, i.e. taking into consideration future cash flows and using a credit-value-at-risk model that is customary in the industry.

Risk capital requirements. At 11.7% (previous year: 4.7%), counterparty credit risk accounts for the second-largest share of the total risk capital requirements of W&W AG.

Risk profile for counterparty risks

in %



Among the counterparty credit risks, the risks from our investments account for a significant share of 11.1% (previous year: 4.5%), whereas bad-debt risks in the reinsurance business only account for a negligible share of the total economic risk capital.

In 2016, counterparty credit risks were consistently in conformity with the risk strategy. The limits were observed.

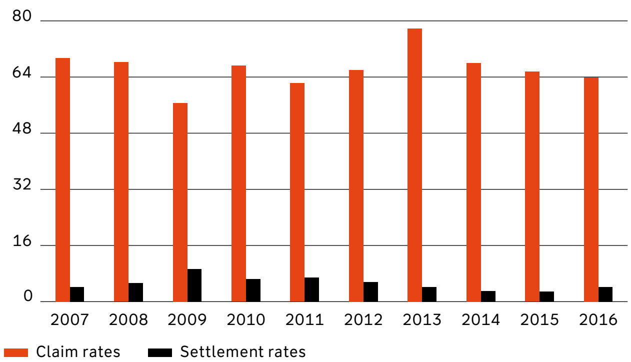
Insurance risks

W&W AG is subject to the same risk types as the W&W Group. The insurance risk of the property/casualty insurance, in connection with which W&W AG is exposed especially to the premium risk, is a particularly relevant risk type.

Premium risk. If costs and claims remain stable or increase, sinking premiums or premiums not duly calculated can result in inadequate premiums. 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 loss and loss adjustment expenses to initial loss provisions) for W&W AG were as follows:

Claim and settlement rates

in %



Risk capital requirements. The chart „W&W AG risk profile“ (see section „Risk profile and material risks of W&W AG“) depicts the weighting of the risk capital reserved for insurance risks. All in all, insurance risks account for less than 4.7% (previous year: 4.4%) of the total risk capital requirements of W&W AG.

In 2016, insurance risks were consistently in conformity with the risk strategy. The limits were observed.

Operational risks

Risk capital requirements. The risk capital requirements for operational risks proceed relatively consistently using standardised approaches in accordance with the chosen measurement method. The chart „W&W AG risk profile“ (see section „Risk profile and material risks of W&W AG“) depicts the weighting of the risk capital reserved for operational risks. In all, operational risks in W&W AG accounted for 3.3% (previous year: 0.9%) of the total risk capital requirements.

In 2016, the accepted operational risks were consistent with the risk strategy. The limits were observed.

Business risks

As the parent company 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 refer to the information in the section „Liquidity risks“ for the W&W Group.

Selected risk issues

Emerging risks

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

Emerging risks can be limited if they are identified at an early stage, duly analysed and suitably managed, and this opens up comparative competitive advantages.

According to the current assessment, demographic trends as well as growing digitisation and technical progress represent some of the greatest challenges for our companies. Other important external influences include changed customer needs, the change in values, increasing regulation and low interest rates. Meeting these challenges adequately is part of the core competence of the W&W Group.

Risk concentrations

We define risk concentrations as potential losses that may be incurred as a result of cumulative risks. We distinguish between „intra“-concentrations (synchronisation of risk positions within a type of risk) and „inter“-concentrations (synchronisation of risk positions across various types or areas of risk). Such risk concentrations may result from the combination of risk types, such as counterparty credit risks, market price risks, insurance risks or liquidity risks. Noteworthy here are liquidity risks that may arise in con-junction with natural disasters.

In managing our risk profile, we take care to avoid large individual risks in order to maintain a balanced risk profile. In addition, in connection with our risk governance, an effort is made to achieve a reasonable relationship between the risk capital requirements of the risk areas in order to limit our susceptibility to individual risks. We strive to limit risk concentrations as well as possible by diversifying investments, employing limit and line systems, clearly defining approval and underwriting guidelines in lending and insurance business, and obtaining appropriate reinsurance coverage from various providers with good credit ratings. The aim in customer business is a broadly positioned, regionally diversified customer structure. Using a variety of sales channels, we reach our customers with a diverse product spectrum.

Because of the supervisory regulations currently in place and high internal rating requirements, the W&W Group is invested heavily in the area of financial institutions. 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. On the other hand, because of their high granularity, our customer loan portfolios do not exhibit any appreciable risk concentrations.

In assessing our counterparty credit risks on a portfolio level with our credit portfolio model, we take into account concentration aspects in both investment and customer credit business. In the process, credit claims against individual borrowers and borrower groups, for instance, are monitored and limited. For this purpose, a comprehensive limit system is employed that suitably controls credit and counterparty credit risks for the Group as a whole. Dis-proportionately large individual risks that can lead to unacceptable losses are monitored closely and are subject to a global limit system.

In our business with institutional borrowers, risk concentrations in large or various investments with an issuer are managed with a comprehensive investment line system. This ensures that the W&W Group‘s counterparty credit risks are suitably monitored in terms of risk concentration aspects, too. A monitoring and reporting system has been set up under which risk concentrations with regard to a single counterparty, such as an issuer, that are above an internally defined threshold are reported to the W&W Group‘s Group Risk Management/Controlling.

Stress scenarios across risk areas make it possible to identify risk concentrations. For example, abrupt changes in stress test results may be an indication of risk concentrations. On the product and sales level, controlling measures are in place in order to limit concentrations.

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

In 2016, the W&W Group and W&W AG at all times had sufficient economic and supervisory risk-bearing capacity. Pursuant to our economic risk-bearing capacity model, we had sufficient financial resources in order to be able to cover the assumed risks with high certainty.

As a result of the increasing political and economic uncertainty (e.g. due to the Brexit, geopolitical developments, failure to effectively solve the EMU debt crisis, capital market volatility and persistently low interest rates), the entire financial industry and thus also the W&W Group are exposed to risks that could cause significant economic risks of loss in our scenario calculations and, in extreme scenarios, endanger our 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. Therefore, a determined and sustainable political solution to the crisis in the Euro area is an important prerequisite for the short and medium-term success of the W&W Group.

Due to the persistently low interest rate environment, the interest rate risk plays a special role. The focus continues to be on risk-minimising measures to manage the W&W Group‘s interest rate risks and interest rate guarantee risks. A prolonged level of low interest rates can substantially compromise the profitability of endowment life insurance policies and home loan and savings contracts. Here, the portfolio has significant risks from interest rate guarantees.

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

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

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

Despite the persistently low interest rates and tighter regulatory requirements, the W&W Group has achieved economic robustness. This is manifested not only in earnings strength but also in the continued balance in risk-bearing capacity on the basis of our economic risk-bearing capacity model.

Developments and outlook

By constantly enhancing and improving our systems, procedures and processes, we account for the changing internal and external parameters and their effects on the risk position of the Group and individual companies.

In 2016, we optimised and further developed the entire risk management process, both at the Group level and in the individual companies. Apart from the achievement of internal goals, we are also focusing intensively on the implementation and introduction of the extensive new and expanded regulatory requirements under Basel III and Solvency II. In particular, the far-reaching changes in requirements through cumulative European financial supervision are prompting a high degree of process and organisation-related realignments.

Within the scope of the company rating, rating agency S&P also rates the W&W Group's risk management, specifically the enterprise risk management (ERM). Currently, S&P's rating of the ERM of the W&W Group is „strong". In this respect, S&P underscores the great importance of ERM for the W&W Group.

Systematic advancement of the existing Group-wide risk management system is intended to ensure the stable, sustained development of the W&W Group in the future, as well. In the 2017 financial year, we intend to continually and consistently extend 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 along our risk management process.

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

- Further development of the models in the internal and regulatory context
- Further optimisation and acceleration of risk governance processes and methods
- Alignment of the risk management with regulatory requirements (reporting obligations under Solvency II, implementation of the new German Minimum Requirements for Risk Management (MaRisk) and the Minimum Requirements for the Business Organisation of Insurance Companies (MaGo))
- Optimisation of an integrated approach for risk governance and controlling processes of operational risks

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

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

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

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

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

The Executive Board has delegated responsibility for the internal control and risk management system in the W&W Group to the Group Risk Management and Group Ac-counting departments as well as the Customer Data Protection and Operational Safety 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 mate-rial are those components of the internal control and risk management system that could have an impact on whether the consolidated financial statements, the annual financial statements and the combined management report are in conformity with the rules and regulations. The material components are:

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

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

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

The 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 Germany in 2017 remains generally favourable. A moderate slowdown in economic momentum is possible, since on the one hand political uncertainty in the European Union and Germany is likely to remain very high in 2017 and adversely affect investment and consumption propensity. The factors fuelling this are the elections in Germany and France, the negotiations between the EU and the UK on Brexit and a potentially unstable political situation in Italy following the unsuccessful constitutional referendum.

On the other hand, somewhat weaker consumption dynamics should have a moderately dampening effect on the European economic outlook for 2017 due to the rise in energy prices, which will hamper spending power. Nevertheless, private consumption demand will continue to remain the key driver of economic growth in Europe. The prospects for corporate investment in Germany will improve in 2017. Capacities are now increasingly being utilised. In 2017, foreign trade will benefit from higher US demand and the recent euro devaluation. In terms of German exports, there is a risk that trade restrictions could lead to a slump in global trade. The economic climate should, however, remain friendly for the W&W Group in 2017 in view of the persisting positive growth, the robust income trends for private households and the continuing positive development of the German residential property market, but there will continue to be a large number of political uncertainties and risks.

Capital markets

Bond markets

Despite the generally favourable economic outlook for Europe and Germany, we do not expect an end to the phase of low interest rates on European bond markets in 2017. The reasons for this are the moderate economic growth in Europe and the continuing low inflation and expansionary monetary policy of the ECB. From the second half of 2017, speculation surrounding a future reduction in the bond purchase volume of the ECB could lead to a somewhat increased price slide on the bond market.

Equity markets

The favourable environment of positive economic prospects and a lack of appealing investment alternatives remains intact on the equities markets. The climate regarding monetary policy is likely to become less expansionary in 2017, as the market is now expecting two further key rate hikes by the Fed. Moreover, in the middle of the year renewed speculation about a reduction in the ECB’s bond purchases could surface. Overall these factors suggest moderate share price gains. However, political risks remain very high in the form of a possibly detrimental (trade) policy by the new US government, unfavourable election results in the major EMU countries or difficult EU exit negotiations with the UK, with the result that temporary prices losses could occur on the stock markets at any time.

Industry outlook

Home Loan and Savings Bank division

In our estimation, the new building loan and savings business in 2017 will most likely remain at the previous year’s level. Construction financing volume is also expected to experience a sideways trend. Growth is forecast for the number of completions in the construction of residential housing and in relation to the transaction volume for used residential property. The persisting comparatively low mortgage interest rates and favourable conditions for modernisation loans will support the market for construction financing, and in some cases rising property prices, due to continuing elevated regional demand. On the other hand, a continuing lack of building land and persisting capacity shortages in various construction trades, as well as a high proportion of capital investors amongst the investing households, who use larger amounts of their own capital to fund home construction than owner-occupiers, is having a restrictive effect.

Insurance division

In 2017, the enduring environment of low interest rates will continue to be a great challenge for the life insurance industry. In 2017, the German Insurance Association (GDV) expects a slight increase in new business based on regular premiums and a small decline in the single-premium business. In total a slight fall in premium revenues is expected.

On property/casualty market, expectations for business performance in 2017 are cautiously optimistic. The solid economic development and further real purchasing power gains by private households will have a positive impact on demand in the coming financial year. The German Insurance Association (GDV) expects that premium income will rise by a total of 2.1% in 2017.

Company outlooks

The following outlooks relate to the coming financial year and are based on estimates made in the chapter „Macroeconomic outlook“. In our planning premises for the company forecasts, we assumed moderately increasing interest rates and share prices.

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

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

Home Loan and Savings Bank segment

Our home loan and savings products continue to benefit from the great attractiveness of residential property. Wüstenrot Bausparkasse AG offers needs-oriented, attractive home loan savings and financing products both for short-term construction projects and refurbishments as well as for long-term plans. This was supported by the introduction of the new home loan and savings plan „Wohnsparen“ in 2016. For this reason, we expect that in 2017, the net new home loan and savings business will be moderately above the level of 2016, and new construction financing business (approvals) will be clearly above it.

Following the pooling of construction financing, we are expecting administrative costs to fall slightly in the 2017 financial year despite investments within the scope of the W&W@2020 programme.

Overall we expect the segment earnings after tax for 2017 to be at the prior-year level.

Opportunities and risks will result from the further development of the housing and modernisation market, interest rates, the economy and the political climate. Furthermore, the strategic alignment, also in relation to additional sales channels or further cost optimisation, represents an additional opportunity. Added risks are possible counterparty defaults and rising regulatory and statutory requirements.

Life and Health Insurance segment

Life assurance products without a guaranteed interest rate and unit-linked products are gaining in importance in an environment marked by continually low interest rates. Therefore, we are focusing on the sale of products which are largely not dependent on interest rates, as well as high-profit and therefore modern products from the Genius product family, PrivatRente Extra or IndexClever-Rente. In 2017, we intend to significantly increase the value-oriented net valuation amount in the Life and Health Insurance segment.

Administrative expenses are likely to increase slightly in the 2017 financial year, amongst other things due to the higher volume of new business.

We expect segment income to amount to €30-50 million in 2017.

Opportunities and risks could include the further development of interest rates and the capital markets, the economy or the political environment. Additional opportunities are the strategic alignment, e.g. in relation to new innovative products, additional sales channels or cost optimisation, as well as an increase in the willingness of customers to take out pension plans. Other risks will arise from possible counterparty defaults and additional regulatory or statutory requirements.

Property/Casualty Insurance segment

In property/casualty insurance, we continue to strive for profitable portfolio growth. Therefore, in 2017 we are expecting an appreciable rise in value-oriented net sales performance compared with the previous year’s level.

This growth will be supported by additional strategic measures within the scope of W&W@2020. The aim of this investment is to capture new customer and market segments and in doing so actively contribute to the Group’s growth strategy.

In 2017, administrative expenses are expected to rise slightly as a result of the increase in new business and the additional investment within the framework of W&W@2020.

The segment earnings after tax are expected to be slightly lower than the high level of 2016.

Opportunities and risks will result from the further development of claims, interest rates and capital markets, the economy or the political climate. The strategic alignment, e.g. in relation to additional sales channels or cost optimisation, represents an additional opportunity. Other risks will arise from counterparty defaults and increased regulatory or statutory requirements.

All other segments

The item „All other segments“ comprises various companies and thus depends on various heterogeneous factors, which could result in opportunities and risks for the financial performance. W&W AG has a major influence. A description of the income performance of our strategic management holding can be found in the chapter „Future business performance of W&W AG (HGB)“.

Overall financial position of the W&W Group

We have embarked on an ambitious growth strategy with the W&W@2020 programme. Above all, we intend to invest in new techniques and improved market alignment. For a uniform customer experience we want to intelligently combine all the areas of expertise in the Group and enrich them with meaningful additional services from the point of view of customers. In the financial year 2017, we intend to slightly increase the number of customers for the W&W Group as part of our growth strategy.
In 2017, the W&W Group's administrative expenses are set to increase slightly due to a sharp increase in new business and additional investment within the scope of W&W@2020.

In the financial year 2017, we expect consolidated earnings to be roughly at the same level as the year under review.

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 2017 we will have sufficient liquidity resources available at all times. For further information about the liquidity position, please see the opportunity and risk report in the section „Liquidity risks".

Opportunities and risks include, in particular, the development of interest rates and claims. Furthermore, the development of the capital markets, the economy or the political environment could have a positive or negative effect on the W&W Group. The strategic alignment of the individual segments as well as other cost optimisation will provide additional opportunities. Other risks will arise from possible counterparty defaults and increased regulatory or statutory requirements. For further information about opportunities and risks in the W&W Group, please see the opportunity and risk report.

Future business performance of W&W AG (HGB)

Due to its structure as a holding company, the earnings after tax of W&W AG are determined by the dividends and profit transfers from its subsidiaries and investments. We expect the earnings performance in 2017 to rise significantly.

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

Proviso concerning forward-looking statements

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

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

Therefore the company 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 289 (4) and 315 (4) of the German Commercial Code (HGB)

Pursuant to Sections 289 (4) and 315 (4) of the German Commercial Code (HGB), the following statements must be made as at 31 December 2016, 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 102,359 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. The total number of shares purchased by Wüstenrot & Württembergische AG within the scope of the share buyback programme during the period from 12 January 2016 to 9 February 2016 thus amounts to 358,000 registered shares. Pursuant to Section 71b of the German Stock Corporation Act (AktG), Wüstenrot & Württembergische AG does not have any rights from treasury shares. 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 of the German Stock Corporation Act (AktG)). If the share capital is increased, the participation of new shares in profit may be determined in deviation from Section 60 (2) of the German Stock Corporation Act (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 W&W AG. Another principal shareholder is Horus Finanzholding GmbH with more than 10% of the shares. 0.29% of the shares are treasury shares.

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) as well as Sections 24 and 47 of the German Insurance Supervision Act (VAG). Amendments to the Articles of Association take place in accordance with Sections 124 (2) sentence 2, 133 (1) and 179 ff of the German Stock Corporation Act (AktG). However, pursuant to Article 18 (2) of the Articles of Association in conjunction with Section 179 (2) sentence 2 of the German Stock Corporation Act (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 of the German Stock Corporation Act (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 share law.

Powers of the Executive Board to issue shares

Authorised capital 2014

Pursuant to Article 5 (5) of the Articles of Association, the Executive Board is authorised for a period of five years ending on 30 June 2019 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 2014). Shareholders are entitled to a statutory subscription right. Shareholders may also be accorded the statutory subscription right by having one or more banks 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 directly or indirectly acquiring companies, part of companies or long-term equity in-vestments in companies, or
- if, pursuant to Section 186 (3) sentence 4 of the German Stock Corporation Act (AktG), new shares are is-sued in exchange for cash at a price that is not significantly below the stock exchange price of the shares that are already listed and the pro rata amount of the new shares does not exceed 10% of the share capital at the time this authorisation is recorded in the commercial register or, if less, at the relevant time the authorisation was exercised. Counting towards the 10% limit are other shares that had been newly issued or, following buyback, resold by the company during the term of this authorisation under preclusion of the

subscription right or, in accordance with Section 186 (3) sentence 4 of the German Stock Corporation Act (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 of warrant rights or creditors of convertible bonds or profit participation certificates 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 2014 to conform to the respective increase of the share capital, as well as after expiry of the term of the authorisation.

Contingent Capital 2014/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 28 May 2014, the Executive Board was authorised to issue warrant bonds, convertible bonds, profit participation certificates, profit participation bonds or a combination of these instruments on or before 27 May 2019. Article 5 (6) of the Articles of Association accordingly provides that the share capital of Wüstenrot & Württembergische 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 2014). 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 certificates that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 28 May 2014, are issued by the company or a subordinate Group company or guaranteed by the company on or before 27 May 2019 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 28 May 2014, are issued by the company or a subordinate Group company or guaranteed by the Company on or before 27 May 2019 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 certificates that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 28 May 2014, are issued by the company or a subordinate Group company or guaranteed by the company on or before 27 May 2019 shares of the company in lieu of cash payment, either in whole or in part,

and provided that neither cash settlement is granted nor its own 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 authorisation resolution of 28 May 2014 or at the lower issue amount stipulated in accordance with the authorisation resolution of 28 May 2014. 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 28 May 2014 to issue warrant bonds, convertible bonds and profit participation certificates only if the warrant bonds, convertible bonds or profit participation certificates 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 Assembly on 28 May 2014 to permit subordinate Group companies to issue warrant bonds, convertible bonds and profit participation certificates and have them guaranteed by the company only 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 with respect to a takeover offer.

Relationships with affiliated companies

Since 17 August 2016 Wüstenrot Stiftung has held its indirect stake in W&W of about 66.31% in two holding companies, rather than in one company, as before. The number of voting rights remains unchanged. Wüstenrot Holding AG holds 39.91%, and the newly founded WS Holding AG holds 26.40% of the shares. Both holding companies are solely owned by Wüstenrot Stiftung.

Wüstenrot Holding AG, Ludwigsburg subsequently confirmed on 18 August 2016 that Wüstenrot & Württembergische AG is no longer a company dependent of Wüstenrot Holding AG within the meaning of § 17 AktG.

Close relationships exist with various Group companies on the basis of service and function outsourcing contracts. They regulate the wholly or partially transferred services, including appropriate remuneration. The remuneration of W&W Asset Management GmbH is volume-dependent.

In accordance with Section 312 of the German Stock Corporation Act (AktG), the Executive Board has prepared a report on relationships with affiliated companies. In that report, Wüstenrot & Württembergische AG definitively declares that, with regard to the transactions described in the report on relationships with affiliated companies, under the circumstances that were known to us at the time the transactions were carried out, it received appropriate counter-performance for each transaction. No measures were taken or omitted at the instruction of or in the interest of the controlling company or companies affiliated with it.

Remuneration report

The following report on the remuneration paid to the Executive Board and the Supervisory Board was prepared in accordance with the rules of the German Corporate Governance Code (DCGK) and the German Commercial Code (HGB).

Main features of the Executive Board remuneration system

The full Supervisory Board resolves on the Executive Board remuneration system, including the material contractual elements. The Remuneration Control and Personnel Committee carries out all preparations necessary for the resolution. The full Supervisory Board reviews the remuneration system at least once a year.

The Executive Board remuneration system consists of a fixed and a variable component at a 4:1 ratio. The fixed component consists of a fixed salary (with pension entitlement) and a set bonus. The variable component is granted in the form of a targets bonus.

The variable bonus is linked to a targets agreement system. The amount of the variable 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 the 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 success-dependent measurement of the variable remuneration component geared towards operational targets and thus performance-based remuneration to a reasonable degree.

The targets for the 2016 target agreements consist of short, medium and long-term targets that are geared towards indicators like the annual consolidated earnings, administrative expenses, new customers, customer satisfaction, (net promoter score) and individual targets. The target weighting for the variable remuneration component is aligned towards stronger consideration being given to components with a multiple-year incentivising effect on sustainability.

Part of the variable remuneration component is paid out over time: 50% is paid out in the following year immediately after the degree of target achievement is determined, and the other 50% is deferred for a period of three years and made subject to the proviso of 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 the average consolidated result is 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.

No subscription rights or other share-based remuneration were granted in the W&W Group.

The employment agreements are concluded for the period of the appointment. The employment agreement for Dr Michael Gutjahr may be terminated by either party with one year‘s notice once the Executive Board member has reached the age of 60. Otherwise, only extraordinary termination is possible.

Executive Board members normally receive a company car, group accident insurance coverage and luggage insurance as ancillary benefits.

Pursuant to the requirements of share law, W&W AG has taken out insurance for all Executive Board members against risks associated with their 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 of premature ending of the agreement without important 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, fixed bonus and variable bonus) preceding the calendar year in which activity on the Executive Board ends.

The pensions for Dr Alexander Erdland and Dr Michael Gutjahr consist of the once customary defined-benefit pension plan in the form of a fixed amount. The pensions for Jürgen A. Junker and Jens Wieland take the form of a defined-contribution pension plan. The defined-contribution pension plan is linked to a reinsurance scheme. The annual premium amounts to 23% of the fixed salary entitled to a pension. If Mr Junker‘s employment relationship ends after his first term of office, he is to be paid a transitional allowance of €200 thousand p.a., unless Mr Junker rejects an extension of the employment agreement offered to him at the same terms or terms more favourable to him or non-renewal is based on a material reason within the meaning of Section 626 of the German Civil Code (BGB) for which Mr Junker is responsible. The transitional allowance for Jürgen A. 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 Michael 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 Michael Gutjahr, the pension is increased by the percentage points by which salaries are increased for the highest salary groups for the private insurance industry. The development of Dr Alexander Erdland‘s pension is geared towards the increase in fixed salary or, as the case may be, the percentage increase of salary group 9 of the private banking industry during the period in which the salary is drawn. Once pension benefits begin to be paid, the increase is limited for both Executive Board members to the rise in the cost-of-living index, plus 2 %. Pursuant to Section 16 (3) of the German Act to Improve Occupational Retirement Provision (BetrAVG), ongoing pension benefits under defined-contribution pension plans are adjusted annually by 1%.

Pensions include a widow/widower pension equal to 60% of the pension drawn and an orphan‘s pension of normally 20%.

Under defined-benefit pension plans, claims to retirement benefits against third parties, regardless of reason, are set off in whole or in part against pension claims.

Claims to pensions and survivor pensions are vested. For Jürgen A. Junker and Jens Wieland, this applies under the condition that they do not leave the company at their 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 determine any amount, the amount of the prior year applies. Supplementary amounts are stipulated for the Chairman and the Deputy Chairman, as well as for committee activities. In addition, fees are paid for attending Supervisory Board meetings.

The annual base remuneration payable after the close of the financial year amounted to €25.0 thousand (previous year: €25.0 thousand). The annual committee remuneration amounted to €8.0 thousand for the Risk and Audit Committee and for the Remuneration Control and Personnel Committee (previous year: €8.0 thousand). The annual committee remuneration for the Conciliation Committee amounted to €4,000.00 (previous year: €4,000.00) and also amounted to €4,000.00 for the Nomination Committee. The remuneration for the Nomination Committee was paid for the first time in 2016. An attendance fee of €500 (previous year: €500) is paid per Supervisory Board meeting. No fees are paid for attending committee meetings.

The base remuneration and committee remuneration are increased by 150% for the Chairman and by 75% for his deputies.

Detailed disclosures are contained in the full remuneration report in the notes.

Corporate governance statement

At Wüstenrot & Württembergische AG (W&W AG) and in the entire W&W Group, corporate governance means responsible management and control of the companies in a manner aimed at long-term added value. 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.

Working methods and composition of bodies

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, which now holds 26.4% of the shares of W&W AG, from Wüstenrot Holding AG, which has since held approximately 39.9% of the shares in W&W AG, in August 2016, the financial conglomerate now consists of W&W AG and affiliates of W&W AG. Both holding companies Wüstenrot Holding AG and WS Holding AG are solely owned by Wüstenrot Stiftung. The purpose of this separation is to simplify company management against the background of recently introduced sector-wide regulatory requirements. The split-off was registered in the Commercial Register on 17 August 2016.

Moreover, W&W AG, Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank and other relevant companies are subject to consolidated supervision as a financial holding group. W&W AG has been defined by BaFin as the superordinate undertaking of the financial holding group.

The Executive Board manages W&W AG on its own responsibility and represents it in transactions with third parties.

Until the end of the 2016 financial year, the Executive Board of W&W AG consisted of four members. Since 1 January 2017, it has comprised three members.

Members of the Executive Board
Dr. Alexander Erdland (Chair) (until 31 December 2016)
Dr. Michael Gutjahr
Jürgen A. Junker (Chair from 1 January 2017)
Jens Wieland

The Supervisory Board has resolved to have women make up at least 15% of the members of the Executive Board and has set a target deadline for this of 30 June 2017. In this regard, the Supervisory Board will strive to place at least one woman on the Executive Board. The Executive Board of W&W AG has determined 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 for this of 30 June 2017.

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. It is responsible for ensuring a suitable and effective internal auditing and control system. The 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 Group Board, the division boards and the Group committees. The Management Board of W&W AG is composed of the members of the Executive Board, along with the head of the Home Loan and Savings Bank division and the head of the Insurance division. The Group Board is composed of the Executive Board of W&W AG and the members of the Executive Boards of Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank, Württembergische Lebensversicherung AG and Württembergische Versicherung AG. The Management Board and the Group Board are the central coordinating bodies of the W&W Group. The Management Board concerns itself with, among other things, Group control and, together with the Group Board, the definition and development of the business strategy for the Group. In addition, it serves 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 division boards coordinate division-specific issues, while the Group committees coordinate cross-division initiatives in the areas of sales, risk and capital investments. The Management Board calls regular meetings which are supposed to take place at least twice a month. In order to ensure that decision-making paths are efficient throughout the Group, the Group Board, consisting of the Management Board and the other members of the division boards, meets on a monthly basis. The meetings are simultaneously considered to be meetings of the executive board of W&W AG and these individual companies.

The Chairman 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 Chairman of the Supervisory Board and discusses the company's strategy, business performance and risk management with him. He promptly notifies the Chairman of the Supervisory Board about important events that are of major significance for the assessment of the company's position and performance, as well as for its management. 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.

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 (Chairman)
Peter Buschbeck
Dr. Reiner Hagemann (financial expert)
Corinna Linner
Marika Lulay
Ruth Martin
Hans-Ulrich Schulz
Jutta Stöcker
Employee representatives
Ute Hobinka
Jochen Höpken
Gudrun Lacher
Bernd Mader
Andreas Rothbauer
Christoph Seeger
Gerold Zimmermann
Frank Weber (Deputy Chair)

Bylaws likewise address in detail how the activities of the Supervisory Board are structured.

The role and composition of supervisory boards is the subject of greater public attention as a result of the increased statutory requirement.

In accordance with the Articles of Association, the Supervisory Board of Wüstenrot & Württembergische AG is composed of 16 members. In this regard, central issues in the discussion of social policy are the qualification, independence and diversity of supervisory boards, as well as the representation of women on them. The Supervisory Board of W&W AG took up these issues and by resolution of 22 March 2013 derived from them specific targets for the appropriate number of independent Supervisory Board members. The company is required by law to have women make up at least 30% of the Supervisory Board. Both the shareholder representatives and the employee representatives made use of a statutory right and objected to so-called „Gesamterfüllung", i.e. the meeting of the quota on the Supervisory Board as a whole. In such case, the quota is considered as having been met in conformity with the law if the shareholders and the employees are each represented by at least two women. The Supervisory Board has consisted of ten men and six women since the election by the Annual General Meeting on 9 June 2016. Since then the proportion of women on the Supervisory Board as a whole is 38%, and the arrangement whereby two women represent the employees and four women represent the shareholders meets the quota.

In view of the special features of the Home Loan and Savings Bank and Insurance divisions and the common Group perspective, the candidates nominated by the Supervisory Board for election to the body are evaluated in terms of their expertise, experience, professional knowledge and individual qualities. Other criteria for nominees are independence, having sufficient time to carry out duties and compliance with the age limit of 70 provided for as a target requirement in Section 2(2) of the bylaws for the Supervisory Board.

In the estimation of the Supervisory Board, all shareholder representatives on the Supervisory Board are independent. Going forward as well, an appropriate number of independent members will belong to the Supervisory Board. In terms of shareholder representatives, the Supervisory Board considers at least four independent members to be appropriate. On account of the company-specific situation, the Supervisory Board does not consider it necessary to strive for a certain minimum number of members who represent, in particular, the quality of „internationality", since the main focus of the W&W Group's business operations is the national insurance and home loan and savings bank area. 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 maximum 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 professional aptitude and 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. Consequently, the proposals regarding the election of the members of the Supervisory Board to the Annual General Meeting taking place on 9 June 2016 were made regardless of a limit on the maximum length of service on the board.

On 9 June 2016, the Annual General Meeting re-elected two members of the Supervisory Board who had already reached the age of 70 for a new term of office. They were elected because of their demonstrated expertise and knowledge of the company.

The Supervisory Board regularly reviews the efficiency of its work. In the course of the review of the efficiency of the Supervisory Board's work, which was started in late 2014, the Supervisory Board concerned itself in detail with the results of the review in early 2015. Supervisory Board work was reviewed on the basis of an internally prepared questionnaire. The focus was on the issues of Supervisory Board information, conduct of Supervisory Board meetings, working methods of the Supervisory Board, committees, structure of the Supervisory Board and conflicts of interest/miscellaneous.

Conflicts of interest, particularly those that may arise because of giving advice to or serving on a governing body of customers, suppliers, lenders or other third par-ties, are disclosed to the (Chairman of the) Supervisory Board and noted in the report of the Supervisory Board.

In the 2016 financial year, the Supervisory Board of W&W AG had established four standing committees by 7 June 2016, i.e. the Personnel, Mediation, Nomination and Risk and Audit Committees. The rules of procedure of the Supervisory Board in relation to the tasks and composition of the Nomination Committee and the Remuneration Control and Personnel Committee were adjusted to meet the requirements of the BaFin information sheet dated 4 January 2016 (information sheet on members of administrative and supervisory bodies pursuant to the KWG [„Banking Act“] and KAGB [„Capital Investment Code“]) by resolution of the Supervisory Board of 8 June 2016. From then on the Supervisory Board of W&W AG set up the following committees with the following tasks:

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 commit-tee met twice during the 2016 financial year, including once by teleconference.

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 profits, as well as regarding submission of the corporate governance statement with the corporate governance report, including the remuneration 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 department, 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 and 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) Stock Corporation Act (AktG); one member has been appointed as a financial expert.

The chair of the Risk and Audit Committee should not chair the Supervisory Board or be 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 (Chairperson)
Peter Buschbeck
Dr. Reiner Hagemann (financial expert)
Ute Hobinka
Bernd Mader
Andreas Rothbauer
Hans Dietmar Sauer
Gerold Zimmermann

Nomination Committee

The Nomination Committee meets at least once each calendar year, as well as when necessary. The Nomination Committee met twice during the 2016 financial year.

The Nomination Committee regularly deliberates on the long-term succession planning for the Executive Board; in doing so it takes into account the company's management planning. It supports the Supervisory Board

- in identifying candidates to fill Executive Board vacancies and in preparing nominations for the election of members of the Supervisory Board; support with preparing nominations to be submitted to the Annual General Meeting for the election of members of the Supervisory Board is solely the responsibility of shareholder representatives;
- in deciding on a target to encourage the representation of the underrepresented gender on the Supervisory Board and a policy on how to meet that target;
- in periodically assessing the structure, size, composition and performance of the Executive Board and the Supervisory Board and making recommendations to the Supervisory Board in this regard;
- in periodically assessing the knowledge, skills and experience of the individual members of the Executive Board and the Supervisory Board, as well as of the respective boards collectively; and
- in reviewing the policy of the Executive Board for the selection and appointment of senior management and making recommendations on this matter to the Executive Board.

The Nomination Committee consists of the Chairman of the Supervisory Board, his deputy by virtue of his office, two shareholder representatives and two employee representatives. The Chairman of the Supervisory Board is the committee chair.

Members of the Nomination Committee
Hans Dietmar Sauer (Chairman)
Dr. Reiner Hagemann
Jochen Höpken
Jutta Stöcker
Frank Weber
Gerold Zimmermann

Remuneration Control and Personnel Committee

The Remuneration Control and Personnel Committee meets at least once each calendar year, as well as when necessary. The committee met four times during the 2016 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 Chairman 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, para. 2, first and second sentence 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 pro-poses to the Supervisory Board, the committee takes into account, in particular, the impact of the resolution on the company‘s risks and risk management and takes into account the long-term interests of shareholders, investors and other involved parties and the public interest.

The Remuneration Control and Personnel Committee

- monitors the adequate structure of the remuneration systems for the Executive Board and employees and, in particular, the adequate structure of remuneration for the heads of the risk control function and the compliance function and for those employees who have a material impact on the company's overall risk profile and that of the W&W Group. It supports the Supervisory Board in monitoring the adequate structure of remuneration systems for the employees of the company. It also assesses the impact of the remuneration systems on the management of risk, capital and liquidity.
- It also supports the Supervisory Board in monitoring the proper inclusion of the internal control function and all other material functions in the structure of the remuneration systems.

The Remuneration Control and Personnel Committee consists of the Chairman of the Supervisory Board, his deputy by virtue of his office, one shareholder representative and one employee representative. The Chairman of the Supervisory Board is the committee chair.

At least one member of the Remuneration Control and Personnel Committee must have sufficient expertise and professional experience in the area of risk management and risk control, in particular with respect to mechanisms for aligning the remuneration systems with the company's overall risk tolerance and strategy and with its capital base.

Members of the Remuneration Control and Personnel Committee
Hans Dietmar Sauer (Chairman)
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 2016 financial year.

The Conciliation Committee consists of the Chairman of the Supervisory Board, his deputy by virtue of his 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 Chairman of the Supervisory Board is the committee chair.

Members of the Conciliation Committee
Hans Dietmar Sauer (Chairman)
Gudrun Lacher
Ruth Martin
Frank Weber

Statement of compliance

(As at: 24 March 2017)

In June 2016, Wüstenrot & Württembergische AG published its statement for compliance, which has been revised as follows.

Since the submission of the last statement of compliance in June 2016 the recommendations of the Government Commission for the German Corporate Governance Code, as amended on 12 June 2015, which were made public by the German Federal Ministry of Justice and Consumer Protection in the official part of the German Federal Gazette on 5 May 2015, have been and will be complied with, other than as follows:

- According to No. 3.8, second and third paragraphs, in the event that the company takes out a D&O insurance policy for the Supervisory Board, a deductible of at least 10% of the loss up to at least the amount of one-and-a-half times the fixed annual remuneration is to be agreed upon. Wüstenrot & Württembergische AG deviates from this recommendation, because a high deductible, which must be uniform in light of the principle of equality that has to be observed, would affect the members of the Supervisory Board to very different extents, depending on their private income and assets. In a serious case, less wealthy members of the Supervisory Board could find themselves in existential difficulties, which would not be fair in view of the fact that their duties are the same.
- According to No. 5.3.3, the Supervisory Board should form a Nomination Committee made up exclusively of shareholder representatives which nominates suitable candidates to the Supervisory Board for its proposals to the Annual General Meeting for the election of members of the Supervisory Board. On the basis of the requirements of section 25 d (11) KWG Wüstenrot & Württembergische AG has not fully complied with the recommendations in No. 5.3.3. Section 25 d (11) Banking Act (KWG) stipulates that the Nomination Commit-tee of the Supervisory Board of Wüstenrot & Württembergische AG must take on other tasks, which should not only be performed by shareholder representatives on the Supervisory Board. Therefore, the Nomination Committee also includes employee representatives. It is, however, ensured that the nominations to the Annual General Meeting are only determined by the shareholder representatives in the committee.

- According to No. 5.4.1 para. 2, the Supervisory Board is to specify concrete targets regarding its composition, including stipulation of an age limit for the members of the Supervisory Board. In line with this, the Supervisory Board has set an age limit of 70 for Supervisory Board members as a target requirement in the bylaws for the Supervisory Board.
  On 9 June 2016, the Supervisory Board Messrs Hans Dietmar Sauer and Hans-Ulrich Schulz, who had already reached the age of 70, have been elected by the Annual General Meeting to the Supervisory Board for an additional term. They were elected because of their demonstrated expertise and knowledge of the company, which they will continue to contribute for the benefit of the company, including Mr Sauer, who is to do so in his role as Chairman of the Supervisory Board.

- According to No. 5.4.1 para. 2, the Supervisory Board is to specify concrete targets regarding its composition, including a maximum age members of the Supervisory Board. Wüstenrot & Württembergische AG deviates from this. It is difficult to recruit qualified Supervisory Board members who meet the requirements of supervisory law, including with respect to professional aptitude and 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. Consequently, the proposals regarding the election of the members of the Supervisory Board to the Annual General Meeting of Wüstenrot & Württembergische AG taking place on 9 June 2016 were made regardless of a limit on the maximum length of service on the board pursuant to No. 5.4.1 (3).

Information about corporate governance practices

Compliance

W&W AG works to ensure compliance with statutory requirements and internal company guidelines by means of a Group-wide compliance organisation.

The Group Compliance Officer ensures the dissemination, application and implementation of internal and external codes of conduct. In order to further enhance integrity in the tied-agents organisations of the W&W Group, the Group Compliance Officer is supported by a Sales Compliance Officer.

In order to enhance compliance efficiency, a Group Compliance Committee has been set up, which is composed of the head of the Group Legal and Compliance department, the head of the Group Risk Management department, the Compliance Officer, the Sales Compliance Officer, the Group Money Laundering and Securities Compliance Officer, the head of the Group Audit department and the Group Data Protection Officer. The committee meets regularly, at least once a month, as well as on an ad hoc basis if necessary. This ensures close collaboration and the ongoing exchange of information between the relevant compliance areas in the Group.

The Sales Compliance Committee has been formed to cover compliance issues arising from the sales departments and to enable the Group-wide exchange on relevant sales compliance issues. It is chaired by the Sales Compliance Officer and made up of representatives of all the sales departments. The Sales Compliance Officer forwards any findings to the Group Compliance Committee.

A Code of Conduct has been established within the W&W Group. It applies to all members of governing bodies, managers and employees in the internal and mobile sales force. The Code of Conduct is supplemented by a manual, published Group-wide, that provides specific examples of conflict situations and their solutions, as well as by special codes of conduct for the tied-agents organisations. In addition, an external (Group) ombudsman supports W&W Group employees should they wish to bring to light events in the company that are harmful to it or are criminally significant.

Managers and all employees are notified about insider-trading legislation, cartel legislation, money laundering and the issues of corruption and compliance through extensive documentation. The legal areas are explained in understandable terms using examples and self-monitoring options.

Together with its subsidiaries that operate the primary insurance business, W&W AG acceded in 2013 to the revised Code of Conduct for Sales enacted by the German Insurance Association (GDV) in 2013. In April 2015, the auditor successfully completed the audit prescribed in the Code of Conduct.

In the past financial year, the W&W Group once again disclosed its efforts to promote sustainability in its declaration of conformity with the German Sustainability Code (DNK). The project is coordinated by a central Group Sustainability Committee (GSC) that oversees the Group's sustainability programmes.

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Wüstenrot & Württembergische AG
Consolidated Financial statements of W&W Group (IFRS)

Consolidated balance sheet as at 31 December 2016

Assets

in € thousands	cf. Note no.[1]	31.12.2016	31.12.2015
A. Cash reserves	1	**366 482**	**299 454**
B. Non-current assets classified as held for sale and discontinued operations	2	**15 211**	**96 022**
C. Financial assets at fair value through profit or loss	3	**2 996 697**	**3 243 271**
D. Financial assets available for sale	4	**24 564 474**	**24 259 671**
thereof sold under repurchase agreements or lent under securities lending transactions	46	113 745	1 338 472
E. Receivables	5	**40 860 885**	**42 698 563**
I. Subordinated securities and receivables		122 334	127 641
II. First-rank receivables from institutional investors		14 311 613	15 688 698
III. Building loans		23 708 597	24 293 438
IV. Other loans and receivables		2 718 341	2 588 786
F. Risk provision	6	**–169 288**	**–199 845**
G. Positive market values from hedges	7	**21 431**	**57 972**
H. Financial assets accounted for using the equity method	8	**97 407**	**122 144**
I. Investment property	9	**1 742 228**	**1 722 678**
J. Reinsurers' portion of technical provisions	10	**312 999**	**332 745**
K. Other assets		**1 467 112**	**1 453 906**
I. Intangible assets	11	100 724	89 580
II. Property, plant and equipment	12	238 985	219 914
III. Inventories	13	97 435	76 789
IV. Current tax assets	14	60 317	59 136
V. Deferred tax assets	15	888 466	916 732
VI. Other assets	16	81 185	91 755
Total assets		**72 275 638**	**74 086 581**

1 See numbered explanations in the notes to the consolidated financial statements, starting on page XXX.

Liabilities

in € thousands	cf. Note no.	31.12.2016	31.12.2015
A. Liabilities under non-current assets classified as held for sale and discontinued operations	2	**—**	**79 735**
B. Financial liabilities at fair value through profit or loss	17	**1 129 266**	**752 411**
C. Liabilities	18	**29 596 623**	**31 828 304**
I. Liabilities evidenced by certificates		647 685	1 056 854
II. Liabilities to credit institutions		2 252 968	4 122 614
III. Liabilities to customers		25 418 956	25 335 037
IV. Finance lease liabilities		28 129	28 413
V. Miscellaneous liabilities		1 248 885	1 285 386
D. Negative market values from hedges	19	**—**	**544 643**
E. Technical provisions	20	**33 319 748**	**32 860 538**
F. Other provisions	21	**3 147 368**	**2 911 578**
G. Other liabilities		**874 304**	**895 429**
I. Current tax liabilities	22	233 452	201 737
II. Deferred tax liabilities	23	634 492	687 108
III. Other liabilities	24	6 360	6 584
H. Subordinated capital	25	**396 739**	**570 201**
I. Equity	26	**3 811 590**	**3 643 742**
I. Interests of W&W shareholders in paid-in capital		1 483 639	1 487 576
II. Interests of W&W shareholders in earned capital		2 308 146	2 138 356
Retained earnings		2 344 149	2 169 652
Other reserves (other comprehensive income)		-36 003	-31 296
III. Non-controlling interests in equity		19 805	17 810
Total liabilities		**72 275 638**	**74 086 581**

Further information that concerns several balance sheet items was summarised under notes

- 42-48 “Notes concerning financial instruments and fair value”
- 49-53 “Disclosures concerning risks under financial instruments and insurance contracts” and
- 57 et seq. “Other disclosures”.

Consolidated income statement for the period 1 January to 31 December 2016

in € thousands	cf. Note no.	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Income from financial assets available for sale		1 446 410	1 665 597
Expenses from financial assets available for sale		−331 706	−258 951
1. Net income from financial assets available for sale	27	**1 114 704**	**1 406 646**
Income from financial assets accounted for using the equity method		8 129	33 543
Expenses from financial assets accounted for using the equity method		—	—
2. Net income from financial assets accounted for using the equity method	28	**8 129**	**33 543**
Income from financial assets/liabilities at fair value through profit or loss		1 067 089	1 437 532
Expenses from financial assets/liabilities at fair value through profit or loss		−1 293 666	−1 847 516
3. Net expense from financial assets/liabilities at fair value through profit or loss	29	**−226 577**	**−409 984**
Income from hedges		221 897	264 787
Expense from hedges		−151 007	−143 895
4. Net income from hedges	30	**70 890**	**120 892**
Income from receivables, liabilities and subordinated capital		1 624 207	1 770 235
Expense from receivables, liabilities and subordinated capital		−790 820	−885 379
5. Net income from receivables, liabilities and subordinated capital	31	**833 387**	**884 856**
Income from risk provision		108 369	107 285
Expense from risk provision		−91 196	−111 786
6. Net expense from risk provision	32	**17 173**	**−4 501**
7. Net financial result		**1 817 706**	**2 031 452**
Income from investment property		157 977	175 885
Expense from investment property		−70 047	−76 111
8. Net income from investment property	33	**87 930**	**99 774**
Commission income		246 922	239 719
Commission expense		−637 835	−631 650
9. Net commission expense	34	**−390 913**	**−391 931**
Earned premiums (gross)		4 044 827	4 099 026
Premiums ceded to reinsurers		−111 995	−116 162
10. Earned premiums (net)	35	**3 932 832**	**3 982 864**
Insurance benefits (gross)		−4 125 602	−4 386 948
Received reinsurance premiums		45 464	102 769
11. Insurance benefits (net)	36	**−4 080 138**	**−4 284 179**
Carryover		**1 367 417**	**1 437 980**

in € thousands	cf. Note no.	1.1.2016 bis 31.12.2016	1.1.2015 bis 31.12.2015
Carryover		**1 367 417**	**1 437 980**
Personnel expenses		–589 159	–608 687
Materials costs		–422 816	–407 313
Depreciation/amortisation		–63 345	–91 986
12. General administrative expenses	37	**–1 075 320**	**–1 107 986**
Other operating income		219 027	221 104
Other operating expense		–219 551	–227 474
13. Net other operating expense	38	**–524**	**–6 370**
14. Consolidated earnings before income taxes from continued operations		**291 573**	**323 624**
15. Income taxes	39	**–56 266**	**–49 341**
16. Consolidated net profit		**235 307**	**274 283**
Result attributable to shareholders of W&W AG		232 919	270 351
Result attributable to non-controlling interests		2 388	3 932
17. Basic (= diluted) earnings per share, in €	40	**2,49**	**2,88**
Thereof from continued operations, in €		2,49	2,88

Further information that concerns several balance sheet items was summarised under notes

- 42-48 “Notes concerning financial instruments and fair value”,
- 49-53 “Disclosures concerning risks under financial instruments and insurance contracts” and
- 57 et seq. “Other disclosures”.

Consolidated statement of comprehensive income

in € thousands	cf. Note no.	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Consolidated net profit		**235 307**	**274 283**
Other comprehensive income			
Elements not reclassified to the consolidated income statement:			
Actuarial gains/losses (–) from defined-benefit plans (gross)	21	–155 908	80 114
Provision for deferred premium refunds		13 450	–6 660
Deferred taxes		43 560	–22 460
Actuarial gains/losses (–) from defined-benefit plans (net)		**–98 898**	**50 994**
Elements subsequently reclassified to the consolidated income statement:			
Unrealised gains/losses (–) from financial assets available for sale (gross)	41	268 826	–915 414
Provision for deferred premium refunds		–121 698	634 240
Deferred taxes		–42 808	88 836
Unrealised gains/losses (–) from financial assets available for sale (net)		**104 320**	**–192 338**
Unrealised gains/losses (–) from financial assets accounted for using the equity method (gross)	8, 41	1 467	–565
Provision for deferred premium refunds		–666	122
Deferred taxes		–43	12
Unrealised gains/losses (–) from financial assets accounted for using the equity method (net)		**758**	**–431**

in € thousands	cf. Note no.	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Unrealised gains/losses (–) from cash flow hedges (gross)	41	–17 162	–64 934
Provision for deferred premium refunds		—	—
Deferred taxes		5 248	19 855
Unrealised gains/losses (–) from cash flow hedges (net)		**–11 914**	**–45 079**
Currency translation differences of economically independent foreign units		**1 316**	**1 572**
Total other comprehensive income, gross		98 539	–899 227
Total provision for deferred premium refunds		–108 914	627 702
Total deferred taxes		5 957	86 243
Total other comprehensive income, net		**–4 418**	**–185 282**
Total comprehensive income for the period		**230 889**	**89 001**
Attributable to shareholders of W&W AG		227 911	85 945
Attributable to non-controlling interests		2 978	3 056

Further information that concerns several balance sheet items was summarised under notes

- 42-48 “Notes concerning financial instruments and fair value”,
- 49-53 “Disclosures concerning risks under financial instruments and insurance contracts” and
- 57 et seq. “Other disclosures”.

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 2015		**490 311**	**997 265**
Consolidated net profit		–	–
Other comprehensive income		–	–
Total comprehensive income for the period		**–**	**–**
Dividends to shareholders	26	–	–
Changes in equity without a loss of control		–	–
Other		–	–
Equity as at 31 December 2015		**490 311**	**997 265**
Equity as at 1 January 2016		**490 311**	**997 265**
Consolidated net profit		–	–
Other comprehensive income		–	–
Total comprehensive income for the period		**–**	**–**
Dividends to shareholders	26	–	–
Treasury shares		–1 427	–2 510
Changes in equity without a loss of control		–	–
Other		–	–
Equity as at 31 December 2016		**488 884**	**994 755**

						Equity attributable to W&W shareholders	Non-controlling interests in equity	Total equity
Interests of W&W shareholders in earned capital								
Retained earnings	Other reserves							
	Reserve for pension commitments	Reserve for finan-cial assets available for sale	Reserve for finan-cial assets accounted for using the equity method	Reserve for cash flow hedges	Reserve for currency translation			
1 940 540	**–539 149**	**592 552**	**6 877**	**69 998**	**2 130**	**3 560 524**	**113 696**	**3 674 220**
270 351	–	–	–	–	–	270 351	3 932	274 283
–	50 430	–189 672	–368	–45 079	283	–184 406	–876	–185 282
270 351	**50 430**	**–189 672**	**–368**	**–45 079**	**283**	**85 945**	**3 056**	**89 001**
–46 875	–	–	–	–	–	–46 875	–	–46 875
5 719	–	19 433	–	–	1 269	26 421	–98 942	–72 521
–83	–	–	–	–	–	–83	–	–83
2 169 652	**–488 719**	**422 313**	**6 509**	**24 919**	**3 682**	**3 625 932**	**17 810**	**3 643 742**
2 169 652	**–488 719**	**422 313**	**6 509**	**24 919**	**3 682**	**3 625 932**	**17 810**	**3 643 742**
232 919	–	–	–	–	–	232 919	2 388	235 307
–	–98 821	103 652	755	–11 914	1 320	–5 008	590	–4 418
232 919	**–98 821**	**103 652**	**755**	**–11 914**	**1 320**	**227 911**	**2 978**	**230 889**
–56 086	–	–	–	–	–	–56 086	–	–56 086
–1 364	–	–	–	–	–	–5 301	–	–5 301
53	–	124	–	–	177	354	–983	–629
–1 025	–	–	–	–	–	–1 025	–	–1 025
2 344 149	**–587 540**	**526 089**	**7 264**	**13 005**	**5 179**	**3 791 785**	**19 805**	**3 811 590**

Consolidated cash flow statement

Consolidated cash flow statement

in € thousands	cf. Note no.	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Consolidated net profit		**235 307**	**274 283**
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	8, 28	–8 129	–33 543
Amortisation, depreciation, impairment losses (+)/reversals of impairment losses (–) on intangible assets and property, plant and equipment	37	63 345	91 224
Amortisation, depreciation, impairment losses (+)/reversals of impairment losses (–) on financial assets	27, 29-33	146 428	115 630
Increase (+)/decrease (–) in technical provisions	20	350 295	649 073
Increase (+)/decrease (–) in other provisions	21	141 419	109 234
Changes in deferred tax assets and liabilities	39	–20 059	–16 409
Net gain (–)/loss (+) from the sale of intangible assets and property, plant and equipment	38	–99	–144
Net gain (–)/loss (+) from the sale of financial investments (not including participations)	27, 33	–735 663	–576 057
Other non-cash expenses (+)/income (–)	27, 29-33	124 665	–150 511
Other adjustments		–1 429 175	–1 568 320
Subtotal		**–1 131 666**	**–1 105 540**
Change in assets and liabilities from operating activities			
Increase (–)/decrease (+) in building loans	5, 6	529 242	751 635
Increase (–)/decrease (+) in other assets	5, 6, 7, 10, 13, 14, 16	58 050	1 387 038
Increase (–)/decrease (+) in financial assets/liabilities held for trading	3	531 228	105 234
Increase (–)/decrease (+) in liabilities evidenced by certificates	18	–409 168	–108 854
Increase (–)/decrease (+) in liabilities to credit institutions	18	–1 869 647	–2 278 795
Increase (–)/decrease (+) in liabilities from reinsurance business	18	1 700	–1 009 086
Increase (–)/decrease (+) in liabilities to customers	18	83 919	–375 832
Increase (–)/decrease (+) in other liabilities	18, 19, 21-24	–798 775	–316 406
Interest received		2 039 033	2 342 164
Dividends received		176 438	218 338
Interest paid		–725 321	–878 337
Income taxes paid (–)/received (+)		–43 004	–36 719
Subtotal		**–426 305**	**–199 620**
I. Cash flow from operating activities		**–1 557 971**	**–1 305 160**

Consolidated cash flow statement (continued)

in € thousands	cf. Note no.	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Cash receipts from the disposal of intangible assets and property, plant and equipment	11, 12	3 149	10 505
Cash payments for investments in intangible assets and property, plant and equipment	11, 12	−96 611	−58 426
Cash receipts from the disposal of financial assets	3, 4, 5, 9	15 380 477	15 890 598
Cash payments for investments in financial assets	3, 4, 5, 9	−13 426 485	−14 134 907
Cash receipts from a loss of control of subsidiaries or other business units		23 522	–
Cash and cash equivalents of subsidiaries or other business units, which are no longer under control		−5 120	–
Cash receipts from the disposal of interests in financial assets accounted for using the equity method	8	–	11 582
Cash payments for investments in financial assets accounted for using the equity method	8	–	−2 263
II. Cash flow from investing activities		**1 878 932**	**1 717 089**
Dividend payments to shareholders	26	−56 086	−46 875
Transactions between shareholders		−5 351	−61 734
Change in funds resulting from subordinated capital	25	−148 093	−43 572
Interest payments on subordinated capital	31	−25 369	−31 851
Cash payments towards finance lease liabilities	18	−2 009	−1 930
Other cash payments		–	–
III. Cash flow from financing activities		**−236 908**	**−185 962**
Cash and cash equivalents as at 1 January		**943 331**	**715 053**
Net change in cash and cash equivalents (I.+II.+III.)		84 053	225 967
Change in cash and cash equivalents attributable to the effects of exchange rates and the scope of consolidation		−4 642	2 311
Cash and cash equivalents as at 31 December		**1 022 742**	**943 331**
Components of cash and cash equivalents			
Cash reserves	1	366 482	299 454
Balances with credit institutions payable on demand	5	656 260	643 877
Cash and cash equivalents at the end of the financial year		**1 022 742**	**943 331**

1 Previous year's figure adjusted.

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

Notes to the consolidated financial statements

General accounting principles and application of IFRS

General information

Wüstenrot & Württembergische AG is a publicly traded company with its 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 Stuttgart Local Court 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 the control of the W&W Group. Since 17 August 2016, Wüstenrot Stiftung e.V., a charitable foundation, has held its indirect participation in W&W AG of about 66.31% in two holding companies, rather than in one company, as before. The number of voting rights remains unchanged. Wüstenrot Holding AG holds about 39.91% of the interests, and the newly formed WS Holding AG 26.40%, in each case with respect to the total number of issued shares. Of the issued shares, 0.29% are own shares without voting rights. Both holding companies are wholly owned by Wüstenrot Stiftung.

The W&W Group is „The financial planning specialist“ for modern financial planning, offering customised, innovative and attractive products in the following areas:

- Financial coverage,
- Residential property,
- Risk protection,
- Savings and investment.

The Executive Board of Wüstenrot & Württembergische AG authorised publication of the consolidated financial statements on 28 February 2017. They were presented to the Supervisory Board for approval on 24 March 2017.

The consolidated financial statements will be presented to shareholders at the ordinary Annual General Meeting on 1 June 2017.

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 315a (1) of the German Commercial Code (HGB) in conjunction with Article 4 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of IFRS international accounting standards, as they are to be applied in the European Union. In addition, a Group Management Report was prepared in accordance with the rules of commercial law.

In conformity with IFRS 4 „Insurance Contracts“, insurance-specific business transactions for which IFRS do not include any specific rules are recognised for domestic Group companies in accordance with the relevant rules of commercial law pursuant to Sections 341 et seq. HGB and the regulations based on them.

The consolidated financial statements of the W&W Group were drawn up in euros (€) and are based on the principle of a going concern.

Comparative information

Unless indicated otherwise, comparative information about items in the consolidated income statement relates to the period 1 January 2015 to 31 December 2015, whereas comparative information about items in the consolidated balance sheet relates to 31 December 2015.

Accounting policies

Changes in accounting policies

International Financial Reporting Standards (IFRSs) to be applied for the first time in the reporting period

Changes to IAS1 „Presentation of Financial Statements" – Disclosure Initiative
The amendments relate to a variety of presentation issues. It is clarified that disclosures are necessary only if their content is not immaterial. This explicitly also applies where an IFRS requires a list of minimum disclosures. Moreover, it contains clarifications concerning the aggregation and disaggregation of items in the balance sheet and the statement of comprehensive income. Also clarified is how shares of other comprehensive income contributed by companies measured at equity are to be presented in the statement of comprehensive income. Finally, the amendments clarify that entities have flexibility as to the order in which they present the notes to financial statements and depict aspects of entity-specific relevance. Thus, for reasons of materiality, the disclosures concerning the presentation of net assets, financial position and financial performance of the W&W Group are reduced.

Other changes
In addition, the following amended and revised standards were applied for the first time as at 1 January 2016:

- Amendments to IAS 16 and IAS 38
- Amendments to IAS 19
- Amendments to IAS 27
- Amendments to IFRS 10, IFRS 12 and IAS 28
- Amendments to IFRS 11
- Annual Improvements to IFRSs 2010–2012 Cycle
- Annual Improvements to IFRSs 2012–2014 Cycle

These changes had no material influence on the presentation of the net assets, financial position and financial performance of the W&W Group.

Issued accounting rules whose application is not yet mandatory

IFRS9 „Financial Instruments"
In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 „Financial Instruments". The EU endorsement was given on 22 November 2016.

IFRS 9 is to be applied for the first time in the first reporting period of a financial year that begins on or after 1 January 2018, although earlier application is permitted. The W&W Group will implement the standard for the first time as at 1 January 2018.

We do not yet know the actual effects that IFRS9 will have on the consolidated financial statements for 2018. Therefore, we are unable to reliably estimate them, since they depend on the financial instruments we hold and the economic conditions as at the reporting date. In addition, they are contingent upon the choice of accounting policies and on discretionary decisions that the W&W Group will make in future. The new standard requires, inter alia, adjustment of the accounting processes of the W&W Group and its internal controls concerning the presentation of financial instruments. These adjustments have not yet been completed.

Classification and measurement – Financial assets
IFRS 9 contains a new classification and measurement approach for financial assets. This approach is based, on the one hand, on the business model for managing the financial assets and, on the other, associated cash flow characteristics of the financial assets.

IFRS 9 contains three measurement categories for financial assets:

- at amortised cost,
- at fair value through profit or loss (FVTPL),
- at fair value through other comprehensive income (OCI) or rather other reserves (FVOCI).

In connection with a study of our customer loans, we have reached the conclusion that, as under IAS 39, recognition under IFRS 9 will continue to be undertaken at amortised cost. In some cases, registered securities, which have previously been recognised at amortised cost, will likely be measured at fair value through other comprehensive income. The resulting measurement differences between the carrying amounts under IAS 39 and fair market values will be recognised in equity at the time of conversion. Debt instruments that are classified under IAS 39 as available for sale will, under IFRS 9, henceforth be predominantly measured, as before, at fair value through other comprehensive income. In the case of equity securities, IFRS 9 allows them to be classified either as FVOCI or as FVTPL. The W&W Group has not yet decided on their classification. In the case of equity securities recognised at FVOCI, all changes in fair value are presented in other comprehensive income. Neither impairment expenses nor gains or losses arising on disposal are reclassified to net income. They remain permanently in equity. In the case of recognition at FVTPL, all changes in fair value are included in net income. This increases the volatility of consolidated net income.

Classification and measurement – Financial liabilities
IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities. We do not see any need for adjustment as a result of the conversion to IFRS 9.

Impairment – Financial assets and contractual assets
IFRS 9 replaces the incurred credit loss model in IAS 39 with an expected credit loss model. This model requires discretionary decisions with respect to the question of the degree to which changes in economic factors may have an impact on expected credit losses. This assessment is made on the basis of weighted probabilities.

The new impairment model is essentially to be applied to financial assets measured at amortised cost or FVOCI, with the exception of equity securities held as a financial investment.

Under IFRS 9, impairments are generally measured upon initial recognition on the basis of 12-month credit losses. This refers to expected credit losses as a result of possible events during the 12 months following the reporting date. If on the measurement date, the credit risk has increased significantly, expected credit losses are measured during the remaining term of the financial instrument instead (lifetime view).

Based on the current implementation status of IFRS 9, the W&W Group expects that the risk provision will increase. The effect of initial application from converting the risk provision to IFRS 9 will be recognised in equity in retained earnings. Thus, with the introduction of IFRS 9, the adjustment of the risk provision will have an effect on other comprehensive income.

Recognition of hedges
Upon initial application of IFRS 9, the W&W Group has the right to choose between applying the recognition rules in IAS 39 for hedges and applying IFRS 9. W&W will make use of this right of choice and continue to recognise hedges in accordance with IAS 39.

Disclosures
IFRS 9 requires extensive new disclosures, particularly with respect to the recognition of credit risk, to expected credit losses and to hedges. The provisional assessment by the W&W Group contains an analysis regarding the question of whether there are any gaps in data with respect to the current requirements. On this basis, new tables in the notes have been created, as well as a provisional new chart of accounts.

In connection with the introduction of IFRS 9 in 2018, the structure of the net financial result in the consolidated income statement will likely be changed. Currently, the net financial result is broken down into the measurement categories specified in IAS 39. By contrast, economic, transaction-related criteria will form the top level starting in 2018: current net income/expense (including net interest income/expense), net income/expense from risk provision, net measurement gain/loss, and net gain/loss from disposals. The W&W Group expects that this change will increase reporting transparency and make the income statement even more meaningful at the consolidated and segment levels.

Transition
The W&W Group intends to make use of the exception to not adjust comparative information for prior periods with respect to changes in classification and measurement (including impairments). Differences between the carrying amounts of financial assets under IAS 39 and those under IFRS 9 will be recognised in retained earnings starting 1 January 2018.

IFRS 15 „Revenue from Contracts with Customers“
IFRS 15 establishes uniform core principles that are applicable to all sectors and to all types of income from customer contracts. Questions about the amount of revenue from customer contracts that is required to be recognized, the

timing of the recognition, and the period over which revenue is recognised are answered on the basis of a five-step model. In addition, the standard contains a variety of other regulations in detail, as well as extensive quantitative and qualitative disclosures for the notes.

IFRS 15 was published on 28 May 2014 and replaces IAS 11 „Construction Contracts“ and IAS 18 „Revenue“, as well as the related interpretations. The EU endorsement was given on 22 September 2016. In addition, minor clarifications to IFRS 15 were published on 16 April 2016. The EU endorsement of them is still pending. The standard is to be applied for the first time for financial years beginning on or after 1 January 2018. Earlier application is permitted. The W&W Group will retroactively apply the standard in modified form for the first time for the financial year beginning on 1 January 2018 by recognising cumulative adjustment amounts resulting from first-time application at the time of initial application on 1 January 2018. Under this transitional method, the standard retroactively applies only to those customer contracts that had not yet been performed at the time of initial application on 1 January 2018. Comparative periods will not be adjusted.

The W&W Group has performed a group-wide impact analysis with respect to the new rules in IFRS 15 and thus has undertaken an initial assessment of the potential effects on its consolidated financial statements as a result of applying IFRS 15. Since, in particular, lease contracts, financial instruments and insurance contracts are excluded from the application of IFRS 15, we mainly identified commission income and other operating income as being fully or partially affected by IFRS 15. With regard to these two items and sub-items in the consolidated income statement, the various types of customer contracts associated with them were submitted to a contract analysis with respect to the new requirements of IFRS 15, and an assessment was undertaken with respect to the need to make adjustments. Implementation of the ascertained need for adjustment is planned for the 2017 financial year following finalisation and approval of the concept.

Based on the analysis performed, we currently expect that apart from additional quantitative and qualitative disclosures in the notes, there will be no material effects on the consolidated financial statements.

IFRS 16‘Leases‘

On 13 January 2016, the IASB issued IFRS 16, which will replace IAS 17.

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 no longer applies, such that in future a lessee is required to recognise a „right-of-use asset“ and a lease liability at the start of the lease.

A lessor will 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 „Leases“.

Potential changes in the presentation of the net assets, financial position and financial performance of the W&W Group are currently being studied. Mandatory initial application is 1 January 2019. However, EU endorsement is still pending. At this time, W&W AG intends to apply IFRS 16 for the first time on 1 January 2019. The Group has not yet determined which transitional approach will be applied.

Other changes

In addition, the following changes were issued:

- Changes to IAS 12 with initial application for financial years starting on or after 1 January 2017
- Changes to IAS 7 with initial application for financial years starting on or after 1 January 2017
- Annual Improvements to IFRSs 2014–2016 Cycle with initial application for financial years starting on or after 1 January 2017 and 2018, respectively
- Changes to IFRS 2 with initial application for financial years starting on or after 1 January 2018
- Changes to IAS 40 with initial application for financial years starting on or after 1 January 2018
- Changes to IFRS 4 with initial application for financial years starting on or after 1 January 2018
- IFRIC 22 with initial application for financial years starting on or after 1 January 2018
- Changes to IFRS 10 and IAS 28 (date of initial application not yet determined)

We expect that adoption of these changes will not have any material impact on the net assets, financial position and financial performance of the W&W Group. Although earlier application is generally permitted, the W&W Group does not plan to do so. These changes have not yet been endorsed by the EU.

Consolidation principles

The annual financial statements of Wüstenrot & Württembergische AG and the consolidated subsidiaries, including structured entities (public and special funds) and 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.

Balance sheet date

The annual financial statements of the parent company, the consolidated subsidiaries and associates were prepared as at 31 December 2016.

Subsidiaries

All subsidiaries are investment 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 investment entity, is exposed, or has rights, to variable returns from its involvement with the investment entity and has the ability to use its power over the investment entity to affect the amount of its returns. W&W AG controls its investment entities based on the direct or indirect majority of voting rights.

In addition, subsidiaries include consolidated structured entities within the meaning of IFRS 12. These are entities that have been designed so that voting or similar rights are not the dominant factor in deciding whether there is an obligation to consolidate. 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 investment strategy or limited investor rights (lack of voting rights).

Public and special funds are consolidated if they are directly or indirectly controlled by W&W AG due to a lack of voting rights based on contractual agreements concerning direction 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 parties in the profits and losses of companies included in the consolidated financial statements are recognised under the item „Result attributable to non-controlling interests“ in the consolidated income statement and the consolidated statement of comprehensive income.

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 18). 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 38).

Subsidiaries, including public and special funds, of minor significance for the presentation of the net assets, financial position and financial performance of the W&W Group are not consolidated but rather recognised as equity instruments under „Financial assets available for sale“ (Note 4) in the sub-items „Investments“, „Equities“ and „Fund units“.

Associates

Associates are entities that are neither subsidiaries nor joint ventures and where the Group has significant influence over the entity‘s financial and operating policy decisions but is not in control of those policies. 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 income and net assets attributable to the Group. When acquired, holdings in associates are recognised in the consolidated financial statements at acquisition cost. In subsequent periods, the carrying amount of the holdings increases or decreases according to the W&W Group‘s share of the investment entity‘s income for the period. Unrealised gains and losses, which are elements of the consolidated statement of comprehensive income, are recognised under „Other reserves“ under the reserve for financial assets accounted for using the equity method.

Associates 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 available for sale (see the section „Financial instruments and receivables and liabilities from insurance business“ in the chapter „Accounting policies: remarks concerning the consolidated balance sheet“) and are allocated to the item „Financial assets available for sale“ (Note 4) under the sub-item „Investments“.

Currency translation

The euro is the functional currency and the reporting currency of W&W AG.

Transactions in foreign currencies are posted at the exchange rate prevailing at the time of the transaction. Monetary assets and debts that deviate from the functional currency of the respective Group company are translated into the functional currency using the reference rate of the European Central Bank (ECB) as at the reporting date. Non-monetary items that are recognised at fair value are likewise translated into the functional currency at the ECB‘s reference rate as at the reporting date. Other non-monetary assets and debts are measured at the rate prevailing on the date of the transaction (historical rate).

Translation differences involving equity instruments held in a foreign currency that belong to the category „Financial assets available for sale“ are recognised directly in equity in the reserve for currency translation under „Other comprehensive income“ and subsequently recognised as profit or loss in the income statement upon disposal of the relevant equity instrument. Other translation differences are recognised in the consolidated income statement.

Pursuant to IAS 21, assets and debts of subsidiaries included in the consolidated financial statements whose functional currency is not the euro are translated into euros at the ECB‘s prevailing reference rate on the reporting date using the modified closing rate method. Income and expenses from the statements of comprehensive income of foreign subsidiaries whose functional currency is not the euro are translated at the average rate for the year. Translation differences are recognised directly in equity in the reserve for currency translation under „Other comprehensive income“ and subsequently recognised as profit or loss in the income statement upon disposal of the relevant subsidiary.

Accounting policies: remarks concerning the consolidated balance sheet

Financial instruments and receivables and liabilities from insurance business

Classes

If disclosures are required for individual classes of financial instruments, these are based on the classification depicted in the following. Each class is derived from the combination of accounting item and risk category:

Classes of financial instruments

Risk category	Cash reserves	Financial assets at fair value through profit or loss	Financial assets available for sale	Receivables
Financial assets				
Cash reserves	Nominal value			
Equity instruments		Fair value	Fair value	
Senior fixed-income securities		Fair value	Fair value	Amortised cost
Subordinated securities and receivables		Fair value	Fair value	Amortised cost
Derivative financial instruments		Fair value		
Structured products		Fair value		
Positive market values from hedges				
Investments for the account and risk of holders of life insurance policies		Fair value		
Building loans				Amortised cost
First-rank receivables from institutional investors		Fair value		Amortised cost
Other loans and advances				Amortised cost
Financial liabilities				
Liabilities evidenced by certificates				
Liabilities to credit institutions				
Liabilities to customers				
Finance lease liabilities				
Other liabilities				
Negative market values from hedges				
Subordinated capital				
Off-balance-sheet business				
Financial guarantees[1]				
Irrevocable loan commitments[1]				

1 The measurement basis for off-balance-sheet business is the nominal value.

					Accounting items and measurement basis
	Positive market values from hedges	Financial liabilities at fair value through profit or loss	Liabilities	Negative market values from hedges	Subordinated capital
		Fair value			
	Fair value				
			Amortised cost		
			Amortised cost		
			Amortised cost		
			Amortised cost		
			Amortised cost		
				Fair value	
					Amortised cost

Where significant for the evaluation of net assets, financial position and financial performance, the classes of financial instruments are depicted again with greater granularity.

Principles for the measurement and recognition of financial instruments

All financial assets and financial liabilities, including all derivative financial instruments, are recognised in the balance sheet pursuant to IAS 39.

Financial instruments are generally recognised on the settlement date at fair value, other than derivative financial instruments that are recognised at the time of contract conclusion at fair value. They are derecognised once the contractual rights and obligations under the financial instrument expire, or when the financial instrument is transferred and the criteria for disposal are met.

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 of less than three months. Cash reserves are recognised at nominal value.

Financial assets at fair value through profit or loss

The category „Financial assets at fair value through profit or loss“ is composed of the item „Designated as financial assets at fair value through profit or loss“ (fair value option) and the item „Financial assets held for trading“.

Designated as financial assets at fair value through profit or loss

If the fair value option is exercised, structured products are recognised in this sub-item, provided that there would otherwise be a duty to separate the embedded derivative from the host contract.

In addition, investments for the account and risk of holders of life insurance policies are recognised in order to avoid an accounting mismatch from occurring as a result of changes in the carrying amount of the provision for future policy benefits for unit-linked insurance contracts that are recognised in the income statement.

Also allocated to this category are individual securities under the sub-items „Equity instruments” and “Senior fixed-income securities“, provided that this avoids or substantially reduces incongruities in measurement.

Financial instruments in this sub-item are measured at fair value through profit or loss.

Realised and unrealised measurement gains and losses are recognised in the income statement under „Net income/expense from financial assets/liabilities at fair value through profit or loss“. Transaction costs are likewise recognised directly in the income statement at the time of the transaction.

Financial assets held for trading

Recognised as financial assets held for trading are financial instruments that are acquired with the intention of earning a profit from short-term price fluctuations. Financial assets held for trading include equities and investment holdings. Also recognised in this item are the positive market values of derivative financial instruments that are not accounted for as a hedging instrument in connection with hedges.

Realised and unrealised measurement gains and losses, current income and expenses from financial instruments and commissions from trading business are recognised in the income statement under „Net income/expense from financial assets/liabilities at fair value through profit or loss“.

Financial assets available for sale

This item contains all non-derivative financial instruments that were not classified in another category.

In the W&W Group, this item essentially has to do with equities, investment holdings, other variable-yield securities, bearer bonds, other fixed-income securities and investments that are neither fully consolidated nor accounted for using the equity method.

They are measured at fair value, whereby changes in fair value are generally recognised – if appropriate, taking into account deferred taxes and the provision for deferred premium refunds – in the consolidated statement of comprehensive income under the item „Unrealised gains/losses from financial assets available for sale“ and in the consolidated statement of changes in equity under „Other comprehensive income“ under „Other reserves“ as a reserve for financial assets available for sale. Gains and losses are generally not recognised in the income statement until disposal. Financial assets available for sale are tested for impairment as described in the section „Impairment of financial assets and reversal of impairment losses“. With regard to debt-financing instruments with a fixed term, directly attributable transaction costs, premiums and discounts are spread over the term and recognised in the income statement under „Net income/expense from financial assets available for sale“ using the effective interest method.

Interest income is recognised on an accrual basis. Accrued interest is recognised together with the relevant item.

Receivables

The item contains non-derivative financial instruments with fixed or determinable payments that are not traded on an active market. In the W&W Group, this category primarily includes loans under home loan savings contracts, building loans, debenture bonds and registered bonds.

Receivables are initially recognised at fair value and thereafter at amortised cost using the effective interest method. Transaction costs, premiums, discounts and deferred fees are spread over the term and recognised in the income statement under „Net income/expense from receivables, liabilities and subordinated capital“ using the effective interest method. Fees that are not a component of effective interest are recognised under „Net commission income/expense“ at the time they are collected.

Interest income is recognised on an accrual basis together with the relevant item.

Receivables from direct insurance business, funds withheld by ceding companies and amounts receivable on reinsurance business are generally recognised at amortised cost.

Under „Receivables from direct insurance business from policyholders“, acquisition costs are recognised as claims against policyholders that are not yet due, which are determined using Zillmerisation.

Receivables are tested for impairment as described in the section „Impairment of financial assets and reversal of impairment losses“.

Positive market values from hedges

This item contains the positive market values of derivatives that are embedded as a hedging instrument in a hedge recognised in accordance with the criteria for hedge accounting. They are measured at fair value on the reporting date.

Financial liabilities at fair value through profit or loss

Financial liabilities held for trading

Recognised under the item „Financial liabilities held for trading“ are the negative market values of derivative financial instruments that are not accounted for as a hedging instrument in connection with hedge accounting.

Realised and unrealised measurement gains and losses are recognised under „Net income/expense from financial assets/liabilities at fair value through profit or loss“ in the consolidated income statement. Current income and expenses from financial instruments and commissions from trading business are likewise recognised there.

Liabilities

This item contains, in particular, liabilities to customers and credit institutions, as well as liabilities evidenced by certificates.

Liabilities are recognised at amortised cost. Transaction costs, premiums and discounts are spread over the term of the transaction using the effective interest method. Fees that are not to be taken into consideration in determining the effective interest rate are recognised under „Net commission income/expense“ at the time they are collected. Interest expenses are recognised on an accrual basis. Accrued interest is recognised together with the relevant item.

Liabilities from direct insurance business consist of liabilities to policyholders, where premiums are received in advance but are not due until after the reporting date, as well as insurance benefits that have not yet been disbursed, profit participation accrued with interest and unclaimed premium refunds. This item also depicts liabilities to insurance agents and liabilities from reinsurance business. These liabilities are recognised in their repayment amount.

Finance lease liabilities

This item contains the liabilities resulting from finance leases. They are initially recognised at the fair value of the leased item or at the present value of the minimum lease payments, whichever is lower. Thereafter, they are measured at amortised cost.

Negative market values from hedges

This item contains the negative market values of derivative financial instruments that are embedded as a hedging instrument in a hedge recognised in accordance with the criteria of hedge accounting. They are measured at fair value on the reporting date.

Subordinated capital

Subordinated capital consists of subordinated liabilities and profit participation certificates. Subordinated capital is initially recognised at fair value and thereafter at amortised cost. Interest expenses are recognised on an accrual basis. Accrued interest is recognised together with the relevant item.

Off-balance-sheet business

Financial guarantees

Financial guarantees are measured in accordance with the rules in IAS 39. 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. 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“. Where an individual provision is not recognised, a provision is created in accordance with the principles of portfolio impairment provisioning.

Fair value measurement

The procedure described in the following is used to determine the fair value of financial instruments, irrespective of the category or class to which the financial instrument is assigned and regardless of whether the fair value so determined is used for measurement purposes or for information in the notes.

The fair value of a financial instrument means the price that the W&W Group would receive if it were to sell an asset or pay if it were to transfer a liability in an orderly transaction between market participants on the measurement date.

A hierarchical classification is undertaken for financial instruments measured at fair value in the consolidated balance sheet, and it takes into account the relevance of the factors forming part of the measurement.

Financial instruments that are traded on an active market are measured at the unadjusted quoted or market price for identical assets and liabilities (Level 1). If pricing is not available on active markets, fair value is derived from comparable financial instruments or determined through application of recognised measurement models using parameters that are directly or indirectly observable on the market (e.g. interest rate, exchange rate, volatility, prices offered by third parties) (Level 2). If measurement is impossible, or not fully possible, using quoted or market prices or by means of a measurement model using input factors that are directly or indirectly observable on the market, factors based on non-observable market data (non-observable input factors) are used to measure financial instruments (Level 3).

Unadjusted quoted or market prices (Level 1) are used to measure securities – equity instruments as well as debt-financing instruments – in the categories „Financial assets at fair value through profit or loss", „Financial liabilities at fair value through profit or loss", „Financial assets available for sale", „Positive market values from hedges" and „Negative market values from hedges". Derivatives traded on exchanges or on the market are likewise measured at their quoted or market price.

The measurement methods used for Levels 2 and 3 consist of generally accepted measurement models, such as the present-value method, under which anticipated future cash flows are discounted at current interest rates applicable to the relevant residual term to maturity, credit risks and markets. This method is used to measure securities with agreed cash flows under the items „Financial assets at fair value through profit or loss", „Financial liabilities at fair value through profit or loss" and „Financial assets available for sale". Furthermore, it is used to measure interest rate swaps and non-optional forward transactions (e.g. currency forwards), which are depicted under the items „Financial assets at fair value through profit or loss", „Financial liabilities at fair value through profit or loss", „Positive market values from hedges" and „Negative market values from hedges".

The present-value method is likewise used to measure the classes of financial instruments that are derived from the items „Receivables", „Liabilities" and „Subordinated capital" and whose fair value is disclosed in the notes to the consolidated financial statements.

A CVA/DVA estimate was performed for OTC derivatives. The result obtained from this assessment was recognised in the consolidated financial statements as at 31 December 2016. Most concluded derivatives are collateralised, meaning that the counterparty risk is nearly eliminated.

The fair value of options not traded on an exchange is calculated using generally accepted option-pricing models (Black 76 for interest rate options, Black-Scholes for equity options) 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 base object 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".

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 of these instruments. These financial instruments are recognised under the item „Cash reserves", which at the same time constitutes a separate class.

Combined financial instruments and structured products constitute a separate class and are measured in their entirety or by aggregating the measurement gains and losses of the individual components.

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

Hedge accounting

In the W&W Group, hedge accounting depicts changes in the fair value of financial assets and liabilities (fair value hedge) and fluctuations in future cash flows from variable-yield financial assets and liabilities (cash flow hedge).

When entering into a hedge, the hedged item and the hedging instrument are unambiguously stipulated in the documentation. The documentation also contains statements about the hedged risk, the objective of the hedge and the rhythm and form of initial and subsequent measurement of effectiveness.

The prospective measurement of a hedge‘s effectiveness, which is performed at the time the contracts are drawn up for the hedged item and the hedging instrument, is done on the basis of critical term match. Critical term match is a qualitative control of whether the essential parameters of the hedged item and the hedging instrument match. If a hedge does not meet this prerequisite, initial effectiveness is tested on the basis of market data shifts. In the process, the relevant interest rate curves are adjusted by +/- 100 basis points, and effectiveness is then measured. Retrospective effectiveness is normally tested using the cumulative dollar offset method, where changes in the value of the hedged item and the hedging instrument are cumulated over the entire term of the hedge or over all maturity bands and used as the basis for the effectiveness test.

Fair value hedges are used to hedge the change in the fair value of a recognised asset, a recognised liability or a fixed, off-balance-sheet obligation or a precisely described part thereof that is attributable to a precisely defined risk and may have an effect on net income for the reporting period. Only individual hedges existed as at the reporting date.

Each change in the fair value of the derivative used as the hedging instrument is recognised in the consolidated income statement. The carrying amount of the hedged item is adjusted in the income statement by the profit or loss attributable to the hedged risk. When the hedge is terminated, the adjustment made to the carrying amount of the hedged item is amortised over the residual term to maturity, if applicable. The cumulative changes in the fair value of the portfolio of financial assets that are attributable to the hedged risk are recognised under the item „Portfolio hedge adjustment assets“.

Existing fair value hedges serve to reduce the risk of changes in interest rates. Interest rate swaps are the only hedging instruments used to hedge the risk of changes in interest rates in the form of value losses due to a changed interest rate level.

Cash flow hedges are used to hedge the risk of fluctuations in future cash flows that can have an effect on consolidated income. The risk of fluctuating cash flows can result from financial assets and liabilities. The effective portion of the changes in the value of the hedging instrument is recognised in the consolidated statement of comprehensive income under the sub-item „Unrealised gains/losses from cash flow hedges“. The ineffective portion of the hedge is recognised in the consolidated income statement. The effective portion of the changes in the value of the hedging instrument is depicted in the consolidated statement of changes in equity under „Other reserves“ as a reserve for cash flow hedges. If a cash flow hedge is terminated prematurely, these reserves are recognised in the consolidated income statement on a pro rata basis over the residual term to maturity of the hedging instruments.

Cash flow hedges are used to hedge the risks of changes in interest rates. Interest rate swaps are the only hedging instruments used to hedge risks of changes in interest rates from fluctuations in interest cash flows (cash flow risks).

Hedge accounting ceases when the conditions for doing so are no longer met.

Structured products

Structured products are financial assets that have special features with respect to their interest rate, term or repayment. A structured product consists of a non-derivative host contract and one or more embedded derivatives that modify the cash flows of the host contract. The host contract and the derivative component(s) are closely linked with one another economically and form the subject of a contract. In general, structured products are depicted in the financial statements pursuant to the recognition and measurement rules applicable to the host contract. However, if the following conditions are present, the embedded derivative is to be recognised as a free-standing derivative separately from the host contract, provided that the entire structured product is not measured at fair value through profit or loss in exercise of the fair value option:

- the structured product is not already being measured at fair value through profit or loss,
- the economic characteristics and risks of the embedded derivative are not closely linked with those of the host contract and
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

In the W&W Group, structured products are measured at fair value through profit or loss in connection with the fair value option.

Impairment of financial assets and reversal of impairment losses

As at each reporting date, the W&W Group tests whether and to what extent a financial asset is impaired. In this regard, information is regularly exchanged in an impairment commission, which consists of experts from the relevant departments. The impairment commission tests securities across all classes for the potential need to take an impairment loss where criteria that have been defined uniformly for the Group indicate that there may be a deviation from the contractually agreed future cash flows.

Only financial assets not at fair value through profit or loss are tested.

The impairment loss is measured according to principles that are uniform in the Group.

An impairment loss is taken if, as a result of one or more events after initial recognition of a financial asset, there is objective evidence of impairment and the event has an effect on the future cash flows of the asset that can be reliably estimated.

In the W&W Group, the following points are considered across all classes to be objective evidence that constitutes the criterion for testing for possible impairment:

- significant financial difficulties on the part of the debtor,
- breach of contract,
- concessions made to the borrower in connection with financial difficulties,
- increased likelihood of insolvency proceedings,
- loss of an active market for financial assets due to the debtor‘s financial difficulties,
- demonstrable data that are indicative of lower future cash flows,
- permanent and material decline in fair value and
- subsequent declines in fair value.

Impairment is generally tested in two steps for all classes. First, financial assets are tested for whether there is objective evidence of impairment. If objective evidence of impairment is found, then the amount of the impairment loss to be recognised is determined on the basis of expected future cash flows. The amount of the impairment loss generally corresponds to the amount by which a financial asset‘s carrying amount exceeds its recoverable amount.

The following describes the approach used in the W&W Group for financial assets assigned to the category „Receivables“:

If an impairment is identified in the category „Receivables“, then provisions are created either individually or collectively depending on the character of the receivable. This does not apply to senior fixed-income securities and other receivables (loans and advance payments on insurance policies) in this category for which impairment losses are deducted directly from the carrying amount.

Impairment provisions serve to cover acute counterparty default risks in the event that it becomes likely that not all interest and principal payments will be able to be made in conformity with the contract. Impairment provisions are created for financial assets that are significant in and of themselves. If financial assets are not significant in and of themselves, they are grouped into homogeneous portfolios, and a collective impairment provision is created.

With regard to financial assets for which individual or collective impairment provisions have been created, the interest income that is recognised or accrued is not the actual interest payments but rather the interest income from the change in present value resulting from discounting at the original effective interest rate. This interest income is depicted as a reduction in the impairment created, and it is recognised under „Net income/expense from receivables, liabilities and subordinated capital“.

In addition, impairments are created on a portfolio basis to cover counterparty default risks that arose on or before the reporting date but are not yet known.

Interest actually paid continues to be recognised as interest income for financial assets in portfolios with default events that have occurred but have not yet been identified.

For all financial assets in this category, the amount of the impairment loss is determined as the difference between the carrying amount of the financial asset and the present value of expected future cash flows, taking collateral into account. On the other hand, a distinction is made in the consideration of the impairment provision. Changes in the value of trade accounts receivable are openly deducted from receivables under the item „Risk provision“ on the assets side, whereas for securities-like financial assets and assets not recognised under other items (e.g. registered bonds, registered profit-sharing certificates, silent participations), the impairment losses so determined are deducted directly from the carrying amounts.

After impairments have been created, a reversal of impairment losses may become necessary in connection with subsequent measurement, meaning that the created impairments have to be released, in whole or in part, and recognised as income. In the event that an impairment loss is reversed, income is recognised in the consolidated income statement under the sub-item „Net income/expense from risk provision“ (Note 32). The upper limit of the write-up is the amortised cost that would have resulted on the measurement date without impairment.

If it is virtually certain that no further payments can be expected, a financial asset in the category „Receivables“ is classified as uncollectable. Uncollectable receivables are derecognised through utilisation of the risk provision. Payments received for derecognised receivables are recognised as income under „Net income/expense from risk provision“ (Note 32).

If special events give rise to the above-described evidence of impairment to financial instruments in the category „Financial assets available for sale“, cumulative measurement losses in the reserve for financial assets available for sale that were previously recognised under „Other comprehensive income“ are now recognised as an expense under „Net income/expense from financial assets available for sale“ in the amount of the impairment loss. The amount of the impairment loss consists of the difference between the amortised cost and the fair value of the financial instrument.
In addition, for the class of equity instruments in the category, objective evidence of impairment exists when their fair value is significantly or permanently less than their amortised cost. In the W&W Group, „significant“ is considered to be where the price drops by 20% or more, and „permanent“ is considered to be where the price has been lower than the historical amortised cost for nine months or more. If an impairment loss was already taken for these financial instruments, each additional decline in fair value in subsequent periods is reflected as an impairment loss in the consolidated income statement.

Translation differences from equity instruments held in a foreign currency that were recognised directly in equity under „Other comprehensive income“ are reclassified to the income statement in the course of taking the impairment.

Impairment losses to equity instruments that were recognised in the past may not be reversed as gains. As a result, increases in fair value after an impairment loss was taken are recognised directly in equity under „Other comprehensive income“.

Debt instruments in the classes derived from these categories are, in addition to where the above-described objective evidence exists, moreover tested for impairment where their fair value has fallen by more than 20% in the past six months compared with their carrying amount or the average price was more than 10% below the carrying amount in the past 12 months.

Subsequent declines in the fair value of an impaired debt instrument available for sale are recognised as losses, since they are considered to be further impairment. A debt instrument available for sale ceases to be classified as impaired once its fair value in the subsequent period has recovered to at least the level of its amortised cost, not taking into account the impairment loss, and such recovery is objectively attributable to an event that occurred after the impairment was recognised as a loss. Under these conditions, the reversed impairment loss is recognised as a gain. Increases in fair value going beyond this are recognised under „Other comprehensive income".

For loan commitments, a provision is created in the W&W Group for irrevocable loan commitments pursuant to the principles of portfolio impairment provisioning.

Other financial assets

The amount of the impairment loss is determined in conformity with the rules of IAS 36. According to this standard, it is determined for the entire asset whether its recoverable amount (its fair value less costs of disposal or its value in use, whichever is higher) is lower than its carrying amount. The amount of the impairment loss is the resulting difference. In the event that an impairment loss is reversed, this is recognised as a gain, but not by more than the prior impairment loss.

Concessions and renegotiations (forbearance measures)

In justified exceptional cases, reorganisation/restructuring agreements are entered into with borrowers, since otherwise the contract terms originally agreed to would be unable to be complied with. These agreements generally call for a temporary or permanent reduction in the amount of loan repayment instalments in exchange for an extension of the total term of the loan, which ultimately leads to complete repayment of the loan amount. In addition, they include modification of interest terms to conform to the new repayment terms and normally call for deferment of existing interest claims.

Such concessions may be granted to the borrower on account of existing or expected financial difficulties, and they normally contain terms that are more advantageous to the borrower as compared with the original contract. In order to be able to identify these commitments early on, all loan commitments in the W&W Group are regularly reviewed for whether there is evidence that the borrower is experiencing financial difficulties. In particular, arrearages 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. In general, measures taken in the past form part of the decision-making process.

When carried out, restructuring measures initially constitute objective evidence of impairment, but an impairment loss is not taken due to the positive review of creditworthiness and the positive going-concern outlook. These loans continue to be carried in the portfolio impairment provision.

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. Such conversion has no impact on risk provision, since the criteria set for the new credit terms continue to be met without change.

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 both cases, an individual or collective impairment provision is created in the amount of the expected default. 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“.

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.

Investment property

The item „Investment property“ consists of land and buildings held for the purposes of generating rental income and/or appreciation in value.

Investment property is measured at acquisition or production cost, as reduced by scheduled use-related depreciation and, where applicable, impairment losses (cost model).

Each part of a property with an acquisition value that is significant in relation to the value of the entire property was subjected to separate scheduled depreciation. In so doing, a distinction was made, at a minimum, between shell construction and interior outfitting/technical systems.

The individual useful lives of shell construction and interior outfitting/technical systems were estimated by architects and engineers in the property division of the W&W Group. For shell construction, the maximum useful life was estimated to be 80 years (previous year: 80 years) for residential properties and 50 years (previous year: 50 years) for commercial properties, whereas for interior outfitting/technical systems, the maximum useful life was estimated to be 25 years (previous year: 25 years).

Shell construction and interior outfitting/technical systems were subjected to scheduled depreciation on a straight-line basis over the expected remaining useful life.

Investment property was tested for impairment in two steps. First, it was examined whether there was evidence of impairment on the reporting date. If this was the case, the anticipated recoverable amount was determined as the net realisable value (fair value less costs of disposal). If this value was less than amortised cost, an impairment loss was taken in the corresponding amount. In addition, it was examined on the reporting date whether there was evidence that an impairment loss taken for investment property in earlier periods no longer existed or might have declined. If this was the case, the recoverable amount was likewise determined and, if appropriate, the carrying amount was modified to reflect the recoverable amount, paying regard to amortised cost.

The discounted cash flow method (income approach) was used to determine the fair value of investment property. In this regard, significant non-observable inputs were used, for which reason this method for investment property was allocated to Level 3 in the measurement hierarchy for determining fair value.

In connection with determining fair value, expected future cash inflows (rents, other revenues) and cash outflows (maintenance, non-apportionable operating expenses, vacancy costs, costs for re-leasing) in the 10-year forecast period were discounted to present value, as were sales proceeds (residual value) expected in the last forecast year.

Cash inflows and outflows are considered on an individual basis, i.e. each lease and each construction measure was planned separately. Likewise, vacancy periods, real estate agent costs, etc. in the commercial area were viewed separately for each rental unit. With regard to residential properties, market-based assumptions about the change in the average rents of all residential units over the forecast period were taken as a basis. Because residential units are similar, it was elected to dispense with individual planning.

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

- The interest rate of a risk-free financial investment, plus a risk premium, was used as the adjusted discount rate. The risk premium for properties ranged from 258 basis points (previous year: 225 basis points) for, for example, residential properties in top locations to 708 basis points (previous year: 625 basis points) for, for example, office locations and sites without any discernible advantages/strengths. This resulted in an adjusted discount rate of between 3.50% (previous year: 4.00%) and 8.00% (previous year: 8.00%). In exceptional cases, deviations from the range are possible (e.g. special sites, projects).

- An inflation rate of 1.5% p.a. was used as the basis for determining rent increases and changes in average rents in the forecast period. For commercial properties, this was the basis used to make a property-specific, contractually conforming forecast of rent trends independent of location, site, building age and type of use. For residential properties, the basis used was the anticipated change in comparable local rents. In addition, on the basis of past experience, an assumption was made as to the frequency of tenant turnover p.a. for newly rented residential units. In the area of residential properties, it was assumed that rents could be expected to increase by 1-2% p.a. on average.

- The expected occupancy rate of the entire property portfolio was approximately 96% on average. The expected rate was 97-99% for residential properties and 90-95% for commercial properties.

- Rent-free periods were taken into consideration only if this was unavoidable due to the type of use and the competitive situation at the location. In such cases, two to six months were used on a case-by-case basis.

Investment property is initially valued using outside appraisers (see Note 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 (cf. 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 and other intangible assets.

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 recognised 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 recognised as a component of the production costs for the qualified asset.

Internally developed and acquired software is generally amortised on a straight-line basis over a period of three to five years. Brand names are amortised on a straight-line basis over a useful life of 20 years, and other acquired intangible assets are amortised on a straight-line basis over a useful life of at most 15 years.

Scheduled amortisation of and impairment losses taken for intangible assets are recognised as general administrative expenses under the item „Depreciation/amortisation“.

Property, plant and equipment

Recognised under „Property, plant and equipment“ are property for own use and plant and equipment. Property for own use means land and buildings used by Group companies.

Property, plant and equipment is measured pursuant to the cost model at acquisition or production cost, as reduced by scheduled use-related depreciation and, where applicable, impairment losses.

Property for own use is measured using the same valuation methods that apply to the recognition of investment property. Reference is therefore made to the corresponding comments.

Plant and equipment are subjected to scheduled depreciation on a straight-line basis over their estimated useful life, generally up to at most 13 years. Acquired EDP equipment is depreciated on a straight-line basis over its estimated useful life, normally up to at most seven years. Economic useful life is regularly reviewed in connection with preparation of the financial statements. Modifications that need to be made are recognised as a correction to scheduled depreciation over the remaining useful life of the respective asset.

In addition, as at each reporting date, it is reviewed whether there is evidence of impairment to the corresponding asset. If this is the case, impairment is determined by comparing the carrying amount with the recoverable amount (fair value less costs of disposal or value in use, whichever is higher). If an item of property, plant and equipment does not generate cash flows that are largely independent of cash flows from other items of property, plant and equipment or groups of property, plant and equipment, impairment is tested not on the level of the specific item of property, plant and equipment but rather on the level of the cash-generating unit to which the item of property, plant and equipment is to be allocated. If it is necessary to take an impairment loss, it corresponds to the amount by which the carrying amount exceeds the recoverable amount for the item of property, plant and equipment or, if applicable, for the cash-generating unit, whichever is lower. If fair value less costs of disposal cannot be determined, the recoverable amount corresponds to the value in use. The value in use is determined as the present value of forecast cash flows from continued use. Once there is evidence that the reasons for taking the impairment loss no longer exist, it is tested for reversal.

Scheduled depreciation of and impairment losses taken for property for own use and plant and equipment are recognised as general administrative expenses under the item „Depreciation/amortisation“. Income for property for own use related to the pro rata temporis release of disposal gains in connection with sale-leaseback transactions is recognised as other operating income.

Inventories

Inventories are recognised at acquisition or production cost or at net realisable value, whichever is lower.

Production costs are determined on the basis of individual costs and directly attributable overhead costs. The scope of production costs is determined by the costs expended up to the point of completion and readiness for use (total costs-of-conversion approach). Acquisition and production costs for non-interchangeable and special inventories are determined by specific allocation. Certain acquisition and production costs for interchangeable inventories are determined according to the first-in, first-out (FIFO) method or the weighted average cost method.

Net realisable value corresponds to the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Leasing

A lease is an agreement under which the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

A finance lease is a lease that essentially transfers from the lessor to the lessee all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

With a finance lease, the lessee recognises the leased asset in its balance sheet and creates a corresponding financial liability. Recognised depreciable leased assets are depreciated on a straight-line basis according to the same principles applicable to other comparable assets owned by the W&W Group. Lease payments are divided into financing costs and a repayment portion, whereby the financing costs are recognised as an expense under „Net income/expense from receivables, liabilities and subordinated capital“ (interest expenses for liabilities). 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 these assets. Income from operating leases is generally recognised on a straight-line basis over the lease term. Costs, including depreciation, incurred in connection with operating leases are recognised as an expense in the consolidated income statement. The depreciation rates for depreciable leased assets are consistent with those for similar assets. Recognised leased assets are tested for impairment as at each reporting date. If the recoverable amount of the leased asset is less than its carrying amount, an impairment loss is taken. If the reasons for taking the impairment loss no longer exist, it is tested for reversal.

In some cases, sale-leaseback transactions occur. A sale-leaseback transaction consists of the sale and simultaneous leaseback of an asset. The treatment of such transactions follows the rules for operating or finance leases. Profit or loss from the sale is deferred according to the specific rules in IAS 17.

Current tax assets, deferred tax assets, current tax liabilities and deferred tax liabilities

Current tax assets and liabilities are recognised in the amount of the expected refund from or payment to the relevant tax authorities. Deferred tax assets and liabilities are created because of temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet drawn up pursuant to IFRS and the tax carrying amounts pursuant to local tax rules of the Group companies. Deferred taxes are calculated at the respective country-specific tax rates. Deferred tax assets are recognised for tax loss carryforwards to the extent that, in accordance with planning calculations, it is probable that they can be utilised in the future. Deferred tax assets from temporary differences and loss carryforwards are tested for impairment as at each reporting date.

Technical provisions

In general

Technical provisions are recognised on the liabilities side in gross amounts, i.e. before deduction of the reinsurers' portion of technical provisions. The reinsurance portion is determined in accordance with contractual reinsurance agreements and recognised separately on the assets side.

All insurance contracts concluded by W&W Group companies transfer significant insurance risk, i.e. they are insurance contracts within the meaning of IFRS 4.

Pursuant to IFRS 4.14(a), liabilities may not be recognised for fluctuation reserves to be created in property/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 by Section 15 of the German Ordinance on Accounting by Insurance Companies (RechVersV), 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 1.25% (previous year: 1.25%) to 4.0% (previous year: 4.0%). Exceptions to this are explained in the following sections. The average actuarial interest rate for the provision for future policy benefits was 2.4% (previous year: 2.6%). 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 experience were used.

As a result of European case law, only so-called „unisex rates" have been permitted to be offered since 21 December 2012, which are calculated in a gender-neutral manner. For this purpose, the company uses its own, gender-neutral biometric actuarial bases, which are derived from the gender-neutral tables recommended by the DAV.

For insurance policies for which an actuarial interest rate was originally used that is no longer appropriate under Section 341f (2) of the German Commercial Code (HGB), the provision for future policy benefits in the new portfolio was determined for the period of the next 15 years using the reference interest rate of 2.54% (previous year: 2.88%) 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 2.36% (previous year: 2.65%) was used for the insurance policies of Württembergische Lebensversicherung AG, a measurement interest rate of 2.50% (previous year: 2.60%) was used for the insurance policies of Karlsruher Lebensversicherung AG and a measurement interest rate of 2.65% (previous year: 2.75%) was used for ARA Pensionskasse AG.

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 2016 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 8/20) and DAV 2004 R-B20 (at the rate of 12/20), on entity-specific probabilities of capital disbursements and on the principles for calculating the provision for future policy benefits that were published by the German Federal Financial Supervisory Authority (BaFin) in January 2005.

Updated, entity-specific probabilities of annuity migrations were used in the financial year to calculate the additional biometric reserve for annuity insurance policies. For these and other endowment insurance policies, entity-specific probabilities of capital disbursements were for the first time explicitly taken into account in calculating interest rate reinforcement and the additional interest reserve. In the case of endowment insurance policies, the mortality table DAV 2008T was, in addition, used as the reserve level. As a result of the changes made to these estimates, the provision for future policy benefits was reduced in the reporting year by EUR 285.8 million in connection with the build-up of interest rate reinforcement and the additional interest reserve and by EUR 25.0 million in connection with the added biometric reserve for annuity insurance.

(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 Insurance Supervision Act (VAG) demonstrates that all actuarial bases were selected with sufficient caution pursuant to regulatory and commercial law provisions.

The provision for outstanding insurance claims was created for future payment obligations that result from insurance claims that occurred on or before the reporting date but have not yet been settled. It also contains anticipated claim adjustment expenses. The amounts and disbursement times of insurance benefits are still uncertain.

The provision for insurance claims that have already been reported by the reporting date is generally determined separately (separate measurement). For insurance claims that had already occurred by the reporting date but were still unknown, a provision for late outstanding claims was created, whose amount was determined on the basis of operational experience in past years.

The provision for premium refunds consists of two parts. Assigned to the first part – premiums allocated according to commercial law rules, i.e. the provision for premium refunds under the HGB – is the portion of each insurance company‘s 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 individual companies under national law and the consolidated financial statements pursuant to IFRS that are attributable to policyholders. These temporary measurement differences are included in the provision for deferred premium refunds at the rate of 90% (previous year: 90%) at which policyholders participate at a minimum upon realisation.

Technical provisions in the area of life insurance, insofar as the investment risk is borne by policyholders, are determined for each individual contract using the retrospective method. In this regard, unless they are used for the purposes of financing guarantees, received premiums are invested in fund units. The risk and cost components are withdrawn from the fund balance on a monthly basis, where applicable subject to offsetting against the corresponding surplus components. The carrying amount of this item corresponds to the carrying amount of capital investments for the account and risk of holders of life insurance policies under the item „Financial assets at fair value through profit or loss“.

Health insurance

With health insurance, the average actuarial interest rate for the provision for future policy benefits was 2.88% (previous year: 3.18%). 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. New rates are introduced only if the new trustee confirms that the actuarial bases to be used are suitable.

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 under 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 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 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 distributed to the respective year of occurrence by number and expense and compared with the claims made during the corresponding years. These ratios are applied to the average unit cost for settled claims, resulting in the anticipated unit cost rates for claims that were reported after the reporting year but that occurred during the reporting year, and these are then multiplied by the anticipated unit figures to calculate the provision for late outstanding claims. The provisions for claims are not discounted, other than the provision for future annuity benefits in property insurance.

The provision for claim adjustment expenses was determined in accordance with the letter of the German Federal Minister of Finance of 2 February 1973.

The provision for future annuity benefits in property/casualty insurance is calculated for each individual contract according to actuarial principles and, as is the case with the provision for future policy benefits, using the prospective method The mortality tables recommended by the German Association of Actuaries (DAV), DAV HUR 2006, were used, and they contain suitable safety margins. The maximum actuarial interest rate of 0.9%, which has been in effect since 1 January 2017, was used for all annuity commitments. Future administrative costs were measured at 2% of the provision for future annuity benefits, a rate that is deemed sufficiently conservative.

Other technical provisions in property/casualty insurance consist primarily of provisions for cancellations, the provision for unused premiums from dormant motor insurance policies, and the provision for impending losses. The provision for cancellations is created for the anticipated cessation or reduction of the technical risk associated with premiums to be refunded.

Other provisions

Provisions for pensions

The company pension scheme in the W&W Group consists of both defined-contribution and defined-benefit commitments. Prior to reorganising the company pension scheme in 2002, all employees at Wüstenrot companies (Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank, Wüstenrot Immobilien GmbH, Wüstenrot Haus- und Städtebau GmbH and Gesellschaft für Markt- und Absatzforschung mbH) were granted defined-benefit pension commitments. At Württembergische Versicherung AG, Württembergische Lebensversicherung AG and Württembergische Krankenversicherung AG, defined-contribution commitments were granted (Pensionskasse der Württembergischen). In addition, managers, senior executives and directors received pension commitments (defined-benefit commitments). At Wüstenrot & Württembergische AG, W&W Informatik GmbH and W&W Asset Management GmbH, both defined-benefit and defined-contribution commitments were granted. The various defined-benefit commitments in the Group are primarily structured in a manner dependent on salary and length of service and sometimes as fixed-amount commitments. Since 2002, pension commitments for new hires have been financed Group-wide by ARA Pensionskasse AG (defined-contribution commitments). Managers, senior executives and directors receive pension commitments (defined-contribution-oriented defined-benefit commitments) that are reinsured by ARA Pensionskasse AG.

Commitments under defined-benefit plans are measured using the projected unit credit method on the basis of expert actuarial opinions. Taken into account in doing so are both the pensions and acquired pension entitlements known on the reporting date and the increases in salary and pensions expected in the future. Pursuant to IAS 19.83, the rate used to measure pension provisions is to be determined on each reporting date on the basis of yields on senior fixed-income corporate bonds. The currency and term of the underlying corporate bonds must be consistent with the currency and estimated term of the commitments to be met.

Actuarial gains and losses from experience-related adjustments and changes to actuarial assumptions are recognised directly in equity for the period in which they are incurred within the reserve for pension commitments and form a component of other comprehensive income.

Income from pension commitments is recognised in the consolidated income statement under „Net income/expense from receivables, liabilities and subordinated capital“ (interest cost), and expenses from pension commitments are recognised under „Personnel expenses“ (service cost). Past service cost is recognised immediately in full as an expense under „Personnel expenses“.

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 21.

Other 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 and 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 and savings customers, the claim to closing fees was earned by the reporting date at the latest, the present value is calculated on the basis of a probability-based forward projection of past statistical data that constitutes the best estimate of the current obligation. Uncertainties in determining the future amount of the obligation arise, in particular, from the established assumptions concerning the input parameters used, such as statistical data, termination behaviour and loan waiver ratio.

Provisions for interest bonus options are created where the obligation to pay interest bonuses to home loan and savings customers is contained in concluded home loan savings contracts. Under the assumption that the maximum interest bonuses earned by the reporting date at the latest 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.

Other provisions consist of, for example, provisions for contingent losses from pending transactions, which are created if a contingent liability results from a pending transaction.

There are no assets for expected reimbursements in connection with recognised miscellaneous provisions.

Equity

This item consists of (1) paid-in capital, (2) earned capital and (3) non-controlling interests in equity.

Paid-in capital consists of share capital and the capital reserve. Share capital consists of registered shares that are fully paid up. The capital reserve consists of the premium generated above the par value when issuing shares.

Earned capital consists of retained earnings and other reserves:

Retained earnings consist of statutory reserves and reinvested profits.

Other reserves include

- the reserve for financial assets available for sale,
- 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 available for sale consists of unrealised gains and losses from the measurement of financial assets available for sale. 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 consists of currency differences of economically independent units. 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.

Translation differences from the consolidation of subsidiaries whose functional currency is not the euro are recognised in the reserve for currency translation.

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 46 „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 47 „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 present 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. If the outflow of resources is not probable, disclosures are made about these contingent liabilities in the notes (Note 58 „Contingent liabilities and other liabilities"). If contingent liabilities are assumed in connection with corporate mergers, they are recognised in the balance sheet at fair value at the time of acquisition.

Disclosures about select items in the consolidated income statement

Net financial result

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

- financial assets available for sale,
- financial assets accounted for using the equity method,
- financial assets/liabilities at fair value through profit or loss,
- hedges and
- receivables, liabilities and subordinated capital.

Furthermore, the net income/expense from risk provision is taken into account in the net financial result.

Recognised under „Net income/expense from financial assets available for sale" is the gain/loss from the sale of financial assets available for sale, the measurement gain/loss through profit or loss of financial assets available for sale and current income (interest and dividends). Dividends are recognised once there is a legal claim to payment.

Recognised under „Net income/expense from financial assets/liabilities at fair value through profit or loss" are realised and unrealised gains and losses, interest and dividends from financial assets/liabilities at fair value through profit or loss, and other income and expenses.

Recognised under „Net income/expense from hedges" is the net income/expense from hedged items and hedging instruments involving fair value hedges. Also recognised here in the income statement are the effects from the ineffective portion of the hedging instrument and from the release of the reserve for cash flow hedges.

Recognised on an accrual basis under „Net income/expense from receivables, liabilities and subordinated capital" are interest income and interest expenses under application of the effective interest method.

Recognised under „Net income/expense from risk provision“ are expenses from individual and portfolio impairment provisioning, as well as direct write-downs. This relates to lending business, primary insurance and reinsurance business and other business.

Net income/expense from investment property

Recognised under „Net income/expense from investment property“ are rental income, expenses for repairs and maintenance, gain/losses on sales and changes in value.

Rental income is recognised in the income statement monthly in advance.

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 income is recognised in the income statement at the time the service is provided, and commission expenses are recognised at the time the service is used. No commission income is recognised in primary insurance business, since customers are not billed separately for the costs associated with conclusion of insurance contracts.

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 due to the participation of policyholders in unrealised gains and losses from financial assets available for sale and financial assets accounted for using the equity method as well as in gains and losses from pension provisions is generally created and released in equity.

Insurance benefits (net) result from the deduction of paid reinsurance premiums from insurance benefits (gross).

General administrative expenses

In the W&W Group, general administrative expenses consist of personnel expenses, materials costs, scheduled depreciation/amortisation, and impairment losses to 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.

Income taxes

Actual income taxes are calculated on the basis of the respective national tax results and rules for the financial year. The taxes actually recognised in the financial year also include adjustment amounts for any tax payments or refunds due for periods that have not yet been finally assessed. If tax authorities dispute amounts listed in tax returns, tax provisions are created. The amount of the provision is based on the best estimate of the expected tax arrearage payment. Tax receivables are recognised once it is likely that they can be collected.

Income tax earnings and expenses are recognised in the consolidated income statement as income taxes and distinguished in the notes (Note 39) between actual and deferred taxes.

Disclosures about the cash flow statement

For the Group's cash flow statement, all cash flow is evaluated on the basis of the business models of the various Group entities – these are mainly the business models for the banks and the home loan and savings banks, as well as insurance companies – as to the extent to which it is contingent on operating activities or originates from investing or financing activities.

Cash flow from operating activities essentially consists of all payments from the credit and deposit business of the Group's banks and home loan and savings banks, the trading portfolio of the banks, the technical provisions and the receivables and liabilities from reinsurance business. It also includes tax payments, as well as cash flow from the receivables and liabilities of the operational business of all Group banks, insurance companies and other entities.

Cash flow from investing activities consists of investments in intangible assets and in property, plant and equipment both for bank and home loan savings business and for insurance business. It also includes deposits and disbursements under mortgage loans made by the insurance companies, real estate investments, equities, participations, assets accounted for using the equity method, various investment funds and fixed-income securities, as well as registered bonds and debenture bonds recognised in the balance sheet under "Receivables from institutional investors". Strategic investments in 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, non-controlling interests in the equity of subsidiaries and subordinated bonds issued by consolidated companies for the purposes of corporate financing.

On the whole, the cash flow statement is only of minor significance for the Group. It is not used for liquidity and financial planning or for control.

The recognised cash and cash equivalents consist of cash on hand, deposits with central banks and balances with credit institutions payable on demand.

Utilisation of discretionary judgments and estimates

Exercise of discretionary judgment in applying accounting policies

The application of accounting policies is subject to various discretionary judgments by management that may considerably 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 Management Report, to the provision for claims, to the restructuring provision and to the fair values of property.

In addition, it was decided not to use the IAS 39 measurement category „held-to-maturity investments“ in the W&W Group.

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 seqq. 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.

Accounting estimates and assumptions

Principles

In drawing up the consolidated financial statements according to IFRS, estimates and assumptions have to be made that affect the carrying amount of assets, liabilities, income and expenses, as well as the disclosure of contingent liabilities. The application of several of the accounting principles described in the chapter „General accounting principles and application of IFRS“ presupposes material estimates that are based on complex, subjective evaluations and assumptions and may relate to issues that exhibit uncertainties.

The estimating methods used and the decision about the suitability of the assumptions require management to exercise good judgment and decision-making power in order to determine the appropriate values. Estimates and assumptions are moreover based on experiences and expectations with respect to future events that appear reasonable under the given circumstances. In so doing, carrying amounts are determined carefully and, taking into account all relevant information, as reliably as possible. In determining values, existing uncertainties are suitably taken into account in conformity with the relevant standards. However, actual results may vary from estimates, since new findings have to be taken into account when determining values. Estimates and their underlying assumptions are therefore continuously reviewed. The effects of changes in estimates are accounted for in the period in which the estimate changes.

If estimates were necessary to a greater extent, these are explained comprehensively and in detail in the depiction of the accounting policies, in the relevant items and in the disclosures made in the notes to individual items.

The W&W Group has identified the following accounting principles, whose application is based to a considerable extent on estimates and assumptions, to be material.

Determining the fair value of assets and liabilities

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of fair value measurement in both cases is the same: to estimate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When no observable market transactions or market information is available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs.

The required degree of subjective measurement and estimates by management has a higher weight for those assets and liabilities that are measured using special, complex models and for which some or all inputs are not observable. The values determined in this way are significantly influenced by the assumptions that have to be made.

If fair value cannot be reliably determined, the carrying amount is used as an approximate value to measure fair value. This essentially relates to loans under home loan savings contracts from collective business due to the special features of home loan savings products and the variety of rate constructions. Loans under home loan savings contracts are allocated to the item „Receivables" and are accordingly measured for accounting purposes at amortised cost. For further information, please see Note 5 „Receivables" as well as the disclosures in the chapter „Notes concerning financial instruments and fair value" starting at Note 42 „Disclosures concerning the measurement of fair value".

Further remarks on this can be found in Note 42 „Disclosures concerning the measurement of fair value", which also contains both the level classification and further comments about the individual classes of assets and liabilities.

For extensive remarks about the special complexity associated with determining the fair value of financial instruments, please see the comments in the chapter „Accounting policies: remarks concerning the consolidated balance sheet" as well as Note 42 "Disclosures concerning the measurement of fair value".

Determining the fair value of investment property

In the W&W Group, investment property is recognised pursuant to the cost model. Property fair values are determined using the discounted cash flow method. In connection with the discounted cash flow method, expected deposits (rents, other revenues) and disbursements (maintenance, non-apportionable operating expenses, vacancy costs, costs for releasing) are discounted to present value, as are sales proceeds expected in the last forecast year. The interest rate of a risk-free financial investment, plus a risk premium, is used as the internal interest rate.

Impairment and reversal of impairment losses

With the exception of financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss, all financial and non-financial assets are tested at regular intervals for objective evidence of impairment. Impairment losses are generally recognised in the income statement if the W&W Group believes that the relevant comparable value (e.g. present value of future cash flows) is lower than the carrying amount of this asset. Impairment is also tested where events or changed underlying conditions indicate that the value of this asset might have declined.

Impairment losses are reversed if there are sufficiently objectifiable criteria indicating permanent value recovery and this is moreover permissible pursuant to the applicable standard. For instance, impairment losses to goodwill may not be reversed.

Uncertainties in estimates relate, in particular, to forecasts concerning the amount and timing of the underlying cash flows, as well as discounting factors.

Details about impairment and the reversal of impairment losses can be found in the chapter „Accounting policies: remarks concerning the consolidated balance sheet" in the section „Impairment of financial assets and reversal of impairment losses", as well as in the disclosures in the respective notes.

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 20):

- Provision for future policy benefits
  The provision for future policy benefits is estimated according to actuarial methods as the present value of future obligations less the present value of future premiums. The amount of the provision for future policy benefits is dependent on forward-looking assumptions about trends in investment yields achievable on the capital market, life expectancy, and other statistical data, as well as the costs incurred in connection with management of the contracts. Necessary adjustments to forward-looking assumptions have material effects on the amount of the provision for future policy benefits.

- Provision for outstanding insurance claims
  In determining the amount of the provision, forward-looking assumptions are necessary, such as about claim trends, claim adjustment costs, claim inflation 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 21 „Other provisions“.

- Other provisions
  The amount recognised as a provision constitutes the best possible estimate of the expenditure 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.

If the aforementioned criteria for creating provisions are not met, then the corresponding obligations are recognised as contingent liabilities (see Note 58).

Further information about all of the above types of provisions can be found in Note 20 „Technical provisions“ and Note 21 „Other provisions“.

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 2016	23	4	27
Included as at 31 December 2015	23	7	30
Structured entities (public and special funds)			
Included as at 31 December 2016	16	5	21
Included as at 31 December 2015	16	5	21
Associates accounted for using the equity method			
Included as at 31 December 2016	2	–	2
Included as at 31 December 2015	2	–	2

Changes to the scope of consolidation

Disposals from the scope of consolidation

In the first half-year of 2016, the Czech insurance companies Wüstenrot pojišťovna a.s. (TV), Prague, and Wüstenrot životní pojišťovna a. s. (TLV), Prague, as well as W&W Europe Life Limited, Dublin, were eliminated from the scope of consolidation.

These disposals had no material influence on the net assets, financial position and financial performance of the W&W Group.

Interests in subsidiaries, including consolidated structured entities

Disposal restrictions

Statutory, contractual or regulatory restrictions, as well as protected rights of non-controlling interests, may restrict the ability of the Group, the parent company or a subsidiary to obtain access to assets and to make unimpeded transfers to or receive unimpeded transfers from other companies in the Group and to pay Group debts.

Since enactment of the German Life Insurance Reform Act (LVRG) in August 2014, the subsidiary Württembergische Lebensversicherung AG is subject to a statutory ban on distributions until further notice.

As credit institutions, the subsidiaries Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank must comply with extensive regulatory requirements. For example, the minimum liquidity standard (Liquidity Coverage Ratio, LCR) is intended to promote the short-term resilience of a credit institution's liquidity risk profile over a 30-day horizon in a stress scenario. The LCR is the ratio of the volume of High-Quality Liquid Assets (HQLA) that could be used to raise liquidity over a period of 30 days to the total volume of net stressed outflows in the same period arising from both actual and contingent exposures. As at 31 December 2016, the LCR was 688.62% (previous year: 418.40%) for the subsidiary Wüstenrot Bausparkasse AG and 225.24% (previous year: 123.24%) for the subsidiary Wüstenrot Bank AG Pfandbriefbank. The companies have been obligated since the fourth quarter of 2015 to maintain their LCR, pursuant to further specifications.

The Group is subject to the following restrictions with respect to the use to which assets may be put:

- Assets used in collateralised financing, e.g. repurchase agreements, securities lending transactions and other forms of collateralised lending.
- Assets used in collateral or margin agreements, e.g. to hedge derivative transactions.
- Assets used in the cover pool for German covered bonds.
- The assets of consolidated investment funds are subject to a variety of restrictions with respect to transferability between Group companies.
- The assets of consolidated insurance companies mainly serve to settle obligations to policyholders.
- Regulatory requirements and the requirements of central banks can limit the Group's ability to transfer assets to or from other companies in the Group.

With regard to assets and liabilities recognised in the consolidated financial statements that are subject to disposal restrictions, please also see Note 46 „Transfers of financial assets and granted and received collateral".

With regard to regulatory requirements within the Group, please also see Note 54 „Regulatory solvency".

During the reporting period, no public or special funds consolidated as structured entities were supported financially or otherwise, either voluntarily or as a result of contractual agreements, nor was there any intention to do so.

Interests in unconsolidated structured entities

As a result of its business activities, the W&W Group holds interests in unconsolidated structured entities that have been formed either as investment funds (public or special funds) or as alternative investment companies in the legal form of a corporation or partnership. These structured entities serve to meet various customer needs with respect to investment in various assets. Group companies mainly assume the role of investor, sometimes also that of fund manager or custodian.

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Moreover, a structured entity is classified as such based on the following features or attributes:

- restricted activities,
- a narrow and well-defined objective,
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support and/or
- financing in the form of multiple contractually linked instruments issued to investors that create concentrations of credit or other risks (tranches).

As at the reporting date, other than interests in investment funds and alternative investment companies, no structured entities were identified, either with an investment interest or as structured entities supported by W&W without an investment interest.

In the current financial year, no unconsolidated structured entities were financially supported, nor is there any intention to do so.

Interests in investment funds

As at 31 December 2016, the carrying amounts, the investment strategy, the maximum loss risk and the scope vis-à-vis unconsolidated investment funds were as follows:

2016

	Equity funds	Pension funds	Real estate funds	Other funds	Funds of unit-linked life insurance policies	Total
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Recognised assets (fund units held)						
Financial assets at fair value through profit or loss	55 190	802	2 343	5 137	1 633 192	1 696 664
Financial assets available for sale	244 759	1 025 965	4 099	94 259	–	1 369 082
Total	**299 949**	**1 026 767**	**6 442**	**99 396**	**1 633 192**	**3 065 746**
Maximum loss risk[1]	299 949	1 026 767	6 442	99 396	1 633 192	3 065 746
Total scope of fund assets as at the reporting date	92 263 953	18 764 277	15 360 164	40 174 060	153 372 804	319 935 258

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.

2015

in € thousands	Equity funds 31.12.2015	Pension funds 31.12.2015	Real estate funds 31.12.2015	Other funds 31.12.2015	Funds of unit-linked life insurance policies 31.12.2015	Total 31.12.2015
Recognised assets (fund units held)						
Financial assets at fair value through profit or loss	53 119	877	3 755	2 236	1 510 797	1 570 784
Financial assets available for sale	298 823	994 079	17 695	91 066	–	1 401 663
Total	**351 942**	**994 956**	**21 450**	**93 302**	**1 510 797**	**2 972 447**
Maximum loss risk[1]	351 942	994 956	21 450	93 302	1 510 797	2 972 447
Total scope of fund assets as at the reporting date	87 303 222	7 256 821	26 068 785	35 984 368	133 373 460	289 986 656

1 The maximum loss risk is determined on the basis of fund units held and, where applicable, capital contribution calls not yet made and guarantees.

Unconsolidated investment funds are financed by issuing equity interests. The carrying amount of the interests corresponds to the pro rata net asset 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 the net asset value. The carrying amount of interests in alternative investments, including private equity, corresponds to the pro rata net asset value under the item „Financial assets available for sale“ and amounted to €1,055,589 thousand (previous year: €932,382 thousand). This carrying amount corresponds to the maximum loss risk. Financing is accomplished by issuing equity interests.

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, individual operating segments are combined within the Life and Health Insurance segment and the Property/Casualty Insurance segment. The following section lists the products and services through which revenue is generated by the reportable segments. There is no dependence on individual major accounts.

Home Loan and Savings Bank

The Home Loan and Savings Bank segment includes a broad range of home loan savings, as well as banking products primarily for private customers, e.g. home loan savings contracts, bridging loans, savings and investment products, current accounts, call money accounts, Maestro and credit cards, and mortgage and bank loans.

Life and Health Insurance

The Life and Health Insurance segment 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 Property/Casualty Insurance segment offers a comprehensive range of insurance products for private and corporate customers, including general liability, casualty, motor, household, residential building, legal protection, transport and technical insurance.

As in previous years, the performance of each segment was measured based on the segment earnings under IFRS. Transactions between the segments were carried out on an arm‘s length basis.

All other business activities of the W&W Group, such as central Group functions, asset management activities, property development and the marketing of home loan savings and banking products outside of Germany, are subsumed under „All other segments“.

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

The measurement principles for segment reporting correspond to the accounting policies applied to the IFRS consolidated financial statements.

Segment income statement

in € thousands	Home Loan and Savings Bank 1.1.2016 to 31.12.2016	Home Loan and Savings Bank 1.1.2015 to 31.12.2015	Life and Health Insurance 1.1.2016 to 31.12.2016	Life and Health Insurance 1.1.2015 to 31.12.2015
1. Net income from financial assets available for sale	177 620	204 017	856 822	1 108 117
2. Net income from financial assets accounted for using the equity method	–	–	3 405	9 565
3. Net income from financial assets/liabilities at fair value through profit or loss	-65 779	-152 912	-129 205	-216 495
4. Net income from hedges	70 890	120 892	–	–
5. Net income from receivables, liabilities and subordinated capital	230 809	245 874	548 045	577 637
6. Net income from risk provision	24 413	1 527	1 826	-1 498
7. Net financial result	**437 953**	**419 398**	**1 280 893**	**1 477 326**
8. Net income from investment property	–	–	84 407	94 858
9. Net commission income	7 082	4 931	-140 880	-146 235
10. Earned premiums (net)	–	–	2 337 422	2 395 441
11. Insurance benefits (net)	–	–	-3 222 343	-3 409 851
12. General administrative expenses3	-363 769	-369 618	-261 009	-277 528
13. Net other operating income	1 489	18 014	-56 866	-81 770
14. Segment net income before income taxes from continued operations	**82 755**	**72 725**	**21 624**	**52 241**
15. Income taxes	-24 093	-15 728	28 049	-11 972
16. Segment net income after taxes	**58 662**	**56 997**	**49 673**	**40 269**
Other information				
Total revenue[4]	1 257 539	1 504 586	3 225 035	3 330 027
thereof with other segments	33 899	37 721	31 043	34 920
thereof with external customers	1 223 640	1 466 865	3 193 992	3 295 107
Interest income	1 024 234	1 266 756	749 773	795 140
Interest expense	-805 515	-939 734	-29 456	-76 848
Scheduled amortisation/depreciation	-2 722	-3 950	-48 000	-52 236
Impairment losses[6]	-2 178	-2 761	-518	-13 937
Reversals of impairment losses[6]	–	–	3 804	2 747
Material non-cash items	-43 066	-864	101 559	21 667
Segment assets[7]	31 691 568	35 111 344	33 544 152	33 010 994
Segment liabilities[7]	29 825 462	33 320 874	33 032 387	32 557 457
Financial assets accounted for using the equity method[6]	–	–	45 436	50 970

1 Includes amounts from proportional profit transfers eliminated in the Consolidation column.
2 The column "Consolidation/reconciliation" includes the effects of consolidation between segments.
3 Includes service revenues and rental income with other segments.
4 Interest, commission and rental income and earned premiums (net) from insurance business.
5 Impairment losses and reversals of impairment losses relate to intangible assets, property, plant and equipment, inventories and investment property.
6 Includes cross-segment premiums ceded to reinsurers.
7 Values as at 31 December 2016 and 31 December 2015, respectively.

Property/Casualty Insurance		Total for reportable segments		All other segments[1]		Consolidation/ reconciliation[2]		Group	
1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015	1.1.2016 bis 31.12.2016	1.1.2015 to 31.12.2015	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
50 631	80 544	1 085 073	1 392 678	177 072	101 855	−147 441	−87 887	1 114 704	1 406 646
3 405	9 566	6 810	19 131	1 319	14 412	—	—	8 129	33 543
−31 492	−40 796	−226 476	−410 203	−3 436	1 911	3 335	−1 692	−226 577	−409 984
—	—	70 890	120 892	—	—	—	—	70 890	120 892
19 489	23 303	798 343	846 814	19 568	36 234	15 476	1 808	833 387	884 856
1 931	−1 408	28 170	−1 379	−10 997	−3 122	—	—	17 173	−4 501
43 964	**71 209**	**1 762 810**	**1 967 933**	**183 526**	**151 290**	**−128 630**	**−87 771**	**1 817 706**	**2 031 452**
496	2 000	84 903	96 858	633	205	2 394	2 711	87 930	99 774
−217 237	−208 124	−351 035	−349 428	−41 502	−46 073	1 624	3 570	−390 913	−391 931
1 360 601	1 325 279	3 698 023	3 720 720	247 183	274 688	−12 374	−12 544	3 932 832	3 982 864
−713 215	−714 928	−3 935 558	−4 124 779	−156 490	−181 115	11 910	21 715	−4 080 138	−4 284 179
−351 044	−349 416	−975 822	−996 562	−96 039	−106 455	−3 459	−4 969	−1 075 320	−1 107 986
35 620	35 661	−19 757	−28 095	20 507	27 465	−1 274	−5 740	−524	−6 370
159 185	**161 681**	**263 564**	**286 647**	**157 818**	**120 005**	**−129 809**	**−83 028**	**291 573**	**323 624**
−50 920	−46 746	−46 964	−74 446	−54 020	−14 293	44 718	39 398	−56 266	−49 341
108 265	**114 935**	**216 600**	**212 201**	**103 798**	**105 712**	**−85 091**	**−43 630**	**235 307**	**274 283**
1 554 904	1 521 084	6 037 478	6 355 697	421 157	447 818	−242 570	−240 369	6 216 065	6 563 146
−186 196[5]	−180 991[5]	−121 254	−108 350	363 824	348 719	−242 570	−240 369	—	—
1 741 100	1 702 075	6 158 732	6 464 047	57 333	99 099	—	—	6 216 065	6 563 146
69 540	72 909	1 843 547	2 134 805	105 872	107 158	−34 898	−27 252	1 914 521	2 214 711
−19 746	−32 761	−854 717	−1 049 343	−71 377	−62 177	22 532	24 481	−903 562	−1 087 039
−4 202	−6 338	−54 924	−62 524	−53 329	−57 462	1 399	1 399	−106 854	−118 587
−1 364	−118	−4 060	−16 816	—	−1 099	—	—	−4 060	−17 915
—	36	3 804	2 783	—	800	—	—	3 804	3 583
35 004	25 326	93 497	46 129	33 487	−8 498	1 494	297	128 478	37 928
4 390 916	4 201 886	69 626 636	72 324 224	6 240 937	6 035 116	−3 591 935	−4 272 759	72 275 638	74 086 581
3 350 377	3 251 863	66 208 226	69 130 194	4 020 920	3 847 477	−1 765 098	−2 534 832	68 464 048	70 442 839
65 239	70 774	110 675	121 744	6 535	20 203	−19 803	−19 803	97 407	122 144

Information by region (Group)

in € thousands	Revenue from external customers[1]		Non-current assets[2]	
	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Germany	6 129 214	6 442 820	2 055 246	2 003 255
Czech Republic	84 392	117 553	8 418	9 026
Other countries	2 459	2 773	584	594
Total	**6 216 065**	**6 563 146**	**2 064 248**	**2 012 875**

1 Revenues were allocated to the operating units based on the country of registration, and they consist of interest, commission and rental income, and earned premiums (net) from insurance business.
2 Non-current assets include investment property, intangible assets with the exception of capitalised insurance portfolios, and property, plant and equipment.

Notes concerning the consolidated balance sheet

(1) Cash reserves

in € thousands	31.12.2016	31.12.2015
Cash on hand	3 481	3 213
Deposits with central banks	362 776	296 043
Deposits with foreign postal giro offices	225	198
Cash reserves	**366 482**	**299 454**

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

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

in € thousands	31.12.2016	31.12.2015
Financial assets at fair value through profit or loss	–	8 315
Receivables	–	11 062
Risk provision	–	– 1 278
Financial assets available for sale	–	69 003
Financial assets accounted for using the equity method	15 211	–
Investment property	–	2 269
Reinsurers' portion of technical provisions	–	381
Other assets	–	6 270
Non-current assets held for sale and discontinued operations	**15 211**	**96 022**

in € thousands	31.12.2016	31.12.2015
Liabilities	–	4 087
Technical provisions	–	69 542
Other provisions	–	2 602
Other liabilities	–	3 504
Liabilities under non-current assets classified as held for sale and discontinued operations	**–**	**79 735**

Non-current assets held for sale and discontinued operations consist of interests in a credit institution included under “All other segments” that is accounted for using the equity method. The sale was made for strategic reasons and is expected to close during the 2017 financial year.

Cumulative unrealised gains and losses recognised under “Other comprehensive income” that are related to non-current assets classified as held for sale amounted to €1.3 million (previous year: €10.1 million).

Non-current assets held for sale and discontinued operations as at 31 December 2015 consisted of the assets of two Czech subsidiaries in “All other segments”, a residential property in third-party use in Munich in the Life and Health Insurance segment and an investment in the Home Loan and Savings Bank segment, all of which were dis-posed of in the first half-year of 2016. The sales were made for strategic reasons, for reasons of diversification and in light of the takeover of Visa Europe Ltd. by Visa Inc., USA.

The sale of the Czech subsidiaries resulted in a gain of €6.4 million. This gain is recognised in the consolidated income statement under “Income from financial assets available for sale” and under “Net other operating income/expense”. The sale of the property resulted in a gain of €13.4 million, which is recognised under "Income from investment property”.

The sale of the participation in the Home Loan and Savings Bank segment resulted in a gain of €5.2 million, which is recognised under "Income from financial assets available for sale".

In addition, various investment properties slated for disposal from life and health insurance were sold over the course of the year. The properties were sold for reasons of diversification. Thus, their sale served to further optimize the property portfolio of the W&W Group. This resulted in a disposal gain totalling €34.3 million, which is recognised in the income and expenses from investment properties.

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

in € thousands	31.12.2016	31.12.2015
Designated as financial assets at fair value through profit or loss	**2 480 041**	**2 403 586**
Equity instruments	49 940	50 191
Senior fixed-income securities	165 243	234 938
Structured products	631 666	607 660
Capital investments for the account and risk of holders of life insurance policies	1 633 192	1 510 797
Financial assets held for trading	**516 656**	**839 685**
Equity instruments	13 532	9 796
Derivative financial instruments	503 124	829 889
Financial assets at fair value through profit or loss	**2 996 697**	**3 243 271**

The change in the fair value of receivables that were designated as financial assets at fair value through profit or loss is attributable to a change in the credit risk in the amount of –€5.3 million (previous year: –€1.5 million). The resulting cumulative change in fair value amounts to –€12.0 million (previous year: –€6.7 million). The change in fair value attributable to changes in creditworthiness is determined using a difference calculation based on the credit-spread change in the reporting year.

(4) Financial assets available for sale

	Amortised cost		Unrealised gains (gross)		Unrealised losses (gross)		Fair value/carrying amount	
in € thousands	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Equity instruments	**2 865 759**	**3 013 531**	**525 888**	**541 651**	**–54 291**	**–161 223**	**3 337 356**	**3 393 959**
Investments	1 023 354	931 960	326 605	288 600	–22 357	–23 683	1 327 602	1 196 877
Equities	525 066	682 028	143 826	150 409	–28 220	–37 018	640 672	795 419
Fund units	1 317 339	1 399 543	55 457	102 642	–3 714	–100 522	1 369 082	1 401 663
Subordinated securities and receivables	**1 242 612**	**1 242 373**	**28 493**	**20 288**	**–12 648**	**–29 069**	**1 258 457**	**1 233 592**
Senior fixed-income securities	**19 097 893**	**18 918 191**	**1 078 409**	**976 318**	**–207 641**	**–262 389**	**19 968 661**	**19 632 120**
Financial assets available for sale	**23 206 264**	**23 174 095**	**1 632 790**	**1 538 257**	**–274 580**	**–452 681**	**24 564 474**	**24 259 671**

(5) Receivables

in € thousands	31.12.2016	31.12.2015
Subordinated securities and receivables	**122 334**	**127 641**
First-rank receivables from institutional investors[1]	**14 311 613**	**15 688 698**
Credit institutions	10 328 264	10 998 698
Other financial companies	68 553	376 907
Other companies	40 147	198 805
Public authorities	3 870 656	4 117 141
Portfolio hedge adjustment	**3 993**	**–2 853**
Building loans	23 708 597	24 293 438
Loans under home loan savings contracts	2 209 983	2 565 412
Preliminary and interim financing loans	11 739 422	11 481 035
Other building loans	9 568 737	10 065 111
Portfolio hedge adjustment	190 455	181 880
Other loans and receivables	**2 718 341**	**2 588 786**
Other loans and advances[2]	2 347 544	2 195 584
from customers	373 470	399 563
from credit institutions	1 974 074	1 796 021
due on demand	656 260	643 877
not due on demand	1 317 814	1 152 144
Other receivables[3]	370 797	393 202
Receivables from reinsurance business	78 919	77 039
Receivables from insurance agents	61 147	68 902
Receivables from policyholders	224 255	238 833
Miscellaneous other receivables	6 476	8 428
Receivables	**40 860 885**	**42 698 563**

1 Includes senior debenture bonds and registered bonds.
2 Receivables that constitute a class pursuant to IFRS 7.
3 Receivables that do not constitute a class pursuant to IFRS 7 and essentially contain receivables from insurance business with disclosure requirements pursuant to IFRS 4.

The carrying amount of receivables as a whole less impairments in the form of risk provision amounted to €40,691.6 million (previous year: €42,498.7 million).

The sub-item "Portfolio hedge adjustment" contains a measurement item from the interest-rate-based measurement of loans and advances to customers, registered bonds and debenture bonds designated in connection with the portfolio fair value hedge. Recognised here was the change in the hedged item as relates to the hedged risk. The portfolio of derivatives as at 31 December 2016 resulted from earlier portfolio fair value hedges.

(6) Risk provision

The counterparty risk with receivables is taken into account in the financial statements through the creation of individual and portfolio impairment provisions. In the W&W Group, these are generally recgnised under the item "Risk provision".

Interest income accrued on impaired assets is recognised as an interest effect.

Changes in value during the 2016 financial year

in € thousands	Opening balance 1.1.2016	Reclassifications
Subordinated securities and receivables	**–25**	**–**
Individual/collective impairment provisions	–	–
Impairment provisions created on a portfolio basis	–25	–
First-rank receivables from institutional investors	**–1 073**	**–**
Individual/collective impairment provisions	–	–
Impairment provisions created on a portfolio basis	–1 073	–
Building loans	**–157 854**	**973**
Individual/collective impairment provisions	–127 004	15 354
Impairment provisions created on a portfolio basis	–30 850	–14 381
Other loans and receivables	**–40 893**	**–973**
Other loans and advances[1]	–13 034	–973
Individual/collective impairment provisions	–12 813	–1 032
Impairment provisions created on a portfolio basis	–221	59
Other receivables[2]	–27 859	–
Individual/collective impairment provisions	–4 687	–
Impairment provisions created on a portfolio basis	–23 172	–
Risk provision	**–199 845**	**–**
Individual/collective impairment provisions	–144 504	14 322
Impairment provisions created on a portfolio basis	–55 341	–14 322

1 Receivables that constitute a class pursuant to IFRS 7.
2 Receivables that do not constitute a class pursuant to IFRS 7 and essentially contain receivables from insurance business with disclosure requirements pursuant to IFRS 4.

	Additions	Utilisation	Release	Currency effects	Interest effect	Closing balance 31.12.2016
	–27	**–**	**30**	**–**	**–**	**–22**
	–	–	–	–	–	–
	–27	–	30	–	–	–22
	–1 189	**–**	**965**	**–**	**–**	**–1 297**
	–	–	–	–	–	–
	–1 189	–	965	–	–	–1 297
	–66 809	**11 828**	**70 789**	**–7**	**9 558**	**–131 522**
	–44 870	11 828	37 120	–6	9 558	–98 020
	–21 939	–	33 669	–1	–	–33 502
	–5 633	**2 511**	**8 520**	**–**	**21**	**–36 447**
	–3 759	2 337	2 381	–	21	–13 027
	–3 219	2 337	2 095	–	21	–12 611
	–540	–	286	–	–	–416
	–1 874	174	6 139	–	–	–23 420
	–769	174	1 750	–	–	–3 532
	–1 105	–	4 389	–	–	–19 888
	–73 658	**14 339**	**80 304**	**–7**	**9 579**	**–169 288**
	–48 858	14 339	40 965	–6	9 579	–114 163
	–24 800	–	39 339	–1	–	–55 125

Changes in value during the 2015 financial year

in € thousands	Opening balance 1.1.2015	Reclassifications	Reclassifications
Subordinated securities and receivables	**−22**	**—**	**—**
Individual/collective impairment provisions	—	—	—
Impairment provisions created on a portfolio basis	−22	—	—
First-rank receivables from institutional investors	**−1 552**	**—**	**—**
Individual/collective impairment provisions	—	—	—
Impairment provisions created on a portfolio basis	−1 552	—	—
Building loans	**−173 008**	**—**	**—**
Individual/collective impairment provisions	−136 301	12 981	—
Impairment provisions created on a portfolio basis	−36 707	−12 981	—
Other loans and receivables	**−39 984**	**—**	**1 429**
Other loans and advances[1]	−12 351	—	—
Individual/collective impairment provisions	−11 974	−67	—
Impairment provisions created on a portfolio basis	−377	67	—
Other receivables[2]	−27 633	—	1 429
Individual/collective impairment provisions	−5 102	—	1 429
Impairment provisions created on a portfolio basis	−22 531	—	—
Risk provision	**−214 566**	**—**	**1 429**
Individual/collective impairment provisions	−153 377	12 914	1 429
Impairment provisions created on a portfolio basis	−61 189	−12 914	—

1 Receivables that constitute a class pursuant to IFRS 7.
2 Receivables that do not constitute a class pursuant to IFRS 7 and essentially contain receivables from insurance business with disclosure requirements pursuant to IFRS 4.

	Additions	Utilisation	Release	Currency effects	Interest effect	Closing balance 31.12.2015
	–20	**—**	**17**	**—**	**—**	**–25**
	—	—	—	—	—	—
	–20	—	17	—	—	–25
	–250	**—**	**729**	**—**	**—**	**–1 073**
	—	—	—	—	—	—
	–250	—	729	—	—	–1 073
	–85 478	**15 766**	**72 519**	**–791**	**13 138**	**–157 854**
	–66 487	15 766	34 690	–791	13 138	–127 004
	–18 991	—	37 829	—	—	–30 850
	–9 026	**1 876**	**4 901**	**–117**	**28**	**–40 893**
	–4 270	1 741	1 898	–80	28	–13 034
	–4 022	1 741	1 561	–80	28	–12 813
	–248	—	337	—	—	–221
	–4 756	135	3 003	–37	—	–27 859
	–1 772	135	660	–37	—	–4 687
	–2 984	—	2 343	—	—	–23 172
	–94 774	**17 642**	**78 166**	**–908**	**13 166**	**–199 845**
	–72 281	17 642	36 911	–908	13 166	–144 504
	–22 493	—	41 255	—	—	–55 341

(7) Positive market values from hedges

in € thousands	31.12.2016	31.12.2015
Cash flow hedges	**16 689**	**24 342**
Hedging of interest rate risk	16 689	24 342
Fair value hedges	**4 742**	**33 630**
Hedging of interest rate risk	4 742	33 630
Positive market values from hedges	**21 431**	**57 972**

(8) Financial assets accounted for using the equity method

in € thousands	2016	2015
Carrying amount as at 1 January	**122 144**	**184 192**
Additions	–	2 263
Disposals	–	–4 772
Dividend payments	–20 416	–81 475
Classified as held for sale	–15 211	–
Pro rata share of net income	8 129	21 540
Reversals of impairment losses	–	567
Changes recognised directly in equity	2 761	–171
Carrying amount as at 31 December	**97 407**	**122 144**

The amount recognised in the reporting year under "Classified as held for sale" relates to interests in V-Bank AG, which we are planning to sell (see also Note 2, "Non-current assets held for sale and discontinued operations").

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		Gesamt	
in € thousands	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Holding, in %	35.00	35.00	49.92	49.83		
thereof reclassified to “Non-current assets held for sale”	–	–	34.92	–		
Share of voting rights (where different), in %	–	–	40.00	40.00		
Assets	272 365	327 716	1 242 737	1 029 880	1 515 102	1 357 596
Liabilities	12 731	36 457	1 206 083	996 257	1 218 814	1 032 714
Net assets (100%)	**259 634**	**291 259**	**36 654**	**33 623**	**296 288**	**324 882**
Group share of net assets	**90 872**	**101 941**	**18 297**	**16 754**	**109 169**	**118 695**
Reconciliation	–	–	3 449	3 449	3 449	3 449
Carrying amount of financial assets accounted for using the equity method	**90 872**	**101 941**	**21 746**	**20 203**	**112 618**	**122 144**
thereof reclassified to “Non-current assets held for sale”	–	–	15 211	–	15 211	–

	BWK GmbH Unternehmens-beteiligungsgesellschaft		V-Bank AG		Gesamt	
in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Revenue	25 946	79 337	17 322	18 464	43 268	97 801
Net income (100%)	19 458	54 659	2 641	4 098	22 099	58 757
Other comprehensive income (100%)	4 417	–811	2 377	645	6 794	–166
Total income (100%)	**23 875**	**53 848**	**5 018**	**4 743**	**28 893**	**58 591**
Group share of net income	6 810	19 131	1 319	2 042	8 129	21 173
Group share of other comprehensive income	1 546	–284	1 186	321	2 732	38
Group share of total income	**8 356**	**18 847**	**2 505**	**2 363**	**10 861**	**21 210**
Dividends received	19 425	80 675	991	–	20 416	80 675

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.

(9) Investment property

As at the end of the year, the fair value of investment property amounted to €2,173.1 million (previous year: €2,124.2 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 2016, there were contractual obligations to purchase and construct investment property amounting to €262.3 million (previous year: €73.6 million). There are no material contractual obligations to develop investment property or for repairs, maintenance or improvements.

in € thousands	2016	2015
Gross carrying amounts as at 1 January	**2 077 103**	**2 159 624**
Additions	120 750	143 553
Disposals	–835	–594
Reclassifications	4 937	–
Classified as held for sale	–64 314	–225 480
As at 31 December	**2 137 641**	**2 077 103**
Cumulative depreciation and impairments as at 1 January	**–354 425**	**–390 266**
Additions (scheduled depreciation)	–45 687	–47 341
Additions (impairments)	–1 882	–1 259
Disposals	267	514
Reversals of impairment losses	3 804	2 783
Reclassifications	–1 770	–
Classified as held for sale	4 280	81 144
As at 31 December	**–395 413**	**–354 425**
Net carrying amounts as at 1 January	**1 722 678**	**1 769 358**
Net carrying amounts as at 31 December	**1 742 228**	**1 722 678**

Additions contain capitalised construction costs in the amount of €12.7 million (previous year: €42.4 million).

Impairment losses in the current period in the amount of €1.9 million (previous year: €1.3 million) relate to various residential and commercial properties for which the net realisable value was less than the carrying amount. The reasons for this include, by way of example, declines in land values and achievable sales prices.

(10) Reinsurers' portion of technical provisions

in € thousands	31.12.2016	31.12.2015
Provision for unearned premiums	11 106	10 505
Provision for future policy benefits	89 562	90 372
Provision for outstanding insurance claims	211 308	230 906
Other technical provisions	1 023	962
Reinsurers' portion of technical provisions	**312 999**	**332 745**

Further remarks can be found at the corresponding liability items starting at Note 20.

(11) Intangible assets

			Remaining amortisation period (years)
in € thousands	31.12.2016	31.12.2015	
Software	82 592	69 661	1–5
Brand names	17 689	19 297	11
Other purchased intangible assets	443	622	1–7
Intangible assets	**100 724**	**89 580**	

Changes to intangible assets in 2016

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	**124 430**	**326 879**	**63 907**	**32 162**	**19 843**	**567 221**
Additions	–	44 128	120	–	10	44 258
Disposals	–106 757	–18 794	–	–	–	–125 551
Reallocations	–1 946	–	–	–	–2 279	–4 225
Changes from currency translation	–	1	–	–	–	1
As at 31 December	**15 727**	**352 214**	**64 027**	**32 162**	**17 574**	**481 704**
Cumulative amortisation and impairments as at 1 January	**–124 430**	**–257 226**	**–63 899**	**–12 865**	**–19 221**	**–477 641**
Additions (scheduled amortisation)	–	–28 494	–8	–1 608	–189	–30 299
Additions (impairments)	–	–2 178	–	–	–	–2 178
Disposals	106 757	18 158	–	–	–	124 915
Reallocations	1 946	–	–	–	2 279	4 225
Changes from currency translation	–	–2	–	–	–	–2
As at 31 December	**–15 727**	**–269 742**	**–63 907**	**–14 473**	**–17 131**	**–380 980**
Net carrying amounts as at 1 January	**–**	**69 653**	**8**	**19 297**	**622**	**89 580**
Net carrying amounts as at 31 December	**–**	**82 472**	**120**	**17 689**	**443**	**100 724**

Changes to intangible assets in 2015

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	**128 703**	**308 832**	**63 907**	**32 162**	**19 782**	**553 386**
Additions	–	30 172	–	–	2	30 174
Disposals	–	–6 861	–	–	–	–6 861
Classified as held for sale	–4 437	–5 836	–	–	–	–10 273
Changes from currency translation	164	572	–	–	59	795
As at 31 December	**124 430**	**326 879**	**63 907**	**32 162**	**19 843**	**567 221**
Cumulative amortisation and impairments as at 1 January	**–111 432**	**–234 758**	**–63 851**	**–11 257**	**–15 455**	**–436 753**
Additions (scheduled amortisation)	–2 616	–31 243	–48	–1 608	–1 141	–36 656
Additions (impairments)	–12 677	–	–	–	–2 566	–15 243
Disposals	–	6 130	–	–	–	6 130
Classified as held for sale	2 381	3 004	–	–	–	5 385
Changes from currency translation	–86	–359	–	–	–59	–504
As at 31 December	**–124 430**	**–257 226**	**–63 899**	**–12 865**	**–19 221**	**–477 641**
Net carrying amounts as at 1 January	**17 271**	**74 074**	**56**	**20 905**	**4 327**	**116 633**
Net carrying amounts as at 31 December	**–**	**69 653**	**8**	**19 297**	**622**	**89 580**

On account of the replacement of a quota share reinsurance contract, the insurance portfolio of Karlsruher Lebensversicherung AG that was purchased in 2005 was fully impaired in the financial year. The impairment loss amounted to €12.7 million.

Wüstenrot Holding AG and W&W AG are parties to a brand name transfer and use agreement. As at 31 December 2016, the carrying amount of the resulting intangible asset amounted to €17.7 million (previous year: €19.3 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 11 years. As at 31 December 2016, the capitalised brand name was offset by a financial liability to Wüstenrot Holding AG in the amount of €20.6 million (previous year: €22.2 million).

Total expenditures for research and development that were recognised in the income statement for the 2016 financial year amounted to €63.3 million (previous year: €65.6 million).

There were obligations to purchase intangible assets in the amount of €0.1 million (previous year: €0.3 million).

(12) Property, plant and equipment

There were obligations to purchase property, plant and equipment in the amount of €2.9 million (previous year: €0.2 million).

Property for own use included leased assets in the amount of €21.8 million (previous year: €24.5 million). Scheduled depreciation of leased assets included in property for own use was recognised in the amount of €2.7 million (previous year: €2.7 million). Plant and equipment included leased assets in the amount of €4.9 million (previous year: €2.1 million). Scheduled depreciation of leased assets included in plant and equipment was recognised in the amount of €1.1 million (previous year: €1.0 million).

Additions to property for own use included costs for assets under construction in the amount of €39.8 million (previous year: €14.2 million).

Property, plant and equipment

	Property for own use		Plant and equipment		Total	
in € thousands	2016	2015	2016	2015	2016	2015
Gross carrying amounts as at 1 January	**397 800**	**392 615**	**207 091**	**216 712**	**604 891**	**609 327**
Additions	41 906	15 172	13 909	11 709	55 815	26 881
Disposals	-112	-338	-24 921	-18 975	-25 033	-19 313
Reclassifications	-4 967	–	30	–	-4 937	–
Classified as held for sale	-1 177	-9 785	–	-2 564	-1 177	-12 349
Changes from currency translation	–	136	–	209	–	345
As at 31 December	**433 450**	**397 800**	**196 109**	**207 091**	**629 559**	**604 891**
Cumulative depreciation and impairments as at 1 January	**-220 204**	**-204 410**	**-164 773**	**-166 869**	**-384 977**	**-371 279**
Additions (scheduled depreciation)	-14 376	-16 775	-16 492	-17 815	-30 868	-34 590
Additions (impairments)	–	-1 412	–	–	–	-1 412
Disposals	69	171	22 550	18 184	22 619	18 355
Reversals of impairment losses	–	800	–	–	–	800
Reclassifications	1 777	–	-7	–	1 770	–
Classified as held for sale	883	1 479	–	1 869	883	3 348
Changes from currency translation	–	-57	-1	-142	-1	-199
As at 31 December	**-231 851**	**-220 204**	**-158 723**	**-164 773**	**-390 574**	**-384 977**
Net carrying amounts as at 1 January	**177 596**	**188 205**	**42 318**	**49 843**	**219 914**	**238 048**
Net carrying amounts as at 31 December	**201 599**	**177 596**	**37 386**	**42 318**	**238 985**	**219 914**

(13) Inventories

Inventories in the amount of €89.4 million (previous year: €73.3 million) relate to property development business and primarily include land and buildings held for sale, as well as land with buildings under construction. The carrying amount of inventories recognised at the lower fair value less costs of disposal amounts to €4.8 million (previous year: €5.5 million). Also recognised under "Inventories" are raw materials and consumables in the amount of €0.4 million (previous year: €0.4 million).

No impairment provisions were created for inventories in the reporting year (previous year: €104.0 thousand). Expenses for the utilisation of inventories during the reporting period amounted to €34.8 million (previous year: €49.6 million). No inventories were pledged as collateral for liabilities in either the reporting year or the previous year.

(14) Current tax assets

Current tax assets relate to current tax receivables, and they are expected to be realised in the amount of €60.3 million (previous year: €28.2 million) within 12 months.

(15) Deferred tax assets

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

in € thousands	31.12.2016	31.12.2015
Financial assets/liabilities at fair value through profit or loss,	227 678	154 687
Financial assets available for sale	34 808	23 745
Receivables	14 870	14 252
Positive and negative market values from hedges	—	146 598
Financial assets accounted for using the equity method	8	—
Liabilities	19 345	34 423
Technical provisions	139 131	137 402
Provisions for pensions and other obligations	313 133	271 746
Other items	139 127	133 222
Tax loss carryforward	366	657
Deferred tax assets	**888 466**	**916 732**

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 described in Note 39.

Deferred taxes on provisions for pensions and other obligations in the amount of €258.9 million (previous year: €215.3 million) were recognised directly in the reserve for pension commitments.

Deferred tax assets in the amount of €111.1 million (previous year: €114.6 million) and deferred taxes on tax loss carryforwards in the amount of €0.3 million (previous year: €0.5 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 €4.1 million (previous year: €2.9 million) were not recognised, as they are not expected to be realised in the medium term.

(16) Other assets
Other assets mainly had to do with prepaid insurance benefits for the following year.

(17) Financial liabilities at fair value through profit or loss

in € thousands	31.12.2016	31.12.2015
Financial liabilities held for trading	**1 129 266**	**752 411**
Derivative financial instruments	1 129 266	752 411
Financial liabilities at fair value through profit or loss	**1 129 266**	**752 411**

The change in the sub-item "Derivative financial instruments" is mainly the result of market changes to interest-rate-based and currency-based derivatives that are not used in connection with hedge accounting.

(18) Liabilities

in € thousands	31.12.2016	31.12.2015
Liabilities evidenced by certificates	**647 685**	**1 056 854**
Liabilities to credit institutions	**2 252 968**	**4 122 614**
Liabilities to customers	**25 418 956**	**25 335 037**
Deposits from home loan savings business and savings deposits	18 544 454	18 257 833
Other liabilities	6 819 347	7 053 730
Down payments received	55 155	23 474
Finance lease liabilities	**28 129**	**28 413**
Miscellaneous liabilities	**1 248 885**	**1 285 386**
Other liabilities[1]	351 744	377 286
Sundry liabilities[2]	897 141	908 100
Liabilities from reinsurance business	128 785	127 085
Liabilities from direct insurance business	655 359	675 923
Other sundry liabilities	112 997	105 092
Liabilities	**29 596 623**	**31 828 304**

1 Liabilities that constitute a class pursuant to IFRS 7.
2 Liabilities that do not constitute a class pursuant to IFRS 7 and essentially contain liabilities from insurance business with disclosure requirements pursuant to IFRS 4.

Of the other liabilities from liabilities to customers, €4,184.5 million (previous year: €4,337.3 million) are due on demand and €2,634.9 million (previous year: €2,716.4 million) have a fixed term.

Of the liabilities from direct insurance business within sundry liabilities, €597.5 million (previous year: €621.4 million) were attributable to policyholders and €57.8 million (previous year: €54.5 million) to insurance agents.

The fair value of each liability can be obtained from the measurement hierarchy. The carrying amount of sundry liabilities corresponds to fair value.

(19) Negative market values from hedges

in € thousands	31.12.2016	31.12.2015
Cash flow hedges	**–**	**12 000**
Hedging of interest rate risk	–	12 000
Fair value hedges	**–**	**532 643**
Hedging of interest rate risk	–	532 643
Negative market values from hedges	**–**	**544 643**

(20) Technical provisions

	Gross	
in € thousands	31.12.2016	31.12.2015
Provision for unearned premiums	249 337	254 998
Provision for future policy benefits	28 310 409	28 059 448
Provision for outstanding insurance claims	2 525 075	2 505 739
Provision for premium refunds	2 201 023	2 007 923
Other technical provisions	33 904	32 430
Technical provisions	**33 319 748**	**32 860 538**

Provision for unearned premiums

	Gross	Reinsurers' portionr	Gross	Reinsurers' portion
in € thousands	2016	2016	2015	2015
As at 1 January	**254 998**	**10 505**	**267 611**	**16 100**
Additions	249 337	11 106	264 250	10 653
Withdrawals	−254 998	−10 505	−267 611	−16 100
Classified as held for sale	–	–	−9 252	−148
As at 31 December	**249 337**	**11 106**	**254 998**	**10 505**

Provision for future policy benefits

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	31.12.2016	31.12.2016	31.12.2015	31.12.2015
Life insurance	27 707 387	89 562	27 536 230	90 372
Health insurance	603 022	–	523 218	–
Provision for future policy benefits	**28 310 409**	**89 562**	**28 059 448**	**90 372**

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

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	2016	2016	2015	2015
Provision for future policy benefits	26 025 434	–	25 701 428	–
Provision for future policy benefits for unit-linked insurance contracts	1 510 797	–	1 394 457	–
Receivables not yet due from policyholders	–152 950	–	–178 415	–
As at 1 January	**27 383 281**	**90 372**	**26 917 470**	**1 085 875**
Additions from premiums[1]	1 692 633	–	1 766 889	–
Use and release[1]	–2 563 286	–	–2 504 120	–
Interest[1]	732 420	–	781 906	–
Other changes[1]	326 841	–810	460 558	–995 318
Changes from currency translation	–	–	1 201	–
Classified as held for sale	–	–	–40 623	–185
As at 31 December	**27 571 889**	**89 562**	**27 383 281**	**90 372**
Provision for future policy benefits	26 074 195	–	26 025 434	–
Provision for future policy benefits for unit-linked insurance contracts	1 633 192	–	1 510 797	–
Receivables not yet due from policyholders	–135 498	–	–152 950	–

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	2016	2015
As at 1 January	**523 218**	**447 823**
Share of association rates	–54 769	–47 034
As at 1 January, not including association rates	**468 449**	**400 789**
Premiums from the provision for premium refunds	8 491	7 600
Additions from premiums	50 180	45 843
Interest	14 589	13 821
Direct credits	2 937	396
As at 31 December, not including association rates	**544 646**	**468 449**
Share of association rates	58 376	54 769
As at 31 December	**603 022**	**523 218**

Provision for outstanding insurance claims

in € thousands	Gross 31.12.2016	Reinsurers' portion 31.12.2016	Gross 31.12.2015	Reinsurers' portion 31.12.2015
Life and health insurance	207 494	12 071	185 393	12 865
Property/casualty insurance and reinsurance	2 317 581	199 237	2 320 346	218 041
Provision for outstanding insurance claims	**2 525 075**	**211 308**	**2 505 739**	**230 906**

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

in € thousands	Gross 2016	Reinsurers' portion 2016	Gross 2015	Reinsurers' portion 2015
As at 1 January	**185 393**	**12 865**	**171 855**	**13 622**
Changes recognised in the income statement	22 101	−794	17 194	−757
Changes from currency translation	–	–	87	–
Classified as held for sale	–	–	−3 743	–
As at 31 December	**207 494**	**12 071**	**185 393**	**12 865**

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

in € thousands	Gross 2016	Reinsurers' portion 2016	Gross 2015	Reinsurers' portion 2015
As at 1 January	**2 320 346**	**218 041**	**2 320 906**	**237 558**
Additions	544 771	27 863	576 728	27 905
Use	−406 881	−40 893	−446 568	−42 048
Release	−134 823	−4 433	−133 156	−7 214
Changes from currency translation	−5 832	−1 341	17 985	1 889
Classified as held for sale	–	–	−15 549	−49
As at 31 December	**2 317 581**	**199 237**	**2 320 346**	**218 041**

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	31.12.2007	31.12.2008	31.12.2009	31.12.2010
Provision for outstanding insurance claims (gross)	**2 484 998**	**2 429 062**	**2 258 500**	**2 202 643**
Less provision for claim adjustment expenses	172 324	177 773	170 523	170 487
Provision for outstanding insurance claims (gross)	**2 312 674**	**2 251 289**	**2 087 977**	**2 032 156**
Payments, cumulative (gross)				
One year later	373 623	356 844	349 610	333 833
Two years later	571 862	539 706	505 236	473 612
Three years later	723 852	660 466	606 390	574 571
Four years later	829 667	747 518	685 578	638 949
Five years later	908 632	817 221	739 475	707 944
Six years later	973 544	866 843	801 919	757 448
Seven years later	1 019 602	925 006	846 355	–
Eight years later	1 074 668	967 231	–	–
Nine years later	1 114 056	–	–	–
Original provision, reestimated (gross)				
One year later	2 201 835	2 056 229	1 937 934	1 900 053
Two years later	2 068 141	1 929 577	1 854 617	1 809 559
Three years later	1 977 431	1 877 765	1 782 319	1 719 811
Four years later	1 947 650	1 820 033	1 701 983	1 687 446
Five years later	1 911 421	1 764 633	1 685 453	1 666 085
Six years later	1 866 972	1 751 092	1 671 109	1 658 294
Seven years later	1 859 938	1 747 082	1 672 413	–
Eight years later	1 859 761	1 752 562	–	–
Nine years later	1 865 577	–	–	–
Cumulative gross surplus (deficit) excluding currency rate effects	**447 096**	**498 726**	**415 564**	**373 862**
Cumulative gross surplus (deficit) including currency rate effects	**463 658**	**487 478**	**384 812**	**353 604**

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

31.12.2011	31.12.2012	31.12.2013	31.12.2014	31.12.2015	31.12.2016
2 138 684	**2 115 807**	**2 298 051**	**2 307 159**	**2 320 346**	**2 317 581**
151 053	143 828	146 869	151 782	149 474	152 178
1 987 631	**1 971 979**	**2 151 182**	**2 155 377**	**2 170 872**	**2 165 403**
323 446	342 885	423 322	364 833	348 789	–
470 817	466 803	587 072	505 919	–	–
554 140	568 052	682 855	–	–	–
634 042	636 356	–	–	–	–
690 416	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
1 864 927	1 867 591	2 075 251	2 021 321	2 028 815	–
1 768 517	1 801 134	1 970 230	1 927 813	–	–
1 727 154	1 746 498	1 917 310	–	–	–
1 688 593	1 715 199	–	–	–	–
1 675 483	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
312 148	**256 779**	**233 871**	**227 565**	**142 058**	**–**
292 871	**257 000**	**207 050**	**208 230**	**145 606**	**–**

Net run-off triangle[1]

in € thousands	31.12.2007	31.12.2008	31.12.2009	31.12.2010
Provision for outstanding insurance claims (gross)	**2 484 998**	**2 429 062**	**2 258 500**	**2 202 643**
Reinsurers' portion	373 773	334 940	287 061	243 629
Provision for outstanding insurance claims (net)	**2 111 225**	**2 094 122**	**1 971 439**	**1 959 014**
Less provision for claim adjustment expenses	160 629	169 032	163 587	161 599
Provision for outstanding insurance claims (net)	**1 950 596**	**1 925 090**	**1 807 852**	**1 797 415**
Payments, cumulative (net)				
One year later	312 607	314 965	309 573	308 239
Two years later	480 505	464 896	446 424	429 469
Three years later	600 873	568 372	531 379	516 963
Four years later	690 323	640 486	599 306	572 590
Five years later	754 356	698 933	644 506	632 887
Six years later	808 012	739 858	697 746	–
Seven years later	845 372	788 817	732 375	–
Eight years later	891 235	821 236	–	–
Nine years later	920 817	–	–	–
Original provision, reestimated (net)				
One year later	1 836 515	1 744 819	1 674 852	1 657 659
Two years later	1 710 090	1 635 543	1 583 566	1 572 665
Three years later	1 636 417	1 574 599	1 519 164	1 485 203
Four years later	1 598 080	1 515 109	1 440 743	1 445 935
Five years later	1 541 851	1 461 622	1 415 218	1 430 759
Six years later	1 499 316	1 439 960	1 409 210	1 424 467
Seven years later	1 483 260	1 443 412	1 411 802	–
Eight years later	1 492 200	1 450 181	–	–
Nine years later	1 499 560	–	–	–
Cumulative net surplus (deficit) excluding currency rate effects	**451 036**	**474 909**	**396 050**	**372 947**
Cumulative net surplus (deficit) including currency rate effects	**463 189**	**463 949**	**369 814**	**354 096**
Net run-off ratios, in %				
Excluding currency rate effects	23.12	24.67	21.91	20.75
Including currency rate effects	23.75	24.10	20.46	19.70

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

	31.12.2011	31.12.2012	31.12.2013	31.12.2014	31.12.2015	31.12.2016
	2 138 684	**2 115 807**	**2 298 051**	**2 307 159**	**2 320 346**	**2 317 581**
	240 553	213 375	316 616	237 472	218 041	199 237
	1 898 131	**1 902 432**	**1 981 434**	**2 069 687**	**2 102 305**	**2 118 344**
	145 605	146 226	148 891	149 880	151 350	153 953
	1 752 526	**1 756 206**	**1 832 543**	**1 919 807**	**1 950 955**	**1 964 391**
	292 000	314 905	307 660	323 041	–	–
	420 514	427 222	438 212	–	–	–
	493 036	518 813	–	–	–	–
	564 039	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	1 631 744	1 652 034	1 734 546	1 793 132	–	–
	1 533 715	1 580 346	1 638 230	–	–	–
	1 486 977	1 532 754	–	–	–	–
	1 454 094	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	310 856	**254 064**	**243 863**	**216 870**	**133 794**	**–**
	305 627	**258 059**	**223 389**	**212 042**	**136 247**	**–**
	17.74	14.47	13.31	11.30	6.86	–
	17.44	14.69	12.19	11.04	6.98	–

Provision for premium refunds

The provision for premium refunds changed as follows:

in € thousands	2016	2015
As at 1 January	**2 007 923**	**2 571 001**
Provision for premium refunds as at 1 January	**1 479 924**	**1 513 414**
Additions	189 347	185 010
Withdrawals with effect on liquidity	–126 777	–133 274
Withdrawals with no effect on liquidity	–71 324	–84 861
Change due to currency	–	10
Classified as held for sale	–	–375
As at 31 December	**1 471 170**	**1 479 924**
Provision for deferred premium refunds as at 1 January	**527 999**	**1 057 586**
Changes recognised in the income statement	92 940	98 115
Changes recognised directly in equity	108 914	–627 702
As at 31 December	**729 853**	**527 999**
As at 31 December	**2 201 023**	**2 007 923**

Other technical provisions

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	2016	2016	2015	2015
As at 1 January	**32 430**	**962**	**33 629**	**814**
Additions	33 904	1 023	32 430	962
Use and release	–32 430	–962	–33 629	–814
As at 31 December	**33 904**	**1 023**	**32 430**	**962**

(21) Other provisions

Provision for premium refunds

in € thousands	31.12.2016	31.12.2015
Provisions for pensions	1 921 840	1 771 074
Provisions for other long-term employee benefits	66 245	76 414
Total	**1 988 085**	**1 847 488**

Provisions for pensions

The change in the projected benefit obligation is depicted in the following:

Projected benefit obligation

in € thousands	2016	2015
As at 1 January	**1 771 074**	**1 854 066**
Income and expenses recognised in the consolidated income statement	56 396	56 459
Current service cost	21 506	24 487
Gains/losses from plan settlements and curtailments	–3	–53
Interest expenses	34 893	32 025
Actuarial gains (-) or losses (+) recognised in other comprehensive income	155 908	–80 114
Pension payments (utilisation)	–61 538	–59 337
As at 31 December	**1 921 840**	**1 771 074**

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.

The sharp change in actuarial losses (previous year: gains) was attributable to the fall (previous year: rise) in the actuarial interest rate from 2.0% to 1.5% (previous year: from 1.75% to 2.0%).

Current service cost is recognised in the consolidated income statement under “General administrative expenses”. Interest expenses are recognised under "Net income/expense from receivables, liabilities and subordinated capital".

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

in %	2016	2015
Actuarial interest rate	1.50	2.00
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 2005G	Heubeck mortality tables 2005G

Sensitivity analysis

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

Present value of defined-benefit pension commitments

		31.12.2016		31.12.2015	
		Present value in € millions	Change in %	Present value in € millions	Change in %
Discount rate	+50 bp	1 772.2	–7.8	1 637.9	–7.5
	–50 bp	2 091.4	8.9	1 922.3	8.5
Trend in pension/inflation	+25 bp	1 973.4	2.7	1 818.5	2.7
	–25 bp	1 871.6	–2.6	1 725.7	–2.5
Trends in salaries/projected benefit obligation	+25 bp	1 930.4	0.5	1 779.2	0.5
	–25 bp	1 912.4	–0.5	1 763.0	–0.5
Life expectancy	By one more year	1 991.9	3.7	1 833.3	3.5

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 financ-ing pension commitments. In so doing, sufficient risk offsetting takes place. There is no liquidity problem.

The weighted average term to maturity of benefit obligations (Macaulay duration) amounts to 18.0 years (previous year: 16.5 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, 0.25% (previous year: 0.50%); contracts for phased-in early retirement (“Altersteilzeit”), 0.5% (previous year: 1.00%); long-term service benefits, 0.5% (previous year: 1.00%)).

Other provisions in 2016

	For restruc-turing	For the refun-ding of closing fees in the case of loan waivers	For the interest bonus option	Other	Total
in € thousands					
As at 1 January	**27 308**	**32 135**	**946 800**	**57 848**	**1 064 091**
Additions	3 251	3 535	190 326	40 566	237 678
Use	–3 335	–3 553	–120 706	–24 653	–152 247
Release	–8 447	–372	–2 870	–6 007	–17 696
Interest effect	117	1 130	28 083	17	29 347
Reclassifications	–1 890	–	–	–	–1 890
Changes from currency translation	–	–	1	–	1
As at 31 December	**17 004**	**32 875**	**1 041 634**	**67 771**	**1 159 284**

Other provisions in 2015

	For restructuring	For the refunding of closing fees in the case of loan waivers	For the interest bonus option	Other	Total
in € thousands					
As at 1 January	**28 898**	**38 427**	**885 759**	**51 328**	**1 004 412**
Additions	10 582	4 155	235 984	29 343	280 064
Use	−4 741	−9 532	−140 483	−14 263	−169 019
Release	−5 029	−748	−28 632	−5 533	−39 942
Classified as held for sale	—	—	—	−2 602	−2 602
Interest effect	119	−167	−6 076	25	−6 099
Reclassifications	−2 521	—	—	—	−2 521
Changes from currency translation	—	—	248	−450	−202
As at 31 December	**27 308**	**32 135**	**946 800**	**57 848**	**1 064 091**

Additions to restructuring provisions in the 2016 financial year mainly involved restructuring expenses in connection with the “Fit for Future” project of Württembergische Lebensversicherung AG in the Life and Health Insurance segment. For the purposes of modifying personnel capacities, measures were adopted in the form of termination agreements and outplacement. Termination benefits pursuant to IAS 19.8 exist in connection with the planned personnel measures.

Since implementation of the measures involving early retirement and termination agreements will take longer than 12 months, they were discounted using a rate of 0.50%, which was in line with the market.

The expected maturities of the amounts recognised in the balance sheet can be broken down as follows:

2016

	Within 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
in € thousands					
Other provisions for restructuring	9 898	7 106	—	—	17 004
Other provisions for the refunding of closing fees in the case of loan waivers	5 597	6 486	20 792	—	32 875
Other provisions for the interest bonus option	280 502	343 573	417 156	403	1 041 634
Other	49 345	12 063	209	6 154	67 771
Other provisions, total	**345 342**	**369 228**	**438 157**	**6 557**	**1 159 284**

2015

	Within 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
in € thousands					
Other provisions for restructuring	10 634	16 674	–	–	27 308
Other provisions for the refunding of closing fees in the case of loan waivers	6 285	7 250	18 600	–	32 135
Other provisions for the interest bonus option	264 483	317 006	365 311	–	946 800
Other	45 780	8 032	540	3 496	57 848
Other provisions, total	**327 182**	**348 962**	**384 451**	**3 496**	**1 064 091**

(22) Current tax liabilities

Current tax liabilities amounted to €227.4 million (previous year: €176.9 million) and are expected to be realised within 12 months.

(23) Deferred tax liabilities

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

in € thousands	31.12.2016	31.12.2015
Financial assets/liabilities at fair value through profit or loss	123 125	187 841[1]
Financial assets available for sale	150 632	138 438[1]
Receivables	69 515	71 784[1]
Positive and negative market values from hedges	5 682	15 423
Financial assets accounted for using the equity method	1 989	2 323
Liabilities	63 499	61 325
Technical provisions	146 049	129 409
Other items	74 001	80 565[1]
Deferred tax liabilities	**634 492**	**687 108**

1 Previous year's figure adjusted.

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 described in Note 39.

Deferred tax liabilities in the amount of €45.3 million (previous year: €49.1 million) are expected to be realised within 12 months.

(24) Other liabilities

This item contains liabilities in the amount of €6.4 million (previous year: €6.6 million).

(25) Subordinated capital

Subordinated capital is depicted in the reporting about liquidity risks (Note 53) and takes into consideration existing options to repay it prior to final maturity.

	Carrying amount	
in € thousands	31.12.2016	31.12.2015
Subordinated liabilities	368 097	541 559
Profit participation certificates	28 642	28 642
Subordinated capital	**396 739**	**570 201**

Pursuant to Section 4 (3) in conjunction with Section 4 (6) of the bond terms and conditions, Württembergische Lebensversicherung AG made use of its right to terminate and redeem the subordinated bonds issued in 2006 in the amount of €86.5 million.

Wüstenrot Bank AG Pfandbriefbank repaid subordinated liabilities totalling €75.0 million from the years 2006 and 2011.

(26) Equity

in € thousands	31.12.2016	31.12.2015
Interests of W&W shareholders in paid-in capital	1 483 639	1 487 576
Interests of W&W shareholders in earned capital	2 308 146	2 138 356
Non-controlling interests in equity	19 805	17 810
Equity	**3 811 590**	**3 643 742**

We propose appropriating the unappropriated surplus of €63.4 million that was generated by W&W AG in the 2016 financial year for distributing a dividend in the amount of €0.60 for each share entitled to receive dividends.

The proposal for the appropriation of profit takes into account the 272,780 shares held by the company at the time of publication, which, pursuant to Section 71b of the German Stock Corporation Act (AktG), are not entitled to receive dividends. The number of shares entitled to receive dividends may change prior to the Annual General Meeting. In such case, the distribution of €0.60 per share entitled to receive dividends will remain unchanged, and a correspondingly modified resolution on the appropriation of profit will be proposed to the Annual General Meeting.

On 9 June 2016, the Annual General Meeting of W&W AG resolved to distribute a dividend in the amount of €0.60 (previous year: €0.50) per share from the unappropriated surplus for the 2015 financial year as calculated in accordance with the German Commercial Code (HGB), which amounted to €61.5 million (previous year: €56.9 million). Based on the shares entitled to receive dividends, this corresponded to a maximum distribution of €56.1 million (previous year: €46.9 million). Of the remaining amount, €5.0 million (previous year: €9.0 million) was allocated to "Other reserves", and €0.5 million (previous year: €1.0 million) was carried forward to new account.

Dividends totalling €56,086,164 were distributed on 10 June 2016.

Share capital

Share capital is divided into 93,476,940 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

	31.12.2016	31.12.2015
As at 1 January	**93 749 720**	**93 749 720**
Additions through capital increase	–358 000	–
Disposals	85 220	–
As at 31 December	**93 476 940**	**93 749 720**

Authorised capital

Pursuant to Article 5 (5) of the Articles of Association of W&W AG, the Executive Board is authorised for a period of five years ending on 30 June 2019 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 28 May 2014, the Executive Board was authorised to issue warrant bonds, convertible bonds, profit participation certificates, profit participation bonds or a combination of these instruments on or before 27 May 2019. 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 no-par-value registered shares.

Non-controlling interests in equity

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

in € thousands	31.12.2016	31.12.2015
Interest in unrealised gains and losses	3 471	3 001
Interest in the consolidated net profit	2 369	1 774
Other interests	13 965	13 035
Non-controlling interests in equity	**19 805**	**17 810**

The following table provides information for each subsidiary in which there are non-controlling interests that are material for W&W AG:

	WürttLeben subgroup, Stuttgart		Wüstenrot stavebni sporitelna a.s.	
in € thousands	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Participation of non-controlling interests, in %	5.11	5.11	–	0.58
Assets (100%)	32 800 557	32 359 295	1 395 268	1 380 743
Liabilities (100%)	32 335 104	31 950 260	1 257 513	1 249 053
Net assets (100%)	**465 453**	**409 035**	**137 755**	**131 690**
Net assets attributable to WürttLeben/Wüstenrot stavebni Sporitelna	464 361	408 009	–	131 690
Net assets attributable to non-controlling interests	1 092	1 026	–	–
Carrying amount of non-controlling interests in net assets	**24 821**	**21 875**	**–**	**764**
Net income (100%)	45 506	36 348	8 148	3 409
Net income attributable to WürttLeben/Wüstenrot stavebni Sporitelna	45 477	36 137	8 148	3 409
Net income attributable to non-controlling interests	29	211	20	2046
Other comprehensive income (100%)	10 912	–65 569	2 098	2 741
Total income (100%)	**56 418**	**–29 221**	**10 246**	**6 150**
Total net income allocated to non-controlling interests	**2 353**	**2 058**	**12**	**3367**[1]
Dividends paid to non-controlling interests	–	–	–	–
Cash flows (100%)	–142 148	307 967	71 577	–54 935

1 Previous year’s figure adjusted.

Employee share ownership programme

An employee share ownership programme was introduced in the first half-year of 2016. It enabled all employees of companies in the W&W Group to acquire up to 40 of W&W AG at a price of €13.43 per share, which represented a discount of €5.00 per share. They are required to hold these shares for at least three years.

For the employee share ownership programme, the company bought back 358,000 shares of its stock. Employees purchased a total of 85,220 of these shares. Thus, as at 31 December 2016, W&W AG held 272,780 of its own shares. This resulted in personnel expenses of €0.4 million.

Notes concerning the consolidated income statement

(27) Net income from financial assets available for sale

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Income from financial assets available for sale	**1 446 410**	**1 665 597**
Interest income	465 773	504 552
Dividend income	157 231	142 463
Income from sales	656 941	690 761
Income from currency translation	157 656	316 148
Income from the ending of fair value hedges	8 159	10 607
Receipts on written-down bonds and other fixed-income securities	650	1 066
Expenses from financial assets available for sale	**–331 706**	**–258 951**
Expenses from sales	–105 392	–159 504
Expenses from impairments	–93 437	–36 488
Expenses from currency translation	–63 274	–37 307
Expenses from repurchase agreements and securities lending transactions	–2	–21
Expenses from the ending of fair value hedges	–69 601	–25 631
Net income from financial assets available for sale	**1 114 704**	**1 406 646**

(28) Net income from financial assets accounted for using the equity method

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Income from financial assets accounted for using the equity method	**8 129**	**33 543**
Income from pro rata annual surpluses	8 129	21 540
Income from the reversal of impairment losses	–	567
Income from sales	–	11 436
Net income from financial assets accounted for using the equity method	**–**	**–**
Ergebnis aus nach der Equity-Methode bilanzierten finanziellen Vermögenswerten	**8 129**	**33 543**

(29) Net expense from financial assets/liabilities at fair value through profit or loss

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Income from financial assets/liabilities at fair value through profit or loss	**1 067 089**	**1 437 532**
Income from assets/liabilities designated as financial assets/liabilities at fair value through profit or loss	204 171	288 490
Interest income	11 252	13 829
Dividend income	1 115	469
Income from measurement at fair value	67 970	73 697
Income from sales	4 019	18 303
Income from investments for the account and risk of holders of life insurance policies	84 420	113 910
Income from currency changes	35 395	68 282
Income from financial assets/liabilities held for trading	862 918	1 149 042
Interest income	124 503	236 081
Dividend income	944	219
Income from measurement at fair value	317 619	365 165
Income from sales	182 340	86 516
Income from currency changes	237 512	461 061
Expenses from financial assets/liabilities at fair value through profit or loss	**−1 293 666**	**−1 847 516**
Expenses from assets/liabilities designated as financial assets/liabilities at fair value through profit or loss	−97 686	−115 560
Expenses from measurement at fair value	−53 012	−69 493
Expenses from sales	−1 400	−1 376
Expenses from investments for the account and risk of holders of life insurance policies	−15 675	−12 516
Expenses from currency changes	−27 599	−32 175
Expenses from financial assets/liabilities held for trading	−1 195 980	−1 731 956
Interest expense	−253 859	−366 911
Expenses from measurement at fair value	−344 271	−366 464
Expenses from sales	−207 595	−142 229
Expenses from currency changes	−390 255	−856 352
Net expense from financial assets/liabilities at fair value through profit or loss	**−226 577**	**−409 984**

(30) Net income from hedges

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Income from hedges	**221 897**	**264 787**
Income from fair value hedges	149 633	184 427
Income from the measurement of hedged items	118 106	83 762
Income from the measurement of derivative hedging instruments	31 527	100 665
Income from cash flow hedges	72 264	80 360
Income from reallocation from the reserve for cash flow hedges	72 264	80 355
Income from ineffective portions of cash flow hedges	–	5
Expenses from hedges	**–151 007**	**–143 895**
Expenses from fair value hedges	–112 487	–122 643
Expenses from the measurement of hedged items	–22 860	–97 061
Expenses from the measurement of derivative hedging instruments	–89 627	–25 582
Expenses from cash flow hedges	–38 520	–21 252
Expenses from reallocation from the reserve for cash flow hedges	–38 520	–21 252
Net income from hedges	**70 890**	**120 892**

(31) Net income from receivables, liabilities and subordinated capital

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Income from receivables, liabilities and subordinated capital	**1 624 207**	**1 770 235**
Interest income from receivables	1 317 853	1 460 248
Income from sales of receivables	273 819	189 019
Income from the disposal of liabilities and subordinated capital	1	–
Income from the ending of fair value hedges	2 748	2 981
Income from currency translation	29 786	117 987
Expenses from receivables, liabilities and subordinated capital	**–790 820**	**–885 379**
Interest expenses for liabilities	–652 592	–720 128
Interest expenses for subordinated capital	–25 369	–31 851
Expenses from sales of receivables	–2 361	–1 748
Expenses from the disposal of liabilities	–8 037	–8
Expenses from the ending of fair value hedges	–63 277	–70 413
Expenses from currency translation	–39 184	–61 231
Net income from receivables, liabilities and subordinated capital	**833 387**	**884 856**

Interest expenses for subordinated capital contain €1.6 million (previous year: €2.6 million) for profit participation certificates and €23.7 million (previous year: €29.3 million) for subordinated liabilities.

(32) Net expense from risk provision

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Income from risk provision	**108 369**	**107 285**
Release of risk provision	80 304	78 317
Release of provisions in lending business, for irrevocable loan commitments, for financial guarantees	302	484
Receipts on written-down receivables	**27 763**	**28 484**
Expenses from risk provision	–91 196	–111 786
Additions to risk provision	–73 658	–94 774
Additions to provisions in lending business, for irrevocable loan commitments, for financial guarantees	–1 668	–143
Direct write-downs	–15 870	–16 869
Net income/expense from risk provision	**17 173**	**–4 501**

(33) Net income from investment property

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Income from investment property	**157 977**	**175 885**
Income from leasing	119 761	124 105
Income from sales	34 412	48 997
Income from the reversal of impairment losses	3 804	2 783
Expenses from investment property	**–70 047**	**–76 111**
Expenses from repairs, maintenance and management	–22 355	–22 458
Expenses from sales	–123	–5 053
Expenses from scheduled depreciation	–45 687	–47 341
Expenses from impairments	–1 882	–1 259
Net income from investment property	**87 930**	**99 774**

The depicted directly attributable operating expenses for repairs, maintenance and management, as well as depreciation, amounted to €66.2 million (previous year: €66.7 million) for rental units that generated rent revenue and to €3.8 million (previous year: €4.3 million) for rental units that did not generate rent revenue.

(34) Net commission expense

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Commission income	**246 922**	**239 719**
from the conclusion of building savings contracts	118 308	112 565
from banking/home loan savings business	39 550	37 703
from reinsurance	25 971	22 148
from brokering activities	26 519	25 229
from investment business	34 178	39 032
from other business	2 396	3 042
Commission expenses	**–637 835**	**–631 650**
from insurance	–413 982	–407 947
from banking/home loan savings business	–171 424	–173 188
from reinsurance	–1 180	–1 049
from brokering activities	–8 219	–9 364
from investment business	–23 423	–23 131
from other business	–19 607	–16 971
Net commission expense	**–390 913**	**–391 931**

The net commission expense contains income in the amount of €2.4 million (previous year: €2.5 million) and expenses in the amount of €2.2 million (previous year: €2.3 million) from trust and other fiduciary activities. These include the management or investment of assets on behalf of individuals, trusts, pension funds and other institutions.

During the reporting period, transactions involving financial instruments not at fair value through profit or loss generated commission income in the amount of €12.9 million (previous year: €10.4 million) and commission expenses in the amount of €8.7 million (previous year: €9.7 million).

(35) Earned premiums (net)

Life and health insurance

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Gross premiums written	2 303 465	2 370 585
Change in the provision for unearned premiums	6 384	6 490
Premiums from the provision for premium refunds	50 345	54 949
Earned premiums (gross)	**2 360 194**	**2 432 024**
Premiums ceded to reinsurers	–34 958	–40 876
Earned premiums (net)	**2 325 236**	**2 391 148**

Property/casualty insurance and reinsurance

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Gross premiums written	1 685 356	1 669 908
Direct	1 678 401	1 662 557
Reinsurance	6 955	7 351
Change in the provision for unearned premiums	–723	–2 906
Earned premiums (gross)	**1 684 633**	**1 667 002**
Premiums ceded to reinsurers	–77 037	–75 286
Earned premiums (net)	**1 607 596**	**1 591 716**

(36) Insurance benefits (net)

Benefits under insurance contracts from direct business are shown without claim adjustment expenses. These are contained in general administrative expenses. Insurance benefits under reinsurance and the reinsurers' portion of insurance benefits may consist of both claim payments and adjustment expenses.

Recognised under the item "Change in the provision for premium refunds" are additions to the provision for premium refunds, as well as the change in the provision for deferred premium refunds recognised in the income statement.

Life and health insurance

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Payments for insurance claims	–2 651 882	–2 504 484
Gross amount	–2 659 895	–2 603 663
Thereof to: reinsurers' portion	8 013	99 179
Change in the provision for outstanding insurance claims	–22 896	–16 488
Gross amount	–22 101	–17 193
Thereof to: reinsurers' portion	–795	705
Change in the provision for future policy benefits	–253 491	–590 616
Gross amount	–252 681	–555 764
Thereof to: reinsurers' portion	–810	–34 852
Change in the provision for premium refunds	–282 010	–282 864
Gross amount	–282 010	–282 864
Thereof to: reinsurers' portion	—	—
Change in other technical provisions	45	1 735
Gross amount	45	1 735
Thereof to: reinsurers' portion	—	—
Insurance benefits (net)	**–3 210 234**	**–3 392 717**
Gross amount, total	–3 216 642	–3 457 749
Thereof to (total): reinsurers' portion	6 408	65 032

Property/casualty insurance and reinsurance

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Payments for insurance claims	–851 182	–873 051
Gross amount	–907 636	–931 998
Thereof to: reinsurers' portion	56 454	58 947
Change in the provision for outstanding insurance claims	–18 630	–18 333
Gross amount	–1 170	3 024
Thereof to: reinsurers' portion	–17 460	–21 357
Change in the provision for premium refunds	–277	–261
Gross amount	–277	–261
Thereof to: reinsurers' portion	–	–
Change in other technical provisions	185	183
Gross amount	123	36
Thereof to: reinsurers' portion	62	147
Insurance benefits (net)	**–869 904**	**–891 462**
Gross amount, total	–908 960	–929 199
Thereof to (total): reinsurers' portion	39 056	37 737

(37) General administrative expenses

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Personnel expenses	**–589 159**	**–608 687**
Wages and salaries	–439 363	–454 159
Social remittances	–80 131	–82 758
Expenses for pension scheme and support	–53 530	–55 431
Other	–16 135	–16 339
Materials costs	**–422 816**	**–407 313**
Depreciation/amortisation	**–63 345**	**–91 986**
Property for own use	–14 376	–18 403
Plant and equipment	–16 492	–18 285
Intangible assets	–32 477	–55 298
General administrative expenses	**–1 075 320**	**–1 107 986**

During the reporting period, contributions totalling €14.8 million (previous year: €15.3 million) were paid towards defined-contribution plans. In addition, employer contributions totalling €39.9 million (previous year: €40.3 million) were paid towards statutory pension insurance.

General administrative expenses contain personnel expenses totalling €17.2 million (previous year: €15.0 million) for phased-in early retirement (“Altersteilzeit”) and early retirement.

(38) Net other operating expense

The net other operating expense consists of the following:

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Other operating income	**219 027**	**221 104**
Sales proceeds from services (property development business)	47 820	69 491
Release of provisions	15 174	16 217
Income from sales	3 049	1 808
Other income from currency translation	5 800	1 521
Other technical income	34 326	35 934
Services income	40 766	39 455
Miscellaneous income	72 092	56 678
Other operating expenses	**–219 551**	**–227 474**
Other taxes	21	–2 828
Expenses for services (property development business)	–66 811	–49 525
Additions to provisions	–18 906	–14 648
Losses from sales	–5 363	–1 664
Other expenses from currency translation	–4 296	–16 193
Other technical expenses	–99 234	–105 262
Miscellaneous expenses	–24 962	–37 354
Net other operating expense	**–524**	**–6 370**

(39) Income taxes

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Current income taxes paid for the reporting period	–118 756	–93 661
Current taxes paid for other periods	42 430	27 911
Deferred taxes	20 060	16 409
Income taxes	**–56 266**	**–49 341**

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

Deferred taxes

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Financial assets/liabilities at fair value through profit or loss	137 708	51 888[1]
Financial assets available for sale	43 446	–6 296 [1]
Receivables	3 356	17 907[1]
Positive and negative market values from hedges	–142 104	–42 135
Financial assets accounted for using the equity method	386	1 529
Liabilities	–17 252	–6 350
Technical provisions	–14 911	–30 624
Provisions for pensions and other obligations	–2 172	–801
Other items	11 894	33 961[1]
Tax loss carryforward	–291	–2 670
Deferred taxes	**20 060**	**16 409**

1 Previous year's figure adjusted.

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

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Consolidated earnings before income taxes from continued operations	**291 573**	**323 624**
Consolidated tax rate, in %	30.58	30.58
Expected income taxes	–89 163	–98 964
Tax rate discrepancies of Group companies	7 935	5 603
Effects of tax-free income	1 714	6 427
Effects of non-deductible expenses	–13 479	–8 543
Prior-period effects (current and deferred)	38 412	20 846
Other	–1 685	25 290
Income taxes	**–56 266**	**–49 341**

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 €197.8 million (previous year: €98.9 million) in connection with interests in subsidiaries, since it is not probable that these temporary differences will reverse in the foreseeable future.

(40) Earnings per share

Basic earnings per share are determined by dividing the consolidated net profit by the weighted average number of shares:

		1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Result attributable to shareholders of W&W AG	in €	232 919 119	270 351 497
Number of shares at the beginning of the financial year	#	93 749 720	93 749 720
Number of shares held by the company	#	-272 780	–
Weighted average number of shares	#	93 492 269	93 749 720
Basic (= diluted) earnings per share	in €	**2.49**	**2.88**

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

(41) Unrealised gains and losses

in € thousands	Financial assets available for sale 1.1.2016 to 31.12.2016	Financial assets available for sale 1.1.2015 to 31.12.2015	Financial assets accounted for using the equity method 1.1.2016 to 31.12.2016	Financial assets accounted for using the equity method 1.1.2015 to 31.12.2015	Cash flow hedges 1.1.2016 to 31.12.2016	Cash flow hedges 1.1.2015 to 31.12.2015
Recognised in other comprehensive income	718 062	−296 054	1 467	−565	16 582	−5 831
Reclassified to the consolidated income statement	−449 236	−619 360	–	–	−33 744	−59 103
Thereof impairments	92 923	36 479	–	–	–	–
Thereof realised gains	−542 159	−655 839	–	–	−33 744	−59 103
Unrealised gains/losses (gross)	**268 826**	**−915 414**	**1 467**	**−565**	**−17 162**	**−64 934**

Realised gains from financial assets available for sale contain income from sales in the amount of €656.9 million (previous year: €690.8 million) and expenses from sales in the amount of €105.4 million (previous year: €159.5 million).

Notes concerning financial instruments and fair value

(42) Disclosures concerning the measurement of fair value

A hierarchical classification was undertaken for financial instruments measured at fair value, and it takes into account the relevance of the factors forming part of the measurement.

Level 1: Assigned to this level are financial instruments that are measured using unadjusted quoted prices for identical assets and liabilities on an active market.

Level 2: Assigned to this level are financial instruments that are measured by means of a recognised measurement model using input factors that can be directly (i.e. as price) or indirectly (i.e. derived from prices) observed for the asset or liability.

Level 3: Assigned to this level are financial instruments that are measured by means of a recognised measurement model for which the material data used is not based on observable market data (non-observable input factors).

The level to which the financial instrument is assigned in its entirety is determined on the basis of the lowest level input factor in the hierarchy that is significant to the entire measurement of fair value. For this purpose, the significance of an input factor is evaluated in relation to fair value in its entirety. In evaluating the significance of a given input factor, the specific features of the asset or liability are analysed and regularly reviewed during the reporting period.

If fair value cannot be reliably determined, the carrying amount is used as an approximate value to measure fair value. In this case, such financial instruments are assigned to Level 3.

The level classification is determined monthly throughout the reporting period and leads to regroupings between levels as at the reporting date.

The following table depicts all assets and liabilities for which fair value is to be determined.

The disclosures in the table "2016 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.

2016 measurement hierarchy (items that were measured at fair value)

	Level 1	Level 2	Level 3	Fair value/ carrying amount
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Financial assets at fair value through profit or loss	**15 696**	**2 977 664**	**3 337**	**2 996 697**
Designated as financial assets at fair value through profit or loss	–	2 478 032	2 009	2 480 041
Equity instruments	–	49 940	–	49 940
Fund units	–	49 940	–	49 940
Senior fixed-income securities	–	165 243	–	165 243
Other companies	–	26 813	–	26 813
Public authorities	–	138 430	–	138 430
Structured products	–	631 666	–	631 666
Interest-rate-based structured products	–	199 627	–	199 627
Equity- and index-based structured products	–	432 039	–	432 039
Capital investments for the account and risk of holders of life insurance policies	–	1 631 183	2 009	1 633 192
Financial assets held for trading	15 696	499 632	1 328	516 656
Equity instruments	–	12 205	1 327	13 532
Fund units	–	12 205	1 327	13 532
Derivative financial instruments	15 696	487 427	1	503 124
Interest-rate-based derivatives	10	467 613	–	467 623
Currency-based derivatives	–	9 631	–	9 631
Equity- and index-based derivatives	15 686	10 183	–	25 869
Other derivatives	–	–	1	1
Financial assets available for sale	**606 373**	**22 570 912**	**1 387 189**	**24 564 474**
Equity instruments	606 373	1 365 389	1 365 594	3 337 356
Investments, excluding alternative investments	–	–	272 012	272 012
Credit institutions	–	–	22 610	22 610
Other financial companies	–	–	5 304	5 304
Other companies	–	–	244 098	244 098

2016 measurement hierarchy (items that were measured at fair value)

in € thousands	Level 1 31.12.2016	Level 2 31.12.2016	Level 3 31.12.2016	Fair value/ carrying amount 31.12.2016
Alternative investments, including private equity	–	–	1 055 590	1 055 590
Other financial companies	–	–	1 025 720	1 025 720
Other companies	–	–	29 870	29 870
Equities	606 373	9	34 290	640 672
Credit institutions	71 899	–	27 507	99 406
Other financial companies	60 358	–	6 783	67 141
Other companies	474 116	9	–	474 125
Fund units	–	1 365 380	3 702	1 369 082
Subordinated securities and receivables	–	1 236 862	21 595	1 258 457
Credit institutions	–	534 465	–	534 465
Other financial companies	–	352 556	21 595	374 151
Other companies	–	349 841	–	349 841
Senior fixed-income securities	–	19 968 661	–	19 968 661
Credit institutions	–	7 464 716	–	7 464 716
Other financial companies	–	1 260 874	–	1 260 874
Other companies	–	2 030 395	–	2 030 395
Public authorities	–	9 212 676	–	9 212 676
Positive market values from hedges	**–**	**21 431**	**–**	**21 431**
Total assets	**622 069**	**25 570 007**	**1 390 526**	**27 582 602**
Financial liabilities at fair value through profit or loss	**14 719**	**1 114 547**	**–**	**1 129 266**
Financial liabilities held for trading	14 719	1 114 547	–	1 129 266
Derivative financial instruments	14 719	1 114 547	–	1 129 266
Interest-rate-based derivatives	1 118	951 197	–	952 315
Currency-based derivatives	–	157 769	–	157 769
Equity- and index-based derivatives	13 424	5 581	–	19 005
Other derivatives	177	–	–	177
Total liabilities	**14 719**	**1 114 547**	**–**	**1 129 266**

2015 measurement hierarchy (items that were measured at fair value)

in € thousands	Level 1 31.12.2015	Level 2 31.12.2015	Level 3 31.12.2015	Fair value/ carrying amount 31.12.2015
Financial assets at fair value through profit or loss	**21 001**	**3 222 270**	**–**	**3 243 271**
Designated as financial assets at fair value through profit or loss	–	2 403 586	–	2 403 586
Equity instruments	–	50 191	–	50 191
Fund units	–	50 191	–	50 191
Senior fixed-income securities	–	234 938	–	234 938
Other companies	–	25 512	–	25 512
Public authorities	–	209 426	–	209 426
Structured products	–	607 660	–	607 660
Interest-rate-based structured products	–	189 687	–	189 687
Equity- and index-based structured products	–	417 973	–	417 973
Capital investments for the account and risk of holders of life insurance policies	–	1 510 797	–	1 510 797
Financial assets held for trading	21 001	818 684	–	839 685
Equity instruments	–	9 796	–	9 796
Fund units	–	9 796	–	9 796
Derivative financial instruments	21 001	808 888	–	829 889
Interest-rate-based derivatives	574	752 379	–	752 953
Currency-based derivatives	–	50 526	–	50 526
Equity- and index-based derivatives	20 427	5 983	–	26 410
Loan-based derivatives	–	–	–	–
Financial assets available for sale	**759 676**	**22 226 459**	**1 273 536**	**24 259 671**
Equity instruments	759 676	1 388 104	1 246 179	3 393 959
Investments, excluding alternative investments	–	–	264 495	264 495
Credit institutions	–	–	20 918	20 918
Other financial companies	–	–	4 164	4 164
Other companies	–	–	239 413	239 413

2015 measurement hierarchy
(items that were measured at fair value)

in € thousands	Level 1 31.12.2015	Level 2 31.12.2015	Level 3 31.12.2015	Fair value/ carrying amount 31.12.2015
Alternative investments, including private equity	–	–	932 382	932 382
Other financial companies	–	–	901 091	901 091
Other companies	–	–	31 291	31 291
Equities	759 676	–	35 743	795 419
Credit institutions	69 584	–	27 357	96 941
Other financial companies	95 290	–	8 386	103 676
Other companies	594 802	–	–	594 802
Fund units	–	1 388 104	13 559	1 401 663
Subordinated securities and receivables	–	1 206 235	27 357	1 233 592
Credit institutions	–	495 575	–	495 575
Other financial companies	–	377 100	27 357	404 457
Other companies	–	333 560	–	333 560
Senior fixed-income securities	–	19 632 120	–	19 632 120
Credit institutions	–	7 608 469	–	7 608 469
Other financial companies	–	1 365 905	–	1 365 905
Other companies	–	1 969 418	–	1 969 418
Public authorities	–	8 688 328	–	8 688 328
Positive market values from hedges	**–**	**57 972**	**–**	**57 972**
Total assets	**780 677**	**25 506 701**	**1 273 536**	**27 560 914**
Financial liabilities at fair value through profit or loss	**4 262**	**748 149**	**–**	**752 411**
Financial liabilities held for trading	4 262	748 149	–	752 411
Derivative financial instruments	4 262	748 149	–	752 411
Interest-rate-based derivatives	233	719 858	–	720 091
Currency-based derivatives	–	24 505	–	24 505
Equity- and index-based derivatives	3 635	3 705	–	7 340
Other derivatives	394	–	–	394
Negative market values from hedges	**–**	**544 643**	**–**	**544 643**
Total liabilities	**4 262**	**1 292 792**	**–**	**1 297 054**

2016 measurement hierarchy (items that were not measured at fair value)

in € thousands	Level 1 31.12.2016	Level 2 31.12.2016	Level 3 31.12.2016	Fair value 31.12.2016	Carrying amount 31.12.2016
Cash reserves	**363 001**	**—**	**—**	**363 001**	**363 001**
Deposits with central banks	362 776	–	–	362 776	362 776
Deposits with foreign postal giro offices	225	–	–	225	225
Receivables	**—**	**27 983 009**	**16 116 501**	**44 099 510**	**40 490 087**
Subordinated securities and receivables	–	127 520	–	127 520	122 334
First-rate receivables from institutional investors	–	17 285 505	–	17 285 505	14 311 613
Credit institutions	–	12 388 246	–	12 388 246	10 328 264
Other financial companies	–	66 455	–	66 455	68 553
Other companies	–	41 980	–	41 980	40 147
Public authorities	–	4 788 824	–	4 788 824	3 870 656
Portfolio hedge adjustment	–	–	–	–	3 993
Building loans	–	9 376 601	14 944 934	24 321 535	23 708 597
Building loans to retail customers secured by mortgages	–	9 268 274	12 175 663	21 443 937	20 837 466
Building loans to retail customers not secured by mortgages	–	108 327	2 769 271	2 877 598	2 871 131
Other loans and receivables					
Other loans and advances	–	1 193 383	1 171 567	2 364 950	2 347 543
Investment property	**—**	**—**	**2 173 061**	**2 173 061**	**1 742 228**
Total assets	**363 001**	**27 983 009**	**18 289 562**	**46 635 572**	**42 595 316**
Liabilities	**—**	**5 872 046**	**23 071 731**	**28 943 777**	**28 699 482**
Liabilities evidenced by certificates	–	667 554	–	667 554	647 685
Liabilities to credit institutions	–	2 279 734	21 670	2 301 404	2 252 968
Liabilities to customers	–	2 917 308	22 677 531	25 594 839	25 418 956
Finance lease liabilities	–	–	28 731	28 731	28 129
Miscellaneous liabilities					
Other liabilities	–	7 450	343 799	351 249	351 744
Subordinated capital	**—**	**418 148**	**—**	**418 148**	**396 739**
Total liabilities	**—**	**6 290 194**	**23 071 731**	**29 361 925**	**29 096 221**

2015 measurement hierarchy (items that were not measured at fair value)

	Level 1	Level 2	Level 3	Fair value	Carrying amount
in € thousands	31.12.2015	31.12.2015	31.12.2015	31.12.2015	31.12.2015
Cash reserves	**296 241**	**–**	**–**	**296 241**	**296 241**
Deposits with central banks	296 043	–	–	296 043	296 043
Deposits with foreign postal giro offices	198	–	–	198	198
Receivables	**–**	**29 727 211** [1]	**16 093 758** [1]	**45 820 969**	**42 305 361**
Subordinated securities and receivables	–	132 663	–	132 663	127 641
First-rate receivables from institutional investors	–	18 433 702	–	18 433 702	15 688 698
Credit institutions	–	12 799 127	–	12 799 127	10 998 698
Other financial companies	–	424 643	–	424 643	376 907
Other companies	–	260 835	–	260 835	198 805
Public authorities	–	4 949 097	–	4 949 097	4 117 141
Portfolio hedge adjustment	–	–	–	–	– 2 853
Building loans	–	10 100 512 [1]	14 956 718 [1]	25 057 230	24 293 438
Building loans to retail customers secured by mortgages	–	9 979 139 [1]	12 175 663 [1]	22 154 802	21 402 624
Building loans to retail customers not secured by mortgages	–	121 373 [1]	2 781 055 [1]	2 902 428	2 890 814
Other loans and receivables					
Other loans and advances	–	1 060 334	1 137 040	2 197 374	2 195 584
Investment property	**–**	**–**	**2 124 245**	**2 124 245**	**1 722 678**
Total assets	**296 241**	**29 727 211** [1]	**18 218 003** [1]	**48 241 455**	**44 324 280**
Liabilities	**–**	**8 266 134** [1]	**22 950 335** [1]	**31 216 469**	**30 920 204**
Liabilities evidenced by certificates	–	1 077 913	–	1 077 913	1 056 854
Liabilities to credit institutions	–	4 155 784	22 032	4 177 816	4 122 614
Liabilities to customers	–	3 026 991 [1]	22 528 617 [1]	25 555 608	25 335 037
Finance lease liabilities	–	–	28 322	28 322	28 413
Miscellaneous liabilities					
Other liabilities	–	5 446	371 364	376 810	377 286
Subordinated capital	**–**	**589 854**	**–**	**589 854**	**570 201**
Total liabilities	**–**	**8 855 988** [1]	**22 950 335** [1]	**31 806 323**	**31 490 405**

1 Previous year's figure adjusted.

Changes in Level 3

in € thousands	Designated as financial assets at fair value through profit or loss: Capital investments for the account and risk of holders of life insurance policies	Financial assets held for trading: Equity instruments (Fund units)	Financial assets held for trading: Derivative financial instruments	Investments, excluding alternative investments: Credit institutions	Investments, excluding alternative investments: Other financial companies	Investments, excluding alternative investments: Other companies
As at 1 January 2015	**–**	**–**	**–**	**22 422**	**4 979**	**233 265**
Total comprehensive income for the period	–	–	–	–1 424	26	–22 091
Income recognised in the consolidated income statement	–	–	–	–	–	–
Expenses recognised in the consolidated income statement	–	–	–	–	–	–432
Unrealised gains/losses (-) from financial assets available for sale (gross)	–	–	–	–1 424	26	–21 659
Purchases	–	–	–	–	–	32 129
Sales	–	–	–	–80	–841	–7 125
Transfers to Level 3	–	–	–	–	–	3 235
As at 31 December 2015	**–**	**–**	**–**	**20 918**	**4 164**	**239 413**
Income recognised in the consolidated income statement as at 31 December[1]	–	–	–	–	–	–
Expenses recognised in the consolidated income statement as at 31 December[1]	–	–	–	–	–	–432
As at 1 January 2016	**–**	**–**	**–**	**20 918**	**4 164**	**239 413**
Total comprehensive income for the period	–164	–868	–	1 692	168	14 829
Income recognised in the consolidated income statement	–	–	–	–	–	–
Expenses recognised in the consolidated income statement	–164	–868	–	–	–	–952
Unrealised gains/losses (-) from financial assets available for sale (gross)	–	–	–	1 692	168	15 781
Purchases	152	–	1	–	–	3 483
Sales	–	–	–	–	–	–18 031
Transfers to Level 3	2 021	2 195	–	–	845	4 404
Changes in the scope of consolidation	–	–	–	–	127	–
As at 31 December 2016	**2 009**	**1 327**	**1**	**22 610**	**5 304**	**244 098**
Income recognised in the consolidated income statement as at 31 December[1]	–	–	–	–	–	–
Expenses recognised in the consolidated income statement as at 31 December[1]	–164	–868	–	–	–	–952

1 Net income from financial assets available for sale includes period income and expenses for assets still in the portfolio at the end of the reporting period.

	Financial assets available for sale							Total
			Equity instruments			Subordinated securities and receivables		
	Alternative investments, including private equity		Equities		Fund units			
	Other financial companies	Other companies	Credit institutions	Other financial companies		Other financial companies	Other companies	
	737 926	**30 885**	**35 467**	**11 006**	**36 692**	**32 111**	**–**	**1 144 753**
	50 073	406	–3 423	–57	–1 591	–	–	21 919
	–	–	–	–	–	–	–	–
	–13 127	–	–	–	–1 712	–	–	–15 271
	63 200	406	–3 423	–57	121	–	–	37 190
	237 667	–	–	–	–	166	–	269 962
	–124 575	–	–4 687	–2 563	–22 691	–4 920	–	–167 482
	–	–	–	–	1 149	–	–	4 384
	901 091	**31 291**	**27 357**	**8 386**	**13 559**	**27 357**	**–**	**1 273 536**
	–	–	–	–	–	–	–	–
	–13 303	–	–	–	–1 712	–	–	–15 447
	901 091	**31 291**	**27 357**	**8 386**	**13 559**	**27 357**	**–**	**1 273 536**
	8 564	–1 421	150	–197	–2 931	–	–1 548	18 274
	–	–	–	–	–	–	–	–
	–14 623	–	–	–	–2 877	–	–1 548	–21 032
	23 187	–1 421	150	–197	–54	–	–	39 306
	200 727	–	–	–	–	81	–	204 444
	–84 662	–	–	–1 406	–10 629	–5 843	–	–120 571
	–	–	–	–	3 703	–	1 548	14 716
	–	–	–	–	–	–	–	127
	1 025 720	**29 870**	**27 507**	**6 783**	**3 702**	**21 595**	**–**	**1 390 526**
	–	–	–	–	–	–	–	–
	–14 623	–	–	–	–2 877	–	–1 548	–21 032

Effects of alternative assumptions for financial instruments in Level 3

Nearly all of the securities in Level 3 consist of unquoted interests in investments that are not fully consolidated or not accounted for using the equity method, alternative investments or private equity funds in the direct portfolio. Their fair values are normally determined by each company's management, primarily on the basis of net asset value, in the amount of €968.8 million (previous year: €897.4 million). Of this, €13.4 million (previous year: €16.8 million) was attributable to "Investments, excluding alternative investments", and €955.4 million (previous year: €880.6 million) to "Alternative investments, including private equity". They were determined on the basis of specific information that is not publicly available, to which the W&W Group does not have access. Thus, it was not possible to subject them to a sensitivity analysis.

In the W&W Group, net asset values (2016: €152.3 million; previous year: €168.5 million) are measured for Group property investments that are assigned to "Investments, excluding alternative investments". These are based on discount rates that essentially determine the property's fair value. A change in discount rates by +100 basis points in connection with a sensitivity analysis leads to a reduction in fair value to €140.7 million (previous year: €149.7 million), while a change in discount rates by -100 basis points leads to an increase to €162.2 million (previous year: €172.7 million).

All changes in fair value are reflected in "Other comprehensive income".

The most significant measurement parameter for interests measured using the capitalised earnings method (2016: €68.5 million; previous year: €58.6 million) is the risk-adjusted discount rate. A material increase in the discount rate reduces fair value, whereas a decline increases fair value. However, a change by 10% has only a minor influence on the presentation of the net assets, financial position and financial performance of the W&W Group.

In addition, for certain interests, fair value is deemed to be approximated by the amount of invested capital. In this case as well, a sensitivity analysis is not possible due to lack of the specific parameters used.

The measurement methods used are listed in the following table "Quantitative information about the measurement of fair value in Level 3".

Quantitative information about the measurement of fair value in Level 3

in € thousands	Fair value 31.12.2016	Fair value 31.12.2015	Measurement method	Non-observable input factors	Range, in % 31.12.2016	Range, in % 31.12.2015
Financial assets at fair value through profit or loss	**3 337**	**–**				
Designated as financial assets at fair value through profit or loss	2 009	–				
Capital investments for the account and risk of holders of life insurance policies	2 009	–	Net asset value	n/a	n/a	n/a
Financial assets held for trading	1 328	–				
Equity instruments	1 327	–				
Fund units	1 327	–	Net asset value	n/a	n/a	n/a
Derivative financial instruments	1	–				
Other derivatives	1	–	Black-Scholes Model	Index weighting, volatility	n/a	n/a
Financial assets available for sale	**1 387 189**	**1 273 536**				
Equity instruments	1 365 594	1 246 179				
Investments, excluding alternative investments	272 012	264 495				
	38 946	27 635	Capitalised earnings method	Discount rate	6.2 9.06	6.23 10.37
	31 341	60 437	Approximation method	n/a	n/a	n/a
	201 725	176 423	Net asset value	Discount rate	5.10 7.60	5.77 7.19
Alternative investments, including private equity	1 055 590	932 382				
	29 519	30 940	Capitalised earnings method	Discount rate	4.34	4.94
	70 676	20 784	Approximation method	n/a	n/a	n/a
	955 395	880 658	Net asset value	n/a	n/a	n/a
Equities	34 290	35 743				
	27 507	27 357	Approximation method	n/a	n/a	n/a
	6 783	8 386	Net asset value	n/a	n/a	n/a
Fund units	3 702	13 559				
	3 367	13 114	Approximation method	n/a	n/a	n/a
	335	445	Net asset value	n/a	n/a	n/a
Subordinated securities and receivables	21 595	27 357				
	21 595	27 357	Approximation method	n/a	n/a	n/a

(43) Impairment losses, by class

Impairment losses

in € thousands	Financial assets available for sale		Receivables		Total	
	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Equity instruments	−85 438	−36 488	–	–	−85 438	−36 488
Investments	−15 370	−13 300	–	–	−15 370	−13 300
Equities	−27 263	−12 053	–	–	−27 263	−12 053
Fund units	−42 805	−11 135	–	–	−42 805	−11 135
Subordinated securities and receivables	−7 999	–	−27	−20	−8 026	−20
First-rate receivables from institutional investors	–	–	−1 189	−250	−1 189	−250
Senior fixed-income securities	–	–	–	–	–	–
Building loans	–	–	−77 873	−100 031	−77 873	−100 031
Other loans and receivables	–	–	−6 141	−5 557	−6 141	−5 557
Other loans and advances	–	–	−6 141	−5 557	−6 141	−5 557
Total	**−93 437**	**−36 488**	**−85 230**	**−105 858**	**−178 667**	**−142 346**

Expenses from risk provision for irrevocable loan commitments amounted to €1,668 thousand (previous year: €137 thousand). Expenses from risk provision for financial guarantees amounted to €0 (previous year: €7 thousand).

(44) Derivative financial instruments

The table shows the nominal values of derivatives for the respective maturity bands, as well as the positive and negative market values for all derivatives of the W&W Group, i.e. both derivative financial instruments that are embedded as a hedging instrument in a hedge recognised under the criteria of hedge accounting and those derivative financial instruments that are recognised under the sub-items "Financial assets held for trading" and "Financial liabilities held for trading".

Remaining maturity in 2016

in Mio €	Within 1 year	1 to 5 years	Later than 5 years	Nominal values, total	Positive market values	Negative market values
Interest-rate-based derivatives						
OTC						
Swaps	1 582.7	7 039.6	7 849.7	16 472.0	390.2	901.2
Option purchases	170.0	3 750.0	–	3 920.0	45.2	–
Option sales	50.0	3 750.0	–	3 800.0	–	21.0
Other	662.0	500.0	–	1 162.0	53.7	29.0
Exchange-traded						
Futures	69.1	–	–	69.1	–	1.1
Currency-based derivatives						
OTC						
Foreign exchange forwards	5 900.2	–	–	5 900.2	9.6	157.8
Equity- and index-based derivatives						
OTC						
Option purchases	–	0.3	–	0.3	10.2	–
Option sales	–	0.3	–	0.3	–	5.6
Exchange-traded						
Futures	461.9	–	–	461.9	0.2	7.8
Options	64.3	167.4	–	231.7	15.5	5.6
Other derivatives	**11.4**	**–**	**–**	**11.4**	**–**	**0.2**
Derivatives	**8 971.6**	**15 207.6**	**7 849.7**	**32 028.9**	**524.6**	**1 129.3**

Remaining maturity in 2015

in Mio €	Within 1 year	1 to 5 years	Later than 5 years	Nominal values, total	Positive market values	Negative market values
Interest-rate-based derivatives						
OTC						
Caps/floors	153.0	–	–	153.0	–	–
Swaps	3 964.8	9 596.6	9 757.9	23 319.3	683.5	1 184.7
Option purchases	1 750.0	170.0	650.0	2 570.0	92.0	–
Option sales	2 050.0	–	1 300.0	3 350.0	–	79.8
Other	75.0	235.0	–	310.0	34.8	–
Exchange-traded						
Futures	131.0	–	–	131.0	0.6	0.2
Currency-based derivatives						
OTC						
Foreign exchange forwards	5 821.6	–	–	5 821.6	50.5	24.5
Exchange-traded						
Futures	72.3	–	–	72.3	–	–
Equity- and index-based derivatives						
OTC						
Option purchases	0.2	–	–	0.2	6.0	–
Option sales	0.2	–	–	0.2	–	3.7
Exchange-traded						
Futures	681.6	–	–	681.6	2.8	3.1
Options	225.0	–	–	225.0	17.6	0.5
Loan-based derivatives	**–**	**–**	**25.0**	**25.0**	**–**	**0.1**
Other derivatives	**11.6**	**–**	**–**	**11.6**	**–**	**0.4**
Derivatives	**14 936.3**	**10 001.6**	**11 732.9**	**36 670.8**	**887.8**	**1 297.0**

(45) Other disclosures concerning hedges

The following tables show the amount and the remaining term to maturity of cash flow hedges as at the reporting date:

in € thousands	Within 3 months	3 months to year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Nominal values 31.12.2016	–	–	–	200 000	–	200 000
Nominal values 31.12.2015	210 000	250 000	185 000	570 000	–	1 215 000

The maturity band “1 to 5 years” can be broken down as follows:

in € thousands	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
Nominal values 31.12.2016	–	–	–	–	–
Nominal values 31.12.2015	–	125 000	50 000	10 000	185 000

Expected deposits to and distributions from (-) hedged items under cash flow hedges are as follows:

in € thousands	31.12.2016	31.12.2015
Within 3 months	60	81
3 months to 1 year	183	445
1 to 4 years	–	–
4 to 5 years	977	3 166
Later than 5 years	547	4 578

Expected gains and losses (-) from hedged items under cash flow hedges are as follows:

in € thousands	31.12.2016	31.12.2015
Within 3 months	60	137
3 months to 1 year	183	466
1 to 4 years	–	–
4 to 5 years	977	3 230
Later than 5 years	546	4 397

The ineffective portion of cash flow hedges resulted in income of €0 during the reporting period (previous year: €5 thousand).

(46) Transfers of financial assets and granted and received collateral

Financial assets were transferred during the reporting period that were not or were not fully derecognised. In the W&W Group, all of these had to do with securities that were sold in connection with repurchase agreements or lent in connection with securities lending transactions. All of these securities are allocated to the category "Financial assets available for sale" and to the classes resulting from this, and they are subject to 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 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.

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 2016

	Carrying amount		
	Repurchase agreements	Securities lending transactions	Total
in € thousands	31.12.2016	31.12.2016	31.12.2016
Financial assets available for sale	**85 934**	**27 811**	**113 745**
Equity instruments	–	27 811	27 811
Senior fixed-income securities	85 934	–	85 934
Total	**85 934**	**27 811**	**113 745**
Associated liabilities	85 934	–	85 934
Net position	–	27 811	27 811

Transferred financial assets 2015

	Carrying amount		
	Repurchase agreements	Securities lending transactions	Total
in € thousands	31.12.2015	31.12.2015	31.12.2015
Financial assets available for sale	**1 323 508**	**14 964**	**1 338 472**
Equity instruments	–	14 964	14 964
Senior fixed-income securities	1 323 508	–	1 323 508
Total	**1 323 508**	**14 964**	**1 338 472**
Associated liabilities	1 323 508	–	1 323 508
Net position	–	14 964	14 964

As was the case in the previous year, as at 31 December 2016 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 2016

	Transferred financial assets	Other collateral granted	Total
in € thousands	31.12.2016	31.12.2016	31.12.2016
Financial assets available for sale	**113 745**	**313 801**	**427 546**
Equity instruments	27 811	–	27 811
Senior fixed-income securities	85 934	313 801	399 735
Receivables	**–**	**471 658**	**471 658**
Building loans	–	471 658	471 658
Total	**113 745**	**785 459**	**899 204**

Financial assets granted as collateral in 2015

	Transferred financial assets	Other collateral granted	Total
in € thousands	31.12.2015	31.12.2015	31.12.2015
Financial assets available for sale	**1 338 472**	**348 035[1]**	**1 686 507[1]**
Equity instruments	14 964	–	14 964
Senior fixed-income securities	1 323 508	348 035[1]	1 671 543[1]
Receivables	**–**	**472 773**	**472 773**
Building loans	–	472 773	472 773
Total	**1 338 472**	**820 808[1]**	**2 159 280[1]**

1 Previous year's figure adjusted.

The amount of cash collateral granted for derivatives amounted to €1,017.1 million (previous year: €854.0 million). "Other granted collateral" consisted of securities in the amount of €313.8 million (previous year: €348.0 million) contained in a custodial account with Clearstream International S. A. that were pledged for settlement and custody services in connection with issued covered bonds. In addition, loans in the amount of €471.7 million (previous year: €472.8 million) were assigned as collateral in connection with the utilisation of promotional loan programmes.

In addition to the securities pledged as collateral for the foregoing repurchase agreements, cash collateral in the amount of €0.9 million (previous year: €5.3 million) was also provided for them.

In connection with open market operations, loans were obtained from the Deutsche Bundesbank in the amount of €350.0 million (previous year: €806.4 million). 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 de-posit in the custodial account of Deutsche Bundesbank in order to collateralise loans may be substituted at will with other securities accepted by the European Central Bank, provided that they do not fall below the required collateral value. The carrying amount of the securities in the custodial account of the Deutsche Bundesbank amounted to €1,743.6 million (previous year: €5,705.0 million).

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.

The amount of cash collateral received under repurchase agreements amounted to €85.9 million (previous year: €1,323.5 million).

Offsetting of financial instruments

The W&W Group does not meet the prerequisites for offsetting financial instruments that are subject to what are known as netting agreements or enforceable master netting agreements. However, clearing agreements exist for some derivative positions. These clearing agreements provide that, in the event of failure to make payment, it is permissible to offset derivatives vis-à-vis the respective counterparty, taking into account the cash collateral granted and received. It is also possible to settle transactions when due using granted or received cash collateral.

The following table shows the derivatives recognised under the item "Financial assets at fair value through profit or loss" that are subject to a master netting agreement. The corresponding amounts that are not offset in the balance sheet consist of derivatives recognised under the item "Financial liabilities at fair value through profit or loss", as well as securities collateral and cash collateral received under existing contracts with the same counterparties. The master netting agreements in the W&W Group do not form a basis for offsetting. However, were the netting criteria to be applicable, the offsetting of financial assets against the associated financial liabilities would have led to the following result:

Netting of financial assets in 2016

	Gross amount of financial assets recognised in the balance sheet	Associated amounts that are not netted in the balance sheet		
		Financial instruments	Cash collateral granted	Net amount
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Derivatives	298 514	110 119	191 990	-3 595

Netting of financial assets in 2015

	Gross amount of financial assets recognised in the balance sheet	Associated amounts that are not netted in the balance sheet		
		Financial instruments	Cash collateral granted	Net amount
in € thousands	31.12.2015	31.12.2015	31.12.2015	31.12.2015
Derivatives	500 913	224 676	298 920	-22 683

The following table shows the derivatives recognised under the item "Financial liabilities at fair value through profit or loss" that are subject to a master netting agreement. The corresponding amounts that are not offset in the balance sheet consist of derivatives recognised under the item "Financial assets at fair value through profit or loss", as well as cash collateral granted under existing contracts with the same counterparties. The master netting agreements in the W&W Group do not form a basis for offsetting. However, were the netting criteria to be applicable, the offsetting of financial assets against the associated financial liabilities would have led to the following result:

Netting of financial liabilities in 2016

	Gross amount of financial liabilities recognised in the balance sheet	Associated amounts that are not netted in the balance sheet		
		Financial instruments	Cash collate-ral granted	Net amount
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Derivatives	947 129	40 672	1 017 118	–110 661
Repurchase agreements, securities lending transactions and similar agreements	85 934	85 934	875	–875

Netting of financial liabilities in 2015

	Gross amount of financial liabilities recognised in the balance sheet	Associated amounts that are not netted in the balance sheet		
		Financial instruments	Cash collate-ral granted	Net amount
in € thousands	31.12.2015	31.12.2015	31.12.2015	31.12.2015
Derivatives	1 054 445	203 616	853 952	–3 123
Repurchase agreements, securities lending transactions and similar agreements	1 323 508	1 323 508	5 289[1]	–5 289[1]

1 Previous year's figure adjusted.

(47) Trust business

Trust business not required to be shown in the balance sheet had the following scope:

in € thousands	31.12.2016	31.12.2015
Trust assets pursuant to the German Building Code	15 773	20 722[1]
Trust assets	**15 773**	**20 722[1]**
Trust liabilities pursuant to the German Building Code	15 773	20 722[1]
Trust liabilities	**15 773**	**20 722[1]**

1 Previous year’s figure adjusted.

(48) Supplementary disclosures concerning the effect of financial instruments in the consolidated income statement

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, write-ups recognised in the income statement, subsequent receipts on written-down financial instruments, and currency gains from the measurement of debt-financing instruments on the reporting date.
- Net losses consist of disposal losses, impairment losses recognised in the income statement, expenses from risk provision, and currency losses from the measurement of debt-financing instruments on the reporting date.

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Financial assets/liabilities at fair value through profit or loss	**–123 286**	**–304 879**
Financial assets/liabilities held for trading	–204 650	–452 302
Net gains	737 471	912 742
Net losses	–942 121	–1 365 044
Designated as financial assets at fair value through profit or loss	81 364	147 423
Net gains	178 960	262 891
Net losses	–97 596	–115 468
Financial assets available for sale	**547 738**	**725 153**
Net gains	806 612	957 482
Net losses	–258 874	–232 329
Receivables	**276 368**	**241 198**
Net gains	404 810	409 972
Net losses	–128 442	–168 774
Liabilities	**–8 037**	**270**
Net gains	1	485
Net losses	–8 038	–215

For financial assets and liabilities not at fair value through profit or loss, which also includes subordinated capital, total interest income amounted to €1,761.3 million (previous year: €1,949.2 million) and total interest expenses amounted to €738.3 million (previous year: €822.4 million).

In addition, currency translation involving these financial assets and liabilities resulted in currency income in the amount of €184.6 million (previous year: €385.2 million) and currency expenses in the amount of €103.5 million (previous year: €113.8 million).

Disclosures concerning risks under financial instruments and insurance contracts

(49) Risk management

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

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

The **aim of risk management** is to promote sustainable added value for shareholders and to ensure that the claims of customers and providers of debt capital can be satisfied at all times. The tasks and goals of risk management are aligned with the following core functions:

- **Legal:** To ensure compliance with relevant risk-related internal and external requirements.
- **Protection of the going concern:** Avoidance of risks that endanger the going concern, protecting the company as a whole and preserving the capital base as a key precondition for the going concern.
- **Quality assurance:** Establishment of a joint risk understanding, pronounced risk awareness, a risk culture and transparent risk communication in the W&W Group.
- **Value creation:** Management and action impetus in the case of deviations from the risk profile, impetus for risk hedging and conservation of value, promotion and assurance of sustainable value creation for shareholders, perception of opportunities.

In addition, risk management pursues the aim of protecting the reputation of the W&W Group with its companies as a financial planning specialist. The reputation of the W&W Group as a solid, reliable, trustworthy partner for its customers is a material factor for lasting success.

The **risk management framework** forms the framework for risk management. The risk strategy of the W&W Group establishes minimum requirements for the direction and framework of the W&W Group's risk policy. As a guideline for risk management at the level of the Group and W&W AG, the Group risk policy defines differentiated requirements profiles in order to depict both the specific risk management requirements in the individual companies and the prerequisites for holistic Group risk management.

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

- The **Executive Board** of W&W AG bears overall responsibility for the proper organisation of the business of the W&W Group and thus also for an appropriate, effective risk management system. Accordingly, the Executive Board of W&W AG ensures that the risk management system is effectively implemented, maintained and enhanced. This also includes developing, promoting and integrating an appropriate risk culture. 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 receives regular information about the current risk situation.

- The **Risk and Audit Committee** of W&W AG and of Wüstenrot Bausparkasse AG regularly assures itself as to whether the organisation of risk management is appropriate in each area of responsibility. In 2016 this duty has been carried out by the respective full Supervisory Board for Württembergische Versicherung AG, Württembergische Lebensversicherung AG and Wüstenrot Bank AG Pfandbriefbank.

- As the central body, the **Group Board Risk** is headed by the CRO of W&W AG. It supports and advises the Executive Board of W&W AG on matters relevant to risk. The Group Board Risk monitors the risk profile of the W&W Group and its appropriate capitalisation and liquidity. Moreover, it deliberates on standards applicable throughout the Group concerning the organisational and operational structure of risk management, and it proposes these to the responsible members of the Executive Board for approval. This also includes recommending and implementing measures for risk management. The Group Board Risk also acts as an interface with the risk boards of the Insurance and Home Loan and Savings Bank divisions. It has a superordinate position over the risk boards of the divisions in the sense of Group-wide corporate management. Risk-relevant circumstances experienced by the Czech subsidiaries are integrated through procedural networking and a direct reporting line to the Group Board Risk.

- **Group Risk Management/Controlling** guides and supports the Group Board Risk in defining Group-wide risk management standards. It develops cross-company methods and processes for risk identification, evaluation, management, monitoring and reporting. Moreover, the department creates qualitative and quantitative risk analyses. The Group Risk Management/Controlling department, which is housed at W&W AG, is responsible both for the entire W&W Group and for W&W AG as an individual operating company. It monitors the risk-bearing capacity and the risk profile of the W&W Group. Group Risk Management/Controlling thus contributes to securing the company as a whole and to preserving the capital basis as a material prerequisite for continual company operations.

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.** Within the scope of the risk inventory, we regularly record, update and document assumed or potential risks. On the basis of an initial assessment by the responsible business units, we use threshold values to differentiate our risks into material and immaterial risks. In connection with this assessment, we also evaluate the extent to which individual risks can take on a material character through interaction or accumulation (risk concentrations). The risks that we classify as material are actively managed in the following four steps of the risk management process. By contrast, risks that are classified as immaterial are reviewed at least once a year by the individual business units. We depict the results of risk identification in our risk inventory. In doing so, we describe which W&W companies may experience individual risks.

- **Risk assessment.** Depending on the type of risk, we employ various risk measurement procedures for their quantitative evaluation. We also use the value at risk (VaR) standard, applying a confidence level of 99.5% and a one-year time horizon. If possible, risk measurement takes place with the help of a stochastic, simulation-based approach. Currently, we use this approach to determine market price and counterparty credit risks in proprietary business as well as underwriting risks in property insurance. For the other risk areas, we use analytical assessment methods and regulatory standard procedures, as well as expert opinions. For example, the risks identified within the scope of the risk inventory are evaluated on the basis of the probability of occurrence and loss potential. Sensitivity and scenario analyses are regularly conducted within the scope of stress scenarios for specific risk areas and across risk areas. Key ratio analyses 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 framework of the fields of action defined in the business strategy, both on a decentralised basis by the business divisions and by W&W AG. 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. A key management parameter for us is the IFRS result and division-specific indicators. In order to combine earnings and risk governance for the purpose of value-oriented governance and to substantiate our decisions, we conduct supplementary analyses using a RORAC approach. The sufficiency of risk capitalisation is evaluated using equally weighted concepts of risk-bearing capacity (economic, accounting/income statement, supervisory), which however highlight different objectives and aspects.

- **Risk monitoring.** We constantly monitor compliance with the framework requirements for the risk strategy and risk organisation and the appropriateness of the quality and grade of risk governance. Action recommendations are derived from these control activities for quantifiable and non-quantifiable risks, enabling us to take corrective action at an early stage and thus achieve the goals formulated in the business and risk strategy. Our economic risk-bearing capacity model constitutes an important basis for the Group-wide monitoring of our overall risk profile and economic capitalisation. The ability of the W&W Group and its main individual companies to support assumed risks with sufficient capital is continually tracked by risk management. Additionally, we monitor risk-bearing capacity with the help of regulatory procedures (Solvency II, CRD IV/CRR).

- **Risk reporting.** All material risks of our Group are promptly and regularly communicated to the Executive Board, to the Group Board and to the Supervisory Board of W&W AG. In these reports, we also depict the amount of available capital, regulatory capital requirements, risk capital requirements and compliance with limits and lines, as well as the risk management measures already implemented and still to be implemented. The Group-wide risk reporting system is supplemented by a procedure for ad hoc risk communication. In this way, the Executive Board of W&W AG and the Group Board learn promptly of material events and extraordinary changes in the risk situation that, for example, exceed our defined internal thresholds. The reporting duties are likewise met on all levels within the subsidiaries.

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.

The W&W Group strives to limit risk concentrations as far as possible by diversifying capital investments, employing limit and line systems, clearly defining approval and underwriting guidelines in lending and insurance business, and obtaining appropriate reinsurance coverage from various providers with good credit ratings. The aim in customer business is a broadly positioned, regionally diversified customer structure. A diverse product range reaches customers through a variety of sales channels.

Because of current regulatory and high internal rating requirements, the W&W Group is invested heavily in the area of financial institutions. Accordingly, in addition to the counterparty credit risk associated with the relevant counterparty, the W&W Group in particular bears the systemic risk of the financial sector. On the other hand, due to their high granularity, customer loan portfolios do not exhibit any appreciable risk concentrations.

In assessing counterparty credit risks on the portfolio level using a credit portfolio model, risk concentration aspects are taken into account in both capital investment and customer lending business. In the bank and insurance area, we not only monitor counterparty credit risks 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.

In business with institutional borrowers, risk concentrations in large or various investments with an issuer are managed with a comprehensive investment line system. To assess counterparty and issuer risks and determine lines, the W&W Group makes use of the evaluations of international rating agencies, which it verifies and supplements with its own creditworthiness analyses. The lines for key issuers and counterparties are continually reviewed. Counterparty credit risks over the line system are monitored both while they are pending (counterparty risk) and after their settlement up to the final maturity (issuer risk).A monitoring and reporting system has been set up under which risk concentrations with regard to a single counterparty, such as an issuer, that are above an internally defined threshold are re-ported to the decentralised risk controlling units, as well as to the W&W Group's Group Risk Management/Controlling.

Stress scenarios across risk areas make it possible to identify risk concentrations. For example, abrupt changes in stress test results may be an indication of risk concentrations.

The implemented risk controlling instruments ensure that counterparty credit risks are adequately managed in the W&W Group also with respect to risk concentration aspects.

(50) Market price risks

The interest rate risk, which is a form of market price risk, describes the risk that assets or liabilities held in interest-bearing securities may change in value due to a shifting and/or twisting of yield 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 Group (particularly Württembergische Lebensversicherung AG), since new investments and reinvestments can be made only at lower interest rates, while the guaranteed interest yield pledged to customers (interest guarantee risk) still has to be met. The interest guarantee risk is managed through comprehensive asset liability management and a dynamic product and rate policy.

Section 5 of the German Regulation on Calculation of the Provision for Future Policy Benefits (DeckRV) also regulates the framework, which is recognised under tax law, for reinforcing the provision for future policy benefits in the form of an additional interest reserve. The amount of the additional interest reserve is determined by the reference interest rate, which is calculated as the average of Euro interest swap rates over 10 years. In 2016 the reference interest rate dropped to 2.54% (previous year: 2.88%). Based on the regulations for the additional interest reserve, the interest reinforcement established in the business plan was provided in the old portfolio. The amount of interest reinforcement is determined by the measurement interest rate, which amounted to 2.36% (previous year: 2.65%) for Württembergische Lebensversicherung AG, to 2.50% (previous year: 2.60%) for Karlsruher Lebensversicherung AG and to 2.65% (previous year: 2.75%) for ARA Pensionskasse AG. In the W&W group, the additional interest rate reserve and interest reinforcement were strengthened by €290.5 million (previous year: €396.1 million) on this basis. In order to depict the build-up of the additional interest rate reserve and interest reinforcement as realistically as possible, capital disbursement probabilities were applied to each company in the financial year.

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, interest rate limitation agreements (caps and floors) 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 as economic hedging instruments in the risk management and controlling process.

If these economic hedges meet the requirements for hedge accounting, the hedges for the Home Loan and Savings Bank division are also depicted as such in the IFRS consolidated financial statements. In banking and insurance business, fixed-income positions are hedged against losses in asset value on both the individual transaction level and the portfolio level (fair value hedge). Moreover, in banking business, variable-yield receivables and securities in the category "Financial assets available for sale" and variable-yield liabilities are hedged against fluctuations in cash flows affecting net income (cash flow hedge).

The effects that a potential change in the interest rate level by 100 or 200 basis points (parallel shifting of the yield curve) would have on the consolidated income statement and on other comprehensive income are depicted in the 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 changes in the effects are attributable to positioning in the Home Loan and Savings Bank and Insurance divisions. In 2016 sensitivity and the associated effect on other comprehensive income increased overall in scenarios with an interest rate increase. Decisive for this were mainly the effects from the purchase by Wüstenrot Bausparkasse AG of fixed-income securities with longer maturities, the termination of cash flow hedges by Wüstenrot Bank AG Pfandbriefbank and the marked increase in the exposure of the annuity direct portfolio in the category "Financial assets available for sale" at Württembergische Lebensversicherung AG. In the consolidated income statement, profit fell over-all compared with the previous year in the face of rising interest rates, but falling interest rates turned a loss into in-come. In the Home Loan and Savings Bank division, this was due to the negative interest rate sensitivity of Wüstenrot Bausparkasse AG under recently concluded receiver swaps, which was slightly over-compensated for by the positive interest rate sensitivity of Wüstenrot Bank AG Pfandbriefbank. In addition, recently concluded forward purchases by Württembergische Lebensversicherung AG resulted in negative interest rate sensitivity and thus a present-value gain under falling interest rates and a present-value loss under rising interest rates.

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	31.12.2016	31.12.2015	31.12.2016	31.12.2015
+100 basis points	7 449	59 210	−514 405	−438 217
−100 basis points	3 726	−74 977	579 678	482 898
+200 basis points	30 449	119 207	−980 081	−833 480

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 share price and investment risks. The share price risk is the risk that losses may result from the change in the prices of open equity positions. The investment risk is the risk that losses may result from negative value changes regarding investments, 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 stock 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 table shows that, overall, the risks of changes in the prices of equity instruments have increased slightly year on year with regard to the net income recognised in other comprehensive income. The reasons for this include, in particular, increases in the investment exposure and in investments in the category "Financial assets available for sale".

Risk of changes in prices: Net effect after deferred taxes and provision for deferred premium refunds

	Change in the consolidated income statement		Change in other comprehensive income	
in € thousands	31.12.2016	31.12.2015	31.12.2016	31.12.2015
+ 10%	−10 123	−10 644	79 221	75 543
−10%	1 464	7 168	−70 718	−70 837
+ 20%	−20 113	−21 382	158 422	151 086
−20%	−7 960	−4 229	−130 137	−116 968

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 the material exchange rate would have on the consolidated income statement and on other comprehensive income are depicted in the following table. Also taken into account were the effects of deferred taxes and, for life/health insurers, in addition the effects of the provision for deferred premium re-funds.

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. Exchange rate risks under equity instruments (non-monetary assets) are not included.

Exchange rate risk: Net effect after deferred taxes and provision for deferred premium refunds

	Change in the consolidated income statement		Change in other comprehensive income	
in € thousands	31.12.2016	31.12.2015	31.12.2016	31.12.2015
USD				
+ 10%	–6 343	–4 256	–3 925	–4 143
– 10%	6 343	4 256	3 925	4 143
DKK				
+ 1%	95	125	2	2
– 1%	–95	–125	–2	–2

In all, it can be seen from the table that, in accordance with the strategic positioning of our overall investment portfolio, exchange rate risks are of only minor significance.

For further information about the management of market price risks in the W&W Group, please see the risk reporting in the Management Report.

(51) Counterparty risk

Counterparty credit risk is an important risk that Group companies assume and is typical for the industry. Counterparty credit risk describes the risk of a loss or lost profit due to default by a contract partner. The term "counterparty credit risk" primarily covers the following types:

Credit risk: Credit risk describes the risk that a contracting partner will be unable to meet its obligations after having been provided with benefits in the form of liquid resources, securities or services (e.g. risk of default by a party owing a receivable or by a bond issuer, liquidation risk with respect to granted collateral).

Counterparty risk: Counterparty risk describes the risk that an unrealised gain from pending transactions will no long-er be able to be collected due to default by a contracting partner (e.g. default by a swap counterparty under a swap with a positive market value).

Country risk: Country risk describes the risk that arises not from the specific circumstances of the contracting partner itself but rather from its activities abroad. This risk may be caused by political or economic turbulence in this country that leads to transfer problems and thus to additional counterparty credit risks.

In the W&W Group, loans and advances to customers exist mainly in the area of private residential construction financing in the Federal Republic of Germany. The loans are predominantly secured by property liens. Commercial financing business ceased in 2004. In addition to risk analysis and risk management by the operational units, the W&W Group manages credit risks in residential construction financing business at the portfolio level through application scoring and ongoing credit checks. In payment clearing and settlement business, application scoring is supplemented with behaviour scoring. Risks from customer lending business are measured using a stochastic loan portfolio model. In addition, credit risks at the Group level are analysed, monitored and communicated to the Executive Board in connection with regular credit risk reporting, which corresponds to the German Minimum Requirements for Risk Management (MaRisk).

The W&W Group monitors risks from the default on receivables due from policyholders, agents and reinsurers with the aid of EDP-supported controls of outstanding accounts. With regard to receivables from policyholders, the average default rate over the last three years to the reporting date amounted to 0.1% (previous year: 0.1%).With regard to receivables from agents, the average default rate over the last three years amounted to 1.7% (previous year: 2.5%). 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 (see "Receivables from reinsurance business" in the table "Neither overdue nor individually impaired assets, by rating class").

The maximum counterparty credit risk from financial assets at fair value through profit or loss amounted to €131.4 million (previous year: €128.8 million).

As at the reporting date, the following financial assets subject to counterparty credit risk, as well as the assets resulting from primary insurance and reinsurance contracts that are subject to counterparty credit risk, were recognised in the consolidated balance sheet.

Assets subject to counterparty credit risks 2016

in € thousands	Neither overdue nor individually impaired assets 31.12.2016	Overdue but not individually impaired assets 31.12.2016	Individually impaired assets 31.12.2016	Existing portfolio impairment provisions 31.12.2016	Total 31.12.2016	Reduction of the maximum default risk through collateral 31.12.2016
Cash reserves	**363 001**	**–**	**–**	**–**	**363 001**	**–**
Financial assets at fair value through profit or loss	**1 300 033**	**–**	**–**	**–**	**1 300 033**	**–**
Designated as financial assets at fair value through profit or loss	796 909	–	–	–	796 909	–
Senior fixed-income securities	165 243	–	–	–	165 243	–
Structured products	631 666	–	–	–	631 666	–
Financial assets held for trading	503 124	–	–	–	503 124	–
Derivative financial instruments	503 124	–	–	–	503 124	–
Financial assets available for sale	**21 211 387**	**–**	**15 731**	**–**	**21 227 118**	**–**
Senior fixed-income securities	19 968 661	–	–	–	19 968 661	–
Subordinated securities and receivables	1 242 726	–	15 731	–	1 258 457	–
Receivables	**39 707 921**	**737 749**	**294 579**	**-51 862**	**40 688 387**	**21 246 806**
Building loans	22 641 729	680 685	288 163	-33 502	23 577 075	21 049 645
Building loans to retail customers secured by mortgages	19 648 514	665 044	278 700	-26 907	20 565 351	20 618 700
Building loans to retail customers not secured by mortgages	2 802 761	15 641	9 463	-6 595	2 821 270	430 945
Portfolio hedge adjustment	190 454	–	–	–	190 454	–
First-rate receivables from institutional investors	14 311 613	–	–	-1 297	14 310 316	72 678
Subordinated securities and receivables	122 334	–	–	-22	122 312	–
Other loans and receivables	2 632 245	57 064	6 416	-17 041	2 678 684	124 483
Other loans and advances	2 321 732	7 460	5 741	-416	2 334 517	124 483
Other receivables	310 513	49 604	675	-16 625	344 167	–
Receivables from reinsurance business	78 919	–	–	-10 196	68 723	–
Receivables from policyholders	203 371	20 887	–	-5 472	218 786	–
Receivables from insurance agents	28 223	28 717	675	-957	56 658	–
Positive market values from hedges	**21 431**	**–**	**–**	**–**	**21 431**	**–**
Reinsurers' portion of technical provisions	**312 999**	**–**	**–**	**–**	**312 999**	**–**
Total	**62 916 772**	**737 749**	**310 310**	**-51 862**	**63 912 969**	**21 246 806**

Assets subject to counterparty credit risks 2015

in € thousands	Neither overdue nor individually impaired assets	Overdue but not individually impaired assets	Individually impaired assets	Existing portfolio impairment provisions	Total	Reduction of the maximum default risk through collateral
	31.12.2015	31.12.2015	31.12.2015	31.12.2015	31.12.2015	31.12.2015
Cash reserves	**296 241**	**–**	**–**	**–**	**296 241**	**–**
Financial assets at fair value through profit or loss	**1 672 487**	**–**	**–**	**–**	**1 672 487**	**–**
Designated as financial assets at fair value through profit or loss	842 598	–	–	–	842 598	–
Senior fixed-income securities	234 938	–	–	–	234 938	–
Structured products	607 660	–	–	–	607 660	–
Financial assets held for trading	829 889	–	–	–	829 889	–
Derivative financial instruments	829 889	–	–	–	829 889	–
Financial assets available for sale	**20 865 489**	**–**	**223**	**–**	**20 865 712**	**–**
Senior fixed-income securities	19 632 120	–	–	–	19 632 120	–
Subordinated securities and receivables	1 233 369	–	223	–	1 233 592	–
Receivables	**41 412 859**	**775 925**	**356 847**	**–51 383**	**42 494 248**	**21 990 422[1]**
Building loans	23 097 667	715 816	352 951	–30 850	24 135 584	21 753 240[1]
Building loans to retail customers secured by mortgages	20 068 134	696 421	339 070	–27 046	21 076 579	21 218 982[1]
Building loans to retail customers not secured by mortgages	2 847 653	19 395	13 881	–3 804	2 877 125	534 258[1]
Portfolio hedge adjustment	181 880	–		–	181 880	–
First-rate receivables from institutional investors	15 688 698	–	–	–1 073	15 687 625	153 250
Subordinated securities and receivables	127 641	–	–	–25	127 616	–
Other loans and receivables	2 498 853	60 109	3 896	–19 435	2 543 423	83 932
Other loans and advances	2 173 304	6 198	3 269	–221	2 182 550	83 932
Other receivables	325 549	53 911	627	–19 214	360 873	–
Receivables from reinsurance business	77 039	–	–	–12 695	64 344	–
Receivables from policyholders	214 020	24 813	–	–5 841	232 992	–
Receivables from insurance agents	34 490	29 098	627	–678	63 537	–
Positive market values from hedges	**57 972**	**–**	**–**	**–**	**57 972**	**–**
Reinsurers' portion of technical provisions	**332 745**	**–**	**–**	**–**	**332 745**	**–**
Total	**64 637 793**	**775 925**	**357 070**	**–51 383**	**65 719 405**	**21 990 422[1]**

1 Previous year's figure adjusted.

Information about cash collateral received for derivative financial assets can be found in Note 46.

Recognised under "Overdue but not individually impaired assets" are not only overdue instalment payments but also the underlying receivable as a whole.

Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank, Württembergische Versicherung AG and Württembergische Lebensversicherung AG, as well as the Czech credit institutions, conduct construction financing business.

Existing default risks are reduced by obtaining in-rem collateral, primarily in the property financing area. Loans made by Württembergische Lebensversicherung AG are fully secured by property liens.

In addition, Group companies entered into off-balance-sheet transactions, and these likewise result in counterparty credit risks despite the absence of assets. They include irrevocable loan commitments made by Group companies in the amount of €1,100.2 million (previous year: €933.3 million), the assumption of financial guarantees in the amount of €29.1 million (previous year: €21.5 million) and sureties with a maximum counterparty credit risk of €0.3 million (previous year: €0.3 million). The counterparty credit risk from irrevocable loan commitments, financial guarantees and sureties is determined by the maximum liability volume, less provisions created for counterparty credit risks.

As at the reporting date, the carrying amount of building loans whose terms were renegotiated and that would otherwise have been overdue or impaired amounted to €14.8 million (previous year: €13.9 million). These loans are almost fully secured by property liens.

The following table provides a breakdown by external rating class of assets that are neither overdue nor individually impaired as at the reporting date.

Neither overdue nor individually impaired assets, by rating class

	AAA	AA	A	BBB	BB	B or worse	No rating	Total
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Cash reserves	**176 617**	**186 384**	**—**	**—**	**—**	**—**	**—**	**363 001**
Financial assets at fair value through profit or loss	**—**	**333 085**	**375 591**	**528 834**	**49 209**	**7 996**	**5 318**	**1 300 033**
Designated as financial assets at fair value through profit or loss	—	239 475	95 891	404 338	49 209	7 996	—	796 909
Senior fixed-income securities	—	165 243	—	—	—	—	—	165 243
Structured products	—	74 232	95 891	404 338	49 209	7 996	—	631 666
Financial assets held for trading	—	93 610	279 700	124 496	—	—	5 318	503 124
Derivative financial instruments	—	93 610	279 700	124 496	—	—	5 318	503 124
Financial assets available for sale	**6 889 733**	**6 469 817**	**2 715 545**	**4 133 268**	**683 045**	**262 318**	**57 661**	**21 211 387**
Senior fixed-income securities	6 889 733	6 398 725	2 355 098	3 469 818	577 004	248 448	29 835	19 968 661
Subordinated securities and receivables	—	71 092	360 447	663 450	106 041	13 870	27 826	1 242 726
Receivables	**9 546 349**	**4 118 035**	**2 027 213**	**808 893**	**6 293**	**297**	**23 200 841**	**39 707 921**
Building loans	—	—	—	—	—	—	22 641 729	22 641 729
Building loans to retail customers secured by mortgages	—	—	—	—	—	—	19 648 514	19 648 514
Building loans to retail customers not secured by mortgages	—	—	—	—	—	—	2 802 761	2 802 761
Portfolio hedge adjustment	—	—	—	—	—	—	190 454	190 454
First-rate receivables from institutional investors	9 535 139	3 340 745	1 208 063	227 666	—	—	—	14 311 613
Subordinated securities and receivables	—	26 458	65 694	30 182	—	—	—	122 334
Other loans and receivables	11 210	750 832	753 456	551 045	6 293	297	559 112	2 632 245
Other loans and advances	11 210	693 646	736 970	551 045	5 911	297	322 653	2 321 732
Other receivables	—	57 186	16 486	—	382	—	236 459	310 513
Receivables from reinsurance business	—	57 186	16 486	—	382	—	4 865	78 919
Receivables from policyholders	—	—	—	—	—	—	203 371	203 371
Receivables from insurance agents	—	—	—	—	—	—	28 223	28 223
Positive market values from hedges	—	—	7 683	13 748	—	—	—	21 431
Reinsurers' portion of technical provisions	**—**	**268 425**	**42 074**	**—**	**1 667**	**—**	**833**	**312 999**
Total	**16 612 699**	**11 375 746**	**5 168 106**	**5 484 743**	**740 214**	**270 611**	**23 264 653**	**62 916 772**

Neither overdue nor individually impaired assets, by rating class

	AAA	AA	A	BBB	BB	B or worse	No rating	Total
in € thousands	31.12.2015	31.12.2015	31.12.2015	31.12.2015	31.12.2015	31.12.2015	31.12.2015	31.12.2015
Cash reserves	**188 396**	**107 845**	**—**	**—**	**—**	**—**	**—**	**296 241**
Financial assets at fair value through profit or loss	**105 526**	**325 030**	**706 086**	**489 941**	**31 388**	**803**	**13 713**	**1 672 487**
Designated as financial assets at fair value through profit or loss	105 526	210 819	75 995	418 067	31 388	803	–	842 598
Senior fixed-income securities	105 526	129 412	–	–	–	–	–	234 938
Structured products	–	81 407	75 995	418 067	31 388	803	–	607 660
Financial assets held for trading	–	114 211	630 091	71 874	–	–	13 713	829 889
Derivative financial instruments	–	114 211	630 091	71 874	–	–	13 713	829 889
Financial assets available for sale	**7 851 896**	**4 911 517**	**3 087 416**	**4 029 597**	**633 307**	**312 570**	**39 186**	**20 865 489**
Senior fixed-income securities	7 851 896	4 839 050	2 744 440	3 425 488	463 440	304 072	3 734	19 632 120
Subordinated securities and receivables	–	72 467	342 976	604 109	169 867	8 498	35 452	1 233 369
Receivables	**9 899 288**	**4 720 960**	**2 562 724**	**487 179**	**6 107**	**—**	**23 736 601**	**41 412 859**
Building loans	–	–	–	–	–	–	23 097 667	23 097 667
Building loans to retail customers secured by mortgages	–	–	–	–	–	–	20 068 134	20 068 134
Building loans to retail customers not secured by mortgages	–	–	–	–	–	–	2 847 653	2 847 653
Portfolio hedge adjustment	–	–	–	–	–	–	181 880	181 880
First-rate receivables from institutional investors	9 899 288	4 260 989	1 305 374	217 886	5 161	–	–	15 688 698
Subordinated securities and receivables	–	26 471	65 817	35 353	–	–	–	127 641
Other loans and receivables	–	433 500	1 191 533	233 940	946	–	638 934	2 498 853
Other loans and advances	–	375 659	1 176 696	233 940	545	–	386 464	2 173 304
Other receivables	–	57 841	14 837	–	401	–	252 470	325 549
Receivables from reinsurance business	–	57 841	14 837	–	401	–	3 960	77 039
Receivables from policyholders	–	–	–	–	–	–	214 020	214 020
Receivables from insurance agents	–	–	–	–	–	–	34 490	34 490
Positive market values from hedges	–	–	57 972	–	–	–	–	57 972
Reinsurers' portion of technical provisions	**—**	**277 284**	**54 324**	**—**	**456**	**—**	**681**	**332 745**
Total	**18 045 106**	**10 342 636**	**6 468 522**	**5 006 717**	**671 258**	**313 373**	**23 790 181**	**64 637 793**

The maturity structure of overdue but not individually impaired financial assets is depicted in the following table:

Maturity structure of overdue but not individually impaired assets 2016

	Up to 1 month overdue	More than 1 month up to 2 months overdue	More than 2 months up to 3 months overdue	More than 3 months up to 1 year overdue	More than 1 year overdue	Total
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Receivables	**568 945**	**102 273**	**31 939**	**26 306**	**8 286**	**737 749**
Building loans	533 098	98 399	30 343	16 711	2 134	680 685
Building loans to retail customers secured by mortgages	521 545	95 190	29 658	16 538	2 113	665 044
Building loans to retail customers not secured by mortgages	11 553	3 209	685	173	21	15 641
Other loans and receivables	35 847	3 874	1 596	9 595	6 152	57 064
Other loans and advances	6 552	232	134	258	284	7 460
Other receivables	29 295	3 642	1 462	9 337	5 868	49 604
Receivables from policyholders	7 306	2 711	973	6 960	2 937	20 887
Receivables from insurance agents	21 989	931	489	2 377	2 931	28 717
Total	**568 945**	**102 273**	**31 939**	**26 306**	**8 286**	**737 749**

Maturity structure of overdue but not individually impaired assets 2015

	Up to 1 month overdue	More than 1 month up to 2 months overdue	More than 2 months up to 3 months overdue	More than 3 months up to 1 year overdue	More than 1 year overdue	Total
in € thousands	31.12.2015	31.12.2015	31.12.2015	31.12.2015	31.12.2015	31.12.2015
Receivables	**596 651**	**111 369**	**30 995**	**26 814**	**10 096**	**775 925**
Building loans	554 380	108 351	29 745	16 682	6 658	715 816
Building loans to retail customers secured by mortgages	540 116	104 682	29 062	15 924	6 637	696 421
Building loans to retail customers not secured by mortgages	14 264	3 669	683	758	21	19 395
Other loans and receivables	42 271	3 018	1 250	10 132	3 438	60 109
Other loans and advances	5 846	204	63	68	17	6 198
Other receivables	36 425	2 814	1 187	10 064	3 421	53 911
Receivables from policyholders	8 404	2 675	543	9 861	3 330	24 813
Receivables from insurance agents	28 021	139	644	203	91	29 098
Total	**596 651**	**111 369**	**30 995**	**26 814**	**10 096**	**775 925**

The majority of overdue but not individually impaired assets involve receivables from building loans, which are mostly secured by property liens.

The gross carrying amounts of individually impaired assets, the direct write-downs taken as at the reporting date and the individual impairment provisions created as at the reporting date are depicted in the table.

Individually impaired assets 2016

	Gross carrying amount	Direct write downs	Individual impairment provision	Total
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Financial assets available for sale	**23 731**	**-8 000**	**—**	**15 731**
Subordinated securities and receivables	23 731	-8 000	–	15 731
Receivables	**421 462**	**-12 720**	**-114 163**	**294 579**
Building loans	394 950	-8 767	-98 020	288 163
Building loans to retail customers secured by mortgages	341 474	-8 020	-54 754	278 700
Building loans to retail customers not secured by mortgages	53 476	-747	-43 266	9 463
Senior fixed-income securities	2 190	-2 190	–	–
Other loans and receivables	24 322	-1 763	-16 143	6 416
Other loans and advances	19 530	-1 178	-12 611	5 741
Other receivables	4 792	-585	-3 532	675
Receivables from insurance agents	4 792	-585	-3 532	675
Total	**445 193**	**-20 720**	**-114 163**	**310 310**

Individually impaired assets 2015

	Gross carrying amount	Direct write downs	Individual impairment provision	Total
in € thousands	31.12.2015	31.12.2015	31.12.2015	31.12.2015
Financial assets available for sale	**224**	**-1**	**—**	**223**
Subordinated securities and receivables	224	-1	–	223
Receivables	**516 692**	**-15 341**	**-144 504**	**356 847**
Building loans	491 800	-11 845	-127 004	352 951
Building loans to retail customers secured by mortgages	466 929	-10 740	-117 119	339 070
Building loans to retail customers not secured by mortgages	24 871	-1 105	-9 885	13 881
Senior fixed-income securities	2 744	-2 744	–	–
Other loans and receivables	22 148	-752	-17 500	3 896
Other loans and advances	16 493	-411	-12 813	3 269
Other receivables	5 655	-341	-4 687	627
Receivables from insurance agents	5 655	-341	-4 687	627
Total	**516 916**	**-15 342**	**-144 504**	**357 070**

For further information about the management of counterparty credit risk in the W&W Group, please see the risk re-porting in the Management Report.

(52) 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 cost risk. The assessment of the interest guarantee risk is dealt with in detail in Note 50.

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 2016 financial year. Prospective findings concerning mortality trends or a renewed adjustment of safety margins recommended by the DAV may in future lead to further additions to the provision for future policy benefits.

The responsible actuary has judged the actuarial bases to be reasonable. The findings and notices of the DAV and the supervisory authority did not result in any different appraisal in this regard. Internal reporting to the supervisory authority contains an annual comparison with actual events. Minor changes in assumptions with respect to the biometric factors, interest rates and costs on which calculations are based are absorbed by the safety margins built into the actuarial bases.

In the event that expectations as to risks, costs and/or interest rates should change, the effect on net income is substantially lessened by adjusting the future surplus participation of policyholders. Risks are limited by obtaining suitable reinsurance from reinsurance companies with pristine investment-grade ratings.

Sensitivity analysis

In life insurance, actuarial bases with high safety margins are used to calculate premiums in order to account for longevity. Safety margins that are no longer required are returned to customers in the form of surplus participation. Short-term fluctuations are offset by reducing or increasing the additions to the provision for premium refunds intended for future surplus participation. In the event of longer-term changes, surplus participation is adjusted accordingly, in addition.

Biometric risk

An increase in mortality has a negative effect on mortality insurance policies (endowment and term life insurance), whereas it has a positive effect on annuity insurance policies. Currently expected mortality rates lead to distinctly positive risk results on account of the existing safety margins. In accordance with the mechanism described above, deviations from the expected value have only negligible effects on gross income and can even be absorbed in their entirety. This effect is further reduced by obtaining reinsurance. The safety margin for annuity insurance policies has been adjusted at a high level through additional strengthening of the provisions for longevity risk.

In the area of occupational disability insurance, invalidity probabilities are subject to medical and legal changes, as well as to social and economic trends. As measured against current expectations, the safety margins built into the calculation remain sufficient, meaning that positive results can be expected. Deviations from expectations that have appreciable effects on either gross or net income are not considered to be realistic.

In the area of health insurance, the risk resulting from the increase in per capita claims is limited by the ability to adjust premiums that were contractually agreed with customers.

Cancellation risk

Increased cancellation behaviour by customers can result in greater liquidity outflows than expected.

In the past, cancellation rates were subject to very negligible fluctuations, meaning that only slight changes have to be classified as realistic. The effect on both gross and net income is insignificant.

Moreover, negative effects on net income arise only in the initial years following contract conclusion, provided that claims not yet due against the policyholder are recognised that are no longer collectable following cancellation. A suitable impairment is created to account for cancellations. The creation of impairments is based on conservative assumptions stemming from the experience of previous years.

In the case of a surrender in later years, the application of cancellation penalties results in a positive effect on net income, since the released provisions correspond at least to the paid surrender value.

Unit-linked insurance policies are covered congruently by the corresponding funds. If additional guarantee commitments are made, they are taken into account in the provision for future policy benefits. Increases or decreases in cancellations do not lead to any appreciable effects on net income.

Risk concentrations

Concentrations of underwriting risk in life and health insurance result from regional risk concentrations, as well as from high risks associated with individually insured persons.

The life and health insurers manage regional risk concentrations by selling their insurance products throughout the country. The risk concentration from individually insured persons (cluster risk) is reduced by obtaining reinsurance from first-rate reinsurers.

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	31.12.2016	31.12.2016	31.12.2015	31.12.2015
Area of life insurance	**27 707 385**	**27 617 825**	**27 536 230**	**27 445 858**
Predominantly mortality risk	11 898 772	11 884 600	12 430 826	12 430 826
Predominantly longevity risk (annuities)	14 859 750	14 859 040	14 223 396	14 207 587
Predominantly disability risk	948 863	874 185	882 008	807 445
Area of health insurance	**603 024**	**603 024**	**523 218**	**523 218**
Total	**28 310 409**	**28 220 849**	**28 059 448**	**27 969 076**

The following overview shows the primary insurers' gross provision for future policy benefits for insurance contracts by insured amount (for annuity policies, 12 times the annual annuity).

Provision for future policy benefits for insurance contracts with an insured amount of

	Gross	Gross
in € thousands	31.12.2016	31.12.2015
Less than €0.5 million	27 050 982	26 950 881
€0.5 million to €1.0 million	251 983	257 702
€1 million to €5 million	213 211	169 698
€5 million to €15 million	191 211	157 949
Total	**27 707 387**	**27 536 230**

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 bal-ance sheet or the income statement.

- **Surrender and premium-waiver option**
  With all contracts with a surrender option, the provision for future policy benefits is at least as high as the surrender value. The same applies to the provision for future policy benefits to be created for premium-exempt benefits in the case of premium waivers.

- **Dynamic premium option**
  The option to increase insurance benefits by paying a greater premium without a reevaluation of risk is generally carried out at the original actuarial interest rate, but based on prior experience, the policyholder's decision is more strongly influenced by the insurance character of the contract or by the expectation of higher interest through surplus participation. Although rational financial behaviour by customers during times of low interest rates can increase the interest rate guarantee exposure, the terms and conditions for newer rate generations dealing with the increase of insurance provide for the ability to carry out the increase using the current actuarial bases.

Property/casualty insurance business and reinsurance business

Description of the insurance portfolio

In Germany, property/casualty insurance business is conducted by Württembergische Versicherung AG. Württembergische Versicherung AG insures risks with a focus on the private and corporate customer areas. It operates the traditional business lines of general liability insurance, motor and property insurance, legal protection insurance, casualty insurance, building insurance, aviation insurance, loss-of-income insurance, transport insurance and technical insurance.

Risks of the insurance portfolio and the risk management system

Underwriting risks arise 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 the risk insured under the various business lines. For the purposes of illustrating the existing risk concentrations, the following table breaks down the provision for claims by business line. In this regard, it is evident that the portfolio, which is characterised by a broadly diversified mix of business lines, contributes to a reduction of risk exposures.

Provision for outstanding insurance claims

	Gross	Net	Gross	Net
in € thousands	31.12.2016	31.12.2016	31.12.2015	31.12.2015
General liability, corporate customers	435 438	415 528	442 064	418 633
Property insurance, corporate customers	262 237	226 490	271 445	224 363
General liability, retail customers	78 673	77 170	80 661	79 140
Other, retail customers	4 604	4 596	4 896	4 890
Motor liability	1 052 267	926 316	1 050 691	920 976
Other motor	2 468	854	2 536	847
Household	17 448	16 426	15 608	15 217
Legal protection	161 748	161 748	154 146	154 146
Partial cover	5 539	4 540	5 252	3 997
Casualty	176 927	176 777	182 465	182 465
Full cover	43 896	40 694	43 909	40 178
Residential building	73 326	64 195	64 092	54 872
Other	210 504	198 433	187 974	175 109
Total	**2 525 075**	**2 313 767**	**2 505 739**	**2 274 833**

For further information about the management of underwriting risks in the W&W Group, please see the risk reporting in the Management Report.

(53) 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 remaining term to maturity of selected financial instruments in 2016:

Breakdown of remaining term to maturity in 2016: Assets

in € thousands	Within 3 months	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Financial assets at fair value through profit or loss	**64 855**	**95 427**	**444 411**	**695 339**	**1**	**1 300 033**
Designated as financial assets at fair value through profit or loss	8 400	49 964	302 216	436 329	–	796 909
Financial assets held for trading	56 455	45 463	142 195	259 010	1	503 124
Financial assets available for sale	**692 342**	**348 664**	**2 584 498**	**17 114 494**	**487 120**	**21 227 118**
Receivables	**3 309 323**	**2 105 361**	**9 238 378**	**23 449 689**	**2 563 686**	**40 666 437**
Building loans	790 326	1 603 306	7 721 778	11 146 498	2 256 234	23 518 142
First-rate receivables from institutional investors	299 165	363 633	1 459 465	12 185 357	–	14 307 620
Subordinated securities and receivables	28 746	5 390	–	76 198	12 000	122 334
Other loans and receivables	2 191 086	133 032	57 135	41 636	295 452	2 718 341
Risk provision	**−11 333**	**−24 976**	**−41 330**	**−50 689**	**−40 960**	**−169 288**
Positive market values from hedges	**2 848**	**–**	**4 113**	**14 470**	**–**	**21 431**

Breakdown of remaining term to maturity in 2016: Liabilities

in € thousands	Within 3 months	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	**241 459**	**28 030**	**349 514**	**510 263**	**–**	**1 129 266**
Liabilities	**6 250 717**	**18 886 898**	**2 262 259**	**1 914 002**	**282 747**	**29 596 623**
Liabilities evidenced by certificates	39 872	35 186	497 552	75 075	–	647 685
Liabilities to credit institutions	703 805	229 482	499 714	804 780	15 187	2 252 968
Liabilities to customers	5 169 433	18 337 044	1 101 137	789 230	22 112	25 418 956
Finance lease liabilities	1 043	3 135	13 819	10 132	–	28 129
Miscellaneous liabilities	336 564	282 051	150 037	234 785	245 448	1 248 885
Negative market values from hedges	**–**	**–**	**–**	**–**	**–**	**–**
Subordinated capital	**10 101**	**–**	**85 008**	**298 630**	**3 000**	**396 739**

The following presents a breakdown of the remaining term to maturity of select financial instruments in 2015:

Breakdown of remaining term to maturity in 2015: Assets

in € thousands	Within 3 months	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Financial assets at fair value through profit or loss	**150 917**	**80 940**	**533 283**	**907 347**	**–**	**1 672 487**
Designated as financial assets at fair value through profit or loss	36 750	42 782	343 873	419 193	–	842 598
Financial assets held for trading	114 167	38 158	189 410	488 154	–	829 889
Financial assets available for sale	**426 159**	**730 616**	**3 832 731**	**15 390 246**	**485 959**	**20 865 711**
Receivables	**3 410 275**	**2 336 346**	**9 821 622**	**24 054 574**	**2 896 719**	**42 519 536**
Building loans	926 054	1 739 365	7 861 417	11 025 896	2 558 826	24 111 558
First-rate receivables from institutional investors	453 670	445 181	1 877 774	12 914 926	–	15 691 551
Subordinated securities and receivables	14 030	–	25 411	76 200	12 000	127 641
Other loans and receivables	2 016 521	151 800	57 020	37 552	325 893	2 588 786
Risk provision	**–12 191**	**–20 193**	**–97 679**	**–58 628**	**–11 154**	**–199 845**
Positive market values from hedges	**7 573**	**163**	**20 160**	**30 076**	**–**	**57 972**

Breakdown of remaining term to maturity in 2015: Liabilities

in € thousands	Within 3 months	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	**101 032**	**25 200**	**202 092**	**424 087**	**–**	**752 411**
Liabilities	**8 419 876**	**18 282 868**	**2 759 735**	**2 084 301**	**281 524**	**31 828 304**
Liabilities evidenced by certificates	210 281	299 826	409 521	137 226	–	1 056 854
Liabilities to credit institutions	2 284 103	382 242	549 271	890 193	16 805	4 122 614
Liabilities to customers	5 548 593	17 330 188	1 617 246	814 584	24 426	25 335 037
Finance lease liabilities	1 110	3 334	12 323	11 646	–	28 413
Miscellaneous liabilities	375 789	267 278	171 374	230 652	240 293	1 285 386
Negative market values from hedges	**65 432**	**11 413**	**167 627**	**300 171**	**–**	**544 643**
Subordinated capital	**13 571**	**59 749**	**64 995**	**428 886**	**3 000**	**570 201**

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 2016

	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	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Derivative financial instruments	**199 642**	**173 892**	**557 162**	**246 076**	**43 607**	**19 741**	**1 303**	**1 241 423**
Derivative financial liabilities at fair value through profit or loss	199 642	173 892	557 162	246 076	43 607	19 741	1 303	1 241 423
Negative market values from hedges	–	–	–	–	–	–	–	–
Liabilities	**6 173 063**	**18 806 897**	**2 622 490**	**1 228 503**	**173 161**	**59 612**	**3**	**29 063 729**
Liabilities evidenced by certificates	38 503	61 842	488 387	77 282	–	–	–	666 014
Liabilities to credit institutions	715 263	286 148	863 283	467 966	203	–	–	2 332 863
Liabilities to customers	5 148 874	18 405 242	1 251 360	650 040	172 958	53 903	3	25 682 380
Deposits from home loan savings business and other savings deposits	454 527	17 292 158	587 863	100 543	8 866	219	3	18 444 179
Other deposits	4 520 566	1 092 648	663 497	549 497	164 092	53 684	–	7 043 984
Savings deposits with agreed termination period	139 062	–	–	–	–	–	–	139 062
Down payments received	34 719	20 436	–	–	–	–	–	55 155
Finance lease liabilities	1 163	3 489	14 936	10 524	–	–	–	30 112
Miscellaneous liabilities	269 260	50 176	4 524	22 691	–	5 709	–	352 360
Subordinated capital	**2 248**	**17 888**	**159 460**	**129 242**	**64 194**	**53 408**	**323 942**	**750 382**
Profit participation certificates	1 631	–	26 984	9 286	–	–	–	37 901
Subordinated liabilities	617	17 888	132 476	119 956	64 194	53 408	323 942	712 481
Irrevocable loan commitments	**860 726**	**178 112**	**61 390**	**–**	**–**	**–**	**–**	**1 100 228**
Financial guarantees	**24 080**	**5 049**	**–**	**–**	**–**	**–**	**–**	**29 129**
Total	**7 259 759**	**19 181 838**	**3 400 502**	**1 603 821**	**280 962**	**132 761**	**325 248**	**32 184 891**

Prospective maturity of amounts recognised in the balance sheet in 2016

in € thousands	Within 3 months 31.12.2016	3 months to 1 year 31.12.2016	1 to 5 years 31.12.2016	5 to 10 yearse 31.12.2016	10 to 15 years 31.12.2016	15 to 20 years 31.12.2016	Later than 20 years 31.12.2016	Total 31.12.2016
Liabilities from reinsurance business	**6 152**	**11 514**	**—**	**—**	**—**	**—**	**—**	**17 666**
Liabilities to customers from direct insurance business	**114 276**	**164 190**	**142 942**	**97 903**	**58 666**	**34 851**	**42 531**	**655 359**
Technical provisions	**1 089 384**	**2 484 583**	**8 602 059**	**6 369 362**	**4 090 277**	**2 550 866**	**5 079 835**	**30 266 366**
Provision for future policy benefits in the area of life insurance	487 560	1 849 812	7 585 909	5 799 686	3 668 020	2 196 202	4 487 006	26 074 195
Provision for outstanding insurance claims	543 207	554 251	693 580	259 826	160 951	144 734	168 526	2 525 075
Provision for unit-linked life insurance contracts	24 870	80 363	322 570	309 850	261 306	209 930	424 303	1 633 192
Other technical provisions	33 747	157	—	—	—	—	—	33 904
Total	**1 209 812**	**2 660 287**	**8 745 001**	**6 467 265**	**4 148 943**	**2 585 717**	**5 122 366**	**30 939 391**

Contractually agreed cash flows in 2015

in € thousands	Within 3 months 31.12.2015	3 months to 1 year 31.12.2015	1 to 5 years 31.12.2015	5 to 10 years 31.12.2015	10 to 15 years 31.12.2015	15 to 20 years 31.12.2015	Later than 20 years 31.12.2015	Total 31.12.2015
Derivative financial instruments	**84 522**	**242 191**	**781 535**	**414 016**	**142 157**	**22 032**	**19 635**	**1 706 088**
Derivative financial liabilities at fair value through profit or loss	42 331	151 012	416 131	258 120	122 727	20 190	19 635	1 030 146
Negative market values from hedges	42 191	91 179	365 404	155 896	19 430	1 842	–	675 942
Liabilities	**8 667 398**	**17 930 525**	**3 232 089**	**1 356 706**	**107 931**	**71 082**	**–**	**31 365 731**
Liabilities evidenced by certificates	208 714	308 109	484 907	78 436	–	–	–	1 080 166
Liabilities to credit institutions	2 554 458	206 471	888 126	576 363	4 025	–	–	4 229 443
Liabilities to customers	5 564 920	17 384 701	1 843 623	685 294	103 906	65 356	–	25 647 800
Deposits from home loan savings business and other savings deposits	724 738	16 951 597	389 607	41 683	–	–	–	18 107 625
Other deposits	4 704 108	408 049	1 442 827	637 675	103 906	65 356	–	7 361 921
Savings deposits with agreed termination period	136 074	1 500	11 189	5 936	–	–	–	154 699
Down payments received	–	23 555	–	–	–	–	–	23 555
Finance lease liabilities	1 156	3 469	12 976	13 155	–	–	–	30 756
Miscellaneous liabilities	338 150	27 775	2 457	3 458	–	5 726	–	377 566
Subordinated capital	**2 248**	**88 107**	**158 629**	**200 725**	**141 124**	**53 379**	**334 641**	**978 853**
Profit participation certificates	1 631	–	6 524	31 378	–	–	–	39 533
Subordinated liabilities	617	88 107	152 105	169 347	141 124	53 379	334 641	939 320
Irrevocable loan commitments	**661 107**	**204 453**	**67 711**	**–**	**–**	**–**	**–**	**933 271**
Financial guarantees	**11 277**	**10 234**	**–**	**–**	**–**	**–**	**–**	**21 511**
Total	**9 426 552**	**18 475 510**	**4 239 964**	**1 971 447**	**391 212**	**146 493**	**354 276**	**35 005 454**

Prospective maturity of amounts recognised in the balance sheet in 2015

in € thousands	Within 3 months 31.12.2015	3 months to 1 year 31.12.2015	1 to 5 years 31.12.2015	5 to 10 years 31.12.2015	10 to 15 years 31.12.2015	15 to 20 years 31.12.2015	Later than 20 years 31.12.2015	Total 31.12.2015
Liabilities from reinsurance business	**8 125**	**6 325**	**–**	**–**	**–**	**–**	**–**	**14 450**
Liabilities to customers from direct insurance business	**118 461**	**160 634**	**168 091**	**106 108**	**56 992**	**31 504**	**34 133**	**675 923**
Technical provisions	**1 161 297**	**3 112 808**	**9 661 960**	**6 668 201**	**3 835 465**	**2 213 298**	**3 421 371**	**30 074 400**
Provision for future policy benefits in the area of life insurance	563 579	2 437 459	8 511 489	6 094 018	3 464 567	1 928 273	3 026 049	26 025 434
Provision for outstanding insurance claims	516 272	546 905	696 455	264 988	165 721	147 035	168 363	2 505 739
Provision for unit-linked life insurance contracts	49 157	128 303	454 016	309 195	205 177	137 990	226 959	1 510 797
Other technical provisions	32 289	141	–	–	–	–	–	32 430
Total	**1 287 883**	**3 279 767**	**9 830 051**	**6 774 309**	**3 892 457**	**2 244 802**	**3 455 504**	**30 764 773**

For further information about the management of liquidity risks in the W&W Group, please see the risk reporting in the Management Report.

Capital management

As the holding company, Wüstenrot & Württembergische 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 2016, the equity of the W&W Group according to IFRS amounted to €3,811.6 million (previous year: €3,643.7 million). The changes in the individual equity components are depicted in Note 26 "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 Insurance Supervision Act (VAG) and the German Supervision of Financial Conglomerates Act (FKAG).

Another capital requirement is that the W&W Group as a whole, as well as the individual subsidiaries, maintain sufficient capital. In connection with efficient capital management, the W&W Group moreover deploys subordinated capital in order to satisfy regulatory requirements concerning solvency.

Internally, the W&W Group has set target solvency ratios for the large subsidiaries, 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.

(54) Regulatory solvency

Wüstenrot & Württembergische 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 Insurance Supervision Act (VAG), the German Banking Act (KWG), the EU Capital Requirements Regulation (CRR) and the German Supervision of Financial Conglomerates Act (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.

Wüstenrot & Württembergische AG ensures that all supervised subsidiaries maintain at a minimum the capital re-sources that they require in order to satisfy regulatory requirements. In this respect, in accordance with supervisory laws, equity, subordinated capital and profit participation certificates form the basis for such capital management.

In the case of Wüstenrot Bank AG Pfandbriefbank and Wüstenrot Bausparkasse AG, subordinated liabilities and profit participation certificates are allocated to regulatory capital pursuant to the CRR, no 575/2013.

In the case of Württembergische Versicherung AG and Württembergische Lebensversicherung AG, subordinated liabilities are allocated to regulatory capital pursuant to Section 89 (3) no. 2 VAG.

The following table shows the regulatory capital ratios for the main credit institutions:

	Available capital pursuant CRR		Solvency requirements CRR		Ratio, in %	
In Mio €	2016	2015	2016	2015	2016	2015
Wüstenrot Bausparkasse AG	893.5	810.4	5 882.7	5 941.5	15.2	13.6
Wüstenrot Bank AG Pfandbriefbank	446.9	461.7	2 630.4	3 393.1	17.0	13.6

As at the reporting date, Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank satisfied the regulatory capital requirements. 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. Württembergische Lebensversicherung AG and Karlsruher Lebensversicherung AG received approval from BaFin to use transitional measures for technical provisions.

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 form a financial holding group, and the insurance companies form 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 KWG, Wüstenrot & Württembergische AG is responsible for all Group-related duties, including for ensuring suitable capital re-sources. As at 31 December 2016, the total capital ratio of the financial holding group stood at 21.0% (previous year: 17.6%). The scope of consolidation was adjusted as a result of the spin-off of Wüstenrot Holding AG. For this reason, the previous year's figure is comparable to only a limited extent.

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.

As the superordinate undertaking of the financial conglomerate Wüstenrot & Württembergische AG must ensure satisfaction of the regulatory requirements for financial conglomerates under, among other things, the FKAG and the German Financial Conglomerates Solvency Regulation (FkSolV). 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%.

Internal calculations on the basis of the data for 2016 and on the basis of the planning for 2017 and 2018 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.

(55) Risk-bearing-capacity model

Please see our depiction in the risk report in the Group Management Report.

(56) External rating

Please see the Group Management Report with respect to the current ratings of the W&W Group.

Other disclosures

(57) Leasing

During the 2016 reporting year and during the previous year, business was conducted in the area of finance leasing as lessee and in the area of operating leasing as lessee and lessor.

2016

	Within 1 year	1 to 5 years	Later than 5 years	Total
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Finance leasing – lessee				
Minimum lease payments	4 652	14 936	10 524	30 112
Interest effects	474	1 116	393	1 983
Present value of minimum lease payments	4 178	13 820	10 131	28 129
Operating leasing – lessor				
Minimum lease payments	96 288	283 615	235 288	615 191
Operating leasing – lessee				
Minimum lease payments	15 288	18 747	515	34 550

2015

	Within 1 year	1 to 5 years	Later than 5 years	Total
in € thousands	31.12.2015	31.12.2015	31.12.2015	31.12.2015
Finance leasing – lessee				
Minimum lease payments	4 625	12 976	13 155	30 756
Interest effects	182	653	1 508	2 343
Present value of minimum lease payments	4 443	12 323	11 647	28 413
Operating leasing – lessor				
Minimum lease payments	96 237	288 701	281 088	666 026
Operating leasing – lessee				
Minimum lease payments	21 684	23 753	623	46 060

As at 31 December 2016, two properties for own use, in particular, were recognised as finance leases.

The property for own use located at Friedrich-Scholl-Platz-1 in Karlsruhe, Germany, was sold in the 2011 financial year and then leased back for continued own use (known as a sale and leaseback transaction). This transaction was classified as a finance lease based on the lease being at arm's length. The lease has a term of 15 years and cannot be terminated. Also agreed upon was a one-off lease renewal option for a fixed term of five years. If the lessee intends to exercise the option, it must give the lessor notice thereof 16 months prior to expiry of the lease term. Moreover, the lease contains a general prospective price adjustment clause, which is based on how the consumer price index changes. In addition, neither a repurchase option nor contingent lease payments or restrictions were agreed to.

The second property for own use, which is located at Gutenbergstraße 16a in Stuttgart, Germany, was also classified as a finance lease based on the lease being at arm's length. The lease has a term of 7.5 years and cannot be terminated. Also agreed to was a price adjustment clause, which is based on a contractually stipulated rate of increase. There is no repurchase option.

In the 2013 financial year, the property located at Rotebühlplatz 20 in Stuttgart, Germany, was sold and then leased back in part for own use. A price adjustment clause was agreed to, which is based on how the consumer price index changes. This transaction was classified as an operating lease. The lease has a term of 7.5 years and cannot be terminated. In addition, neither a repurchase option nor contingent lease payments or restrictions were agreed to.

Operating leasing as lessor is conducted for investment property. Many of the leases entered into have open-ended terms. Some, however, have fixed terms. With regard to commercial properties, price adjustment clauses are regularly agreed to, which are based on the consumer price index. With regard to residential properties, such agreements have been entered into for properties that have been acquired since 2012 and for those that have undergone high-quality renovations. The contingent lease payments recognised as income amounted to €1.2 million (previous year: €1.6 million).

Operating leasing as lessee is conducted for property for own use, mainframe computers, mainframe hardware and software, printers and vehicles. The leases normally have terms of up to 10 years. Renewal options exist with some properties for own use. Price adjustment clauses are likewise agreed to, which are based on the consumer price index. There are often no purchase options.

During the financial year, minimum lease payments of €22.0 million (previous year: €19.4 million) were recognised as an expense as lessee under operating leases.

In the area of finance leasing and operating leasing, no payments were made under subleasing relationships in either the 2016 financial year or the previous year. For these transactions, there were also no restrictions imposed under the leasing agreement.

(58) Contingent receivables, contingent liabilities and other obligations

in € thousands	31.12.2016	31.12.2015
Contingent liabilities	**791 044**	**652 276**
from deposit protection funds	235 318	295 160
from sureties and warranties	321	329
from capital contribution calls not yet made	554 705	356 157
Other contingent liabilities	700	630
Other obligations	**1 129 357**	**954 782**
Irrevocable loan commitments	1 100 228	933 271
Financial guarantees	29 129	21 511
Total	**1 920 401**	**1 607 058**

Pursuant to Sections 221 et seqq. of the German Insurance Supervision Act (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 pro-visions. This corresponds to an obligation of €23.4 million (previous year: €29.4 million).

Following the underwriting of insurance contracts, the protection fund for health insurers can levy special contributions of not more than 0.2% of total net technical provisions in order to fulfil its duties. This resulted in a payment obligation of €1.4 million (previous year: €1.3 million).

In addition, the W&W Group's life insurers and pension funds have undertaken to provide the protection fund or, al-ter-natively, 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 €210.5 million (previous year: €264.5 million).

As at 31 December 2016, obligations for capital contribution calls not yet made as relate to investments in the W&W Group amounted to €554.7 million (previous year: €356.2 million).

Irrevocable loan commitments consist of remaining obligations under loans and credit lines that have been granted but not yet drawn down or fully drawn down. The risk of a change in interest rates is low with irrevocable loan commitments due to their short terms.

Wüstenrot Bank AG Pfandbriefbank and Wüstenrot Bausparkasse AG are members of Entschädigungseinrichtung deutscher Banken GmbH, which is a company that operates the compensation scheme established by the Association of German Banks. In addition, Wüstenrot Bank AG Pfandbriefbank is a member of Einlagensicherungsfonds des Bun-desverbandes Deutscher Banken e.V., which is an association that operates the deposit protection fund established by the Association of German Banks. Furthermore, Wüstenrot Bausparkasse AG is a member of Bausparkassen-Einlagensicherungsfonds e.V., which is an association that operates the deposit protection fund established by the Association of Private Home Loan and Savings Banks. As a result of participation in the compensation scheme and the deposit protection funds, member institutions are obligated to provide additional funding when necessary.

W&W AG has submitted a declaration to the Association of German Banks, pursuant to which it undertakes to indemnify the latter against all losses incurred through measures taken by the deposit protection fund for the benefit of Wüstenrot Bank AG Pfandbriefbank.

As at 31 December 2016, no placement or underwriting obligations had been drawn down, as was the case in the previous year.

As a result of membership in Verkehrsopferhilfe e.V., which is an association that assists road accident victims through a guarantee fund established by German motor liability insurers, the W&W Group is obligated to provide this association with the resources necessary for carrying out its purpose. The amount that it is required to pay in each year is determined by its share of the premium revenue that member companies earned from direct insurance in the calendar year before last.

Employees who joined one of the two sponsoring undertakings, Württembergische Versicherung AG and Württembergische Lebensversicherung AG, prior to 1 January 2002 could be accepted as members in the pension fund of 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, Württembergischen Versicherung AG and Württembergische Lebensversicherung AG are obligated to pay subsidies. In accordance with the business plan, the sponsoring undertakings handle management 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.

Waiver of recourse and indemnity declaration

Pursuant to an existing waiver of recourse and indemnification agreement, in the event that the company is sued as a result of an agent having provided faulty advice in connection with the brokering of an insurance product that the company sells, the company has agreed to waive potential recourse claims against the agent, unless the agent acted wilfully and the damage is covered by liability insurance. With respect to the agent's own liability in connection with the brokering of insurance or financial services products offered by an insurance company of the W&W Group, by a collaboration partner of one of these insurance companies or in the course of further advice for one of these companies or collaboration partners, the company has also agreed to provide an indemnity in the event faulty advice was provided. The minimum insurance cover is limited to €200 thousand per claim and a total of €300 thousand per year and, for damages in connection with faulty advice provided in insurance brokering, to €1,000 thousand per claim and €1,500 thousand per year.

Related party disclosures

Transactions with related persons

Natural persons considered to be related parties pursuant to IAS 24 are members of the key management personnel (the Management Board and Supervisory Board of W&W AG) and their close family members.

Transactions with related persons of W&W AG were carried out in connection with the normal business activity of Group companies. This mainly had to do with business relationships in the areas of home loan and savings business, banking business, and life, health and property insurance.

All transactions were at arm's length and/or took place at preferential terms customary in the industry.

As at 31 December 2016, receivables from related persons amounted to €384.6 thousand (previous year: €357.6 thousand), and liabilities to related persons amounted to €696.3 thousand (previous year: €2,366.7 thousand). In 2016 premiums in the amount of €46.0 thousand (previous year: €63.9 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 2016, a financial liability was owed to Wüstenrot Holding AG under this agreement in the amount of €20.6 million (previous year: €22.2 million). W&W AG makes fixed annual amortisation payments (principal and inter-est) to Wüstenrot Holding AG in the amount of €2.5 million, plus value-added tax.

In 2015 W&W AG purchased a bond of V-Bank AG for the price of €6.5 million. It received interest income from the bond in the amount of €520,0 thousand (previous year: €132,4 thousand) during the reporting period.

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 Württembergische VVaG are shown under "Other related companies". The Pensionskasse offers employment benefit plans for its employees.

The transactions were at arm's length.

As at the reporting date, the open balances from transactions with related companies were as follows:

in € thousands	31.12.2016	31.12.2015
Associates	6 782	–
Receivables from credit institutions	6 782	–
Unconsolidated subsidiaries	–	188
Other related companies	24 953	24 953
Loans and advances to customers	24 953	25 141
Unconsolidated subsidiaries	26 289	50 970
Associates	5 263	–
Other related companies	798	86[1]
Other loans and receivables	32 350	51 056
Receivables from related companies	**64 085**	**76 197**
Associates	80 179	63
Liabilities to credit institutions	80 179	63
Unconsolidated subsidiaries	24 222	35 106
Other related companies	6 179	18 902[1]
Liabilities to customers	30 401	54 008
Affiliated undertakings	–	3
Unconsolidated subsidiaries	10 871	32 312
Associates	5 842	–
Other related companies	30 767	51 079[1]
Miscellaneous liabilities	47 480	83 394
Liabilities to related companies	**158 060**	**137 465**

1 Previous year’s figure adjusted.

Income and expenses from transactions with related companies were as follows:

in € thousands	1.1.2016 to 31.12.2016	1.1.2015 to 31.12.2015
Unconsolidated subsidiaries	34 354	33 710
Associates	821	–
Other related companies	2 076	1 976[1]
Income from transactions with related companies	**37 251**	**35 686**
Unconsolidated subsidiaries	–36 185	–36 216
Associates	–334	–
Other related companies	–29 848	–40 937[1]
Expenses from transactions with related companies	**–66 367**	**–77 153**

1 Previous year's figure adjusted.

(60) 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 €3,622.1 thousand (previous year: €2,666.9 thousand) and is composed of the following elements:

Remuneration of the individual members of the Executive Board in 2016

	Term of office ends	Non-performance-related remuneration		Performance-related remuneration (short term)		Performance-related remuneration (sustained) from 2012	Performance-related remuneration (sustained) from 2011	Ancillary benefits		Total	
in € thousands		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Active members of the Executive Board											
Dr Alexander Erdland	12/2016	974.0	966.2	137.9	139.7	167.5	110.9	158.2	157.9	1 437.6	1 374.7
Jürgen A. Junker	03/2021	637.5	–	87.1	–	–	–	23.7	–	748.3	–
Dr Michael Gutjahr	08/2020	528.0	480.0	76.7	70.6	73.9	49.7	19.2	19.3	697.8	619.6
Jens Wieland	06/2020	544.0	544.0	92.8	77.7	77.6	25.8	24.0	25.1	738.4	672.6
Total		**2 683.5**	**1 990.2**	**394.5**	**288.0**	**319.0**	**186.4**	**225.1**	**202.3**	**3 622.1**	**2 666.9**

Of the ancillary benefits, remuneration for work as members of the Supervisory Board in the Group companies accounted for €133.3 thousand (previous year: €132.9 thousand).

Sustained performance-related remuneration for a prior financial year, i.e. the 2013 financial year, was earned with the close of the year 2016, since in the years 2014 to 2016 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 2017.

In addition to the earned performance-related remuneration shown in the above table, contingent claims to disbursement of performance-related remuneration for the years 2014-2016 were acquired (in each case, the amount of performance-related remuneration not yet disbursed):

Multi-year variable remuneration (sustainability component)

in € thousands	Financial year 2014, payable in 2018	Financial year 2015, payable in 2019	Financial year 2016, payable in 2020	Total
Dr Alexander Erdland (until 12/2016)	126.5	128.3	137.9	392.7
Jürgen A. Junker (starting 4/2016)	–	–	87.1	87.1
Dr Michael Gutjahr	58.3	64.7	76.7	199.7
Jens Wieland	50.0	53.6	59.5	163.1
Subtotal	**234.8**	**246.6**	**361.2**	**842.6**
Dr Jan Martin Wicke (until 04/2014)	24.3	–	–	24.3
Total	**259.1**	**246.6**	**361.2**	**866.9**
Three financial years determinative for achievement of targets	2015 2017	2016 2018	2017 2019	
Remuneration earned with the close of the financial year	2017	2018	2019	

Disbursement is made only if the aforementioned conditions occur or do not occur in the years 2017 to 2019. For 2016, the final amount will not be calculated until the Supervisory Board determines achievement of targets.

Performance-related remuneration for the 2015 financial year, which was disbursed in 2016 after ascertaining the degree to which targets were achieved, resulted in a release of €24.1 thousand (previous year: €24.9 thousand). The amount consists of releases for Dr Alexander Erdland totalling €11.3 thousand (previous year: €7.6 thousand), for Dr Michael Gutjahr totalling €6.0 thousand (previous year: €9.7 thousand) and for Jens Wieland totalling €6.9 thousand (previous year: €7.6 thousand).

In the 2015 financial year, provisions in the amount of €288.0 thousand (previous year: €301.4 thousand) were created for acquired contingent claims to disbursement in 2019 of performance-related remuneration for the 2015 financial year. 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. Therefore, once achievement of targets was ascertained, a release took place in the amount of €22.5 thousand (previous year: €24.8 thousand).

In addition, Group companies did not grant or pay remuneration that was not disbursed, remuneration converted into claims of another nature, remuneration used to increase other claims, or other remuneration that to date has not been indicated in any annual financial statements.

The present value of pensions attributable to the Group amounted to €8,393.0 thousand (previous year: €7,538.4 thou-sand), in each case based on a retirement age of 61. Attributable to Dr Alexander Erdland is the amount of €4,028.4 thousand (previous year: €3,884.7 thousand) and to Dr Michael Gutjahr the amount of €3,850.1 thousand (previous year: €3,372.0 thousand), as well as, based on a retirement age of 65, to Jürgen A. Junker in the amount of €104.9 thousand (previous year: €0) and to Jens Wieland the amount of €409.6 thousand (previous year: €281.7 thousand). These benefits have to do with long-term post-employment benefits. Additions during the financial year attributable to the Group amounted to €854.6 thousand (previous year: €509.9 thousand). Of these additions, attributable to Dr Alexander Erdland is the amount of €143.8 thousand (previous year: €437.1 thousand), to Dr Michael Gutjahr the amount of €478.0 thousand (previous year: €10.1 thousand), to Jürgen A. Junker the amount of €104.9 thousand (previous year: €0) and to Jens Wieland the amount of €127.9 thousand (previous year: €62.6 thousand).

After the claims against his prior employer were offset, the pension of Dr Alexander Erdland amounted to €155.3 thousand (previous year: €155.3 thousand). The pension of Dr Michael Gutjahr amounted to €128.2 thousand (previous year: €125.6 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: €0) 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 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 thou-sand p.a.

In connection with the conclusion of his work as member of the Executive Board, Dr Erdland was pledged non-performance-related remuneration of €974.0 thousand for the 2017 financial year. In addition, Dr Erdland was pledged use of his company car until the end of 2017, as well as performance-related bonuses for the 2016 and 2017 financial years, with 50% of each bonus being disbursed in 2017 and 2018, respectively, after ascertaining the degree to which targets were achieved. The other 50% for each year will be deferred for a period of three years and made subject to the proviso of the forfeiture clauses described in the remuneration report contained in the Management Report.

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 €1,821.8 thousand (previous year: €1,662.8 thousand). Of this amount, €273.7 thousand (previous year: €259.8 thousand) was attributable to survivor benefits.

A reserve in the amount of €22,669.7 thousand (previous year: €22,172.6 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 2016 reporting year in accordance with the requirements of Section 4.2.5 of the German Corporate Governance Code of May 2015. 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	Dr. Alexander Erdland Chairman of the Executive Board (until 31 December 2016)				Jürgen A. Junker (starting 1 April 2016) Chairman of the Executive Board (starting 1 January 2017) Strategy, Communication, Audit, Legal and Compliance			
			Minimum	Maximum			Minimum	Maximum
	2015	2016	2016	2016	2015	2016	2016	2016
Fixed remuneration	966.2	974.0	974.0	974.0	–	637.5	637.5	637.5
Ancillary benefits[1]	157.9	158.2	158.2	158.2	–	23.7	23.7	23.7
Total	**1 124.1**	**1 132.2**	**1 132.2**	**1 132.2**	**–**	**661.2**	**661.2**	**661.2**
One-year variable remuneration	118.7	118.7	–	166.2	–	75.0	–	105.0
Multi-year variable remuneration	118.7	118.7	–	166.2	–	75.0	–	105.0
Financial year 2015: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2016–2018)	118.7	–	–	–	–	–	–	–
Financial year 2016: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2017–2019)	–	118.7	–	166.2	–	75.0	–	105.0
Total	**1 361.5**	**1 369.6**	**1 132.2**	**1 464.6**	**–**	**811.2**	**661.2**	**871.2**
Pension expenses (= service cost pursuant to IAS 19)	–	–	–	–	–	103.3	–	–
Total remuneration (GCGC)	**1 361.5**	**1 369.6**	**1 132.2**	**1 464.6**	**–**	**914.5**	**661.2**	**871.2**

1 Ancillary benefits also contain the remuneration for work as Supervisory Board members in the Group companies.

			Dr. Michael Gutjahr Finance, Risk Management, HR				Jens Wieland IT, Operations
		Minimum	Maximum			Minimum	Maximum
2015	2016	2016	2016	2015	2016	2016	2016
480.0	528.0	528.0	528.0	544.0	544.0	544.0	544.0
19.3	19.2	19.2	19.2	25.1	24.0	24.0	24.0
499.3	**547.2**	**547.2**	**547.2**	**569.1**	**568.0**	**568.0**	**568.0**
60.0	66.0	–	92.4	66.0	65.5	–	91.7
60.0	66.0	–	92.4	50.0	51.2	–	71.7
60.0	–	–	–	50.0	–	–	–
–	66.0	–	92.4	–	51.2	–	71.7
619.3	**679.2**	**547.2**	**732.0**	**685.1**	**684.7**	**568.0**	**731.4**
123.3	118.8	–	–	84.1	77.8	–	–
742.6	**798.0**	**547.2**	**732.0**	**769.2**	**762.5**	**568.0**	**731.4**

Inflow in/for the reporting year

	Dr Alexander Erdland		Jürgen A. Junker (starting 1 April 2016)		Dr Michael Gutjahr		Jens Wieland	
	Chairman of the Executive Board (until 31 December 2016)		Chairman of the Executive Board (starting 1 January 2017) Strategy, Communication, Audit, Legal and Compliance		Finance, Risk Management, HR		IT, Operations	
in € thousands	2016	2015	2016	2015	2016	2015	2016	2015
Fixed remuneration	974.0	966.2	637.5	–	528.0	480.0	544.0	544.0
Ancillary benefits[1]	158.2	157.9	23.7	–	19.2	19.3	24.0	25.1
Total	**1 132.2**	**1 124.1**	**661.2**	**–**	**547.2**	**499.3**	**568.0**	**569.1**
One-year variable remuneration	137.9	139.7	87.1	–	76.7	70.6	92.8	77.7
Multi-year variable remuneration	167.5	110.9	–	–	73.9	49.7	77.6	25.8
Financial year 2012: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2013–2015)	–	110.9	–	–	–	49.7	–	25.8
Financial year 2013: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2014–2016)	167.5	–	–	–	73.9	–	77.6	–
Total remuneration (Section 314 (1) no. 6 of the German Commercial Code (HGB))	**1 437.6**	**1 374.7**	**748.3**	**–**	**697.8**	**619.6**	**738.4**	**672.6**
Pension expenses (= service cost pursuant to IAS 19)	–	–	103.3	–	118.8	123.3	77.8	84.1
Total remuneration (GCGC)	**1 437.6**	**1 374.7**	**851.6**	**–**	**816.6**	**742.9**	**816.2**	**756.7**

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 specified by the Annual General Meeting. If the Annual General Meeting does not specify an amount, the amount of the prior year applies. Supplementary amounts are stipulated for the Chairman and the Deputy Chairman, as well as for committee activities. In addition, fees are paid for attending Supervisory Board meetings.

The annual base remuneration payable after the close of the financial year amounted to €25.0 thousand (previous year: €25.0 thousand). Committee remuneration amounted to €8.0 thousand (previous year: €8.0 thousand) per year for the Risk and Audit Committee and for the Remuneration and Personnel Committee. Committee remuneration amounted to €4.0 thousand (previous year: €4.0 thousand) per year for the Mediation Committee and the Nomination Committee, whereby remuneration was paid for the Nomination Committee for the first time in 2016. An attendance fee of €500 (previous year: €500) is paid per Supervisory Board meeting. No fees are paid for attending committee meetings.

Base remuneration and committee remuneration are increased by 150% for the Chairman and by 75% for his deputies.

In the 2016 financial year, the company paid the members of the Supervisory Board of Wüstenrot & Württembergische AG total remuneration of €754.2 thousand (previous year: €766.8 thousand). Of this amount, further Supervisory Board mandates in the Group accounted for €100.2 thousand (previous year: €107.0 thousand). In the 2016 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 €125.4 thousand (previous year: €31.8 thousand).

Members of the Supervisory Board are also reimbursed upon request for expenses and the value-added tax due on Supervisory Board remuneration. However, this is not included in the designated expenses.

Advances and loans to members of the Supervisory Board of Wüstenrot & Württembergische AG amounted to €384.6 thousand (previous year: €314.5 thousand). The loans were granted by Group companies. The interest rates range from 1.6% to 7.9%. Loans amounting to €28.5 thousand (previous year: €14.0 thousand) were repaid by the members of the Supervisory Board. No liabilities were entered into in favour of these persons.

Subscription rights or other share-based remuneration for members of the Supervisory Board do not exist in the W&W Group. No reserves 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 € thousands	Base remuneration 2016	Attendance fees 2016	Committee remuneration 2016	Group 2016	2016	Total 2015
Hans Dietmar Sauer (Chairman)	62.5	2.5	43.6	–	108.6	107.9
Frank Weber (Deputy Chairman)	43.8	2.5	14.2	16.0	76.5	74.8
Peter Buschbeck	25.0	1.5	8.0	–	34.5	35.0
Dr Reiner Hagemann	25.0	2.5	10.2	–	37.7	36.0
Ute Hobinka	25.0	2.5	8.0	3.0	38.5	40.8
Jochen Höpken	25.0	2.5	2.2	–	29.7	29.3
Gudrun Lacher	14.0	1.5	2.2	–	17.7	–
Corinna Linner	25.0	2.5	11.2	–	38.7	15.4
Marika Lulay	14.0	1.5	–	–	15.5	–
Bernd Mader	14.0	1.5	4.5	–	20.0	–
Ruth Martin	25.0	2.5	5.8	–	33.3	19.9
Andreas Rothbauer	25.0	2.5	8.0	20.6	56.1	56.0
Hans-Ulrich Schulz	14.0	1.5	4.5	–	20.0	–
Christoph Seeger	25.0	2.5	8.0	26.6	62.1	62.0
Jutta Stöcker	14.0	1.5	2.2	–	17.7	–
Gerold Zimmermann	14.0	1.5	6.7	–	22.2	–
Subtotal	**390.3**	**33.0**	**139.3**	**66.2**	**628.8**	**477.1**
Christian Brand (former)	11.0	1.0	–	–	12.0	29.3
Wolfgang Dahlen (former)	11.0	1.0	5.3	8.0	25.3	57.8
Thomas Eichelmann (former)	11.0	1.0	8.8	–	20.8	47.5
Dr Rainer Hägele (former)	–	–	–	–	–	17.4
Uwe Ilzhöfer (former)	11.0	1.0	3.5	26.0	41.5	62.0
Dr Wolfgang Knapp (former)	11.0	1.0	1.8	–	13.8	31.5
Ulrich Ruetz (former)	–	–	–	–	–	14.4
Matthias Schell (former)	11.0	1.0	–	–	12.0	29.8
Total	**456.3**	**39.0**	**158.7**	**100.2**	**754.2**	**766.8**

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 €7,369.2 thousand (previous year: €5,558.4 thousand). Of this amount, short-term employee benefits accounted for €5,415.1 thousand (previous year: €4,767.8 thousand), post-employment benefits accounted for €451.9 thousand (previous year: €357.6 thousand), other long-term benefits accounted for €528.2 thousand (previous year: €433.0 thousand) and termination benefits accounted for €974.0 thousand (previous year: € 0).

(61) Number of employees

In terms of full-time equivalents, the number of employees of the W&W Group as at 31 December 2016 was 7,020 (previous year: 7,331). As at the reporting date, the number of employees was 8,395 (previous year: 8,763).

The average headcount in the last 12 months was 8,490 (previous year: 8,935). This average is calculated as the arithmetic mean of the end-of-quarter headcounts as at the reporting date between 31 March 2016 and 31 December 2016 and during the corresponding prior-year period and is distributed over the individual segments as follows:

Number of employees by segment on annual average

	31.12.2016	31.12.2015
Home Loan and Savings Bank	2 373	2 533
Life and Health Insurance	941	965
Property/Casualty Insurance	3 709	3 813
All other segments	1 467	1 624
Total	**8 490**	**8 935**

(62) Auditor

The Supervisory Board of Wüstenrot & Württembergische AG engaged KPMG AG Wirtschaftsprüfungsgesellschaft to audit the consolidated financial statements. For services of the audit firm, €4,541 thousand (previous year: €3,921 thousand) was spent for the financial year in the W&W Group. Of this amount, audit services accounted for €3,737 thousand (previous year: €2,676 thousand), other assurance services accounted for €433 thousand (previous year: €649 thousand), tax advisory services accounted for €10 thousand (previous year: €22 thousand) and other services accounted for €361 thousand (previous year: €574 thousand).

(63) Events after the reporting date

After the reporting date, the company decided to sell a commercial property in third-party use in Augsburg. It is allocated to the Life and Health Insurance segment. The sale serves to further optimise the asset portfolio in the W&W Group and is slated to close in the 2017 financial year.

(64) 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 → Investor Relations → Publications → Further Publications.

(65) Group affiliation

Wüstenrot & Württembergische AG, Stuttgart, 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).

List of ownership interests pursuant to Section 313 (a), sentence 1 of the German Commercial Code (HGB) in conjunction with § 313 (2) HGB

The list of ownership interests of the W&W Group as at 31 December 2016 is presented below. The overview lists all companies in which more than 5% is held within the W&W Group. Furthermore, the exemption ruled by § 313 (a) HGB in connection with § 131 (2), no. 4 HGB has been adopted.

Name and registered office of the company	Interest in capital, in %	Type of consolidation[1]
Wüstenrot & Württembergische AG, Stuttgart	F	V
Affiliates		
Germany		
3B Boden-Bauten-Beteiligungs-GmbH, Ludwigsburg	100.00	F
Allgemeine Rentenanstalt Pensionskasse AG, Stuttgart	100.00	F
Altmark Versicherungsmakler GmbH, Stuttgart	100.00	M
Altmark Versicherungsvermittlung GmbH, Stuttgart	100.00	M
Asendorfer Kippe ASK GmbH & Co. KG, Stuttgart	100.00	M
Berlin Leipziger Platz Grundbesitz GmbH, Stuttgart	100.00	M
Beteiligungs-GmbH der Württembergischen, Stuttgart	100.00	M
City Immobilien GmbH & Co. KG der Württembergischen, Stuttgart	100.00	F
City Immobilien II GmbH & Co. KG der Württembergischen, Stuttgart	100.00	F
Ganzer GmbH & Co. KG, Harrislee	100.00	M
Gerber GmbH & Co. KG, Stuttgart	100.00	F
Gestorf GmbH & Co. KG, Stuttgart	100.00	M
GMA Gesellschaft für Markt- und Absatzforschung mbH, Ludwigsburg	100.00	M
Hinterbliebenenfürsorge der Deutschen Beamtenbanken GmbH, Karlsruhe	100.00	M
IVB - Institut für Vorsorgeberatung Risiko- und Finanzanalyse GmbH, Karlsruhe	100.00	M
Karlsruher Lebensversicherung AG, Karlsruhe	92.76	F
KLV BAKO Dienstleistungs-GmbH, Karlsruhe	92.80	M
KLV BAKO Vermittlungs-GmbH, Karlsruhe	75.90	M
LP 1 Beteiligungs-GmbH & Co. KG, Stuttgart	100.00	M
Miethaus und Wohnheim GmbH i.L., Ludwigsburg	100.00	M
Nord-Deutsche AG Versicherungs-Beteiligungsgesellschaft, Stuttgart	100.00	M
Schulenburg GmbH & Co. KG, Stuttgart	100.00	M
Stuttgarter Baugesellschaft von 1872 AG, Stuttgart	100.00	M
treefin AG, Munich	75.00	M
W&W Asset Management GmbH, Ludwigsburg	100.00	F
W&W Gesellschaft für Finanzbeteiligungen mbH, Stuttgart	100.00	F
W&W Informatik GmbH, Ludwigsburg2	100.00	F
W&W Produktion GmbH, Berlin	100.00	F
W&W Service GmbH, Stuttgart2	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, Stuttgart2	100.00	F
Württembergische Immobilien AG, Stuttgart	100.00	F
Württembergische Kö 43 GmbH, Stuttgart	94.00	M
Württembergische Krankenversicherung AG, Stuttgart	100.00	F
Württembergische Lebensversicherung AG, Stuttgart	94.89	F
Württembergische Logistik I GmbH & Co. KG, Stuttgart	100.00	M
Württembergische Logistik II GmbH & Co. KG, Stuttgart	100.00	M
Württembergische Rechtsschutz Schaden-Service-GmbH, Stuttgart	100.00	M
Württembergische Versicherung AG, Stuttgart	100.00	F
Württembergische Vertriebspartner GmbH (formerly: Württembergische Vertriebsservice GmbH für Makler und freie Vermittler), Stuttgart	100.00	M
Württembergische Verwaltungsgesellschaft mbH, Stuttgart	100.00	M
Württfeuer Beteiligungs-GmbH, Stuttgart	100.00	M
WürttLeben Alternative Investments GmbH, Stuttgart	100.00	F
WürttVers Alternative Investments GmbH, Stuttgart	100.00	F
Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg	100.00	F
Wüstenrot Bausparkasse AG, Ludwigsburg	100.00	F
Wüstenrot Grundstücksverwertungs-GmbH, Ludwigsburg	100.00	M
Wüstenrot Haus- und Städtebau GmbH, Ludwigsburg	100.00	F
Wüstenrot Immobilien GmbH, Ludwigsburg	100.00	M
Austria		
G6 Zeta Errichtungs- und VerwertungsGmbH & Co OG, Vienna	99.90	M
Czech Republic		
WIT Services s.r.o., Prague	100.00	M
Wüstenrot hypoteční banka a.s., Prague	100.00	F
Wüstenrot stavební spořitelna a.s., Prague	100.00	F
France		
Württembergische France Immobiliere SARL, Strasbourg	100.00	M
Württembergische France Strasbourg SARL, Strasbourg	100.00	M
Ireland		
W&W Advisory Dublin DAC, Dublin	100.00	F
W&W Asset Management Dublin DAC, Dublin	100.00	F
W&W Europe Life Limited i.L., Dublin	100.00	M

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Type of consolidation[1]
Germany		
LBBW-AM 15-Fonds, Stuttgart	100.00	F
LBBW-AM 203, Stuttgart	100.00	F
LBBW-AM 350 KARLSRUHER Rentenfonds, Stuttgart	100.00	M
LBBW-AM 400 KARLSRUHER Europa-Aktienfonds, Stuttgart	100.00	M
LBBW-AM 450 KARLSRUHER Welt-Aktienfonds, Stuttgart	100.00	M
LBBW-AM 567, Stuttgart	100.00	F
LBBW-AM 620 Best Season EuroInvest, Stuttgart	100.00	M
LBBW-AM 69, Stuttgart	100.00	F
LBBW-AM 76, Stuttgart	100.00	F
LBBW-AM 93, Stuttgart	100.00	F
LBBW-AM 94, Stuttgart	100.00	F
LBBW-AM AROS, Stuttgart	100.00	F
LBBW-AM Covered Call USA Fonds, Stuttgart	100.00	M
LBBW-AM Emerging Markets Bonds-Fonds 1, Stuttgart	100.00	F
LBBW-AM Emerging Markets Bonds-Fonds 2, Stuttgart	100.00	F
LBBW-AM Emerging Markets Bonds-Fonds 3, Stuttgart	100.00	M
LBBW-AM RWF, Stuttgart	100.00	M
LBBW-AM Südinvest 160, Stuttgart	100.00	F
LBBW-AM Südinvest Hw Emb, Stuttgart	76.39	M
LBBW-AM USD Corporate Bond Fonds 1, Stuttgart	100.00	F
LBBW-AM USD Corporate Bond Fonds 2, Stuttgart	100.00	M
LBBW-AM USD Corporate Bond Fonds 3, Stuttgart	90.06	M
LBBW-AM WBP, 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
LBBW-AM WWAG Corporate Bond Fonds, Stuttgart	100.00	M
Ireland		
W&W Euro Corporate Bond Fund A, Dublin	87.96	M
W&W Flexible Point and Figure, Dublin	100.00	M
W&W Flexible Premium, Dublin	100.00	F
W&W Flexible Premium II, Dublin	100.00	F
W&W Flexible Premium Euro, Dublin	100.00	M
W&W Global Strategies European Equity Value, Dublin	100.00	F
W&W Global Strategies South East Asian Equity Fund, Dublin	99.86	F
W&W International Global Convertibles Fonds, Dublin	94.77	F

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Type of consolidation[1]
Associates		
Germany		
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	35.00	E
BWK Holding GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	35.00	M
Eschborn Grundstücksgesellschaft mbH & Co. KG, Stuttgart	51.00	M
V-Bank AG, Munich	49.92	E
W&W Digital GmbH, Berlin	51.00	M

1 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.

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %
Other investments of more than 5% and less than 20%	
Germany	
Adveq Europe II GmbH, Frankfurt am Main	16.77
Adveq Technology III GmbH, Frankfurt am Main	18.84
Adveq Technology V GmbH, Frankfurt am Main	16.50
Auda Ventures GmbH & Co. Beteiligungs-KG, Munich	5.79
BPE2 Private Equity GmbH & Co. KG, Hamburg	10.00
Coller German Investors GmbH & Co. KG, Munich	10.00
Crown Premium Private Equity III GmbH & Co. KG, Munich	6.60
Deutscher Solarfonds „Stabilität 2010“ GmbH & Co. KG, Frankfurt am Main	17.77
Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin	19.82
EquiVest II GmbH & Co. Zweite Beteiligungs KG Nr. 1 für Vermögensanlagen, Munich	9.97
European Sustainable Power Fund Nr. 2 GmbH & Co. KG, Grünwald	12.10
GLL GmbH & Co. Messeturm Holding KG, Munich	5.97
High Tech Beteiligungen GmbH & Co. KG i.L., Düsseldorf	6.60
IVZ Immobilien Verwaltungs GmbH & Co. Finanzanlagen KG, Munich	10.00
IVZ Immobilien Verwaltungs GmbH & Co. Südeuropa KG, Munich	10.00
Odewald & Compagnie GmbH & Co. KG für Vermögensanlagen in Portfoliounternehmen i.L., Berlin	13.52
VV Immobilien GmbH & Co. United States KG i.L., Munich	9.98
YIELCO Special Situations GmbH & Co. KG, Munich	13.25
Hungary	
Fundamenta-Lakaskassza-Lakastakarekpenztar Zrt., Budapest	11.47
Ireland	
Crown Global Secondaries II plc, Dublin	7.22
White Oak Summit Fund I LP, Dublin	15.66
Luxembourg	
DB Secondary Opportunities SICAV-SIF - Sub Fund DB SOF II Feeder USD, Luxembourg	16.79
First State European Diversified Infrastructure Feeder Fund II SCA, SICAV-SIF, Luxembourg	14.37
InfraVia European Fund III SCSp, Senningerberg	14.96
United Kingdom	
ASF VI Infrastructure L.P., Edinburgh	6.40
ASF VII Infrastructure L.P., Edinburgh	18.93
BlackRock Global Renewable Power Fund II (C) L.P., London	12.17
Brookfield Capital Partners Fund III (NR A) L.P., George Town	12.20
Carlyle Cardinal Ireland Fund L.P., Grand Cayman	5.83
CBPE Capital Fund IX L.P., London	15.41
Glennmont Clean Energy Fund Europe 1 'A' L.P, London	11.52
Kennet III A L.P., St. Peter Port	6.73
Kennet IV L.P., St. Peter Port	18.83
Partners Group Emerging Markets 2007 L.P., Edinburgh	12.01
United States	
ISQ Global Infrastructure Fund (EU) L.P., Delaware	5.19

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Currency	Reporting date	Equity[1]	After-tax earnings[1]
Other investments[3] of 20% or more					
Germany					
Adveq Opportunity II Zweite GmbH, Frankfurt am Main	29.31	€	31.12.2015	30 535 841	3 955 400
DBAG Fund VI Feeder GmbH & Co. KG, Frankfurt am Main	30.71	€	31.12.2015	38 507 064	718 452
Europroperty, Wiesbaden	21.96	€	30.9.2015	129 649 625	2 266 336
Onshore Wind Portfolio 2012 GmbH & Co. KG, Frankfurt am Main	20.72	€	31.10.2015	118 617 327	5 345 708
RP Global Diversified Portfolio I, Frankfurt am Main	85.70	€	31.12.2015	9 268 383	236 178
RP Global Diversified Portfolio III, Frankfurt am Main	66.34	€	31.12.2015	11 721 199	268 456
VC Fonds Baden-Württemberg GmbH & Co. KG, Stuttgart	25.00	€	31.12.2015	919 288	235 505
VV Immobilien GmbH & Co. US City KG i.L., Munich	23.10	€	31.12.2015	9 479	1 058 524
W&W Europa-Fonds, Stuttgart	39.10	€	31.1.2015	39 839 380	1 291 382
W&W Internationaler Rentenfonds, Stuttgart	79.23	€	31.1.2015	100 460 916	2 421 211
W&W Quality Select Aktien Europa, Stuttgart	29.29	€	31.1.2015	40 308 844	3 227 360
W&W Sachinvest, Stuttgart	89.97	€	28.2.2015	33 295 010	954 066
W&W Vermögensverwaltende Strategie, Stuttgart	55.26	€	28.2.2015	40 148 053	1 758 738
Ireland					
BlackRock NTR Renewable Power Fund plc, Dublin	89.55	US$[2]	31.12.2015	332 154 681	10 365 371
Luxembourg					
Idinvest Lux Fund, SICAV-SIF SCA – Idinvest Private Debt III, Luxembourg	25.68	€	31.12.2015	103 507 618	5 976 175
IKAV SICAV-FIS SCA - ecoprime TK I, Luxembourg	41.28	€	30.9.2016	47 805 309	2 638 484
IKAV SICAV-FIS SCA - Global Energy (Ecoprime III), Luxembourg	45.36	€	30.9.2016	62 833 107	179 632
IKAV SICAV-FIS SCA - Global PV Investments, Luxembourg	46.25	€	30.9.2016	52 077 575	2 358 063
Secondary Oppurtunities SICAV-SIF - Sub-fund SOF III Feeder USD, Luxembourg	35.48	US$2	31.12.2015	14 852 260	2 802 649
StepStone European Fund SCS, SICAV-FIS – StepStone Capital Partners III, Luxembourg	27.56	US$ 2	31.12.2015	149 200 969	20 849 265
United Kingdom					
Capital Dynamics Clean Energy and Infrastructure Feeder L.P., Edinburgh	28.24	US$2	31.12.2015	160 644 666	42
Capital Dynamics Clean Energy and Infrastructure III L.P., Birmingham	21.28			New investment 1.1.2016	
Capital Dynamics US Solar Energy Feeder L.P., Edinburgh	62.69	US$2	31.12.2015	2 597 765	613 548
Global Infrastructure Partners III-C2 L.P., London	78.36			New investment 26.7.2016	
HgCapital Renewable Power Partners 2 L.P., London	29.53	€	31.12.2015	50 016 825	2 794 093
Project Glow Co-Investment Fund L.P., Grand Cayman	51.72	CA$2	31.12.2015	31 161 684	11 529
United States					
EIG Global Private Debt (Europe UL) L.P., Houston	78.56			New investment 31.8.2016	
Project Finale Co-Investment Fund Holding LLC, Wilmington	30.00	US$2	31.12.2015	32 985 763	101 776

1 The figures relate to the most recent annual financial statements available on the reporting date.
2 US$/ € - rate on 31 December 2016: 1.0541 / 1.0000. CA$/€ - rate on 31 December 2016: 1.4188 / 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 set forth in Article 89 of Directive 2013/36/EU on country-by-country reporting were implemented in German law by way of Section 26a of the German Banking Act (KWG).

The regulatory scope of consolidation forms the basis. The disclosures are made country by country after intra-Group reconciliation. The allocation of the type of business is made according to the definitions in Section 1 KWG, and the allocation of the geographic location is made on the basis of the registered office. The legally independent branch in Luxembourg is presented separately.

Included companies

	Type of business	Registered office/city	Country
W&W Asset Management GmbH	Financial services institution	Ludwigsburg	Germany
W&W Gesellschaft für Finanzbeteiligungen mbH	Financial company	Stuttgart	Germany
W&W Informatik GmbH	Provider of ancillary services	Ludwigsburg	Germany
W&W Service GmbH	Provider of ancillary services	Stuttgart	Germany
Wüstenrot & Württembergische AG	Financial company	Stuttgart	Germany
Wüstenrot Bank AG Pfandbriefbank	Credit institution	Ludwigsburg	Germany
Wüstenrot Bausparkasse AG	Credit institution	Ludwigsburg	Germany
Wüstenrot hypoteční banka a.s.	Credit institution	Prague	Czech Republic
Wüstenrot stavební spořitelna a.s.	Credit institution	Prague	Czech Republic
Wüstenrot Bausparkasse AG, Luxembourg branch establishment	Credit institution	Munsbach	Luxembourg

Presented as revenue are the earnings before income taxes from continued operations without 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 current taxes under national tax rules, taxes on profit or loss also contain deferred taxes. Deferred taxes are recognised in the amount of the expected refund from or payment to the relevant tax authorities. Deferred taxes are calculated at the respective country-specific tax rates.

Country-specific disclosures for 2016

		Germany	Czech Republic	Luxembourg
Revenue	in € thousands	856 195	49 651	3 105
Recipients of wages and salaries in full-time equivalents	Number	3 960	312	7
Profit/loss before taxes	in € thousands	198 396	18 814	2 687
Taxes on profit/loss	in € thousands	–67 546	–3 542	216
Public subsidies received	in € thousands	–	–	–

Country-specific disclosures for 2015

		Germany	Czech Republic	Luxembourg
Revenue	in € thousands	830 752	48 668	2 611
Recipients of wages and salaries in full-time equivalents	Number	4 136	326	7
Profit/loss before taxes	in € thousands	171 657	16 719	–1 510
Taxes on profit/loss	in € thousands	–15 361	–3 173	–584
Public subsidies received	in € thousands	–	–	–

Wüstenrot & Württembergische AG
Responsibility statement

To the best of our knowledge, and in accordance with applicable accounting principles, the consolidated annual financial statements present a true and accurate view of the Group's net assets, financial position and financial performance, and the Group Management Report provides a true and accurate presentation of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stuttgart, 28 February 2017

Jürgen A. Junker

Dr. Michael Gutjahr

Jens Wieland

Wüstenrot & Württembergische AG
Auditor's report

We have audited the consolidated annual financial statements prepared by Wüstenrot & Württembergische AG, Stuttgart, Germany, 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 annual financial statements, together with the company management report and the Group Management Report for the financial year 1 January to 31 December 2016. The preparation of the consolidated annual financial statements and the Group Management Report in accordance with the IFRSs applicable in the EU, with the additional commercial provisions applicable pursuant to Section 315a (1) of the German Commercial Code (HGB) and with the supplementary provisions in the Articles of Association is the responsibility of company management. Our responsibility is to express an opinion on the consolidated annual financial statements and the Group Management Report based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with Section 317 HGB and generally accepted German standards for the auditing of annual financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit in such a way that any misstatements materially affecting the presentation of net assets, financial position and financial performance in the consolidated annual financial statements in accordance with the applicable accounting rules, as well as in the Group Management Report, are detected with reasonable assurance. Knowledge of the business operations and the economic and legal environment of the Group and expectations as to possible errors are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated annual financial statements and the Group Management Report are examined primarily on the basis of random spot checks within the framework of the audit. The audit includes assessing the annual financial statements of the entities included in the consolidated annual financial statements, the determination of which entities were included in the scope of consolidation, the accounting and consolidation principles applied and the material estimates made by company management, as well as evaluating the overall presentation of the consolidated annual financial statements and the Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated annual financial statements comply with the IFRSs applicable in the EU, with the additional commercial provisions applicable pursuant to Section 315a (1) HGB and with the supplementary provisions in the Articles of Association and present a true and accurate view of the net assets, financial position and financial performance of the Group in accordance with these provisions. The Group Management Report is consistent with the consolidated annual financial statements and as a whole presents a true and accurate view of the Group's position and the opportunities and risks of future development.

Stuttgart, 8 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr Hasenburg	Stratmann
Wirtschaftsprüfer	Wirtschaftsprüfer
(German public auditor)	(German public auditor)

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Balance sheet as at 31 December 2016

Assets

in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2015
A. Intangible assets				
I. Licenses acquired against payment, industrial property rights and similar rights and assets, as well as licenses for such rights and assets			11	–
B. Capital investments				
I. Land, land-type rights and buildings, including buildings on third-party land		118 617		84 744
II. Capital investments in affiliated companies and participations				
1. Interests in affiliated companies	1 687 013			1 710 058
2. Loans to affiliated companies	316 900			354 942
3. Participations	46 649			40 422
4. Loans to companies in which an investment is maintained	6 500			6 500
		2 057 062		2 111 922
III. Other capital investments				
1. Shares, interests or shares in investment assets and other variable-yield securities	499 678			472 332
2. Bearer bonds and other fixed-income securities	89 354			79 072
3. Other loans	304 205			359 376
4. Deposits with credit institutions	94 177			77 439
thereof with affiliated companies: €94,177 thousand (previous year: €77,439 thousand)				
5. Other capital investments	87			87
		987 501		988 306
IV. Receivables from deposits with ceding companies		34 696		36 404
			3 197 876	3 221 376
C. Receivables				
I. Amounts receivable on reinsurance business		37 512		30 179
thereof from affiliated companies € – thousand (previous year: € — thousand)				
II. Other receivables		209 197		142 589
thereof from affiliated companies: €195,340 thousand (previous year: €116,312 thousand) thereof from companies in which an investment is maintained: €433 thousand (previous year: €–)			246 709	172 768
Carryover			**3 444 596**	**3 394 144**

Assets

in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2015
Carryover			**3 444 596**	**3 394 144**
D. Other assets				
I. Property, plant and equipment and inventories		186		154
II. Current accounts with banks, cheques and cash		49 461		3 055
thereof with affiliated companies: €4,074 thousand (previous year: €836 thousand)			49 647	3 209
E. Deferred assets				
I. Deferred interest and rental income		7 266		9 774
II. Other deferred assets		238		439
			7 504	10 213
F. Excess of plan assets over pension liabilities			185	352
Total Assets			**3 501 932**	**3 407 918**

Liabilities

in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2015
A. Equity				
I. Share capital[1]	490 311			490 311
thereof less: mathematical value of own shares	1 427			–
		488 884		490 311
II. Capital reserve		993 464		997 765
III. Retained earnings				
Other retained earnings	365 577			360 577
		365 577		360 577
IV. Balance sheet profit		63 353		61 546
			1 911 278	1 910 199
B. Technical provisions				
I. Provision for unearned premiums				
1. Gross amount	20 258			20 140
2. Thereof to: the portion for ceded reinsurance business	2 216			2 093
		18 042		18 047
II. Provision for future policy benefits				
1. Gross amount	31 902			33 538
		31 902		33 538
III. Provision for outstanding insurance claims				
1. Gross amount	486 522			490 680
2. Thereof to: the portion for ceded reinsurance business	111 042			115 286
		375 480		375 394
IV. Claims equalisation provision and similar provisions		69 754		58 433
V. Other technical provisions				
1. Gross amount	5 915			5 635
2. Thereof to: the portion for ceded reinsurance business	1 023			962
		4 892		4 673
			500 070	490 085
Carryover			**2 411 348**	**2 400 284**

1 Information about authorised and contingent capital is contained in the notes.

Liabilities

in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2015
Carryover			**2 411 348**	**2 400 284**
C. Other provisions				
I. Provisions for pensions and similar obligations		840 989		780 421
II. Tax provisions		67 434		64 220
III. Other provisions		34 001		18 296
			942 424	862 937
D. Deposits retained from ceded reinsurance business			17 450	18 730
E. Other liabilities				
I. Accounts payable on reinsurance business		34 640		35 886
thereof to affiliated companies: €28,488 thousand (previous year: €27,760 thousand)				
II. Liabilities to credit institutions		4 178		–
III. Sundry liabilities		91 834		90 018
thereof for taxes: €932 thousand (previous year: €–) thereof to affiliated companies: €89,785 thousand (previous year: €88,977 thousand)			130 652	125 904
F. Deferred liabilities			58	63
Total Liabilities			**3 501 932**	**3 407 918**

Income statement W&W AG HGB
for the period 1 January to 31 December 2016

in € thousands	1.1.2016 bis 31.12.2016	1.1.2016 bis 31.12.2016	1.1.2016 bis 31.12.2016	1.1.2015 bis 31.12.2015
I. Technical account				
1. Premiums earned for own account				
a) Gross premiums written	323 552			318 777
b) Paid einsurance premiums	76 374			74 541
		247 178		244 236
c) Change in the gross provision for unearned premiums	–118			437
d) Change in the reinsurers' portion of the gross provision for unearned premiums	123			–89
		5		348
			247 183	244 584
2. Allocated investment return transferred from the non-technical account, net of reinsurance			1 156	1 153
3. Other technical incomes for own account			445	484
4. Expenses for insurance claims for own account				
a) Payments for insurance claims				
aa) Gross amount	206 587			212 873
bb) Reinsurers' portion	48 935			52 472
		157 652		160 401
b) Change in the provision for outstanding insurance claims				
aa) Gross amount	–4 316			–1 615
bb) Reinsurers' portion	–4 572			–7 443
		256		5 828
			157 908	166 229
5. Change in other net technical provisions				
a) Net provision for future policy benefits		1 637		577
b) Sundry net technical provisions		–219		–58
			1 418	519
6. Expenses for insurance business for own account				
a) Gross expenses for insurance business		100 530		99 804
b) Thereof less: received commissions and profit participations from ceded reinsurance business		16 801		17 553
			83 729	82 251
7. Other technical expenses for own account			1 218	1 207
8. Subtotal			**7 347**	**–2 947**
9. Change in the claims equalisation provision and similar provisions			–11 321	–7 136
10. Net technical loss for own account			–3 974	–10 083
Carryover			**–3 974**	**–10 083**

in € thousands	1.1.2016 bis 31.12.2016	1.1.2016 bis 31.12.2016	1.1.2016 bis 31.12.2016	1.1.2015 bis 31.12.2015
Carryover			**−3 974**	**−10 083**
II. Non-technical account				
1. Income from capital investments				
a) Income from participations	14 085			6 904
thereof from affiliated companies: €11,704 thousand (previous year: €3,718 thousand)				
b) Income from other capital investments	48 132			39 801
thereof from affiliated companies: €19,356 thousand (previous year: €11,089 thousand)				
c) Income from write-ups	31 469			7 843
d) Gains from the disposal of capital investments	9 496			15 832
e) Income from profit pools, profit transfer agreements and partial profit transfer agreements	150 991			106 693
		254 173		177 073
2. Expenses for capital investments				
a) Capital investment management expenses, interest expenses and other expenses for capital investments	7 184			3 479
b) Depreciations on capital investments	38 549			10 361
c) Losses from the disposal of capital investments	614			3 132
d) Expenses from loss assumption	5 230			922
		51 577		17 894
		202 596		159 179
3. Income from technical interest		−1 167		−1 167
			201 429	158 012
4. Income from technical interest		60 995		71 748
5. Income from technical interest		141 628		144 832
			−80 633	−73 084
6. Net income from normal business activities			116 822	74 845
7. Extraordinary expenses		12 946		5 548
8. Net extraordinary result			−12 946	−5 548
9. Income taxes		41 022		8 902
10. Other taxes		−39		−143
			40 983	8 759
11. Annual Profit			**62 893**	**60 538**
12. Retained earnings carried forward from the previous year			460	1 008
13. Allocation to retained earnings				
d) Other retained earnings			–	–
14. Balance sheet profit			**63 353**	**61 546**

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 amortisa-tion.

Land, land-type rights and buildings, including buildings on third-party land

Assets recognised under the item „Land, land-type rights and buildings“ are measured at cost less scheduled straight-line depreciation or at fair value, whichever is lower. Unscheduled write-downs take place only in the event of expect-ed 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 3 of the German Commercial Code (HGB), unscheduled write-downs to the lower fair value take place only in the event of expected permanent impairment (moderate lower-value principle). If the reasons for a lower carrying amount no longer exist, the asset is written up to a maximum of its historical cost.

Loans to affiliated companies

Recognised under the item „Loans to affiliated companies“ are bearer bonds, registered bonds, promissory notes and loans receivable. For recognition and measurement, please see the comments on the items below.

Participations

Participations are measured at cost. Pursuant to Section 341b (1) in conjunction with Section 253 (3) sentence 3 of the German Commercial Code (HGB), unscheduled write-downs to the lower fair value take place only in the event of ex-pected 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 investment 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 linearly over the term.

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 remaining term using the effective interest method.

In order to determine whether registered bonds, promissory notes, or loans receivable are permanently impaired, ratings analyses are performed for issuers whose rating has deteriorated by two or more notches or whose securities are over-valued by at least 10%. If on the basis of the ratings analyses it can no longer be expected that the securities will be repaid in conformity with the contract, they are written down to the lower fair value. In addition, collective impairments are taken for 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 capital investments

Other capital investments are measured at cost.

Receivables from deposits with ceding companies and from reinsurance business

Receivables from deposits with ceding companies withheld by ceding companies and amounts receivables 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 are 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

Rent arrearages contained in the item “Other assets” are recognised at their nominal values.

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 €150 are depreciated in full in the year of acquisition. In accordance with tax rules, assets with a net cost of more than €150 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.

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, 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 prior 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. Their measurement occurs on a business-by-business 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 „Other 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

The fair value of land, land-type rights and buildings, including buildings on third-party land, is continuously verified using the discounted cash flow method.

We base the fair value of affiliated companies and participations on their capitalised income value or on the fair value determined using the net asset value method, in some cases also on cost or the liquidation value.

Recognised as the fair value of other capital 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 %	31.12.2016	31.12.2015
Actuarial interest rate	4.01	3.89
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 2005G	Heubeck mortality tables 2005G

Pursuant to Section 253 (2) sentence 1 of the German Commercial Code (HGB), the actuarial interest rate applied in the 2016 financial year in accordance with the revised law was the average market interest rate over the past 10 years (previous year: average interest rate over the past seven years). The discount rates published by the German Bundesbank on 31 October 2016 with a 10-year average interest rate were modified by taking the average monthly decline in interest rates from 1 January to 31 October 2016 and extrapolating it for the months of November and December 2016. The difference between measurement of the provision for pensions and similar obligations using the 10-year average interest rate and that using the 7-year average interest rate pursuant to Section 253 (6) of the German Commercial Code (HGB) amounted to €101.1 million. The total amount of the effect of the change in interest rates is the result of the change in the 7-year average interest rate between 2015 and 2016 (expense of €12.8 million) and the conversion from the 7-year average interest rate to the 10-year average interest in 2016 (income of €14.9 million). The resulting net effect of the change in interest rates totalling €2.1 million was set-off against discounting expenses in „Other expenses“.

The conversion expense from the first-time application of the German Accounting Law Modernisation Act (BilMoG) in 2010 for all companies consolidated by W&W AG amounted to €117.3 million and may be allocated over a period of up to 15 years. Use was made of this right of allocation in these years, including 2015, with one fifteenth of this amount essentially being recognised as an extraordinary expense. It is borne by each of the companies for which W&W AG assumed joint liability for pension commitments. In 2016 W&W AG and seven of these companies recognised seven and nine outstanding instalments, respectively, in full as an extraordinary expense, meaning that there was no longer any under-coverage for the pension provisions of W&W AG or of these seven companies on the reporting date. At two of these companies, four fifteenths was recognised as an extraordinary expense, meaning that there was still under-coverage totalling €4.0 million on the reporting date. In connection with required netting, pledged reinsurance policies (€4.3 million; previous year: €4.3 million) were taken into account at fair value. This is composed of the coverage capital plus surplus participation.

Tax provisions and miscellaneous provisions

Miscellaneous provisions and tax provisions are recognised in the amount needed to satisfy the obligations. In accordance with Section 253 (1) sentence 2 of the German Commercial Code (HGB), provisions with a term of longer than one year are generally determined in the amount needed to satisfy the obligations, 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 rates ranging between 0.5% and 1.5%. The rate used to discount miscellaneous provisions corresponds to the average rate of the past seven years published by the German Bundesbank pursuant to the German Regulation on the Discounting of Provisions (RückAbzinsV) for a correspondingly assumed remaining maturity. Results from discounting and compounding, from changes in the discounting rate, and from the interest rate effects of a changed estimate of remaining maturity are recognised as interest income or interest expenses under „Other income“ or „Other expenses“, as the case may be. Tax interest accrued as at the reporting date is recognised under „Miscellaneous provisions“.

Provisions for phased-in early retirement, social affairs and long-term service emoluments

A provision is created for the legal obligations under phased-in early retirement contracts existing on the reporting date, taking into account employer expenses for social insurance, in the amount of the present value of future top-up benefits (salary and supplemental contributions towards pension insurance) and compensation payments due to reduced pension insurance claims and the satisfaction arrearages 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, including fluctuation, are taken into account when measuring the provision via a flat-rate discount of 2%. 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.

In accordance with Section 253 (1) sentence 2 of the German Commercial Code (HGB), the provisions for social affairs and for long-term service emoluments are determined in the required satisfaction amount by applying the Heubeck mortality tables 2005 G and an interest rate of 2.28% 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 translate items associated with foreign insurance business at the ECB's average spot exchange rate in effect on the reporting date. The corresponding income and expenses are recognised in the income statement at the relevant ECB average spot exchange rate in effect on the settlement date.

We generally measure capital investments denominated in foreign currency in accordance with the rules of individual measurement in accordance with the lower-value principle. They are subsequently measured at the ECB's average spot exchange rate. We comply in economic terms with the principle of congruent coverage per currency.

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 maturities are one year or less.

Currency 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 on capital investments in foreign currency are recognised under „Income from write-ups" and „Gains from the disposal of capital investments", while the corresponding losses are recognised under „Write-downs on capital investments" and „Losses from the disposal of capital investments".

Currency exchange rate gains and losses from current bank account balances denominated in foreign currency are recognised under „Other income" and „Other expenses".

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 on hand 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 2015 in the amount of €7.1 million (previous year: €7.3 million) was recognised in the 2016 reporting year.

Notes concerning assets

A. Investments

Recognised under this item is the cost for purchasing data-processing software.
The change in intangible assets is depicted in the notes under “Individual disclosures concerning assets”.

B. Capital investments

The change in capital investments is depicted in the table „Individual disclosures concerning assets“. Rate gains resulting from currency translation are listed at €0.9 million (previous year: €1.1 million) under write-ups, and rate losses, at €0.9 million (previous year: €–), under write-downs. These currency fluctuations are recognised in the income statement under the items „Other income“ or „Other expenses“, as the case may be.

I. Land, land-type rights and buildings, including buildings on third-party land

As at the reporting date, our land used exclusively in the Group consisted of four (previous year: four) properties with a carrying amount of €118.6 million (previous year: €84.7 million). No properties were acquired or sold during the reporting year.

One asset under construction has been in the portfolio since 2014.

II. Capital investments in affiliated companies and participations

Pursuant to Section 285, no. 11 in conjunction with Section 271 (1) of the German Commercial Code (HGB), the disclosures concerning participations are set forth in the table „List of ownership interests“. The list sets forth all companies in which W&W AG owns more than 5% of the interests. Furthermore, we made use of the exemptions granted by § 286 (3), no 1 HGB.

III. Other capital investments

1. Shares, interests or shares in investment assets and other variable-yield securities

in € thousands	31.12.2016	31.12.2015
Interests or shares in investment assets	499 678	472 332
Total	**499 678**	**472 332**

3. Other loans

in € thousands	31.12.2016	31.12.2015
Registered bonds	159 453	174 430
Promissory notes and loans receivable	144 752	184 946
Total	**304 205**	**359 376**

4. Deposits with credit institutions

As at the end of the reporting year, we had overnight money and short-term money in the amount of €94.2 million (previous year: €77.4 million) invested in affiliated companies.

Fair value of capital investments

Valuation reserves

in € thousands	Carrying amount 31.12.2016	Fair value 31.12.2016	Valuation reserves[1] 31.12.2016	Carrying amount 31.12.2015	Fair value 31.12.2015	Valuation reserves[1] 31.12.2015
Land, land-type rights and buildings, including buildings on third-party land	118 617	121 514	2 897	84 744	86 243	1 499
Interests in affiliated companies	1 687 013	2 848 868	1 161 855	1 710 058	2 722 700	1 012 642
Loans to affiliated companies	316 900	334 176	17 276	354 942	364 556	9 614
Participations	46 649	65 715	19 066	40 422	58 654	18 232
Loans to companies in which an investment is maintained	6 500	6 650	150	6 500	6 613	113
Shares, interests or shares in investment assets and other variable-yield securities	499 678	540 021	40 343	472 332	512 846	40 514
Bearer bonds and other fixed-income securities	89 354	92 484	3 130	79 072	82 985	3 913
Registered bonds	159 453	179 631	20 178	174 430	194 496	20 066
Promissory notes and loans receivable	144 752	159 434	14 682	184 946	200 952	16 006
Deposits with credit institutions	94 177	94 246	69	77 439	77 450	11
Other capital investments	87	87	–	87	87	–
Deposits from reinsurance accepted	34 696	34 696	–	36 404	36 404	–
Total	**3 197 876**	**4 477 522**	**1 279 646**	**3 221 376**	**4 343 986**	**1 122 610**
Carrying amount of all investments, in %			**40,02**			**34.85**

1 Net perspective, balance of valuation reserves and hidden liabilities.

Disclosures pursuant to Section 285, no. 18 of the German Commercial Code (HGB) concerning capital investments recognised at greater than fair value

With regard to registered bonds, one item had a market value that is €161,311 below its carrying amount of €5,000,000. It was not written down because the circumstances were unrelated to creditworthiness. We expect to receive interest and amortisation payments as planned.

Disclosures pursuant to Section 285, no. 26 of the German Commercial Code (HGB)

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
BWInvest-76	Mixed fund (up to 70%)	308 851	282 534	26 317	–
LBBW AM-EMB3	Pension fund	69 737	63 004	6 733	9 000
LBBW AM-W&W AG Corporate Bonds Fonds	Pension fund	60 429	56 500	3 929	4 000
W&W Flexible Point & Figure	Mixed fund (up to 70%)	36 853	36 853	–	–
LBBW AM-USD Corporate Bond Fonds 3	Pension fund	22 363	22 363	–	732
W&W Flexible Premium II Fund B	Mixed fund (up to 70%)	22 711	22 000	711	–
LBBW AM Cove.Call USA Fund	Equity fund	18 912	16 259	2 653	372

We are unaware of any restrictions in the daily sell option. Only where all fund units are sold is there a termination notice period of three months.

C. Receivables

II. Other loans and receivables

Other than receivables from general settlement transactions with affiliated companies in the amount of €41.2 million (previous year: €6.8 million), the receivables recognised here were essentially receivables from profit and loss transfer agreements in the amount of €151.0 million (previous year: €106.7 million) and from tax refund claims in the amount of €13.2 million (previous year: €25.6 million).

E. Deferred assets

II. Other deferred assets

This essentially includes premiums from the acquisition of registered bonds in the amount of €0.2 million (previous year: €0.4 million).

F. Excess of plan assets over pension liabilities

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 €1.3 million (previous year: €1.3 million) with partial amounts of the phased-in early retirement provisions for satisfaction arrearages in the amount of €1.2 million (previous year: €1.0 million) resulted in an excess of €185 thousand (previous year: €351 thousand).

Notes concerning liabilities

A. Equity

An employee share ownership programme was introduced in the first half-year of 2016. It enabled all employees of companies in the W&W Group to acquire up to 40 shares of W&W AG at a price of €13.43 per share, which represented a discount of €5.00 per share. The employees are required to hold these shares for at least three years. To this end, the company between 12 January 2016 and 9 February 2016 bought back a total of 358,000 shares of its stock, representing an amount of €1,872,340 (0.38%) of share capital. A total of €6.9 million was expended for this purpose, corresponding to a weighted average price of €19.21 per share. The remaining balance of 272,780 shares, representing an amount of €1,426,639.40 (0.29%) of share capital, is to be used for additional employee stock programmes. In connection with its employee stock pro-gramme, W&W AG issued a total of 85,220 shares of its stock within the Group in exchange for payment of an acquisition price. That corresponds to an amount of €0.4 million (0.09%) of the relevant share capital. W&W AG collected a total of €1.1 million from the issuance of shares of its stock.

I. Share capital

Share capital of €488.9 million (previous year: €490.3 million) is divided into 93,749,720 (previous year: 93,749,720) registered no-par-value shares and is fully paid up, with each share mathematically representing €5.23 of share capital. For the employee share ownership programme, the company bought back 358,000 shares of its stock. Employees purchased a total of 85,220 of these shares. This left a balance of 272,780 shares, which reduced the amount of share capital by €1.4 million.

Share capital

in € thousands	
As at 31 December 2015	490 311
Purchase of treasury shares	–1 873
Sale of treasury shares	446
As at 31 December 2016	**488 884**

II. Capital reserve

As at the reporting date, the capital reserve amounted to €993.5 million (previous year: €997.8 million). It relates to the premium from the capital contribution of €271.9 million (previous year: €271.9 million) and other additional payments of €725.9 million (previous year: €725.9 million), less the difference of €4.3 million between the mathematical value of shares of own stock and the costs or sales proceeds for them, which was allocated to the capital reserve.

Capital reserve

in € thousands	
As at 31 December 2015	997 765
Purchase of treasury shares	–5 000
Sale of treasury shares	699
As at 31 December 2016	**993 464**

III. Retained earnings

Retained earnings increased from €360.6 million to €365.6 million as a result of the resolution adopted by the Annual General Meeting to allocate €5.0 million from the 2015 unappropriated surplus.

Retained earnings

in € thousands	
As at 31 December 2015	360 577
Allocation by the Annual General Meeting	5 000
As at 31 December 2016	**365 577**

IV. Unappropriated surplus

The unappropriated surplus amounted to €63.4 million (previous year: €61.5 million). This includes retained earnings in the amount of €0.5 million (previous year: €1.0 million) carried forward from the previous year.

Proposal for the appropriation of unappropriated surplus
The unappropriated surplus amounts to €63,352,978.46. We propose that it be appropriated as follows:

in €	31.12.2016
Dividend of €0.60 per share	56 249 832.00
Allocation to retained earnings	7 000 000.00
Carry forward to new account	103 146.46
Total	**63 352 978.46**

The proposal assumes that when the resolution on the appropriation of profit is adopted by the Annual General Meeting, the company does not hold any shares that are not entitled to receive dividends pursuant to Section 71b of the German Stock Corporation Act (AktG). In the event that the company holds shares that are not entitled to receive dividends pursuant to Section 71b AktG when the resolution on the appropriation of profit is adopted by the Annual General Meeting, the distribution of €0.60 per share entitled to receive dividends will remain unchanged, and a correspondingly modified resolution on the appropriation of profit will be proposed to the Annual General Meeting. The modification will be carried out in such a way that the total amount of the dividend will be reduced by the amount corresponding to the number of shares held by the company multiplied by €0.60 (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

In addition to pension provisions for Wüstenrot & Württembergische AG and employees of the former Württembergische Feuerversicherung AG and Gemeinschaft der Freunde Wüstenrot GmbH, the pension provisions recognised here are 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 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, pension provisions amounted to €841.0 million (previous year: €780.4 million). This amount includes the netting of the asset value from reinsurance policies in the amount of €4.3 million (previous year: €4.3 million).

III. Other provisions

in € thousands	31.12.2016	31.12.2015
Phased-in early retirement	947	1 048
Expenses for the annual financial statements	1 846	1 345
Holiday obligations and flex-time credits	2 968	2 032
Bonuses and performance incentives	4 670	4 730
Expenses for land development costs	1 782	89
Expenses for omitted land maintenance	1 292	–
Employee long-service obligations	242	250
Legal risks	1 500	–
Interest expense under Section 233 a of the German Fiscal Code (AO)	10 884	5 625
Provision for sureties	4 574	–
Contributions to the employers' liability insurance scheme, compensatory levy for disabled persons, etc.	3 296	3 177
Total	**34 001**	**18 296**

„Miscellaneous 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 pension commitments that are inaccessible to all other creditors and serve solely to satisfy liabilities under pension 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 surplus participation, share of measurement reserve and final surplus participation.

As at 31 December, the item „Benefits for phased-in early retirement“ was as follows:

in € thousands	31.12.2016	31.12.2015
Amount needed to satisfy vested claims	2 110	2 003
thereof capable of being netted with the coverage capital of reinsurance[1]	1 163	955
Carrying amount	**947**	**1 048**

1 The fair value of the coverage capital corresponds to cost.

D. Deposits retained from ceded reinsurance business

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

II. Liabilities to credit institutions

These have to do with a short-term overdraft as a result of divergent accounting data.

III. Miscellaneous liabilities

There are liabilities to affiliated companies in the amount of €89.8 million (previous year: €89.0 million), trade payables in the amount of €0.5 million (previous year: €0.2 million), liabilities for value-added taxes in the amount of €0.9 million (previous year: €–) and liabilities for severance payments in the amount of €0.3 million (previous year: €0.3 million).

All liabilities have a remaining maturity of less than 12 months.

F. Deferred liabilities

This consists solely of discounts for registered bonds in the amount of €0.1 million (previous year: €0.1 million).

Notes concerning the income statement

I. Technical account

2. Technical interest income for own account

Recognised here pursuant to Section 38 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV) is interest on pension provisions and the premium reserve after deduction of the reinsurers‘ portion. It also includes interest on the provision for future policy benefits for assumed reinsurance in life insurance business.

4. Expenses for insurance claims for own account

b) Change in the provision for outstanding insurance claims
Gains in the amount of €15.9 million (previous year: €10.2 million) resulted from the settlement of the provision for outstanding insurance claims that was assumed from the previous financial year. These mainly come from the business lines motor (€6.7 million), general liability (€5.9 million) and fire (€2.5 million).

6. Expenses for insurance operations for own account

Gross expenses for insurance business amounted to €100.5 million (previous year: €99.8 million), of which €99.8 million (previous year: €99.1 million) was attributable to acquisition costs and €0.7 million (previous year: €0.7 million) to general administrative expenses.

II. Non-technical account

1. Income from capital investments

b) Income from other capital investments

in € thousands	2016	2015
Land, land-type rights and buildings, including buildings on third-party land	7 921	7 971
Other capital investments	40 211	31 830
Total	**48 132**	**39 801**

c) Income from write-ups
With €28.5 million, the write-ups caused by the adjustment of the carrying amount from an affiliated company form a significant proportion of this item. In addition, the revenues from write-ups include exchange rate gains of €1,894 thousand (previous year €478 thousand). The breakdown of this item is depicted in the notes under “Individual disclosures concerning assets”.

d) Gains from the disposal of capital investments

in € thousands	2016	2015
Land, land-type rights and buildings, including buildings on third-party land	–	4
Affiliated companies	1 654	10
Loans to affiliated companies	5 824	3 500
Participations	404	6 979
Shares, interests or shares in investment assets and other variable-yield securities	–	3 352
Bearer bonds and other fixed-income securities1	1 614	375
Other loans	–	1 163
Deposits with credit institutions	–	449
Total	**9 496**	**15 832**

1 Thereof exchange rate gains of €323 thousand (previous year: €–).

2. Expenses for capital investments

b) Write-downs on capital investments

The item includes unscheduled write-downs of €27.3 million (previous year: €0.6 million) that were taken in accordance with Section 253 (3) sentences 5 and 6 in conjunction with Section 277 (3) sentence 1 of the German Commercial Code (HGB). Of this, €27.2 million was attributable to affiliated companies and €0.1 million (previous year: €0.0 million) to other loans. Expenses for write-downs include exchange rate losses of €0 thousand (previous year: €18 thousand).

c) Losses from the disposal of capital investments

in € thousands	2016	2015
Affiliated companies	–	155
Participations	260	40
Shares and variable-yield securities	–	1 591
Bearer bonds and fixed-income securities	354	594
Deposits with credit institutions	–	752
Total	**614**	**3 132**

4. Other income

This item includes service income in the amount of €55.1 million (previous year: €59.7 million), income from the release of provisions created in previous years in the amount of €0.6 million (previous year: €1.5 million), exchange rate gains in the amount of €2.5 million (previous year: €3.8 million) and interest income in the amount of €0.5 million (previous year: €2.5 million).

5. Other expenses

General administrative expenses constituted the largest item, coming in at €99.0 million (previous year: €96.8 million). It includes expenses for performed services in the amount of €55.1 million (previous year: €59.7 million). Other material items are expenses for pensions and support in the amount of €18.8 million (previous year: €17.7 million), interest expenses in the amount of €11.1 million (previous year: €24.5 million), exchange rate losses in the amount of €3.0 million (previous year: €5.0 million) and expenses for the creation of provisions in the amount of €5.1 million (previous year: €0.5 million). Interest expenses primarily relate to interest expenses for the financial year from pension provisions in the amount of €5.6 million (previous year: €20.6 million). These interest expenses fell by €15.0 million compared with the previous year. This was the result of converting the discounting rate from a 7-year average to a 10-year average.

With respect to phased-in early retirement agreements, income and expenses from discounting and from the assets to be offset in the amount of €21 thousand (previous year: €18 thousand) were offset against each other pursuant to Section 246 (2) sentence 2 of the German Commercial Code (HGB).

7. Extraordinary expenses

As a result of the changes stemming from the German Accounting Law Modernisation Act (BilMoG) effective 1 January 2010, the following amounts for W&W-related employees were recognised under „Extraordinary expenses“:

in € thousands	2016	2015
7/15 addition to the provision for pensions and similar obligations (previous year: 3/15)	12 946	5 548
Total	**12 946**	**5 548**

With regard to calculation of expenses for pension obligations, the conversion of the discounting rate from a 7-year average to a 10-year average resulted in a reduction of amounts needed to satisfy the obligations, which was however offset by an unscheduled addition of the outstanding seven fifteenths under the BilMoG conversion.

9. Income taxes

Tax expenses of €41.0 million (previous year: €8.9 million) have to do with current taxes for the financial year. In the previous year, tax expenses consisted of current taxes (€32.2 million) and tax refunds (€23.3 million) from the settlement of tax assessments.

The carrying amounts for land, land-type rights and buildings, which differ from one another under commercial law and tax law accounting rules, resulted in deferred tax liabilities, which were offset, i.e. netted, in particular against deferred tax assets from shares, interests or shares in investment assets and other variable-yield securities, the provision for outstanding insurance claims, and provisions for pensions. Deferred taxes were valued at a tax rate of 30.6%. Since, after netting, deferred tax assets exceeded deferred tax liabilities, in exercise of the option in Section 274 (1) sentence 2 of the German Commercial Code (HGB), the deferred tax assets were not capitalised.

Other mandatory disclosures

Mandates

Memberships on supervisory boards required to be created by statute, as well as on comparable domestic and foreign control bodies (disclosures pursuant to Section 285, no. 10 of the German Commercial Code (HGB)):
a) Group mandates on domestic supervisory boards required to be created by statute
b) Third-party mandates on domestic supervisory boards required to be created by statute
c) Mandates on comparable control bodies

Members of the Supervisory Board of W&W AG

Hans Dietmar Sauer (Chairman)
Former Chairman of the Executive Board
Landesbank Baden-Württemberg
b) Internationales Bankhaus Bodensee AG, Friedrichshafen (Deputy Chairman)
Wüstenrot Holding AG, Ludwigsburg (Chairman)

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

Christian Brand
(until 9 June 2016)
Former Chairman of the Executive Board
Landeskreditbank Baden-Württemberg – Förderbank
b) Landesbank Baden-Württemberg, Stuttgart (Chairman)
Schwäbische Hüttenwerke Automotive GmbH, Wasseralfingen
Wüstenrot Holding AG, Ludwigsburg
SHW AG, Aalen

Peter Buschbeck
Member of the Executive Board
UniCredit Bank AG
b) Bankhaus Neelmeyer AG, Bremen (Chairman)
WealthCap Kapitalverwaltungsgesellschaft mbH, Munich
c) Wealth Management Capital Holding GmbH, Munich

Wolfgang Dahlen[1]
(until 9 June 2016)
Former Chairman of the Group Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG
a) Württembergische Versicherung AG, Stuttgart (until 30 June 2016)

1 Employee representatives.

Thomas Eichelmann
(until 9 June 2016)
Managing Director
Aton GmbH
b) V-Bank AG, Munich (Deputy Chairman)
   EDAG Engineering GmbH, Wiesbaden (Chairman)
   EDAG Engineering Holding GmbH, Munich (Chairman)
   FFT GmbH & Co. KGaA, Fulda
   HAEMA AG, Leipzig
c) Bankhaus Ellwanger & Geiger KG, Stuttgart (Chairman)
   ATON US, Inc., Scottsdale
   OrthoScan, Inc., Scottsdale
   J.S. Redpath Holdings, Inc., North Bay
   EDAG Engineering Group AG, Arbon (Chairman)
   EDAG Engineering Schweiz Subholding AG, Arbon (Chairman)

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

Ute Hobinka[1]
Chairwoman of the Works Council
W&W Informatik GmbH
a) W&W Informatik GmbH, Ludwigsburg (Deputy Chairwoman)

Jochen Höpken[1]
Task Group Chairman
ver.di (multi-service trade union)
b) FIDUCIA & GAD IT AG, Karlsruhe

Uwe Ilzhöfer[1]
(until 9 June 2016)
Former Chairman of the Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG,
Stuttgart head office
a) Württembergische Versicherung AG, Stuttgart (Deputy Chairman) (until 31 December 2016)
c) Pensionskasse der Württembergischen, Stuttgart (until 13 July 2016)

Dr Wolfgang Knapp M. C. L.
(until 9 June 2016)
Lawyer admitted to the German and Belgian bars
Cleary Gottlieb Steen & Hamilton LLP, Brussels
b) Wüstenrot Holding AG, Ludwigsburg

Gudrun Lacher[1]
(starting 9 June 2016)
Insurance employee
Württembergische Versicherung AG

Corinna Linner
Linner Wirtschaftsprüfung
b) Wüstenrot Holding AG, Ludwigsburg
   Donner & Reuschel AG, Munich/Hamburg
   Cewe Stiftung & Co. KGaA, Oldenburg
c) DEG Deutsche Investitions- und Entwicklungs-
   gesellschaft mbH, Cologne

1 Employee representatives.

Marika Lulay
(starting 9 June 2016)
Managing Director & COO
GFT Technologies SE

Bernd Mader[1]
(starting 9 June 2016)
Head of Life Insurance/Retail Customers
Württembergische Lebensversicherung AG

Ruth Martin
Former Member of the Executive Boards of
Württembergische Lebensversicherung AG
Württembergische Versicherung AG
Württembergische Krankenversicherung AG
c) Salus BKK, Munich

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

Matthias Schell[1]
(until 9 June 2016)
Head of Group Accounting
Wüstenrot & Württembergische AG

Hans-Ulrich Schulz
(starting 9 June 2016)
Former Member of the Executive Board
Wüstenrot Bausparkasse AG
b) Wüstenrot Holding AG, Ludwigsburg

Christoph Seeger[1]
Chairman of the Group Works Council
Wüstenrot Bausparkasse AG
a) Wüstenrot Bausparkasse AG, Ludwigsburg (Deputy Chairman)

Jutta Stöcker
(starting 9 June 2016)
Former Member of the Executive Board
RheinLand-Versicherungsgruppe
b) RheinLand Lebensversicherung AG, Neuss
RheinLand Versicherung AG, Neuss (starting 28 November 2016)
Rhion Versicherung AG, Neuss (until 28 November 2016)
Credit Life AG, Neuss (until 28 November 2016)
ERGO Group AG, Düsseldorf

Gerold Zimmermann[1]
(starting 9 June 2016)
Chairman of the Group Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG
Chairman of the Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG,
Stuttgart head office
a) Württembergische Versicherung AG, Stuttgart (starting 16 January 2017)

1 Employee representatives.

Members of the Executive Board of W&W AG

Dr Alexander Erdland (Chairman)
(until 31 December 2016)
Group Central Office, Communications

a) Württembergische Lebensversicherung AG, Stuttgart (Chairman) (until 31 December 2016)
Württembergische Versicherung AG, Stuttgart (Chairman) (until 31 December 2016)
Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg (Chairman) (until 31 December 2016)
Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg (Chairman) (until 31 December 2016)

c) Wüstenrot Wohnungswirtschaft reg. Gen. m. b. H., Salzburg

Jürgen A. Junker (starting 1 April 2016)
Chairman (starting 1 January 2017)
Group Legal and Compliance, Group Auditing, Communications, Group Development and Investor Relations, Digital Customer Office

a) Württembergische Lebensversicherung AG, Stuttgart (starting 20 January 2017)
(Chairman) (starting 30 January 2017)
Württembergische Versicherung AG, Stuttgart (Chairman) (starting 1 January 2017)
Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg (Chairman) (starting 1 January 2017)
Wüstenrot Bausparkasse AG, Ludwigsburg (Chairman) (starting 1 January 2017)

Dr Michael Gutjahr
Group HR, Group Accounting, Group Risk Management/Controlling/Strategy,
Cost Controlling, Retained Organisation

a) W&W Informatik GmbH, Ludwigsburg (Chairman)

Jens Wieland
IT, Operations, Financial Management, Enterprise Architecture Management, Customer Data Protection and Operational Security

Supplementary disclosures

Contingent liabilities and other financial obligations

Outstanding payment obligations for participation commitments entered into amounted to €31.8 million. W&W AG has submitted a declaration to the Association of German Banks, pursuant to which it undertakes to indemnify the latter against all losses incurred through measures taken by the deposit protection fund for the benefit of Wüstenrot Bank AG Pfandbriefbank.

As a member of the German Reinsurance Pharma Pool (Pharma-Rückversicherungs-Gemeinschaft), we assumed pro rata liability in the amount of 1.41%. The pool currently has a total volume of €106.4 million.

By way of a release and hold harmless agreement dated 20 October 1993, Württembergische Versicherung AG assumed the risk under the contract executed by W&W AG via a London broker. Accordingly, Württembergische Versicherung AG recognised provisions for outstanding insurance claims in the amount of €50.5 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.

W&W intends to collateralise loans of Wüstenrot Bank AG Pfandbriefbank that are not secured in rem. The loans were granted for housing purposes. W&W provided a guaranty on behalf of Wüstenrot Bank AG Pfandbriefbank 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 €67.5 million, taking into account €4.6 million provisions made for loan guarantees.

The Stuttgart Regional Council approved subsidies in connection with the formation of the „Feuerseepiraten“ day care centre at the Stuttgart site. In return, the Regional Council received a bank guaranty in the amount of € 0.2 million.

To the best of our current knowledge, we also believe going forward that the risk of a claim under the aforementioned contingent liabilities, as in the past, will not lead to any additional expense for the company.

Expenses for internal Group services are expected to amount to €62.7 million in 2017.

Authorised capital

Pursuant to Article 5(5) of the Articles of Association of W&W AG, the Executive Board is authorised for a period of five years ending on 30 June 2019 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 2014). Shareholders are entitled to a statutory subscription right. Shareholders may also be accorded the statutory subscription right by having one or more credit institutions or companies equivalent thereto pursuant to Section 186 (5) of the German Stock Corporation Act (AktG) subscribe to the new shares under an obligation to offer them to shareholders for subscription (indirect subscription right). Subject to approval by the Supervisory Board, the Executive Board is authorised to preclude shareholders from exercising the statutory subscription right in the following cases:

- for fractional amounts; or
- with capital increases in exchange for contributions in kind for the purpose of acquiring (including indirectly) companies, parts of companies or participations in companies or for the purpose of acquiring other assets; or
- if, pursuant to Section 186 (3) sentence 4 of the German Stock Corporation Act (AktG), new shares are issued in exchange for cash at a price that is not significantly below the stock exchange price of the shares that are already listed and the pro rata amount of the new shares does not exceed 10% of the share capital at the time this authorisation is recorded in the commercial register or, if less, at the relevant time the authorisation was exercised. Counting towards the 10% limit are other shares that had been newly issued or, following buyback, resold by the company during the term of this authorisation under preclusion of the subscription right or, in accordance with Section 186 (3) sentence 4 AktG, in connection with a cash capital increase. Also counting towards the 10% limit are shares with respect to which a warrant or conversion right, a warrant or conversion obligation, or a right in favour of the company to delivery of shares exists on account of warrant bonds, convertible bonds or profit participation certificates with warrant or conversion rights or obligations, or rights in favour of the company to delivery of shares that

had been is-sued 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 certificates 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 2014 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 28 May 2014, the Executive Board was authorised to issue warrant bonds, convertible bonds, profit participation certificates, profit participation bonds or a combination of these instruments on or before 27 May 2019. 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 2014). 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 certificates that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 28 May 2014, are issued by the company or a subordinate Group company or guaranteed by the company on or before 27 May 2019 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 28 May 2014, are issued by the company or a subordinate Group company or guaranteed by the Company on or before 27 May 2019 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 certificates that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 28 May 2014, are issued by the company or a subordinate Group company or guaranteed by the company on or before 27 May 2019 shares of the company in lieu of cash payment, either in whole or in part,

and provided that neither cash settlement is granted nor its own 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 28 May 2014 or at the lower issue amount stipulated in accordance with the aforementioned authorisation resolution of 28 May 2014. 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 28 May 2014 to issue warrant bonds, convertible bonds and profit participation certificates only if the warrant bonds, convertible bonds or profit participation certificates 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 28 May 2014 to permit subordinate Group companies to issue warrant bonds, convertible bonds and profit participation certificates 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 accessible 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 transfer agreements concluded with Württembergische Versicherung AG, Wüstenrot Bank AG Pfandbriefbank, W&W Informatik GmbH, W&W Asset Management GmbH, W&W Produktion GmbH and W&W Service GmbH remain in place.

Group affiliation

Wüstenrot & Württembergische AG, Stuttgart, 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). Since 17 August 2016, Wüstenrot Stiftung has held its indirect participation in W&W of about 66.31% in two holding companies, rather than in one company, as before. The number of voting rights remains unchanged. Leaving own shares out of consideration, Wüstenrot Holding AG holds about 39.91% of the shares, and the newly formed WS Holding AG, 26.4%, in each case based on W&W AG share capital. Both holding companies are wholly owned by Wüstenrot Stiftung. 0.29 % of the shares are non-voting treasury shares. The company has received the following notifications pursuant to Section 21 (1) of the German Securities Trading Act (WpHG): On 1 January 2017 a control and profit transfer agreement has been concluded with W&W Digital GmbH.

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%	37417638	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%	24750000	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%	9228134	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

In February 2017, the German Federal Court of Justice (BGH) ruled that it is lawful to terminate building savings contracts that have been available for allocation for longer than 10 years. We welcome this ruling, as we have always been convinced such terminations were lawful. Terminations can help to cushion the impact that the negative effects of the policy of low interest rates have on the home loan and savings pool. The pool is strengthened through termination of contracts that have been available for allocation for longer than 10 years, i.e. where the loans under such contracts have not been drawn down.

In December 2016, the transfer of the W&W participation in the Ridgwell Fox & Partner Pool to Bothnia International Insurance Company Limited (Finland) was approved by BaFin. Due to the deferred booking of this business involved in the run-off, the event will only be reported in the 2017 financial year.

Expenses for the auditor

The disclosures pursuant to Section 285, no. 17 of the German Commercial Code (HGB) are included in the disclosures for the W&W consolidated financial statements.

Employees

in € thousands	2016	2015
Employees	400	394
Executives	27	30
Executive Board members	4	5
Total	**431**	**429**

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 €2,762.2 thousand (previous year: €1,853.9 thousand) and is composed of the following elements:

Remuneration of the individual members of the Executive Board in 2016

	Term of office ends	Non-performance-related remuneration		Performance-related remuneration (short term)		Performance-related remuneration (sustained)		Ancillary benefits		Total	
						from 2013	from 2012				
in € thousands		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Active members of the Executive Board											
Dr Alexander Erdland	12/2016	974.0	966.2	137.9	139.7	167.5	110.9	28.9	28.9	1 308.3	1 245.7
Jürgen A. Junker	03/2021	637.5	–	87.1	–	–	–	23.7	–	748.3	–
Dr Michael Gutjahr	08/2020	253.4	230.4	36.8	33.9	35.9	23.9	7.3	7.4	333.4	295.6
Jens Wieland	06/2020	247.6	240.0	36.0	35.3	77.6	25.8	11.0	11.5	372.2	312.6
Gesamt		**2 112.5**	**1 436.6**	**297.8**	**208.9**	**281.0**	**160.6**	**70.9**	**47.8**	**2 762.2**	**1 853.9**

Sustained performance-related remuneration for a prior financial year, i.e. the 2013 financial year, was earned with the close of the year 2016, since in the years 2014 to 2016 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 2017.

In addition to the earned performance-related remuneration shown in the above table, contingent claims to disbursement of performance-related remuneration for the years 2014-2016 were acquired (in each case, the amount of performance-related remuneration not yet disbursed):

Multi-year variable remuneration (sustainability component)

in € thousands	Financial year 2014, payable in 2018	Financial year 2015, payable in 2019	Financial year 2016, payable in 2020	Total
Dr Alexander Erdland (until 12/2016)	126.5	128.4	137.9	392.8
Jürgen A. Junker (starting 4/2016)	–	–	87.1	87.1
Dr Michael Gutjahr	30.0	31.2	36.8	98.0
Jens Wieland	32.0	32.2	36.0	100.2
Subtotal	**188.5**	**191.8**	**297.8**	**678.1**
Dr Jan Martin Wicke (until 04/2014)	24.3	–	–	24.3
Total	**212.8**	**191.8**	**297.8**	**702.4**
Three financial years determinative for achievement of targets	2015 – 2017	2016 –2018	2017 – 2019	
Remuneration earned with the close of the financial year	2017	2018	2019	

Disbursement is made only if the aforementioned conditions occur or do not occur in the years 2017 to 2019. For 2016, the final amount will not be calculated until the Supervisory Board determines achievement of targets.

Performance-related remuneration for the 2015 financial year, which was disbursed in 2016 after ascertaining the degree to which targets were achieved, resulted in a release of €17.1 thousand (previous year: 12.0 thousand). The amount consists of releases for Dr Alexander Erdland totalling €11.3 thousand (previous year: €7.6 thousand), for Dr Michael Gutjahr totalling €2.7 thousand (previous year: €2.5 thousand) and for Jens Wieland totalling €3.2 thousand (previous year: €1.9 thousand).

In the 2015 financial year, provisions in the amount of €208.9 thousand (previous year: €224.8 thousand) were created for acquired contingent claims to disbursement in 2019 of performance-related remuneration for the 2015 financial year. Once achievement of targets was ascertained, a release took place in the amount of €17.1 thousand (previous year: €12.0 thousand).

In addition, the company did not grant or pay remuneration that was not disbursed, remuneration converted into claims of another nature, remuneration used to increase other claims, or other remuneration that to date has not been indicated in any annual financial statements.

The present value of pensions attributable to the company amounts to €4,290.31 thousand (previous year: €4,282.1 thousand), in each case based on a retirement age of 61. Attributable to Dr Alexander Erdland is the amount of €2,896.8 thousand (previous year: €3,019.9 thousand) and to Dr Michael Gutjahr the amount of €1,239.3 thousand (previous year: €1,181.9 thousand), as well as, based on a retirement age of 65, to Jürgen A. Junker in the amount of €53.3 thousand (previous year: €0) and to Jens Wieland the amount of €100.9 thousand (previous year: €80.3 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 €165.1 thousand (previous year: €945.1 thousand). Of these additions, attributable to Dr Alexander Erdland is the amount of –€62.4 thousand (previous year: €683.6 thousand), to Dr Michael Gutjahr the amount of €153.6 thousand (previous year: €230.3 thousand), to Jürgen A. Junker the amount of €53.3 thousand (previous year: €0) and to Jens Wieland the amount of €20.6 thousand (previous year: €31.2 thousand).

After the claims against his prior employer were offset, the pension of Dr Alexander Erdland amounted to €155.3 thousand (previous year: €155.3 thousand). The pension of Dr Michael Gutjahr amounted to €61.5 thousand (previous year: €60.3 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: €0) p.a. if his employment contract ends when his first term of office expires, unless Mr Junker refuses to accept a contract extension at same terms or at terms more favourable to him or non-extension is based on 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.

In connection with the conclusion of his work as member of the Executive Board, Dr Erdland was pledged non-performance-related remuneration of €974.0 thousand for the 2017 financial year. In addition, Dr Erdland was pledged use of his company car until the end of 2018, as well as performance-related bonuses for the 2016 and 2017 financial years, with 50% of each bonus being disbursed in 2017 and 2018, respectively, after ascertaining the degree to which targets were achieved. The other 50% for each year will be deferred for a period of three years and made subject to the proviso of the forfeiture clauses described in the remuneration report contained in the Management Report.

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 €1,821.8 thousand (previous year: €1,662.8 thousand). Of this amount, €273.7 thousand (previous year: €259.8 thousand) was attributable to survivor benefits.

A reserve in the amount of €17,310.6 thousand (previous year: €17,091.2 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 specified by the Annual General Meeting. If the Annual General Meeting does not specify an amount, the amount of the prior year applies. Supplementary amounts are stipulated for the Chairman and the Deputy Chairman, as well as for committee activities. In addition, fees are paid for attending Supervisory Board meetings.

The annual base remuneration payable after the close of the financial year amounted to €25.0 thousand (previous year: €25.0 thousand). Committee remuneration amounted to €8.0 thousand (previous year: €8.0 thousand) per year for the Risk and Audit Committee and for the Remuneration and Personnel Committee. Committee remuneration amounted to €4.0 thousand (previous year: €4.0 thousand) per year for the Mediation Committee and the Nomination Committee, whereby remuneration was paid for the Nomination Committee for the first time in 2016. An attendance fee of €500 (previous year: €500) is paid per Supervisory Board meeting. No fees are paid for attending committee meetings.

Base remuneration and committee remuneration are increased by 150% for the Chairman and by 75% for his deputies.

In the 2016 financial year, the company paid the members of the Supervisory Board of Wüstenrot & Württembergische AG total remuneration of €654.0 thousand (previous year: €659.8 thousand). In the 2016 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 €91.4 thousand (previous year: €31.8 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.

W&W 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 reserves 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 2016

	Base Remuneration	Attendance fee	Committee Remuneration	Total	Total
in € thousands	2016	2016	2016	2016	2015
Hans Dietmar Sauer (Chairman)	62.5	2.5	43.6	108.6	107.9
Frank Weber (Deputy Chairman)	43.8	2.5	14.2	60.5	58.8
Peter Buschbeck	25.0	1.5	8.0	34.5	35.0
Dr Reiner Hagemann	25.0	2.5	10.2	37.7	36.0
Ute Hobinka	25.0	2.5	8.0	35.5	37.8
Jochen Höpken	25.0	2.5	2.2	29.7	29.3
Gudrun Lacher	14.0	1.5	2.2	17.7	–
Corinna Linner	25.0	2.5	11.2	38.7	15.4
Marika Lulay	14.0	1.5	–	15.5	–
Bernd Mader	14.0	1.5	4.5	20.0	–
Ruth Martin	25.0	2.5	5.8	33.3	19.9
Andreas Rothbauer	25.0	2.5	8.0	35.5	36.0
Hans-Ulrich Schulz	14.0	1.5	4.5	20.0	–
Christoph Seeger	25.0	2.5	8.0	35.5	36.0
Jutta Stöcker	14.0	1.5	2.2	17.7	–
Gerold Zimmermann	14.0	1.5	6.7	22.2	–
Subtotal	**390.3**	**33.0**	**139.3**	**562.6**	**412.1**
Christian Brand (former)	11.0	1.0	–	12.0	29.3
Wolfgang Dahlen (former)	11.0	1.0	5.3	17.3	41.8
Thomas Eichelmann (former)	11.0	1.0	8.8	20.8	47.5
Dr Rainer Hägele (former)	–	–	–	–	17.4
Uwe Ilzhöfer (former)	11.0	1.0	3.5	15.5	36.0
Dr Wolfgang Knapp (former)	11.0	1.0	1.8	13.8	31.5
Ulrich Ruetz (former)	–	–	–	–	14.4
Matthias Schell (former)	11.0	1.0	–	12.0	29.8
Total	**456.3**	**39.0**	**158.7**	**654.0**	**659.8**

Annex to the notes

Individual disclosures concerning assets

Notes concerning assets

in € thousands	Carrying amounts	Additions	Disposals	Reclassifi-cations	Write-ups	Write-downs	Carrying amounts
A. Intangible assets	31.12.2015						31.12.2016
1. Licenses acquired against payment, industrial property rights and similar rights and assets, as well as licenses for such rights and assets	–	14				3	11
B. I. Land, land-type rights and buildings, including buildings on third-party land	**84 744**	**41 604**	**–**	**–**	**–**	**7 731**	**118 617**
B. II. Capital investments in affiliated companies and participations							
1. Interests in affiliated companies	1 710 058	652	25 178	–	28 696	27 215	1 687 013
2. Loans to affiliated companies	354 942	115 000	153 042	–	–	–	316 900
3. Participations	40 422	14 062	7 874	–	82	43	46 649
4. Loans to companies in which an investment is maintained	6 500	–	–	–	–	–	6 500
Total B. II.	**2 111 922**	**129 714**	**186 094**	**–**	**28 778**	**27 258**	**2 057 062**
B. Other capital investments							
1. Shares, interests or shares in investment assets and other variable-yield securities	472 332	29 104	–	–	–	1 758	499 678
2. Bearer bonds and other fixed-income securities	79 072	32 572	23 157	–	2 577	1 710	89 354
3. Other loans							
a) Registered bonds	174 430	5 000	20 000	–	114	91	159 453
b) Promissory notes and loans receivable	184 946	3	40 197	–	–	–	144 752
4. Deposits with credit institutions	77 439	83 900	67 139	–	873	896	94 177
5. Other investments	87	–	–	–	–	–	87
Total B. III.	**988 306**	**150 579**	**150 493**	**–**	**3 564**	**4 455**	**987 501**
Total	**3 184 972**	**321 911**	**336 587**	**–**	**32 342**	**39 447**	**3 163 191**

Write-ups contain exchange rate gains, and write-downs contain exchange rate losses, from deposits with credit institutions in the amount of € 0.9 million each, which are recognised under „Other non-technical net income“.

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		€	31.12.2015	106 883 393	1 978 989
Adveq Europe II GmbH, Frankfurt am Main		16.77	€	31.12.2015	27 697 936	3 976 900
Adveq Opportunity II Zweite GmbH, Frankfurt am Main		29.31	€	31.12.2015	30 535 841	3 955 400
Adveq Technology III GmbH, Frankfurt am Main		18.84	€	31.12.2015	24 384 869	609 576
Adveq Technology V GmbH, Frankfurt am Main		16.50	€	31.12.2015	58 797 224	18 164 539
Allgemeine Rentenanstalt Pensionskasse AG, Stuttgart		100.00	€	31.12.2016	39 205 703	–450 000
Altmark Versicherungsmakler GmbH, Stuttgart		100.00	€	31.12.2016	1 508 570	224 829
Altmark Versicherungsvermittlung GmbH, Stuttgart		100.00	€	31.12.2016	196 140	36 196
Asendorfer Kippe ASK GmbH & Co. KG, Stuttgart		100.00	€	31.12.2015	3 691 183	–66 903
Auda Ventures GmbH & Co. Beteiligungs-KG, Munich		5.79	€	31.12.2015	22 986 252	6 804 168
Berlin Leipziger Platz Grundbesitz GmbH, Stuttgart		100.00	€	31.12.2016	2 082 833	144 846
Beteiligungs-GmbH der Württembergischen, Stuttgart		100.00	€	31.12.2016	2 825 654	175 198
BPE2 Private Equity GmbH & Co. KG, Hamburg		10.00	€	31.12.2015	12 141 581	29 749 559
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart		35.00	€	31.12.2016	260 692 860	18 107 166
BWK Holding GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart		35.00	€	31.12.2016	8 868 480	745 631
City Immobilien GmbH & Co. KG der Württembergischen, Stuttgart		100.00	€	31.12.2016	128 240 253	5 229 038
City Immobilien II GmbH & Co. KG der Württembergischen, Stuttgart		100.00	€	31.12.2016	107 907 340	1 861 213
Coller German Investors GmbH & Co. KG, Munich		10.00	US$	31.12.2015	744 364	1 017 180
Crown Premium Private Equity III GmbH & Co. KG, Munich		6.60	€	31.12.2015	60 381 384	22 698 561
DBAG Fund VI Feeder GmbH & Co. KG, Frankfurt am Main		30.71	€	31.12.2015	38 507 064	718 452
Deutscher Solarfonds „Stabilität 2010“ GmbH & Co. KG, Frankfurt am Main		17.77	€	31.10.2015	125 537 121	15 479 702
Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin		19.82	€	31.12.2015	17 187	–1 054
EquiVest II GmbH & Co. Zweite Beteiligungs KG Nr. 1 für Vermögensanlagen, Munich		9.97	€	31.12.2015	33 819 481	–5 205 186
Eschborn Grundstücksgesellschaft mbH & Co. KG, Stuttgart		51.00	€	31.12.2016	4 903 898	–981 592
European Sustainable Power Fund Nr. 2 GmbH & Co. KG, Grünwald	1.00	11.10	€	30.9.2016	469 323 885	22 306 271
Ganzer GmbH & Co. KG, Harrislee		100.00	€	31.12.2015	–550 093	834 113
Gerber GmbH & Co. KG, Stuttgart		100.00	€	31.12.2016	269 206 723	2 884 963
Gestorf GmbH & Co. KG, Stuttgart		100.00	€	31.12.2015	337 547	34 712
GLL GmbH & Co. Messeturm Holding KG, Munich		5.97	€	31.12.2015	100 000	—
GMA Gesellschaft für Markt- und Absatzforschung mbH, Ludwigsburg		100.00	€	31.12.2015	2 146 761	259 071
High Tech Beteiligungen GmbH & Co. KG, Düsseldorf		6.60	€	31.12.2015	355 058	—
Hinterbliebenenfürsorge der Deutschen Beamtenbanken GmbH, Karlsruhe		100.00	€	31.12.2015	97 959	–358
IVB - Institut für Vorsorgeberatung, Risiko- und Finanzierungsanalyse GmbH, Karlsruhe		100.00	€	31.10.2015	69 730	3 554

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]
IVZ Immobilien Verwaltungs GmbH & Co. Finanzanlagen KG, Munich		10.00	€	31.12.2015	29 292 500	249 365
IVZ Immobilien Verwaltungs GmbH & Co. Südeuropa KG, Munich		10.00	€	31.12.2015	5 425 453	–690 172
Karlsruher Lebensversicherung AG, Karlsruhe		92.76	€	31.12.2016	11 339 249	450 000
KLV BAKO Dienstleistungs-GmbH, Karlsruhe		92.80	€	31.12.2015	197 418	8 440
KLV BAKO Vermittlungs-GmbH, Karlsruhe		75.90	€	31.12.2015	206 093	8 901
LP 1 Beteiligungs-GmbH & Co. KG, Stuttgart		100.00	€	31.12.2016	155 161	–30 025
Miethaus und Wohnheim GmbH i.L., Ludwigsburg		100.00	€	31.12.2016	2 008 292	98 338
Nord-Deutsche AG Versicherungs-Beteiligungsgesellschaft, Stuttgart		100.00	€	31.12.2016	10 145 776	–67 339
Odewald & Compagnie GmbH & Co. KG für Vermögensanlagen in Portfoliounternehmen i. L., Berlin		13.52	€	30.11.2016	–	1 578 305
Onshore Wind Portfolio 2012 GmbH & Co. KG, Frankfurt am Main	4.41	16.31	€	31.10.2015	118 617 327	5 345 708
Schulenburg GmbH & Co. KG, Stuttgart		100.00	€	31.12.2015	1 117 865	–249 570
Stuttgarter Baugesellschaft von 1872 AG, Stuttgart		100.00	€	31.12.2016	450 031	11 463
treefin AG, Munich		75.00		New investment 16.12.2016		
V-Bank AG, Munich		49.92	€	31.12.2015	32 337 667	3 970 247
VC Fonds Baden-Württemberg GmbH & Co. KG, Stuttgart		25.00	€	31.12.2015	919 288	235 505
VV Immobilien GmbH & Co. United States KG i.L., Munich		9.98	€	31.12.2015	7 332	80 482
VV Immobilien GmbH & Co. US City KG i.L., Munich		23.10	€	31.12.2015	9 479	1 058 524
W&W Asset Management GmbH, Ludwigsburg[2]	100.00		€	31.12.2016	11 261 185	–
W&W Digital GmbH, Berlin[2]	51.00		€	31.12.2016	–1 319	–
W&W Gesellschaft für Finanzbeteiligungen mbH, Stuttgart	100.00		€	31.12.2016	38 769 776	994 482
W&W Informatik GmbH, Ludwigsburg[2]	100.00		€	31.12.2016	473 025	–
W&W Produktion GmbH, Berlin[2]	100.00		€	31.12.2016	25 000	–
W&W Service GmbH, Stuttgart[2]	100.00		€	31.12.2016	100 153	–
Windpark Golzow GmbH & Co. KG, Rheine		100.00	€	31.12.2015	–4 655 078	–1 553 889
WL Erneuerbare Energien Verwaltungs GmbH, Stuttgart		100.00	€	31.12.2016	63 131	5 116
WL Renewable Energy GmbH & Co. KG, Stuttgart		100.00	€	31.12.2016	83 788 841	1 758 571
WL Sustainable Energy GmbH & Co. KG, Stuttgart		100.00	€	31.12.2016	83 732 710	1 770 286
Wohnimmobilien GmbH & Co. KG der Württembergischen, Stuttgart		100.00	€	31.12.2016	159 070 494	5 240 352
Württembergische Immobilien AG, Stuttgart		100.00	€	31.12.2016	107 470 464	1 027 787
Württembergische KÖ 43 GmbH, Stuttgart		94.00	€	31.12.2016	23 458 809	1 162 344
Württembergische Krankenversicherung AG, Stuttgart	100.00		€	31.12.2016	38 748 122	4 300 000
Württembergische Lebensversicherung AG, Stuttgart	94.89		€	31.12.2016	383 511 724	35 000 000
Württembergische Logistik I GmbH & Co. KG, Stuttgart		100.00	€	31.12.2016	11 354 735	1 469 758
Württembergische Logistik II GmbH & Co. KG, Stuttgart		100.00	€	31.12.2016	27 187 651	1 215 056
Württembergische Rechtsschutz Schaden-Service-GmbH, Stuttgart		100.00	€	31.12.2016	94 429	17 736
Württembergische Versicherung AG, Stuttgart[2]	100.00		€	31.12.2016	262 563 107	–

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 Vertriebspartner GmbH, Stuttgart[2,4]		100.00	€	31.12.2016	74 481	–
Württembergische Verwaltungsgesellschaft mbH, Stuttgart		100.00	€	31.12.2016	34 144	761
Württfeuer Beteiligungs-GmbH, Stuttgart		100.00	€	31.12.2016	1 104 180	–18 853
WürttLeben Alternative Investments GmbH, Stuttgart[2]		100.00	€	31.12.2016	13 022 500	–
WürttVers Alternative Investments GmbH, Stuttgart[2]		100.00	€	31.12.2016	10 025 000	–
Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg[2]	100.00		€	31.12.2016	350 348 606	–
Wüstenrot Bausparkasse AG, Ludwigsburg	100.00		€	31.12.2016	726 838 930	23 424 828
Wüstenrot Grundstücksverwertungs-GmbH, Ludwigsburg	100.00		€	31.12.2016	2 106 161	56 393
Wüstenrot Haus- und Städtebau GmbH, Ludwigsburg	100.00		€	31.12.2015	36 269 681	3 498 714
Wüstenrot Immobilien GmbH, Ludwigsburg	100.00		€	31.12.2016	2 685 265	691 944
YIELCO Special Situations GmbH & Co. KG, Munich		13.25		New investment 3.6.2016		
France						
Württembergische France Immobiliere SARL, Strasbourg		100.00	€	30.9.2016	15 683 241	1 851 206
Württembergische France Strasbourg SARL, Strasbourg		100.00	€	30.9.2016	45 478 802	2 213 656
Ireland						
BlackRock NTR Renewable Power Fund plc, Dublin		89.55	US$	31.12.2015	332 154 681	10 365 371
Crown Global Secondaries II plc, Dublin		7.22	US$	31.12.2015	475 394 846	59 015 937
W&W Advisory Dublin Ltd., Dublin		100.00	€	31.12.2015	5 769 926	5 002 988
W&W Asset Management Dublin Ltd., Dublin		100.00	€	31.12.2015	5 758 577	5 257 642
W&W Europe Life Limited i. L., Dublin	100.00		€	31.12.2014	18 834 772	–733 611
White Oak Summit Fund, ILP, Dublin	6.02	9.64	US$	31.12.2015	59 675 525	–248 631
Luxembourg						
DB Secondary Opportunities SICAV-SIF - Sub Fund DB SOF II Feeder USD, Luxembourg		16.79	US$	31.12.2015	83 477 093	7 557 641
First State European Diversified Infrastructure Feeder Fund II SCA, SICAV-SIF, Luxembourg		14.37	€	31.12.2015	231 051 870	7 250 738
Idinvest Lux Fund, SICAV-SIF SCA – Idinvest Private Debt III, Luxembourg	3.06	22.62	€	31.12.2015	103 507 618	5 976 175
IKAV SICAV-FIS SCA - ecoprime TK I, Luxembourg		41.28	€	30.9.2016	47 805 309	2 638 484
IKAV SICAV-FIS SCA - Global Energy (Ecoprime III), Luxembourg	15.12	30.24	€	30.9.2016	62 833 107	–179 633
IKAV SICAV-FIS SCA - Global PV Investments, Luxembourg		46.25	€	30.9.2016	52 077 575	2 358 063
InfraVia European Fund III SCSp, Luxembourg-Senningerberg		14.96		New investment 28.1.2016		
Secondary Opportunities SICAV-SIF - Sub-fund SOF III Feeder USD, Luxembourg		35.48	US$	31.12.2015	14 852 260	2 802 649
StepStone European Fund SCS, SICAV-FIS - StepStone Capital Partners III, Luxembourg	7.15	20.41	US$	31.12.2015	149 200 969	20 849 265
Austria						
G6 Zeta Errichtungs- und VerwertungsGmbH & Co OG, Vienna		99.90	€	31.12.2015	25 451 994	1 525 920

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]
Czech Republic						
WIT Services s.r.o., Prague		100.00	CZK	31.12.2015	4 074 957	201 724
Wüstenrot hypoteční banka a.s., Prague	100.00		CZK	31.12.2015	1 896 000 000	247 000 000
Wüstenrot stavební spořitelna a.s., Prague	100.00		CZK	31.12.2015	3 245 000 000	93 000 000
Hungary						
Fundamenta-Lakáskassza-Lakástakarékpénztár Zrt., Budapest	11.47		HUF	31.12.2015	25 850 000	5 880 000
United Kingdom						
ASF VI Infrastructure L.P., Edinburgh		6.40	US$	31.12.2015	102 870 859	–4 509 353
ASF VII Infrastructure L.P., Edinburgh	6.11	12.82		New investment 30.12.2016		
BlackRock Global Renewable Power Fund II (C), L.P., London	2.85	9.32		New investment 1.12.2016		
Brookfield Capital Partners Fund III (NR A) L.P., George Town		12.20	US$	31.12.2015	800 343 000	138 969 000
Capital Dynamics Clean Energy and Infrastructure III L.P., Birmingham		21.28		New investment 1.1.2016		
Capital Dynamics Clean Energy and Infrastructure Feeder L.P., Edinburgh		28.24	US$	31.12.2015	160 644 666	–42
Capital Dynamics US Solar Energy Feeder, L.P., Edinburgh		62.69	US$	31.12.2015	2 597 765	613 548
Carlyle Cardinal Ireland Fund, L.P., Grand Cayman		5.83	€	31.12.2015	19 346 000	–7 428 000
CBPE Capital Fund IX A LP, London		15.41		New investment 14.1.2016		
EIG Global Private Debt (Europe UL) L.P., Houston		78.56		New investment 31.8.2016		
Glennmont Clean Energy Fund Europe 1 'A' L.P., London		11.52	€	31.12.2015	269 313 863	–6 129 400
Global infrastructure Partners III-C2 L.P., London		78.36		New investment 26.7.2016		
HgCapital Renewable Power Partners 2 LP, London		29.53	€	31.12.2015	50 016 825	2 794 093
Kennet III A L.P., St. Peter Port		6.73	€	31.12.2015	186 536 116	–3 346 347
Kennet IV L.P., St. Peter Port		18.83	€	31.12.2015	40 203 896	–2 227 056
Partners Group Emerging Markets 2007, L.P., Edinburgh		12.01	US$	31.12.2015	126 974 000	–7 882 000
Project Glow Co-Investment Fund, L.P., Grand Cayman		51.72	€	31.12.2015	31 161 684	–11 529
United States						
ISQ Global Infrastructure Fund (EU) L.P., Delaware		5.19	US$	31.12.2015	31 140 463	446 824
Project Finale Co-Investment Fund Holding, LLC, Delaware		30.00	US$	31.12.2015	32 985 763	101 776

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.
4 Formerly „Württembergische Vertriebsservice GmbH für Makler und freie Vermittler"

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)	
	2016	2015	2016	2015	2016	2015
Fire insurance	49 287	49 597	787	–3 912	–175	–644
Other property insurance	75 825	73 007	–44	–1 153	–4 410	–6 134
Total fire and other property insurance	**125 112**	**122 604**	**743**	**–5 065**	**–4 585**	**–6 778**
Motor insurance	115 361	114 145	–5 484	–6 134	–10 098	–10 568
General liability insurance	30 719	30 231	6 873	4 766	5 568	3 633
Casualty insurance	20 184	19 909	5 230	2 760	5 230	2 760
Transport and aviation hull insurance	3 220	3 025	251	–103	31	511
Other insurance	22 783	22 497	–2 072	–863	–1 926	–1 333
Total property/casualty insurance business	**317 379**	**312 411**	**5 541**	**–4 639**	**–5 780**	**–11 775**
Life insurance	6 173	6 366	1 806	1 692	1 806	1 692
Total	**323 552**	**318 777**	**7 347**	**–2 947**	**–3 974**	**–10 083**

Commissions and other remuneration paid to insurance agents, personnel expenses

in € thousands	2016	2015
Wages and salaries	38 002	35 688
Social remittances and expenses for support	5 560	5 409
Expenses for pension scheme	2 145	3 371
Total	**45 707**	**44 468**

W&W AG does not have its own mobile sales force. As a result, the table required by the German Regulation on the Accounting of Insurance Undertakings (RechVersV) contains only personnel expenses and no commissions or other remuneration paid to insurance agents.

Wüstenrot & Württembergische AG
Responsibility statement

To the best of our knowledge, and in accordance with applicable accounting principles, the annual financial statements present a true and accurate view of the net assets, financial position and financial performance of the company, and the Combined Management Report presents a true and accurate view of the performance, results and position of the W&W AG, together with a description of the material opportunities and risks associated with the expected development of the company.

Stuttgart, 28 February 2017

Jürgen A. Junker

Dr. Michael Gutjahr

Jens Wieland

Wüstenrot & Württembergische AG
Auditor‘s report

We have audited the annual financial statements of Wüstenrot & Württembergische AG, Stuttgart, comprising the balance sheet, income statement notes, together with the report on the situation of the company and the Group for the financial year 1 January to 31 December 2016. Accounting and the preparation of the annual financial statements and the report on the situation of the company and the Group in accordance with the German Commercial Code and according to the supplementary Statutes of W&W AG are the responsibility of the company‘s Executive Board. Our responsibility is to express an opinion on the Group annual financial statements and the report on the situation of the company and the Group, based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code (HGB) and generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that any misstatements and violations materially affecting the presentation of net assets, financial position and financial performance in the annual financial statements in accordance with the principles of proper accounting and in the report on the situation of the company and the Group are detected with reasonable assurance. Knowledge of the business operations and the economic and legal environment of the company and expectations as to possible errors are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in accounting, the annual financial statements and the report on the situation of the company and the Group are examined primarily on the basis of random spot checks within the framework of the audit. The audit includes assessing the accounting principles used and the material estimates made by the Executive Board, as well as evaluating the overall presentation of the annual financial statements and the report on the situation of the company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and the supplementary Statutes of W&W AG and present a true and accurate view of the net assets, financial position and financial performance of the company in accordance with the principles of proper accounting. The report on the situation of the company and the Group is consistent with the annual financial statements and as a whole presents a true and accurate view of the company‘s position and the opportunities and risks of future development.

Stuttgart, 7 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr Hasenburg	Stratmann
Wirtschaftsprüfer	Wirtschaftsprüfer
(German public auditor)	(German public auditor)

Wüstenrot & Württembergische AG
Report of the Supervisory Board

The Supervisory Board fulfilled its duties in accordance with statutory requirements, the Articles of Association and the bylaws in the 2016 financial year. The Supervisory Board monitored the management of business and was directly involved in all matters of fundamental importance for the company.

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. Both the shareholder representatives and the employee representatives made use of a statutory right and objected to what is known as “Gesamterfüllung”, i.e. the meeting of the quota on the Supervisory Board as a whole. In such case, the quota is considered as having been met in conformity with the law if the shareholders and the employees are each represented by at least two women. Following the election by the Annual General Meeting on 9 June 2016, the Supervisory Board consists of 10 men and six women. As a result, women make up 38% of the Supervisory Board. Because two women represent the employees and four women represent the shareholders, the quota is met.

In the 2016 financial year, the Supervisory Board had four committees: the Risk and Audit Committee, the Nomination Committee, the Remuneration and Personnel Committee and the Mediation Committee. By resolution of the Supervisory Board of 8 June 2016, the bylaws for the Supervisory Board were modified with respect to the responsibilities and composition of the Nomination Committee and the Remuneration and Personnel Committee in order to conform to the requirements set forth in the Guidance Notice of 4 January 2016 issued by the German Federal Financial Supervisory Authority (BaFin) (Guidance Notice concerning members of management and supervisory bodies pursuant to the German Banking Act (KWG) and the German Investment Code (KAGB)). Further details about the composition and working methods of the Supervisory Board committees can be found in the corporate governance statement.

In 2016, the Risk and Audit Committee had two ordinary meetings and met once by teleconference. The Remuneration and Personnel Committee had two ordinary meetings and two extraordinary meetings. The Nomination Committee had two meetings. The Mediation 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 ensuing meetings.

In the previous year, the Supervisory Board had four ordinary meetings, one constitutive meeting and one extraordinary meeting held by teleconference, at which meetings it concerned itself at length with the performance of the company and the Group based on reports of the Executive Board, written presentations and documentation, which were submitted to it in a timely fashion. 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 the strategy, planning, business performance, risk position and the ratings of Group companies. 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, extensive risk reports were prepared and then presented to the Supervisory Board. The business, risk and IT strategy was submitted to and discussed with the Supervisory Board. The Executive Board submitted the report of the Audit department to the Supervisory Board and the Risk and Audit Committee, and it submitted the report of the Compliance Officer to the Risk and Audit Committee. The Executive Board provided the Chairman of the Supervisory Board with ongoing, prompt information about all material measures involving company policy.

At the forefront of the meetings of the Supervisory Board of Wüstenrot & Württembergische AG, as the strategic management holding company, was the strategy of the W&W Group. The Supervisory Board concerned itself with the transformation programme “W&W@2020”. Discussions focused on the strategic direction of the W&W Group in order to ensure sustainable earning power. In particular, it discussed the “new digital reality” characterised by the environment of low interest rates, increasing regulation and changed customer behaviour. Other topics included digitalisation within the Group, measures designed to make W&W’s stock more appealing and the W&W campus.

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 long-term equity investment management, special attention was given to the Home Loan and Savings Bank division, to W&W Digital GmbH and to the holdings in eastern Europe.

All measures requiring approval by statute or under the company's rules were submitted to the Supervisory Board. In particular, the Supervisory Board discussed at length the operational planning for 2017 and other medium-term planning, as well as the digitalisation roadmap with respect to the transformation programme W&W@2020.

In addition, the Supervisory Board concerned itself with central issues of corporate governance. It discussed all relevant amendments to the law and their implementation both at Wüstenrot & Württembergische AG and in the W&W Group. The bylaws for the Supervisory Board and for the Executive Board were modified to conform to regulatory changes.

In April and in June 2016, the Supervisory Board concerned itself in detail with the German Corporate Governance Code and, together with the Executive Board, adopted the updated statements of compliance. In the course of the audit, the auditor found no evidence that the statements of compliance were inaccurate.

Following the Annual General Meeting on 9 June 2016, a new election of the Chairman and Deputy Chairman of the Supervisory Board and committee members was held in connection with a constitutive meeting of the Supervisory Board.

Based on a recommendation by the Remuneration and Personnel Committee, the Supervisory Board also discussed remuneration matters, particularly the remuneration system for the Executive Board, and it took note of the report of the Executive Board on the structuring of the remuneration system for employees. The Supervisory Board and the Nomination Committee reviewed and evaluated the professional qualifications and aptitude of each member of the Executive Board and the Supervisory Board in accordance with the Supervisory Board's guideline on "Fit and proper requirements for managers and members of the Supervisory Board". They also reviewed the Executive Board's principles for selecting and appointing senior executives. 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 of the Executive Board continued to cover current personnel issues.

The Supervisory Board examined at length the annual financial statements and the consolidated financial statements for the 2016 financial year, the Management Report for Wüstenrot & Württembergische (W&W) AG and the combined Management Report of the W&W Group as a whole, both as at 31 December 2016, 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 pursuant to 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 2016 financial year prepared by the Executive Board, as well as the Management Report for W&W AG and the combined Management Report for the W&W Group as a whole for the 2016 financial year, and it issued an unqualified audit certificate.

The auditor reported in writing and verbally to the Supervisory Board about the material results of its audit. The audit report was sent to each member of the Supervisory Board. In addition, the auditor was available to answer questions both at the meeting of the Risk and Audit Committee on 23 March 2017 and at the accounting meeting of the Supervisory Board on 24 March 2017. 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.

The report on relationships with affiliated companies (Abhängigkeitsbericht) was submitted by the Executive Board to the Supervisory Board and the auditor for review immediately after its completion. The Supervisory Board examined the report on relationships with affiliated companies and the auditor's report. The auditor took part in the meeting of the Risk and Audit Committee on 23 March 2017 and in the accounting meeting of the Supervisory Board of 24 March 2017, at which the report on relationships with affiliated companies was discussed. The report meets the statutory requirements and completely and accurately depicts the company's existing relationships with affiliated companies. The result of the auditor's audit of the report on relationships with affiliated companies is consistent with the result of the audit by the Supervisory Board. The auditor gave the following unqualified audit certificate:

"Having audited the report in accordance with our professional duties, we confirm that

1. its factual details are correct,
2. in the case of the transactions detailed in the report, the company's expenditure was not unreasonably high."

Following the definitive result of the audit of the annual financial statements, the consolidated financial statements, the combined Management Report, the proposal of the Executive Board concerning the appropriation of unappropriated surplus and the report on relationships with affiliated companies, the Supervisory Board raised no objections, and at its meeting on 24 March 2017, 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).

In the 2016 financial year, the Supervisory Board met six times. The members of the Supervisory Board attended the majority of the meetings. The same can be reported about the Remuneration and Personnel, Nomination, and Risk and Audit Committees.

Over the course of the 2016 financial year, the Supervisory Board experienced the following changes in its membership:

Effective at the conclusion of the Annual General Meeting of 9 June 2016, the terms of office of the shareholder representatives came to an end. Christian Brand, Thomas Eichelmann and Dr Wolfgang Knapp resigned from the Supervisory Board. Peter Buschbeck, Dr Reiner Hagemann, Corinna Linner, Marika Lulay, Ruth Martin, Hans Dietmar Sauer, Hans-Ulrich Schulz and Jutta Stöcker were elected to the Supervisory Board. Each of the shareholder representatives was elected effective at the conclusion of the Annual General Meeting for the period until the conclusion of the Annual General Meeting at which the actions of the Supervisory Board are approved for the financial year ending on 31 December 2018.

In addition, effective at the conclusion of the Annual General Meeting of 9 June 2016, the terms of office of the employee representatives came to an end. Wolfgang Dahlen, Uwe Ilzhöfer and Matthias Schell resigned from the Supervisory Board. On 11 May 2016, Ute Hobinka, Jochen Höpken, Gudrun Lacher, Bernd Mader, Andreas Rothbauer, Christoph Seeger, Frank Weber and Gerold Zimmermann were elected to the Supervisory Board as employee representatives. Each term of office of the employee representatives began at the conclusion of the Annual General Meeting on 9 June 2016 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 2018.

By resolution of the Supervisory Board of 9 June 2016, Hans Dietmar Sauer was re-elected as Chairman and Frank Weber as Deputy Chairman of the Supervisory Board.

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.

In addition, the Executive Board experienced the following changes in its membership:

With the introduction of the Digital Customer Office, which is part of Mr Junker's responsibility, the Supervisory Board gave its approval to a modification of the Executive Board's business allocation plan, effective 1 April 2016.

Dr Alexander Erdland resigned as chairman and member of the Executive Board, effective 31 December 2016. At its meeting on 6 December 2016, the Supervisory Board appointed Jürgen Junker as the new Chairman of the Executive Board, effective 1 January 2017. The Supervisory Board would like to thank Dr Alexander Erdland for his commitment and his achievements over the past years. He re-organised the group of companies, thus creating the foundations for today's success. Thanks to Dr. Erdland's commitment, it has been possible to keep the W&W Group on course in the face of the current challenges. The catchwords here are the effects of the low interest rate policy, burdens from further increases in regulation and the once again increased competition.

In the course of making the change to the Executive Board, the Supervisory Board gave its approval to the modification of the Executive Board's business allocation plan, effective 1 January 2017.

There were no other changes in the membership of the Supervisory Board or the Executive Board during the course of the 2016 financial year.

There were no conflicts of interests requiring disclosure in 2016.

The year 2016 placed high demands on management and the workforce. The Supervisory Board would like to thank the members of the Executive Board, senior managers, the members of the Works Council and the employees of all Group companies for their personal commitment and the contributions they made towards achieving the common objectives.

Stuttgart, 24 March 2017

The Supervisory Board

Hans Dietmar Sauer

Hans Dietmar Sauer
Chairman

Wüstenrot & Württembergische AG
Glossary

Actuarial interest rate
Interest rate that is used by a life insurance company to calculate the provision for future policy benefits as well as, customarily, premiums, and that is guaranteed for the entire maturity. If a higher amount of interest is earned, customers receive most of this as profit participation.

Additional interest reserve
An additional provision for future policy benefits mandated by statute for life insurance contracts in the new portfolio (see also interest reinforcement for the old portfolio) in order to cover interest obligations in an environment of low interest rates. The legal basis is Section 341f (2) of the German Commercial Code (HGB) in conjunction with Section 5 of the German Policy Benefit Provision Regulation (DeckRV).

Affiliated companies
This term refers to the parent company (Group parent company) and all subsidiaries. Subsidiaries are companies over which the parent company can exercise a controlling influence on business policy. This is the case, for example, where the Group parent company directly or indirectly holds the majority of voting rights or has the right to appoint or remove the majority of the members of the Supervisory Board, or where there are contractual rights of control.

Allocation
If a home loan and savings customer has met all of a home loan savings plan‘s allocation conditions with his savings, the building savings contract is allocated. The home loan and savings customer may then dispose of → building savings contract balances and (after granting sufficient collateral) the → loan under the building savings contract.

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
- Non-current assets held for sale
- Financial assets available for sale
- Loans and advances – senior fixed-income securities
- Loans and advances – subordinated securities and loans and advances
- Loans and advances – first-tier loans and advances to institutional investors
- Loans and advances – other loans and advances to credit institutions
- Financial assets recognised using 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.

Compliance statement
Section 161 of the German Stock Corporations Act (AktG) obligates the executive board and supervisory board of a listed company to declare annually that the recommendations of the German → Corporate Governance Code were complied with or which recommendations of the Code were not applied.

Contingent liabilities
Unrecognised liabilities that are unlikely to occur, for example contingent liabilities arising from guaranty obligations.

Corporate Governance Code
The German Corporate Governance Code contains nationally and internationally recognised standards of good and responsible corporate governance. Apart from conditions that have to be observed by companies as applicable statutory law, the Code also contains recommendations and suggestions. Companies can deviate from recommendations, but they are obligated to disclose this annually. Suggestions can be deviated from without disclosure.

Credit provision ratio
The credit provision ratio means the ratio of the individual and portfolio impairment provisions to the associated credit volume.

D&O insurance
Directors & officers insurance is a type of liability insurance for managers. It covers executive board members, supervisory board members and senior executives against claims that may be brought against them as a result of a professional error.

Deferred taxes
Deferred taxes must be created for temporary differences resulting from the different valuation methods applied to assets and liabilities in the tax and IFRS balance sheets, where the tax effects arise in future periods.

Derivative financial instruments
Derivative financial instruments are forward transactions structured as a fixed or option transaction whose value depends on one or more underlying variables. Important examples of derivative financial instruments are options, futures, forwards and swaps.

Direct credit
The part of the surplus earned by the insurance company that is credited directly to customers during the financial year.

Earnings per share
Earnings per share are calculated by dividing the consolidated net profit attributable to the common shareholders of the parent company by the weighted average number of common shares outstanding during the reporting period.

Effective interest rate method
Pursuant to IAS 39, the effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability. It is also used to allocate interest receivable or interest payable over the relevant period. Using the effective interest rate, for example, a discount is spread over the maturity of the financial instrument and reduced to zero.

Equalisation reserve
Reserve to be created in accordance with officially established, actuarial-based methods in order to compensate for fluctuations in claims development in various years. In years with a relatively low/relatively high number of claims, additions/withdrawals are made.

Equity method
Units or shares in associated companies and joint ventures are recognised in accordance with this method. In doing so, the valuation corresponds to the Group‘s share of equity of these companies.

Expenditure for insurance Business (administrative costs)
Commissions, salaries, materials costs and other expenditure for the sale and ongoing management of insurance contracts.

Fair value
The amount at which an asset is exchanged between knowledgeable, willing and unrelated business partners. The fair value is the current market value, insofar as there is an active market. If an active market does not exist, fair value is determined using recognised valuation methods.

Financial assets/liabilities at fair value through profit or loss
One of the categories into which financial instruments have to be classified for the purpose of recognition pursuant to IAS 39.9. Financial assets that are measured at market value are allocated to this category. On the assets side, these are → financial assets held for trading and designated financial instruments, and on the liabilities side, these are → financial liabilities held for trading. Changes in the measurement of market value are recognised in profit or loss through the consolidated income statement.

Financial assets available for sale
According to IFRS, the category "Financial assets available for sale" represents the most important category into which financial instruments are to be classified. It includes financial assets that cannot be allocated to financial investments held to maturity, to financial assets at fair value through profit and loss, or to receivables. The financial instruments in this category are recognised at fair value on the reporting date.

Financial assets held for trading
Allocated to this category are fixed-income and variable-yield securities and → derivative financial instruments that were acquired solely for trading purposes. They are recognised at → fair value and are reported in the balance sheet under financial assets at fair value through profit or loss.

Financial conglomerate
A financial conglomerate offers financial services (banking and insurance services). A financial conglomerate is defined as a group of companies consisting of a parent company, its subsidiaries and those companies in which the parent company or one of its subsidiaries maintains a long-term equity investment. The group must include at least one company in the banking or investment services sector and one company in the insurance sector, and one of these companies must be subject to supervision by the German Federal Financial Supervisory Authority (BaFin).

Financial liabilities held for trading
This position contains negative market values from derivatives and the short selling of securities. Short selling is undertaken in order to generate profits from short-term price fluctuations. Liabilities held for trading are measured and recognised analogously to financial assets held for trading.

For own account
In insurance terminology, "for own account" (f.o.a.) means after deduction of the reinsurance component.

Futures
Standardised forward transactions under which a commodity available on a cash, capital, precious-metal or foreign exchange market is to be delivered or purchased at the exchange price at a particular time in the future.

Genuine securities repurchase transaction (repo)
A genuine securities repurchase transaction (repo) is a contract in which the buyer assumes the obligation to retransfer the securities acquired under a repurchase agreement at a predetermined time or at a time determined by the seller.

German covered bonds
German covered bonds are:
- covered bonds based on acquired mortgages (German covered mortgage bonds)
- covered bonds based on acquired loans and advances due from governmental agencies (public German covered bonds)
- covered bonds based on acquired ship mortgages (German covered ship mortgage bonds)

Gross/net
In underwriting, gross/net means the respective position or ratio before or after deducting reinsurance.

Gross new business
For home loan and savings banks, gross new business describes new business as the sum of all building savings contracts applied for and accepted during a certain period of time.

Guarantee assets
Separate assets to be set aside by insurance companies in order to guarantee the claims of policyholders (→ provision for future policy benefits).

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 (see also → special funds). Purchase and sale are possible when stock exchanges are open.

Public German covered bonds
Bonds issued by a mortgage bank to public authorities for the purposes of refinancing loans.

Quoted prices
Quoted prices are characterised by the fact that they are readily and regularly available. Quotes are made via a stock exchange, a broker, an industry group, a pricing service or a supervisory authority. Prices must be accessible to the public. Prices quoted on a stock exchange, as well as pricing on OTC markets, are publicly available if the prices are available to the public, for example via Reuters or Bloomberg.

Reinsurance
An insurance company insures part of its risk with another insurance company (the reinsurer).

Reserve buffer
Includes the valuation reserves and free → provisions for premium refunds, plus the amounts attributable to non-tied final profit participation funds.

Reserve for financial assets available for sale
Market value changes to assets belonging to the category “Financial assets available for sale“ are recognised directly in equity in the reserve for financial assets available for sale. It is a component of equity.

Result attributable to non-controlling interests
Shares in consolidated net profit that, in the Group‘s view, are attributable to outside third parties.

Retained earnings
Recognised as retained earnings in individual HGB financial statements are only those amounts that were accrued from net income in the financial year or in previous financial years. They strengthen the company‘s financial matter.

Retrocession
Assumption of the risks of reinsurance companies by other reinsurers.

Risk provision
This is where impairments to gross recognised receivables are depicted. Under → IFRS, the risk provision for recognised receivables is openly deducted from receivables and shown on the assets side. For off-balance-sheet transactions (e.g. loan commitments), other risk provisions are created on the liabilities side, where necessary.

RORAC (return on risk-adjusted capital)
Return on risk-adjusted capital is a key performance indicator for measuring income, taking into account the risk capital used.

Solvency ratio
Term from the insurance industry. The solvency ratio indicates the relationship between an insurance company‘s own funds and the value of its capital investments as weighted according to investment risk. The higher the ratio, the more risks the insurance company may assume pursuant to European investment regulations.

Special funds
Investment funds that are open only to a limited group of investors. These are usually institutional investors, such as insurance companies, pension funds, foundations, etc. (See also → public funds.)

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.

Zillmerisation
Zillmerisation is the most common method in Germany for offsetting contract and sales costs against the first premiums paid for traditional life and health insurance. It is named after the mathematician August Zillmer (1831-1893). A provision for future policy benefits is calculated only after redemption of the contract and sales costs.

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Production
W&W Service GmbH, Stuttgart

Investor Relations

E-mail: ir@ww-ag.com
Investor relations hotline: + 49 711 662-725252

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